Small Firms Association

Submission on the proposed Exchequer-employer investment mechanism for higher education and further education and training

Presented to:

Department of Education and Skills

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Introduction

The Small Firms Association (SFA) is the trusted partner of small businesses (less than 50 employees) in Ireland, with 8,500 members and four affiliated organisations in all sectors and parts of the country. Its mission is to deliver business-focused advice and insights to member companies, influence government policy to the benefit of small businesses and connect its members in a thriving community.

The SFA has a vision of Ireland as the most vibrant small business community in the world – supporting entrepreneurship, valuing small business and rewarding risk takers. The SFA welcomes this opportunity to make this submission to the Department of Education and Skills based on our knowledge and experience of the small business community, which comprises over 235,000 businesses, employing half of the private sector workforce.

Overview

There is no doubt that the Higher Education (HE) and Further Education and Training (FET) sectors in Ireland face a funding crisis that threatens Ireland's competitiveness and prosperity. The consultation document states that a predictable and sustainable model is needed to fund HE and FET into the future and this is indisputable.

While business has a role to play, it must be part of a comprehensive, long-term funding strategy with considerable contributions from the State and students alongside any business contribution. Businesses, especially small businesses, cannot be asked to shoulder an increased burden now, with the Exchequer and student contributions deferred to an unknown future date. Given the political obstacles, securing Exchequer (current and capital) and student (income-contingent loan system) contributions on the scale required is far from certain. Without these elements, employers face a vicious circle of repeatedly being asked to increase their contribution, without the underlying issue ever being resolved.

For this reason, the SFA objects to the proposed increase in the National Training Fund levy in each of the next three years. In this submission, alternative sources of funding are proposed and suggestions are made in relation to using the existing National Training Fund more productively. The submission outlines the SFA's core principles in relation to funding for HE and FET and explores how employers and educators can work more closely to ensure positive outcomes for students, businesses and society.

National Training Fund levy

The SFA rejects any increase in the National Training Fund (NTF) levy for a variety of reasons. Employers of all sizes already make a 0.7% contribution to the NTF. Contributions to the fund are increasing as employment levels increase – from a low of €299 million in 2012, they have risen to an estimated €405 million in 2017.

Expenditure, however, has not increased at the same rate. The fund is in surplus; this surplus has increased steadily since 2014 and is estimated at €44 million in 2017. This fact demonstrates that the value of the fund is not being maximised, either for employers or society as a whole. In this context, resourcing the fund at a higher level is not an efficient method of investment.

Furthermore, the NTF levy is a cost imposed on businesses by government with many contributors deriving no direct benefit from their contribution. This is especially true in small firms – these companies often do not engage in training and development and when they do it is on an ad hoc basis. An SFA survey in late 2015 found that only one-third of SFA member companies have any formal training budget. Those that do tend to have limited resources available, with a median annual training budget of €6,250. Larger companies and the minority of small firms that have a training budget will likely offset any increase in the NTF levy by decreasing their training budget; this is a zero sum game with no additional overall investment in training. But the situation is starker for the two-thirds of small businesses with no formal training budget – for them, an increase in the NTF levy is an additional cost that is outside of their control and unrelated to the performance of their business.

The consultation document acknowledges: "Any increase in costs for employers clearly has an adverse impact on Ireland's cost competitiveness" and "the firms most exposed to changes in labour costs are in the indigenous sectors of the economy where profit margins are often very tight". An increase in the NTF levy is a crude instrument that has a disproportionate impact on labour intensive businesses, regardless of their skills needs and training participation. In the services sector, labour costs already represent 72-86% of location-sensitive business costs. Any increase in labour costs has a considerable impact on the profitability of these business and disincentivises job creation.

Given the uncertainty for businesses around Brexit, cost competitiveness is critical in the period ahead. Irish labour costs are the tenth highest in Europe and 20% above the EU average. Irish small firms are at a competitive disadvantage relative to firms in the UK across a number of major business costs and total labour costs are 17% higher in Ireland than in the UK. The National Competitiveness Council has warned against complacency in relation to competitiveness and SFA members have highlighted labour cost inflation as the biggest threat to their business this year. It is crucial that the Government does nothing to put additional pressure on labour costs in the coming year. In fact, helping Irish businesses maintain a competitive edge will be an important factor in overcoming the challenges that Brexit will pose.

Alternative sources of funding for HE and FET

An increase in the National Training Fund levy is not the most appropriate way to enhance employer funding contributions. Other options are available. The current buoyant corporate tax receipts provide another source of employer contribution to HE and FET, for example. A portion of these receipts, which are far outstripping the government's estimated revenue, could be ring-fenced for investment in education. This would not place an additional burden on employers.

Additional funding for HE and FET would also be available in the coming years if the Government operates according to the EU-mandated debt to GDP ratio limit of 60% instead of pursuing a more restrictive self-imposed limit of 45%. This policy is entirely inappropriate given Ireland's demographics and record of severe underinvestment in economic and social infrastructure over the last decade. Restricting investment in education, transport and other vital infrastructure over the coming years will negatively impact Ireland's domestic economy, ability to attract foreign direct investment and the quality of life in the country.

Changes to the NTF

The surplus mentioned previously is not the only aspect of the NTF that requires a new approach. There are a number of other changes, which, if made, would assist in deriving additional value from the fund without placing a greater financial burden on employers.

The top priority is a rebalancing of funding towards in-employment training. In 2007, the fund was split 50-50 between in-employment and for-employment training. During the crisis years, for-employment training dominated due to the high levels of unemployment in Ireland. The orientation of funding towards training job seekers peaked in 2013 at 83%. This has reversed somewhat since then, but funding of training for employment still outweighs in-employment training 70-30. This is totally inappropriate given the current unemployment rate of 6.4%. A significant rebalancing is required and the SFA calls for a minimum of 60% of the fund to be allocated to in-employment training in the current labour market context.

Transparency around the NTF must be improved. Currently employers have the sense that their payments disappear into a black hole and that the same would be the case for any increased contribution. It is totally unacceptable that a fund that is entirely resourced by employer contributions does not provide transparency to those who pay into it. Tied to this is the need for improved governance of the fund, involving employers or their representatives.

One element of investment from the fund that is particularly successful from a business perspective is Skillnets. Its enterprise-led network model has been embraced by many businesses and they recognise Skillnets as an efficient and valuable support. Funding for Skillnets, however, remains modest. The SFA would support an increased allocation for Skillnets and, vitally, a rolling five-year funding model to allow for planning (both for Skillnets and businesses), programme development and long-term engagement with the business community.

Within an increased funding allocation for Skillnets, the SFA strongly advocates a significant, ring-fenced fund for management development in small firms. 50% of firms fail in the first five years and international studies show that this rate could be halved by developing management capacity. Intensifying the focus on the 'long tail' of badly managed firms has the greatest potential to increase gross value added and reduce business failure. From a societal and a public policy perspective, it is much more valuable to impact these companies rather than subsidising companies that would have engaged in training even without State intervention. Reaching these companies and engaging them in training and development, however, is highly resource intensive and time consuming. For this reason, it is important to ring fence funding for this cohort and set appropriate targets. The Management

Development Council report in 2010 recommended funding of €10-12 million for this purpose, increasing over time.

Proposals relating to increased employer-education engagement

The consultation document states: “Employers can therefore have confidence that they can influence the direction of HE and FET provision, that providers will be responsive to their emerging needs, and that the required skills will be delivered in an efficient and effective manner.” These attributes are frequently referenced in relation to HE and FET, yet the majority of businesses do not perceive the education system to be responsive to their needs.

The employer-educator engagement architecture was bolstered just this week with the official launch of the National Skills Council and the Regional Skills Fora. For micro and small firms, however, their capacity to utilise these avenues may be limited as, indeed, may their ability to identify their own business’s skills needs. Therefore, a training needs analysis service or toolkit would be an important addition to the supports currently available for small businesses. Through the provision of such a service/toolkit, the NTF could boost demand for training.

Other demand-side measures should also be explored. A voucher system would be an effective way to demonstrate to employers the direct return they receive on their NTF levy. Such a voucher system has proven successful in other countries and creates a culture of engagement and a sense of control for the business community. The uptake of the Trading Online Voucher Scheme demonstrates that vouchers work in an Irish context and could be rolled out in relation to training and upskilling.

The consultation document states that one outcome of the ongoing reform of HE will be the availability of better and more employer-relevant metrics and indicators. This is crucial and long overdue. If delivered it has the potential to enable considerably enhanced evidence-based decision making in this area in the future. This would be a welcome evolution from current evaluation methods that rely heavily on surveys.

General principles relating to the funding of HE and FET

Adequate and sustainable funding for the HE and FET sectors can only be achieved when all three dimensions are secured – State, student and employer contributions. No good business person would sign a contract unless all of the financiers were tied in. It is therefore not viable to implement the employer contribution and postpone the other elements to some unknown future date. The solution must be comprehensive, addressing the need for greatly increased Exchequer funding (current and capital), an income-contingent loan system to facilitate adequate student contributions and an equitable and efficient method for employers to contribute. All elements must advance in tandem.

The business community does not have confidence that the Exchequer and student dimensions are being seriously addressed. These elements, in particular student fees, are deemed to be politically sensitive, but the business community need to see politicians stepping up to seriously tackle them given the huge dangers of inaction. The Government must unequivocally choose an option from the Cassels report and make a strong public case as to why it is necessary.

Conclusion

The SFA rejects the proposed increase in the NTF level by 0.1% per year over the next three years. This is an increase cost to business at a time when competitiveness is critical and it disproportionately impacts high headcount businesses, which can often be low-margin. Alternative sources of employer contributions are available, for example from greater than expected corporate tax receipts.

Improvements to the operation of the NTF have the potential to make the current fund more effective and allow employers to reap more direct benefits.

All of these measures, however, are temporary patches and do not address the crisis facing HE and FET. In order to tackle this crisis, as is urgently needed, the major issues of adequate Exchequer and student contributions must be addressed, despite the political sensitivities.

For further information on any of the issues raised in this submission, please contact Linda Barry, SFA Assistant Director, on 01-6051626 or linda.barry@sfa.ie More information about the SFA is available on www.sfa.ie and on Twitter @SFA_Irl