Response to proposed Exchequer-Employer Investment Mechanism for HE and FET

April 2017

Ibec's main business sectors are:

Alcohol Beverage Federation of Ireland

Financial Services Ireland

Food and Drink Industry Ireland

Technology Ireland

Telecommunications and Internet Federation

Irish Medical Devices Association

PharmaChemical Ireland

Retail Ireland

Small Firms Association

Industrial Products.

Key messages

- Ibec is deeply concerned by the funding crisis in higher education which seriously threatens quality within the system. Failure to invest now will place an entire generation of students and the future of this country at a significant disadvantage.
- Business is well-placed to appreciate the critical role that talent and skills play in the ability of Irish businesses to compete and their impact on our global reputation. Therefore it is willing to play its part in helping to solve this crisis.
- Ibec believes that the increase in the National Training Levy (NTF), as proposed in the Consultation Paper, is an inappropriate response. It can best be described as an inadequate 'fix' due to the absence of a credible and more sustainable solution.
- International experience emphasises the importance of not relying on a single source of funding for higher education. The state, individuals and employers all have a role to play. Therefore the increased exchequer funding, an effective student contribution mechanism and an employer contribution must happen concurrently as part of an interlocked solution.
- Given the challenges posed by Brexit, a slowdown in international trade, anti-globalisation sentiment and political uncertainty in Europe, an increase in employer's PRSI will have an adverse impact on Ireland's competitiveness.
- There is an alternative approach to an increase in the National Training Levy which would deliver the same result more effectively. A portion of corporate tax gains should be ring fenced for investment in higher education. Given the scale of corporate tax receipts, this is a more viable and sustainable employer investment mechanism.
- While the higher education funding crisis has provided the impetus for this consultation, it raises serious issues around the governance and use of the National Training Fund (NTF), which is essentially little more than an earmarked tax.
- The NTF has carried large surpluses to help support the General Government Balance. Apart from confirming the views of employers who regard the NTF as an additional tax, this is not the purpose for which the Fund was established.
- A detailed cost-benefit analysis of all programmes supported by the NTF should be undertaken. NTF supported programmes which are not meeting explicit employer-defined upskilling should be discontinued or funded from alternative exchequer sources.
- The NTF should include governance structures in which employers have a direct input to decisions on training priorities and funding allocation. At least 50% of its allocation should be directed toward in-company training programmes (such as those supported through Skillnets) and apprenticeships.
- There should be major reorientation of the Fund to demand-driven training schemes. These could include a new cost reimbursement scheme which would enable employers to choose suitable training services from individual accredited education and training providers. This should be augmented by training needs analysis services to companies who require help in identifying their specific skills requirements.
- Labour market alignment measures should be embedded as key metrics in the higher education performance compacts and the further education service plans. Performance compacts should carry a higher weighting in the new current higher education funding allocation model that is currently being developed.
- Financial training incentives can only be as good as the information about the skill needs that underpins them. Relevant government departments should link citizens' education, employment and earnings to data to objectively measure education and training programme outcomes.

Introduction

Ibec welcomes the opportunity to respond to the Consultation Paper on a Proposed Exchequer-Employer Investment Mechanism for Higher Education (HE) and Further Education & Training (FET). The business community fully endorses the ambition expressed in the Consultation Paper and successive national policy documents that Ireland should be internationally renowned for its talent, for its highly skilled and adaptive people and for its openness to continuous learning.

Ibec has consistently warned of the economic and social consequences of the sharp decline in funding for higher education which was particularly badly hit during the recent crisis. It agrees with the assertion of the Expert Group on Future Funding of Higher Education[1] that:

'*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…These pressures are now seriously threatening quality within the system…A decision to accept the status quo or to make minor tweaks to it are incompatible with our national ambition…'*

The most obvious manifestation of the threat to quality is the continuing decline of Irish universities in the global rankings. They highlight the scale of a funding crisis, which will only get worse with growing numbers of students. Rankings are selective measurements and, in themselves, do not represent a full picture of the quality and diversity of higher education. However, whatever about their limitations, they cannot be ignored. They can have an impact on the ability of Irish higher education institutions to attract international students (an increasingly important response to the funding crisis at a time when the system already has constrained capacity), academic talent, research partners and benefactors. From a business perspective, they also have the potential to damage our reputation with international investors.

The Expert Group sets out three funding options which could deliver the necessary investment to address the funding challenge in higher education: a predominantly state-funded system, retention of the current upfront fee of €3,000 or deferred payment of fees through income contingent loan system. All three options envisage an increased and more structured contribution from employers, and increased state investment ranging from an additional €1.3bn for a state funded system to €563m for a deferred fee payment system. The first two options are not economically sustainable or socially desirable. The third option under which graduates would pay tuition fees when their earnings reach a certain level is the only equitable and sustainable option. This system should also include sufficient resources to deliver a more effective system of student financial aid to incentivise participation.

Business already engages with, and contributes directly to higher education institutions through a broad range of up-skilling, research and sponsorship initiatives. However, Ibec agrees with the Expert Group's proposal of a more structured approach to supporting programmes in areas of skills demand. A primary lesson from international experience in recent decades is the importance of not relying on a single source of funding for tertiary education[2]. The growing diversity of funding sources – the state, individuals and employers - has been an important and effective response by many governments and institutions to the mismatch between demand and resources.

Ibec's response to the Consultation Paper's question is based on the following principles:

1. Education should be viewed as a critical component of human capital investment and treated more flexibly in terms of Government resource allocation and EU fiscal rules.

[1] Expert Group on Future Funding for Higher Education, 2016, Investing in National Ambition
[2] Salmi & Hauptman, 2006. Innovations in Tertiary Education Financing: A Comparative Evaluation of Allocation Mechanisms.

2. The proposed Exchequer-Employer investment mechanism should contribute to the development of an equitable and sustainable long term funding model as envisaged in the Expert Group report.
3. The mechanism should not be considered in isolation. It should be part of a new funding model for tertiary education where the graduates, state and employers share the costs.
4. Existing National Training Fund resources should be used to support programmes in areas of skills demands at all levels of further and higher education. Application procedures should be lean and transparent.
5. Employers should be closely involved in the governance of the National Training Fund including decisions on training priorities and funding allocation
6. Financial incentives for upskilling can only be as good as the information about skills needs that underpins them.

Consultation Paper questions

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?

Ibec does not believe that an increase in the National Training Fund levy as set out in the Consultation Paper is the most appropriate way to meet the Expert Group's recommendations for the following reasons:

- The proposed increase will not contribute significantly to a sustainable long term funding model for higher education. Under Funding Option 3, the Expert Group recommended that, by 2030, the system would be primarily funded by direct state grants (€1,370m) and student fees (€1,350m) with an employer contribution (€150m) to support programmes in areas of skills demand. It also suggested that the annual increase should be front loaded and that the current funding base in 2021 should be approximately €600m higher than in 2015. **This bears little resemblance to the current Consultation Paper proposal which effectively suggests that a front-loaded employer contribution does the initial 'heavy lifting', due to inadequate exchequer funding commitments and a lack of political will to address the contentious issue of tuition fees.** Therefore this appears to be an attempt at a short-term fix due to the absence of a credible and more sustainable solution.
- Given the challenges posed by Brexit, a slowdown in international trade, anti-globalisation sentiment and political uncertainty in Europe, a 40% increase in the National Training Levy will have an adverse impact on the competitiveness of all companies.
- As the Consultation Paper acknowledges, the firms most exposed to changes in labour costs are in the indigenous sectors of the economy where profit margins are often very tight and which would undoubtedly face increased competitiveness challenges arising from any cost increasing measures.
- The proposed increase comes when receipts from the NTF levy have increased annually in the last four years and the Fund is carrying a surplus of almost €250m.
- There is little evidence that the existing National Training Fund is used effectively for the purposes for which it is established. Only three significant programmes – Apprenticeships (19% of NTF income),Skillnets (4.5% of NTF income) and Springboard+/ICT Action Plan (6.7%) have been evaluated, are directly linked to upskilling and have some employer input.

Approximately 70% of NTF allocation, spread across 12 programmes, seems to be driven by precedent as part of the annual Estimates process, rather than robust evaluation. Less than a quarter of the fund is allocated to in-company training (which includes expenditure on the national apprenticeship scheme).

- The increased levy is a blunt instrument which will have a disproportionate impact on labour intensive sectors such as retail and manufacturing, which account for about a quarter of Employer PRSI receipts. Many companies within these sectors do not employ significant numbers of graduates and will regard the levy as discriminatory.
- Many businesses already makes significant ongoing contributions to further and higher and through direct and indirect engagement, support and programmes.
- The levy increase could displace existing employer investment in training which is more targeted to company and employee needs. Ibec's most recent survey on work-based education indicates that in 2016 Irish companies allocated on average 2.5% of payroll cost to their training budgets. While training budgets have not recovered to pre-crisis levels, this still represents a significant investment.

Ibec believes that there is an alternative model which would deliver the same result more effectively – re-direction of a relatively small proportion of corporate tax receipts to higher education investment.

The approach is derived from Ibec's broader analysis of the future of Ireland's corporate tax base which has become increasingly volatile in recent years with windfall gains prompted by changes in the Base Erosion and Profit Shifting (BEPS) rules. This was underlined by the 26% headline GDP growth figure and the significant increase in corporate tax receipts in 2015. Feedback from Ibec members suggest that there is no immediate prospects of these gains receding, but they may become more volatile in the future.

Ibec believes that the gains from burgeoning corporate tax receipts should be ring fenced for the investment the country will desperately need in the coming years, including investment in tertiary education, rather than built into the base of current spending. This could be done by putting in an investment account any annual corporate returns which are in excess of the three year rolling average of corporate tax receipts – in effect smoothing the level of corporate tax which can be built into the base of current spending. On average this would have meant ring-fencing around 9% of corporate tax receipts since 1995. This equates to over €450m per annum over the last decade. Capital expenditure does not include education (apart from investment in physical infrastructure), even though it is commonly included in macroeconomic analyses as a component of capital investment. Therefore this approach will require more flexibility in how education is funded under EU fiscal rules.

Recommendation 1

A portion of the windfall corporate tax gains as a result of BEPS should be ring fenced for investment in tertiary education

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

The National Training Act states that the levy should be used (a) to raise the skills of those in employment, (b) to provide training to those who wish to acquire skills for the purposes of taking up employment, and (c) to provide information requirements for the economy.

While there was some small rebalancing in the 2017 Budget, less than a fifth of the NTF has been used for in-employment upskilling in recent years. Given Ireland's objectives for increased lifelong learning and the importance of upskilling for business productivity, the legislation should provide a safeguard against such a drift and explicitly state a proportion of the Fund that should be allocated to in-company training.

The legislation should also define 'skills' in an employment context more precisely. While labour market activation schemes may, and should, have a training component, the National Training Fund appears to support a number of schemes which are primarily used for social inclusion interventions. This is not the purpose for which the Fund was established and these schemes should be funded from the general exchequer or Social Insurance Fund receipts.

The Consultation Paper suggests that the operation of the EU Fiscal Rules and the inclusion of the NTF in the Department of Education and Skills overall annual expenditure ceiling mean that, in the absence of an increased rate of contribution, additional expenditure cannot be sourced from the NTF without a corresponding drop in Exchequer expenditure. In effect the Fund has been running large surpluses to help support the General Government Balance. Apart from confirming the suspicions of employers who view the NTF as an additional tax, this is not the purpose for which the NTF was established.

International evidence suggests that the most effective way of achieving greater employer buy-in upskilling is to involve them more closely in the governance of levy schemes, including in decisions on training priorities and funding allocation. Therefore, the legislation should be amended to introduce more defined governance structures which include employers.

Given its integration with the PRSI system and the Social Insurance Fund, National Training Levy is only payable in class A and class H employments which, according to the Expert Group report (page 44) represents 75 per cent of all insured employees. Other categories of employment such as public sector employees recruited before 1995 do not pay the levy. Given the ongoing requirement to invest in human capital, there is a strong argument for expanding the scope of the levy to all PRSI employment categories.

Recommendation 2

The National Training Act 2000 should be amended to achieve the following:

- The Act specifies that at least 50% of the NTF allocation is directed towards in-company training programmes
- The Act provides a clearer definition of upskilling in an employment context
- The NTF investment account should never rise above 20% of total Fund receipts in any one year
- The NTF should include governance structures in which employers have a direct input to decisions on training priorities and funding allocation.
- Expand the scope of the levy to all PRSI employment categories

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?

As explained above, Ibec does not believe an increase in the National Training Fund levy is the most appropriate way of meeting the recommendations of the Expert Group. However, we believe that there are ways in which existing NTF contributions and a hypothecation of corporate tax receipts could be linked to identifiable skills needs.

The most significant challenge is having the structures in place to identify skills. Critically, financial incentives can only be as good as the information about skills needs that underpins them, and such information needs to be communicated effectively to individuals and employers if they are to take informed decisions about which skills to invest in.

International evidence suggests that surveys on skills mismatches are significantly subjective[3]. The European Commission has also highlighted there is a danger that, in practice, they turn into a mere formality (a box-ticking exercise), rather than a process which can truly influence the decision of which programmes to introduce. Evidence of labour market needs often has no more than a “confirmatory or legitimising character” [4]

Ireland has a well-developed skills forecasting architecture with the high quality analysis produced by the Solas Skills and Labour Marketing Research Unit and the Expert Group on Future Skills Needs (EGFSN). The main challenges have centred on linking this analysis to effective policy interventions. The recent establishment of the National Skills Council and the Regional Skills Fora are a welcome first-step in seeking to address this deficit. However these fora will take time to realise their potential and there is an ever-present danger of ‘system-capture’ (e.g. there are only three private sector representatives on the 17-member National Skills Council).

Further information is also required on the new ‘architectures’ to give employers sufficient assurance around the deployment of industry funding. Involvement in governance of the NTF is only effective if we have meaningful and timely data around which to govern the Fund. This should accurately assess need in an agile way while also assessing the impact of any training provision in an economic context.

The Higher Education Authority’s Graduate First Destination Survey, which has been running since 1982, provides useful information on first occupations of graduates, nine months after graduation. However, it has limited coverage of HEIs and, more critically, only capture a short period of time. Employer satisfaction and student engagement surveys can suffer from unsatisfactory response rates (particularly amongst employers who are subjected to large numbers of surveys) and subjectivity. The major gap in skills measurement is in the use of administrative systems and effective utilisation of data held by public bodies. This is a prerequisite if financial incentives are to be based on a robust evaluation of outcomes and analysis of trends.

There are also emerging opportunities to use professional online communities to monitor shifting demands and anticipate future training needs.

Recommendation 3

Relevant government departments and agencies (DES, Department of Social Protection, the Department of Expenditure and Public Reform and the Revenue Commissioners) should start to link citizens’ education, employment and earnings data education and training outcomes.

Recommendation 4

The regional skills architecture must include mechanisms and the autonomy to connect education institutions with business in order to address local needs on an ongoing basis, without the need for national policy interventions and unwieldy accreditation processes.

Recommendation 5

The Expert Group on Future Skills Needs should undertake a comprehensive analysis of possible scenarios for future skills requirements post-Brexit.

[3] *OECD, 2016,*Getting Skills Right: Assessing and Anticipating Changing Skill Needs

[4] European Commission, 2015, Skills Governance in the EU Member States

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?

The National Training Fund, in its current format, largely falls into the category of what the OECD[5] categorises as revenue-generating schemes - essentially little more than an earmarked tax. Aimed only at raising funds for publicly-provided training, such schemes do little to alter the incentives of employers to invest in training. Therefore the challenge is to move towards a more demand-driven scheme.

Levy-grant schemes create an incentive for employers to invest in training – not only because employers can only get their contributions back if they apply to the fund for resources, but also because they can get grants larger than the levy they paid. Such schemes can also help address labour market needs by making grants conditional on training in specific skills. The disadvantage of levy-grant schemes is that they require many case-by-case decisions, and therefore imply higher administration costs. The process of grant applications might also be more burdensome for small firms, and therefore puts them at a disadvantage in terms of accessing resources from the fund.

A more attractive variant of this type of scheme is the cost-reimbursement scheme (exemplified by the French system – *Contribution à la formation professionnell continue*), in which firms pay a levy but can claim expenses back for any training costs they incur during the year. Train-or-pay and cost-reimbursement schemes carry a lower bureaucratic burden than levy-grant schemes, and they give employers a greater degree of freedom in planning their own training decisions.

Apart from France, examples of such schemes can be found in Belgium, Canada (Quebec) and Denmark (Employers' Reimbursement System (AER) for apprentices). From April 2017, a new train-or-pay levy scheme to fund apprenticeships will operate in the United Kingdom (the Apprenticeship Levy). The Levy requires all employers operating in the UK with a pay bill over £3 million each year to pay 0.5% of the payroll. Once they have declared the levy to HMRC, they are able to access funding for apprenticeships through a digital apprenticeship account. This allows them to choose the training provider or providers they want to deliver and set the price.

The OECD has recently provided analysis on a set of good design principles to guide the design and use of financial incentives:

- Minimise administrative burdens: procedures which are overly complicated can significantly reduce the take-up and effectiveness of financial incentives, particularly by SMEs. Several countries are therefore coming up with innovative solutions to reduce administrative burdens, often by embracing new technologies.
- Keep it simple. The incentives that employers face when deciding to invest in skills are complex, and the risk of market failure arises at many points along that decision-making process. The temptation to address these market failures with a multitude of interventions is large. However, the proliferation of financial incentives can complicate the system even further and could result in a situation where employers no longer understand the incentives they face.
- Build a degree of flexibility in the design and use of financial incentives. Financial incentives are best designed in such a way as to adapt quickly to new and emerging skills needs, where the latter are allowed to be identified flexibly and in consultation with stakeholders. Such flexibility can often be achieved by allowing skills needs and the policy response to vary at the local/regional level (this is reflected by the recently established Regional Skills Fora in Ireland; however, they are at an early stage of implementation)

[5] OECD, 2017, Financial Indicators for Steering Education and Training

- Involve employers and employees. Involving employers and their staff in the identification of skills needs, the design of education and training curricula, and in the design and administration of financial incentives can help promote better skills outcomes.
- Make the most of the opportunities offered by new technologies to reduce the costs of training and of information, advice and guidance.
- Couple financial incentives with other interventions. Financial incentives are likely to address only part of the barriers to skills investments that individuals and employers face, and so coupling them with other types of interventions (e.g. guidance, counselling etc) is likely to increase their effectiveness.
- Ensure regular monitoring and evaluation. By verifying what works and what does not, for whom and in what circumstances, monitoring and evaluation can contribute to more efficient and effective policy making.

There are many reasons why investing in the skills of their workforce makes sense for employers, including higher productivity and profits. However, a range of market failures and barriers (e.g. information failures, liquidity constraints and the risk of poaching) mean that actual investments in education and training by employers may be sub-optimal, particularly in the case of SMEs. In addition, employers do not always know what kind of training they need and/or is available, which could result in the wrong type of investments being made. Therefore a training-needs analysis service should be an integral part of the cost-reimbursement scheme.

A way of achieving greater employer buy-in is to involve employers more closely in the governance of levy schemes, including in decisions on training priorities and funding allocation. This is more easily achieved when levy schemes are organised on a sectoral (or local) basis, addressing the specific needs and concerns of employers in that sector (or geographical area), thereby increasing their sense of ownership. More decentralised schemes also have the advantage that they can generate highly specialised knowledge about employment and training-related issues which, in turn, can result in higher quality training being undertaken and a better alignment between labour market needs and the supply of skills. The Skillnets training networks in Ireland is a good example of this approach but is significantly under-funded (accounting for just 4.5% of NTF income).

Ibec research (see above) indicates that many companies have extensive training arrangements, supported by significant investment in training to support employee capacity and capability which deliver substantial benefits to the companies and their employees. Given that most of the training activity is not accredited, this is a missed opportunity for encouraging further upskilling and lifelong learning. Therefore the NTF could be used to support education and training providers to work in partnership with companies to accredit existing in-house training programmes.

Another, more indirect way to encourage education and training providers to align provision with labour market needs is to base an element of the funding formula on a set of pre-defined outcomes such as graduate employment rates, students/graduates in certain fields, the proportion of teachers with industry experience, proportion of students who participate in work-based learning modules, employer engagement, proportion of part-time students, percentage of courses delivered through flexible learning or e-elearning modules etc. This is part of the so-called “performance based funding” (or “outcomes-based funding”) that is increasingly being used by countries across the globe to “connect funding to measureable indicators and thus […] to incentivise and reward the achievement of specific policy goals”[6]

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[6] Estermann and Claeys-Kulik, 2016, Performance Based Funding of Universities in Europe, International Higher Education, 85

The advantage of this approach is that it places responsibility in the hands of institutions and encourages them to think carefully about how to increase intake in certain subjects or how to improve the labour market outcomes of their students, while giving them the freedom to come up with their own solutions. The Irish higher education system has embarked on this course through the HEA's Strategic Dialogue and Performance Funding process. However the performance funding element is small (7% of recurrent funding). The Further Education and Training (FET) Services Plans are at an even earlier stage

Recommendation 6

A detailed cost-benefit analysis of all programmes supported by the National Training Fund should be undertaken. NTF supported programmes which are not meeting explicit employer-defined upskilling or reskilling should be discontinued or funded from alternative exchequer sources.

Recommendation 7

A new cost reimbursement scheme which would enable employers to choose suitable training services from individual accredited education and training providers should be introduced. The design of the scheme should be based on learning from similar international schemes and based on the OECD's principles of good practice (see above)

Recommendation 8

Training needs analysis services should also be provided to companies on the same basis to help them identify their specific skills requirements

Recommendation 9

The Skillnets training scheme should be significantly expanded. A trajectory for the rapid development of apprenticeships, especially in sectors which may grow as a result of Brexit, should be identified.

Recommendation 10

Quality and Qualifications Ireland (QQI) should develop a strategy and implementation plan to provide education and providers and businesses with opportunities to accredit existing in-company training programmes.

Recommendation 11

Labour market alignment measures should be embedded as key metrics in the higher education performance compacts and the further education service plans. Performance compacts should carry a higher weighting in the new current higher education funding allocation model that is currently being developed.

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

There is no shortage of existing policy recommendations around skills and talent development. For example, the consultation process on the National Skills Strategy 2025 outlined over 40 high level education and labour market reform initiatives, each with its own deep layers of complexity in terms of objectives and possible delivery structures. The rhetoric around a 'systems approach' to create networks, address coordination failures, develop institutions and align strategic priorities may sound convincing. But the reality of developing a coherent talent development strategy which can be effectively implemented by a wide and diverse range of actors poses significant challenges.

The Department of Education and Skills is at the centre of a system comprising 15 national agencies, 4,009 schools, 19 regional training centres, 39 state-funded higher education institutions, a range of private providers and a budget of €8.6bn. Two other government departments, the Depart of Social Protection (DSP) and the Department of Enterprise, Jobs and Innovation (DEJI), each with their own networks of agencies and divisions, also have critical roles in the education and skills agenda.

The emphasis should be on implementation. Education and training reform necessarily proceeds at a relatively slower pace. International evidence[7] suggests that there is an inevitable tendency for education practices at all levels to develop their own dynamic, independent of the world of work and unresponsive to changes in the needs of the economy.

In highlighting these challenges, Ibec also recognises that many worthwhile reforms are in train, including the development of a new architecture to ensure alignment between higher education institutions (HEIs) and further education and training (FET) with local, regional and national skills demand. There have also been a number of innovative activation responses to the recent unemployment crisis. However most of the fundamental reforms are at a very early stage and face significant implementation challenges. The critical and long-overdue reform to the school junior cycle provides just one example.

It is also important to ensure that the implementation structures for skills strategies are fully integrated with our industrial policy strategies. For example, Innovation 2020 forecasts a doubling in demand for research personnel within the enterprise sector to 40,000 by 2020 across all skill levels up to PhD. This will require a more structured upskilling opportunities for researchers.

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

Some degree of misalignment between the supply and demand for skills is inevitable, particularly in the short run. However, the costs of persistent mismatches and shortages are substantial. For individuals, skills mismatch has a negative impact on job satisfaction and wages. For firms, it reduces productivity and increases on-the-job search and turnover, while shortages increase the cost of hiring and hinder the adoption of new technologies.

In its research for this consultation, Ibec members highlighted emerging skills shortages in specific areas such as data analytics, artificial intelligence and modern languages. However the feedback was largely consistent with previous surveys EGFSN reports and Ibec submissions– business needs individuals with strong academic and technical capability coupled with interpersonal skills including communication, technology, resilience, problem-solving and critical thinking

The capacities to think critically, judge numbers, communicate (in writing and verbally) and observe carefully — the capacities that education can and should develop — will be as useful in the future environment as they are today. The very intellectual attributes that are associated with a liberal education, for example, are the same as those that are essential for innovation.

However, notwithstanding the importance of valuing all academic disciplines for the reasons outlined above, expertise in STEM subjects is necessary to drive our economic competitiveness and to provide the foundations for future prosperity. Knowledge-based economies, such as Ireland's, are particularly dependent on the quality and number of STEM graduates. It may be difficult to precisely predict the jobs of the future but we can be confident of an ever-increasing demand for science, technology and

[7] OECD, 2010, Learning for Jobs, Reviews of Vocational Education and Training: Ireland

engineering skills. There is a global shortage of STEM skills and, given its industrial profile, Ireland has a particular imperative to attract and nurture this talent.

Recommendation 12
All higher education institution (HEI) departments and further education colleges should help their students to express their suitability for employment through the provision of an “employability statement”.

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

The importance of business-education partnerships has been acknowledged through a series of strategy documents from the National Skills Strategy 2025, the Action Plan for Education 2016-19, plus strategy documents from the Higher Education Authority (HEA), Qualifications and Quality Assurance Ireland (QQI) and Solas. There are examples of colleges exchanging information on the skills needs of the local labour market, employer involvement in the design and delivery of programs and placement of students in local businesses. There is a pressing need to make more visible the linkages and co-creation approaches to programmes and curriculum that exist across many institutions and that are embedded in their quality procedures.

National programmes such as Springboard, the ICT Skills Action Plan have also incentivised this activity. But they are not happening on a systematic basis and we are missing important opportunities. Many employers find it hard to engage with the education and training system. From the outside looking in, the system of providers, programmes and services on offer at times appears to be impenetrable.

As outlined above, there are opportunities to put this engagement on a more systematic basis through initiatives such as the recently developed Higher Education Authority’s (HEA) performance framework. Each institution has now entered a compact with the HEA, undertaking how it will contribute to national and regional objectives from the position of its particular mission and strengths. The compacts provide for how performance is to be measured and a proportion of funding will, in future years, be contingent on performance. Enterprise engagement should be a key metric. The Further Education and Training (FET) Services Plans are at an earlier stage but should include similar metrics.

Demand-led financing of education and training can only work if the supply-side is responsive to the needs of individuals and employers, and institutions are able to provide more flexible means of training delivery and streamlined operating environments. In many countries, markets have been opened up to private providers, funding increasingly follows learners, and there has been a general increase in the use of competitive grants and contracts. This has happened to some extent in Ireland but the senior leadership within institutions require greater levels of autonomy, particularly around managing their human resources, if they are expected to encourage their staff to innovate and respond to this changing environment.

Recommendation 13
Employer engagement should be a key metric in the HEA performance compacts and FET service plans.

Recommendation 14
The Department of Education and Skills should allow tertiary education institutions to have greater flexibility and autonomy on resource allocation so that they can respond to market demand and technological developments.

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