

CONSULTATION PAPER 

PROPOSED EXCHEQUER - EMPLOYER INVESTMENT MECHANISM FOR HIGHER EDUCATION AND FURTHER EDUCATION & TRAINING

10 MARCH 2017

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In October 2016, the Minister for Education and Skills, Mr Richard Bruton TD, and the Minister for Public Expenditure and Reform, Mr Paschal Donohoe TD, announced a consultation process on the design and operation of an Exchequer-Employer investment mechanism to operate from 2018 onwards.

The broader context for the consultation, as set out by the Minister for Public Expenditure and Reform in his speech accompanying the publication of the Estimates for 2017, is the role of increased educational attainment as a lynchpin of both economic and social progress and the need to underpin this progress through investment in education.

The Minister for Education and Skills highlighted at that time the need to immediately start work to put in place a sustainable and predictable long-term funding model for the entire HE and FET sectors. This would draw on the report of the Expert Group on Future Funding for Higher Education “Investing in National Ambition”, which sets out a number of options for significant Exchequer and student contributions but focusing in particular on the examination of an Employer-Exchequer investment mechanism as recommended by the Expert Group, complementing the Oireachtas Committee on Education and Skills’ consideration of the report

Both Ministers stressed that a future funding model, including a possible increase in the NTF, is also intended to help drive continued reform, quality and performance improvement across the HE and FET sectors, in line with the objectives of the Action Plan for Education.

II. STRATEGIC CONTEXT AND CONTRIBUTION OF HE AND FET

“Our ambition is that Ireland will be internationally renowned for its talent, for its highly skilled and adaptive people, equipped with higher order capabilities required in the 21st century workplace and for its openness to continuous learning”

Enterprise 2025: Innovative, Agile, Connected

“Our success in delivering on the ambition in this strategy will depend on our people - undertaking the research, working in and creating successful enterprises, and contributing to the society in which we live.”

Innovation 2020: Excellence, Talent, Impact

“[Funding] 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.”

Expert Group on Future Funding of HE

Introduction

The quality, flexibility and level of educational achievement of our workforce has been central to Ireland’s economic development over the past three decades. Ireland’s strong economic performance within a globalised, international trading environment would not have taken place without the transformation in our education system over that period.

For the past 50 years, significant investment - primarily state funded - has ensured that the Irish FET and HE systems have had a lead role in national economic and societal development and wellbeing. From being a primarily agriculturally oriented economy, the Ireland of today boasts a flexible, skilled, well educated workforce which has helped the country diversify successfully into a wide range of other economic sectors including life sciences, environmental technology, ICT, financial services, agri-food etc. The investment has also brought greater equality, social mobility and participation in civil society.

In particular, with the emergence of the high-technology and information economy, education has been pivotal to Ireland’s success in attracting foreign direct investment. The growth and success of indigenous firms – both those exporting and those serving the domestic market – has depended in significant respects on the availability of a highly skilled and educated workforce. All employers benefit from skilled and highly-educated workers who can adapt to changing technologies, drive innovation and contribute to enhancing productivity and competitiveness.

The inherent capability of that workforce has been a key driver of Ireland’s economy since its economic and fiscal collapse. Ireland’s continued attractiveness to FDI, its trading success and the resilience of its

indigenous sector have underpinned the progress in the recovery in living standards that has been secured alongside substantial growth in employment and a significant fall in the unemployment rate.

The competitive strength we draw from our workforce is not fixed or immutable. It needs to be strengthened, developed and upgraded on a continuous basis. Ireland is facing an unprecedented range of external challenges, including the implications of Brexit, increasing uncertainty regarding the international trading environment and threats to the relative competitiveness of Ireland’s tax regime.

The importance of both HE and FET does not relate solely to initial education and training for those entering the labour market. Both sectors have a critical role to play in helping to spread the benefits of economic growth more widely by supporting the unemployed to reskill and up-skill to find employment. In addition, the changing composition of economic growth accentuates the stronger focus now being developed on providing greater opportunities for reskilling and up-skilling for those already in the workforce.

All these factors highlight the imperative to build a world-class skilled and educated workforce for the future.

Delivering Economic and Social Benefits

FET and HE not only deliver high level improvements in labour market outcomes such as employment rates and earnings, but the benefits extend beyond the labour market into wider societal gains such as better health, greater participation in social and political life, greater social mobility, etc.

The wider societal and economic benefits of HE is summarised in the Report of the Expert Group on Future Funding for HE, as set out in the table below. Further detail on which is set out in the Expert Group’s discussion paper *The Role, Value and Scale of HE in Ireland*¹.

| Table 1 – Benefits of HE | | |
|---|------------------------------|-------------------------------------|
| Economic growth & prosperity | Social Development | Culture and Civic Engagement |
| Economic development | Stronger public finances | Creative practices |
| High Quality Jobs and Enterprises | Quality public services | Civic and democratic life |
| Vibrant regions | Mobility & greater equality | Understanding Cultures |
| Individual returns | Tackling societal challenges | |

¹ <https://www.education.ie/en/The-Education-System/Higher-Education/Higher-Education-Role-Value-and-Scale-of-Higher-Education-in-Ireland-Discussion-Paper-1-.pdf>

Central to our economic well-being is the contribution human capital makes to national competitiveness. A recent National Competitiveness Council (NCC) Bulletin (2017) found that despite the impact of the economic crisis on output and employment levels, Ireland has continued to demonstrate strong levels of labour productivity and continued productivity growth. Measured in GDP per hour worked, Ireland ranked fifth among OECD member states in terms of labour productivity levels, with Ireland performing relatively strongly and above the Euro-area average and UK levels.

However, the NCC finds that the performance of enterprises in high value added sectors masks underperforming sectors elsewhere in the economy, leaving Ireland vulnerable to shocks and serves as a reminder to the importance of enhancing productivity at sector and firm levels.

Similar research on productivity for the UK Department of Business, Innovation and Skills (2013) found that the superior skills which graduates bring to the workplace increased productivity by 11% - 28% in the long run and that a 1% increase in the share of the workforce with a university degree raises the level of long run productivity by 0.2% - 0.5%. This study also found that the contribution of graduates to economic growth varies significantly across countries and is typically in the top 3 factors boosting labour productivity.

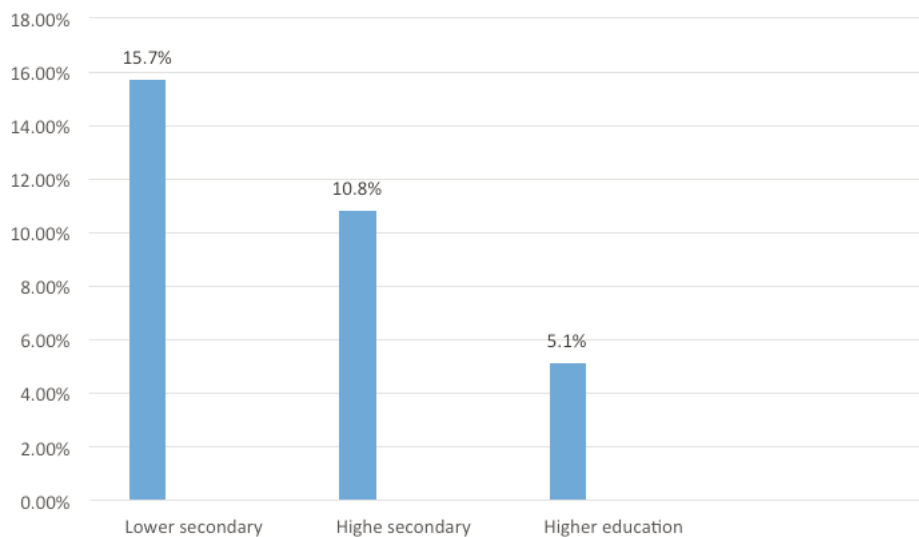
Studies show that having skills relevant to the labour market significantly increase an individual's chance of being employed and in a good quality job. This is supported by the findings in the HEA First Destination's survey reports² which show that unemployment rates among graduates have declined significantly to pre-crisis levels in recent years.

Highly-skilled individuals are also more likely to earn higher wages. Individuals need access to relevant education and training and to appropriate experience in the workplace to become highly skilled. The recent Irish experience during the recession shows that people with lower levels of educational attainment and less experience of the workplace experienced the highest levels of unemployment.

The most recent CSO Survey (1 February 2017) on Income and Living Conditions also shows that people with the highest level of education continued to have the highest real median disposable income at €32,201 in 2015, up from €30,408 in 2014. People who were unemployed had the lowest median of disposable income at €12,747, up slightly from the 2014 figure of €12,593.

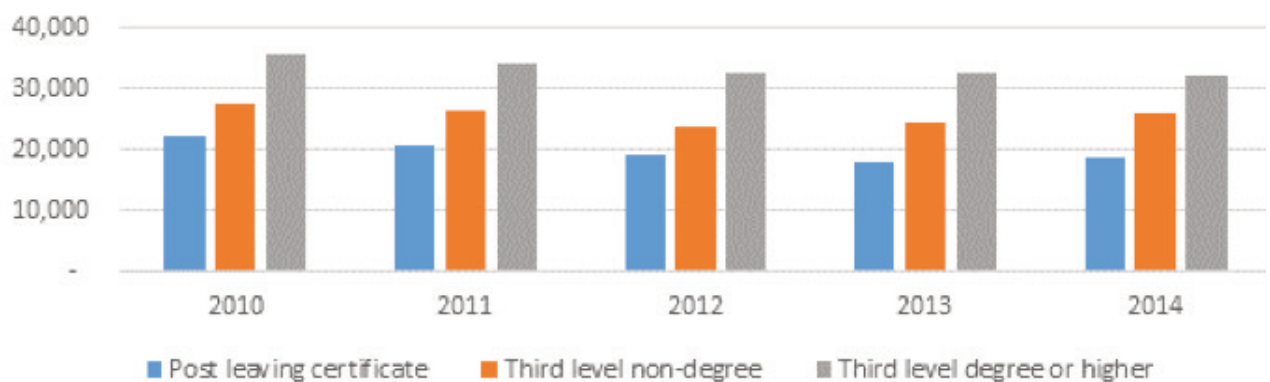
² <http://www.hea.ie/en/statistics/statistics-section-publications/first-destinations-reports>

Figure 1: Unemployment rate (per cent) in Ireland by highest level of education, 2015



Source: CSO Quarterly National Household Survey (Q3 2015) as cited in HEA (2016)

Figure 2: Earnings compared: post Leaving Certificate, third level non-degree, third level degree or higher



Source: CSO, SILC data

Leveraging demographics for competitive advantage

With the highest share of the under 15 years age cohort in the EU, Ireland's young population is a strong potential competitive advantage through the availability of a well-skilled workforce. Our demographic profile also means that 60% of those in the labour force today will still be eligible workers in 2035. While this profile raises challenges for the education and training system, it also presents a significant opportunity, with the right skills and education framework, to build on this competitive advantage in the medium to long term.

Our requirements in terms of future skills needs are well-flagged and reflected in central and sectoral strategies. 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.

Centrally, as part of the Action Plan for Education 2016 – 2019, the Government aims to systematically reduce the skills gap in areas of critical skills need in higher education by providing for 50,000 upskilling and reskilling places. It will increase by a quarter the number of students undertaking a work placement or work project as part of their third level qualification by 2021. A strong stream of employer supported apprenticeships and traineeships will be developed, providing places for 14,000 young people in 2020. Meeting these skills needs requires a strong and co-ordinated approach from policy makers, providers and employers.

Conclusion

HE and FET are cornerstones of Ireland's current economic performance and in realising Ireland's potential for future economic and social development.

However, a significant programme of reinvestment now needs to be initiated in order to address demographic challenges and continue to deliver the quality graduate outcomes necessary to meet national economic and societal objectives.

The purpose of the consultation process announced by the Minister for Education and Skills and the Minister for Public Expenditure and Reform in October 2016 is to secure the views of employers and their representative organisations specifically on the proposed establishment of a revenue-raising mechanism, complementing and supplementing Exchequer investment funded from general taxation, to increase investment in HE and FET and support the development of a long-term sustainable funding model for the two sectors. In this context, the recommendations in the Expert Group report in relation to the student contribution element will also be progressed.

III. A REFORMED AND ENHANCED FRAMEWORK

Introduction

The Minister for Public Expenditure and Reform's announcement last October highlighted that the purpose of the proposed establishment of an Exchequer-Employer Investment Mechanism was two-fold - to contribute to a sustainable funding model and to help drive continued reform, quality and performance improvement across the HE and FET sectors, in line with the objectives of the Action Plan for Education. The Expert Group on Future Funding for Higher Education's report makes it clear that there needs to be significant reform and more transparency in the HE sector as part of the overall package.

Enhancing employer engagement and alignment has been a key priority in the programme of education and training reform. It is intended to continue to intensify and reinforce the realisation of this objective building on the substantial progress achieved over recent years. Arguably, the last three to five years have seen more reform in Irish education and training policy and operational implementation than at any time in the State's history with a range of ambitious interlocking strategies being implemented to complement initiatives in labour market, entrepreneurial and skills areas.

In terms of ensuring a high quality and responsive FET and HE system, comprehensive reform of both sectors is well underway and will continue over the period to 2021. Reforms are steered through the FET Strategy and the HE Strategy to 2030.

Performance of the HE and FET System

It is important to emphasise, in discussing the reform of the HE and FET system and the actions to strengthen and intensify linkages and engagement with employers and businesses, that the HE and FET system is starting from a strong base in terms of key measures of performance by international standards:

Ireland is in the top 5 position in Europe in third level participation and take up of STEM disciplines at third level and in a top 10 position in educational attainment (Action Plan for Education 2016 – 2019).

- In recent international benchmarks, Ireland was ranked 1st in the world for workforce availability and adaptability and ranked first in Europe for knowledge transfer activities.
- Ireland has one of the highest rates of 30-34 year olds with HE attainment in the OECD - over half of 25-34 year olds have completed HE.
- The participation rate of 18-20 year olds in HE has grown from 20 per cent in 1980 to a current level of 58%.
- Over 45% of the labour force now has a HE qualification.
- The EU2020 target of reducing to 8% the percentage of 18-24 year olds with at most lower secondary education who are not in FET is already being superseded currently at 6.9% with the aim of a further reduction to 5%.

This strong performance has been achieved in a severely constrained funding environment highlighting the responsiveness, flexibility and adaptive capacity of the HE and FET sectors as discussed later in this paper.

Enhancing Education-Employer Engagement

Taken together, the architecture connecting the education sector to the enterprise sector now forms an interconnected and transparent framework in which policy can be designed, implemented and evaluated. A more agile, responsive and efficient network of HE and FET providers is being put in place to deliver on employer needs. In this context, some of the key reforms supporting enhanced education-employer engagement include:

- **A strengthened framework at national and regional level to prioritise and deliver skills needs:** A new National Skills Council is being established to advise on the prioritisation and delivery of skills needs across the economy, together with nine Regional Skills Fora to help employers maximise the opportunities available from regional and local skills pools. The Apprenticeship Council continues to develop a wide range of new apprenticeships to meet skills needs within the economy in consultation with employers.
- **Reform of FET:** FET has been brought together under Education and Training Boards, funded through SOLAS and will be supported by a new funding model based on an annual service planning process related to Government priorities.
- **Reform of HE:** A series of reforms is underway to strengthen the contribution of HE to individual, economic and social development, including the implementation of the new HE System Performance Framework which will provide greater accountability and visibility of performance of the HE system and individual institutions. A particular feature will be better and more employer-relevant metrics and indicators.
- **More flexible, skills based learning opportunities:** Working with employers, the FET and HE sectors have already delivered a diverse range of programmes through Momentum and Springboard+ to provide opportunities for the unemployed to reskill and upskill to find employment in growth sectors and meet employer needs.
- **Employer roles in student/graduate formation, workforce development and research and innovation:** The most visible aspect of employer engagement is probably the provision of work experience and work placement. Every year a growing number of transition year, leaving certificate, FET and HE students participate in these opportunities with employers across all sectors of the economy. They provide an opportunity to experience the world of work, explore possible career options, develop employability skills and network with employers. ESRI research suggests that increasing the practical aspects of HE

degree programmes will reduce the incidence of graduate employment mismatch to the benefit of both the prospective employee and employer.

- **Research and innovation:** Ireland is ranked as the 8th most innovative country in the world with 8,000 students on research programmes and 10 Irish researchers were among the top 1% of highly cited researchers worldwide. In 2015 some 94% of collaborative research agreements with the SME sector were with Irish SMEs. In 2015 there were some 110 active spin-out companies which were thriving three years after establishment, an increase of 14% on 2014, and 930 jobs were created in spin-out companies in 2015.
- **Growing synergies between the FET and HE sectors and the continuum of provision:** New apprenticeship programmes are being developed across both sectors, while in addition to its long history of traditional apprenticeship provision, the FET sector provides traineeships, specific skills training, Post Leaving Certificate programmes and programmes offered by Skillnets. Both the apprenticeship and Skillnets programmes can lead to qualifications at higher levels of the National Framework of Qualifications and can be offered in FET and HE settings.

The reforms summarised above have developed in tandem with an evolved approach to HE and FET provision. Providers have adapted to funding constraints by driving internal efficiencies and becoming more responsive to industry needs in order to grow and develop.

Reform, Productivity and Efficiency

While the severely constrained funding environment has raised concerns around ongoing financial sustainability, it has nonetheless spurred concerted action by providers to maintain operations within the budgets available.

In the HE sector, there has been significant progress in reducing the cost base. With state grants falling by 34% between 2008 and 2015, institutions had to find a means to reduce costs while maintaining the level and quality of provision. With pay costs accounting for 65% to 80% of overall expenditure, immediate focus was placed on control of employment. Overall staffing was reduced by 12% from 2008 to 2015, at a time when student demand increased by 22%, meaning that staff/student ratios increased significantly. The second discussion paper produced by the Expert Group on Future Funding for HE noted that frontline services had been protected as far as possible during this period by making greater cuts within non-academic staff cohorts, allowing provision to expand at the level required.

There are now strict controls on pay levels and overall staffing structures within HE and this has ensured an effective and consistent approach to recruitment and salary setting, minimising the risk of excessive

rewards within the sector. There has also been particular emphasis, as part of wider public sector reform, on the development of shared services. The centralisation of procurement via the Office of Government Procurement is already delivering savings for the HE sector, with other shared service initiatives progressing around payroll, ICT infrastructure and research access.

The universities have made significant strides in reducing the core staffing base, and have also implemented financial benchmarking approaches and lean techniques across operations in order to improve efficiency. Reform has reduced the number of entry routes, ensuring access by students to a broader education and improving the effective delivery of learning. The universities have also been able to diversify income, reducing reliance on Exchequer support to below 50%.

A recent financial review of the Institutes of Technology demonstrated the savings that had been made across these institutions, with pay expenditure decreasing by 10% and non-pay expenditure reduced by 3% between 2008 and 2015 at a time when student demand was growing strongly (by 30%). While confirming the financial vulnerability of many Institutes, this review also made clear the benefits for those which had developed cohesive propositions around flexible and online learning to meet evolving skills needs, particularly amongst the existing workforce. This is now a core component of all development strategies across the technological HE sector.

The reduction in the cost base across HE does not yet appear to have had a negative impact on the quality of graduate emerging or their ability to secure employment. The HEA survey of 2015 university graduates showed that 68% were in employment 9 months after graduation, with just 6% seeking work. Meanwhile the most recent survey of graduate employers, in 2014, showed 72% were satisfied with the workplace attributes and 87% with the personal attributes of the graduates recruited. It is clear however that without growth and diversification of the institution funding base that quality may well be compromised in the future, with a recent QQI report noting the issues that are already becoming apparent in this regard.

In tandem, there have also been significant changes in the planning of FET programmes following major structural reform of the sector brought about by the establishment of SOLAS and the 16 Education and Training Boards (ETBs) in 2013. The implementation of the FET Strategy 2014-19 has resulted in major initiatives to improve continuous professional development in the sector, introduce new quality systems and a stronger focus on the use of technology. Underpinning this work since 2014 has been a new approach to funding FET services through annual service planning which is informed by national policies and strategies and grounded in an analysis of local skills demand and labour supply. From 2017 this process will be significantly enhanced through the integration of a new data system, enabling much enhanced tracking of learner outcomes and more informed funding decisions. The new data system will also enhance the series of FET programme evaluations currently underway.

The ETB sector delivered significant efficiencies over the period of the downturn, with major reductions in administrative staff and space being made across FET programmes to meet the much increased demand for training for unemployed people. This flexibility will also be demonstrated going forward in delivering the high quality intermediate level skills required by employers as growth continues and the focus on skills and talent intensifies.

Conclusion

Comprehensive reform of the FET and HE system is well underway and will continue over the period to 2021. These reforms, steered through the FET Strategy and HE Strategy to 2030, will ensure a high quality and responsive system.

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. With further investment, this enhanced framework for education-employer engagement will further develop and deliver the impact required to maintain Ireland as an open, innovative and highly competitive nation.

IV. THE FUNDING CHALLENGE

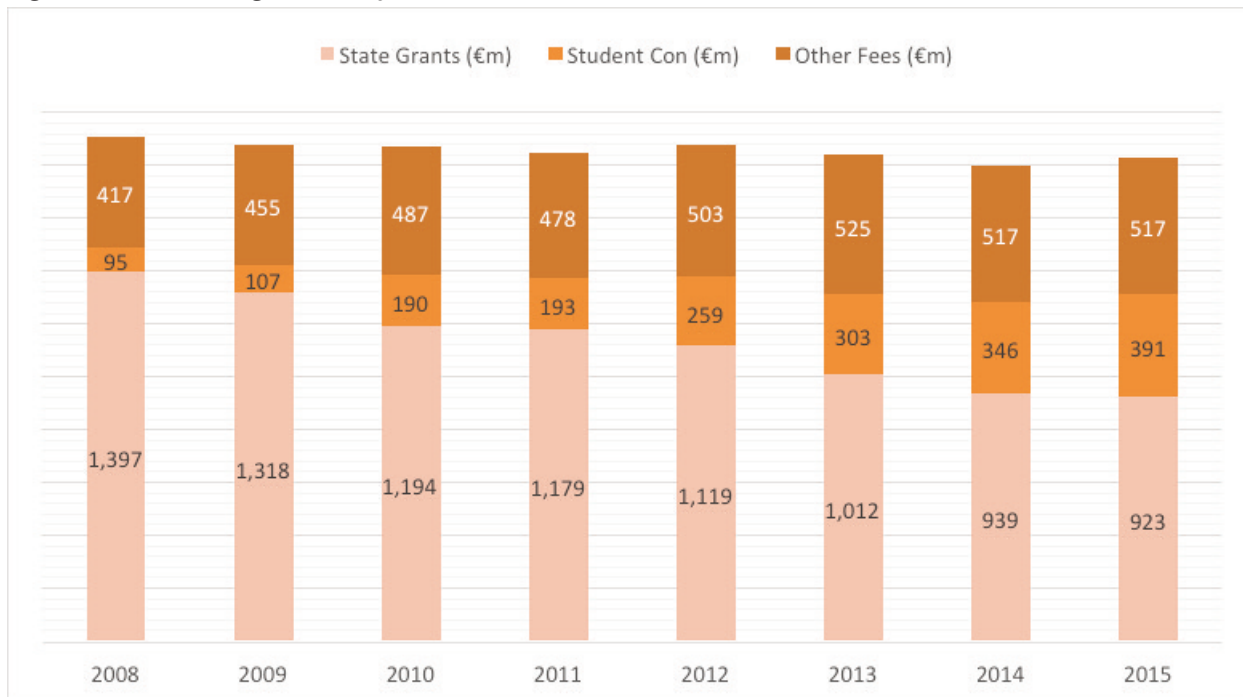
Introduction

Maintaining and continuing to strengthen Ireland's key competitive advantage in human capital must be secured by a long-term sustainable funding model. This applies both directly to the HE sector on account of severe funding constraints but also to the FET sector - reflecting the pivotal role the sector plays in working with employers in responding directly to current and emerging skills shortages. Investment is required to continue Ireland's current growth performance, enhance competitiveness and maintain our attractiveness to FDI.

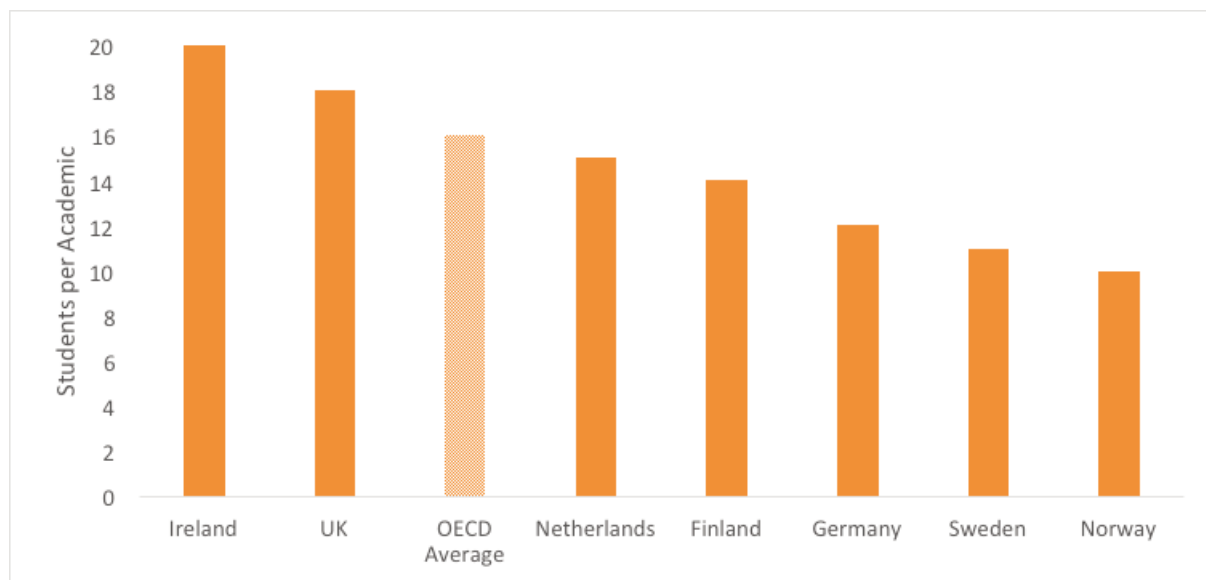
HE sector

An enduring consequence of Ireland's fiscal and economic crisis from 2008 has been a sharp decline in State funding for HE with core funding for publicly funded HEIs HE falling by 33% (€463m) in the last 8 years (Figure 3) against the backdrop of significant growth in student numbers. The decline in State funding has been offset to some extent by the introduction of the new Student Contribution Charge which now stands at €3,000 (however, 48% (€190m) of the total €390m revenue stream payable to HEIs arising from this charge is paid by the Exchequer in respect of students eligible for a maintenance grant). That said, the total revenue stream from students is over €700m; €200m from student contributions and in excess of €500m in respect of fees for part-time, post-grad and international students.

Figure 3: Core Funding of Publicly Funded HE Institutions



Source: Expert Group on Future Funding for Higher Education, Figure A2.1. Note: Other fees reflect post-grad, part-time, international, repeat fees, etc.

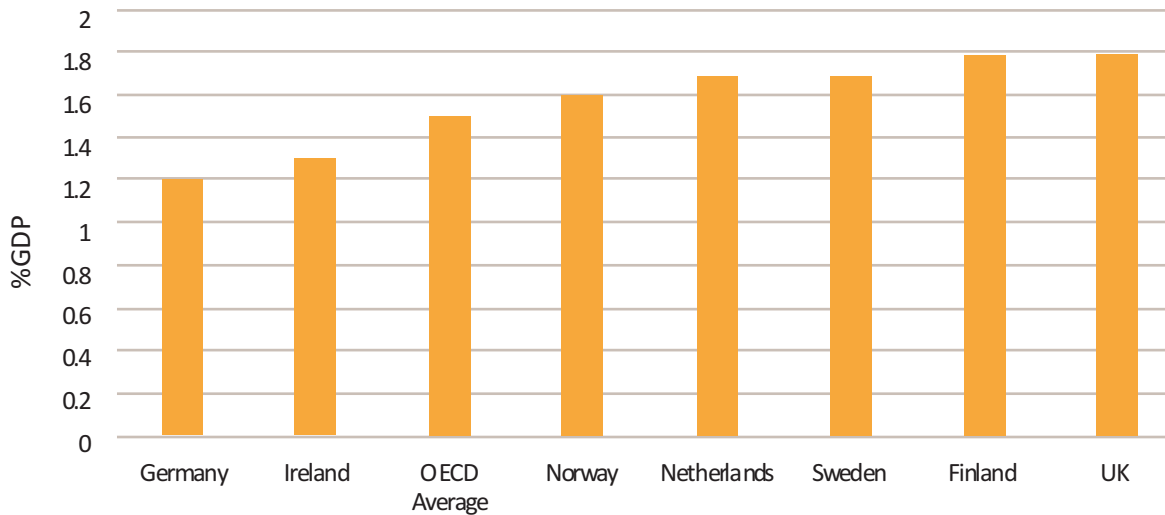


Source: OECD Education at A Glance 2015, Table D2.2 (2013 data)

Countries with better student/academic staff ratios in HE tend to be amongst the more competitive internationally. For example, highly competitive Scandinavian countries such as Sweden and Finland had ratios of 11:1 and 14:1 respectively in 2013 whereas the OECD average was 16:1. Ireland, by contrast, had a ratio of 20:1. The latest data for 2014 shows that these ratios remain unchanged for Ireland, Sweden and Finland while the OECD average increased to 17:1.

Other countries are not standing still. As the Expert Group report notes many of these are investing significantly in skills development through HE, further education and apprenticeships. International comparisons of total spending on HE relative to measures such as GDP or GDP per capita are – in the normal course of events – not straightforward owing, to important definitional issues for example. This difficulty is compounded by the recent revisions to Ireland’s recorded GDP level. However, OECD data not including the substantial upward adjustment in Ireland’s GDP for 2015 illustrates (Figure 5) that spending in Ireland as a share of GDP lags leading developed countries internationally. This is confirmed by a range of indicators from the OECD.

Figure 5: Expenditure on HE as % GDP



Source: OECD Education at a Glance 2015, Table D2.1 (2012 data)

Ireland's competitiveness scorecard 2016 published by the National Competitiveness Council and sourced from OECD data (2012), stated that while spending more per student at primary and secondary levels than the OECD average, Ireland spent 4% less than the OECD average on tertiary education, with the gap between Ireland and the UK and the US particularly pronounced. Overall Ireland ranked in 16th place.

Demographic developments compound the business case for increased investment. As noted earlier in this paper, Ireland now has 1 million young people under the age of 15, the highest proportion in the EU giving rise to an ongoing requirement to significantly expand provision in the HE and FET sectors over the next decade. As illustrated in the figures under, a baseline projection – made under a conservative 'low growth' scenario in 2015 (S2) – is for student numbers in HE to increase by 27% by 2028 over 2015 levels as the current cohort of younger age pupils continue to move through the education system.

In fact, recent indications are that the rate of demographic increase amongst the student population is occurring at an even greater rate than forecast in 2015.

Figure 6: Projections of Demand for Third Level Education 2015 - 2029

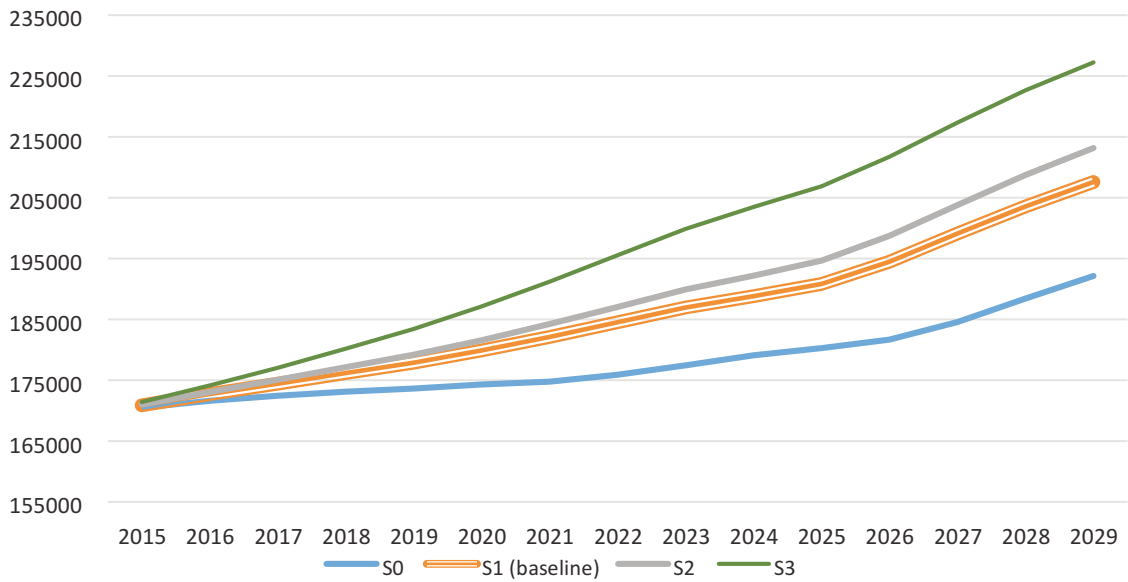
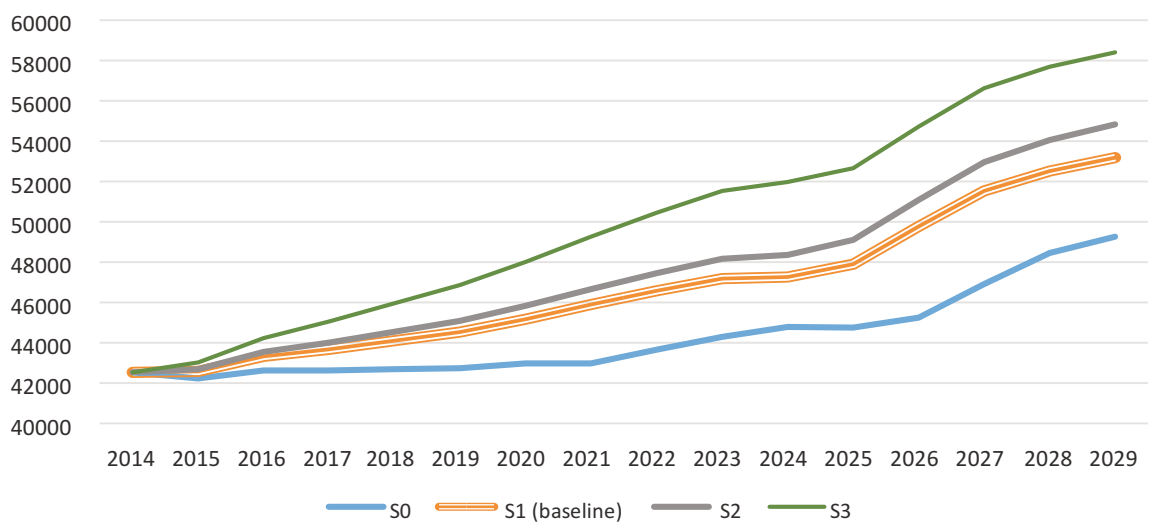


Figure 7: Projection of Entrants to Third Level Education, 2014 - 2029



Source: Projections of demand for full time third level education, 2015 – 2019, Department of Education and Skills November 2015

FET sector

Stability and predictability for the funding of the FET sector on a multi-annual basis is crucial to the systematic planning for the significant expansion in the availability of key workforce skills through structured training programmes and apprenticeships.

State investment in the FET sector has remained relatively stable since 2008, with overall annual expenditure of over €800 million. This has been possible in part due to the surplus available in the National Training Fund notwithstanding the constraints existing on disbursements from the fund under the EU Fiscal Rules. However, the composition of spending has changed significantly.

Following the onset of the fiscal and economic crisis in 2008 the focus of investment in this area shifted very significantly towards the education and training of unemployed people resulting in the movement of funding across programmes. This was most marked in terms of the movement from craft based apprenticeships where registrations were collapsing - to training programmes for unemployed people such as Momentum and specific skills training.

In more recent years, as the employment situation continues to improve, the greater scope for redirecting investment back towards in-employment programmes such as apprenticeship and Skillnets provision has been utilised. For example, Skillnets networks enable employers in sectors or geographical areas to come together to collectively identify the skill needs of their employees and to procure training. The process is strongly employer-led and involves 50% of the cost of training provision being met directly by employers themselves. The Programme for Government contains ambitious targets in this area committing to achieving cumulative apprenticeship registrations and traineeship enrolments of 50,000 in the period 2016-2020. This would more than double 2015 levels.

There will be a strong focus on developing programmes in new sectors and emphasis on an enterprise-led approach with open calls for employers and education and training providers to submit proposals for the development of new apprenticeships. The first such call identified a wide range of potential new programmes across diverse economic sectors, with employers identifying their skill needs and working with education and training providers to develop innovative programmes on- and off- the job to meet them. The first of these programmes began in 2016 and a new call is planned for Q2 2017.

The savings achieved to date from reduced demand for the training of unemployed people³ have been

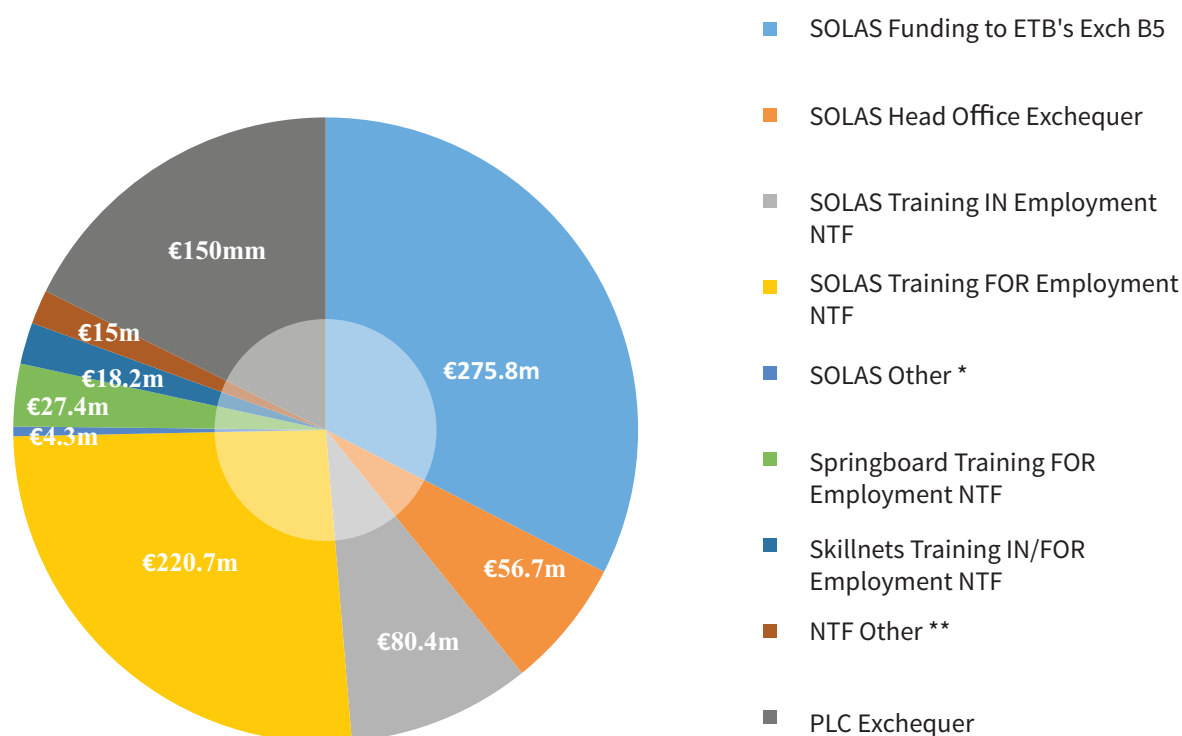
³ ETB training programmes supported through the SOLAS NTF allocation for training for employment include both labour market focused programmes delivering specific skills to jobseekers and programmes for disadvantaged or low skilled groups who require longer term interventions to facilitate progression. The demand for labour market focused programmes is strongly linked to the unemployment rate, whereas demand for the other programmes is more consistent.

sufficient to meet the bulk of the additional cost of increased apprenticeship and traineeship activity as well as allowing for some increase in Skillnets provision. At €80 million, the NTF allocation for apprenticeship in 2017 is a third higher than the 2016 allocation. The Exchequer allocation for apprenticeship in HE institutions has also been increased from within existing resources.

However, it will not be possible to meet the scale of ambition for expanded apprenticeship and traineeship provision without further additional funding. It is estimated that the annual current cost of apprenticeship and traineeship in 2019 will be approximately €80 million above 2017 levels.

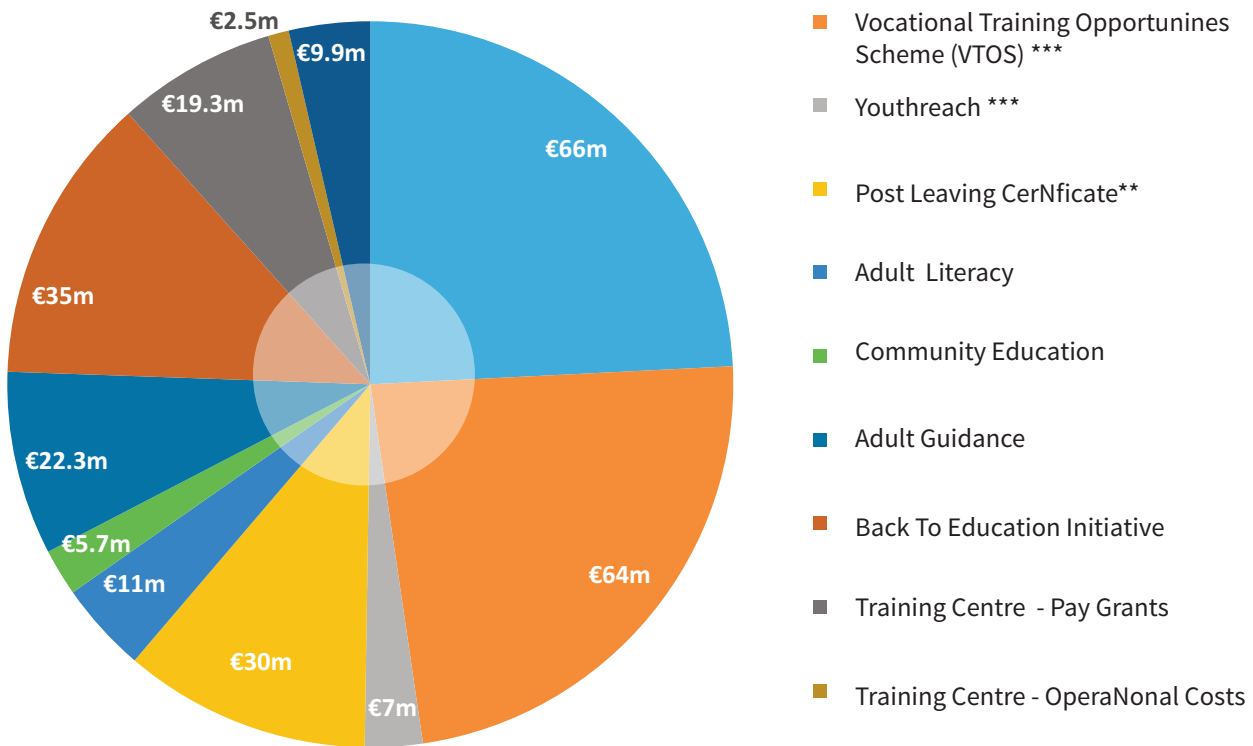
Figures 8, 9 and 10 detail FET expenditure for 2017 and give a breakdown of key 2016 expenditure on a programme basis.

Figure 8: NTF Expenditure and FET Exchequer Expenditure 2017



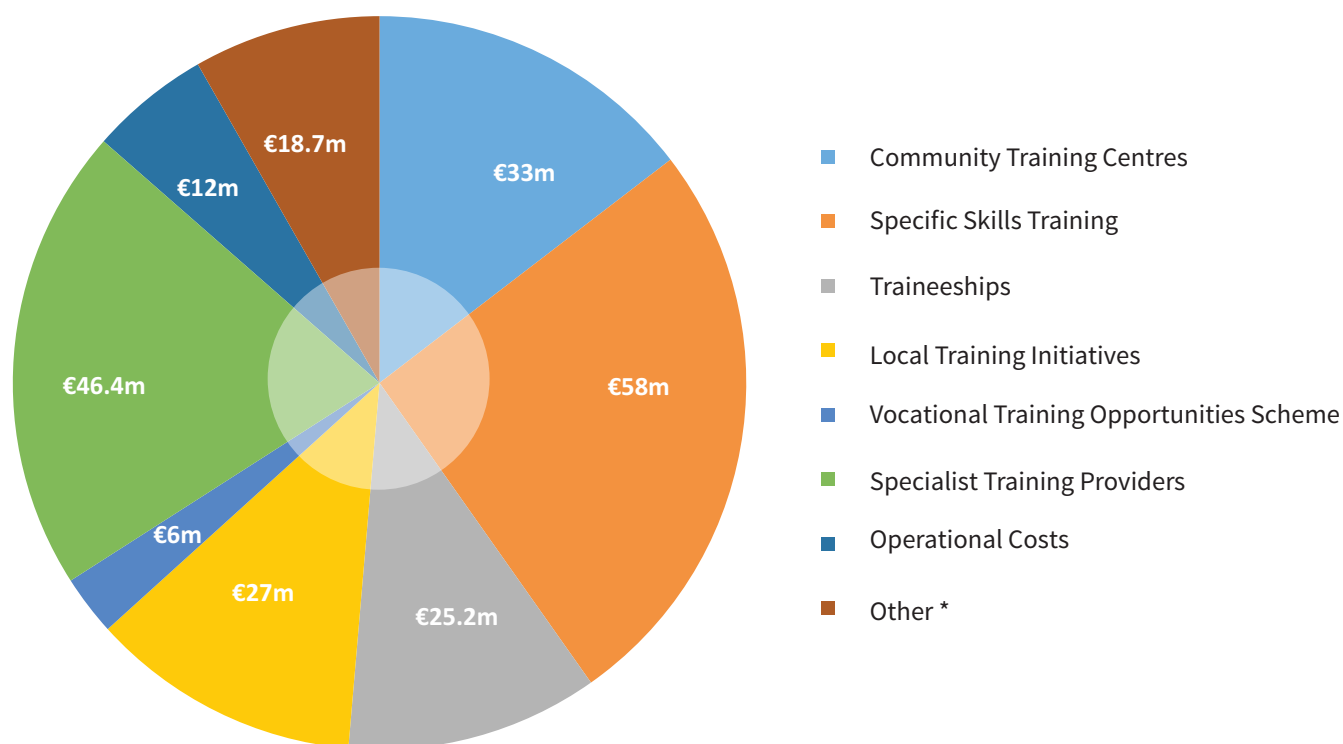
Notes: SOLAS Head Office Funding includes €33m for pensions. SOLAS Training IN Employment relates to apprenticeships. SOLAS Other* includes Skills Analysis, Workplace Basic Education Fund and Momentum programmes. NTF Other** includes training grants to industry, Community and Voluntary organisations, continuing professional development, EGF, EGFSN, Community Employment and Training and Employment Support Grant programmes.

Figure 9: SOLAS Funding to ETBs Exchequer (B5) in 2016



*Other Includes, Advocacy, Innovation Projects, Delivering Equality of Opportunity, Funding to NGO's**PLC Includes; enhanced capitation, rent and locally devised assessment payments. It does not include teacher salaries, student grants and ordinary school capitation funded separately by the Department. ***Funding Includes training allowances paid to eligible participants on these programmes

Figure 10: SOLAS NTF Training FOR Employment 2016



**Other Includes; Bridging/ Foundation Courses, Justice Workshops, On-Line / Blended Learning, Evening Courses, Libraries **Funding Includes training allowances paid to eligible participants on these programmes*

Conclusion

In order to effectively meet the needs of an increasing number of school leavers over the coming decades, to provide opportunities for those not in employment who wish to gain skills for employment and to support people already in the workforce to keep their skills relevant or to reskill for new job opportunities, Ireland needs to develop a long term funding model which is capable of building on and sustaining national investment over the longer term.

A review of the HE funding allocation model is currently ongoing, with an independent expert panel appointed to examine the existing system and make recommendations on an appropriate future approach. This future funding approach will be underpinned by a series of core principles, including the need for it to be metric and outcome based and reflective of national education and skills policy. A key consideration of the review will be the development of the funding model in order to ensure that institutions are agile and responsive in meeting evolving skills needs. The panel have been asked to specifically look at how this can be achieved most effectively by using core grant, performance funding and targeted competitive funding

schemes to deliver on national and regional skills requirements. A consultation process is currently ongoing asking for feedback to a series of structured questions, including the appropriate approach to supporting skills development. It is expected that the panel will present interim findings by end April 2017, with the final report produced by end June 2017.

The Department of Education and Skills is also reviewing the allocation of funding to programmes in the FET and HE sectors as between NTF and Exchequer sources in terms both of the emphasis required on training for employment and training persons in employment and of satisfying the needs of enterprise to meet strategic skills requirements.

FET and HE will continue to be cornerstones of national infrastructure. Investment in the continual upgrading of human capital is necessary to deliver ongoing productivity gains. For an advanced “close-to-frontier” economy such as Ireland, investment in education and research is of particular importance and has been characterised as a “first lever of growth”.

Failure to address the funding challenge for both the FET and HE sectors going forward in order to keep pace with and overtake EU and international competitors generates a serious risk of eroding Ireland’s capacity to meet skills needs and reducing the competitive economic, societal and individual benefits which accrue from top class education systems.

V. PROPOSAL FOR AN EXCHEQUER-EMPLOYER INVESTMENT MECHANISM

Introduction

A clear case is set out in the report of the Expert Group on Future Funding for HE on the need to increase investment in HE in the period to 2030 if Ireland is to continue to compete internationally both in terms of the professionalism, quality and attractiveness of its HE system and in shaping a system capable of continuing to supply high quality graduates to meet the skills demands of the labour market. Such a system will also continue to strengthen and deepen the social contract and the benefits stemming from the increase in rounded, qualified persons emerging from HE into Irish and international society.

The Expert Group takes a medium to longer term view out to 2030 but the report is also clear on the need to increase investment in the medium-term to 2021 with an amount of €600m referenced. This investment is predicated on the introduction of an improved student/academic staff ratio and on addressing the demographics bulge of the coming years. It will of course be necessary to assess in specific terms the detailed funding requirement for the HE sector taking into account all relevant factors including the headline cost projections in the Expert Group report, updated demographic projections, the impact of ongoing and future reform and productivity initiatives and the effect of stronger integration between the HE and FET sectors.

The Expert Group argue that improved student/academic staff ratios will support the high quality, high engagement, teaching and learning needed by Ireland to maintain and improve competitiveness with leading countries. This will support an enhanced student experience with greater capacity to enhance learning outcomes through small group interactions, project work and supports for at-risk students. This is essential to underpin the quality and relevance of graduates' competences and abilities and improving completion rates. While the Expert Group's remit was to examine HE it concluded that there must be greater alignment between FET and HE.

Any reduction in maintaining and improving the quality of HE and FET will impact directly on employers and the economy through the failure to meet skills gaps, a diminishing of the versatility, adaptability and problem solving capabilities of graduates and of the enhancement of transversal and cross-sectoral skills, and may result in less opportunity for work placement and work experience modules which add value to students and enterprises alike.

In line with the Enterprise 2025 strategy, HE and FET sectors will seek to ensure that investments in education and skills meet the evolving needs of the enterprise sectors of the economy. This will involve close liaison with employers and enterprise agencies in order to:

- build on strengths and core competencies in the main exporting sectors such as ICT, life sciences, engineering and agri-food,

- realise the potential in growth sectors in creative industries, green technologies, marine, maritime, education and healthcare services,
- transform more employment intensive traditional sectors such as construction, tourism, primary production and retail and wholesale, and,
- strengthen the competitiveness of other locally traded business, legal, accounting, consultancy and personal services etc.

Taken together, responding effectively to meeting evolving needs will require a scaling up of responses right across the education sector.

Investment in the HE and FET sectors is delivering, and will continue to deliver, significant benefits to employers and the economy by:

- providing 31,000 apprenticeship and 19,000 traineeship registrations to 2020 involving an annual average of 6,000 apprenticeships and 4,000 traineeships;
- providing some 6,000 upskilling and reskilling courses currently under Springboard+ focused on key strategic skills,
- providing 50,000 upskilling and reskilling places in HE by 2021 to meet identified skills gaps in the economy and to support an increase in Lifelong Learning
- increasing the number of HE students undertaking a work placement or work based project as part of their course by 25% by 2021;
- adding 5 new Skillnets networks to the existing 63 networks in 2017 and reaching 43,000 employees up from 40,000 in 2016;
- providing SOLAS funded further education and training to some 370,000 beneficiaries in 2015 (8.1% increase on 2014), of which some 231,000 were new entrants (7% increase on 2014)

Enterprise agencies forecast the number of research and development personnel needed in the enterprise sector will increase from 25,000 in 2013 to 40,000 in 2020. The Innovation 2020 strategy proposes to increase annual research masters and postgraduate enrolments by 500 to 2,250, budget dependant. The Action Plan for Education 2017 aims for an increase of 200 postgraduate research enrolments and 20 funded post-doctoral places by 2020.

Ireland had the second highest level of maths, science and computing graduates in 2012 per 1,000 of the population in the EU, nearly double that of the United States and the second highest percentage, at 16.7%, of HE students studying these subjects compared to the EU average of 11.4% in 2014. There was a 59% increase in ICT, natural science, maths and construction graduates from 2009 to 2014. The Action Plan for Education sees higher education providing a pipeline of supply equating to 74% of projected ICT related graduate jobs by 2018. The HEA projects an annual Level 8+ graduate supply of 5,000 per annum by 2018 and a new ICT Action Plan is currently being developed that will target further development in the supply of ICT skills out to 2021.

Proposed Approach

The Expert Group called for a “comprehensive and fundamental change in the funding model” and referenced three sources of funding: Exchequer, students and employers. In respect of the employer contribution the Expert Group recommends that this be done through an increase in the National Training Fund levy. In keeping with the commitment made by the Minister for Public Expenditure and Reform and the Minister for Education and Skills alongside the publication of the Estimates for 2017 last October, this consultation paper further develops the proposed approach in relation to this recommendation..

Exchequer funding is a function of general taxation paid by individuals, households and businesses across the whole of the economy (or by borrowing that is ultimately repaid through taxation). The Government has already demonstrated a strong commitment to the sectors through increased funding allocated to HE for the period 2017- 2019. In the Estimates for 2017, the Government agreed to increase the budget for the HE sector in 2017 by €36.5 million, the first significant reinvestment in HE since the beginning of the financial crisis. This allocation was a clear recognition of the Government’s commitment to reinvestment in the HE sector, responding in the first instance to intensifying demographic pressures. Furthermore in 2018 and 2019, provision has also been made in the Department of Education and Skills’ expenditure ceiling for demographic increases in the HE sector. Cumulatively, this will represent an additional €160 million investment by the Exchequer in HE over the period 2017-2019.

The Government in its final decision-making on the introduction of an Employer-Exchequer mechanism, taking into account the outcome of this consultation process, will also consider the scope for a multi-annual Exchequer investment commitment subject to overall budgetary and expenditure considerations, including compliance with the EU Fiscal Rules.

Employer Contribution in Context

A key principle underlying the proposal - mirroring that set out in the Expert Group’s report – is that employers derive a specific and particular benefit from the investment in HE and FET in seeking to provide a highly skilled and highly educated workforce. The proposal could be implemented through an incremental annual increase of 0.1% in the National Training Fund levy to increase it from 0.7% to 1% in the three year

period to 2020. This would make a significant contribution – perhaps as much as €200m - towards the broad requirement identified in the Expert Group’s report of additional annual funding estimated at €600 million by 2021.

The proposed increase takes account of the transformation which has taken place in the levels of partnership and alignment between FET and HE sectors and employers in recent years. Enhanced investment, irrespective of source - Exchequer, employers, students, as appropriate - and the realignment of programmes and expenditure in the FET and HE sectors referenced in this paper, will be put into systems which are significantly more responsive to the needs of the labour market and in which employers – through structures such as the National Skills Council, Apprenticeship Council, Regional Skills Fora and the Service Plans for FET and the System Performance Framework for HE and related processes – have a much greater say in the priorities set and clearer visibility of the responses to these priorities through the FET and HE sectors.

This consultation process also seeks to ensure that the proposed Exchequer-Employer investment mechanism is implemented in a way that:

- (i) Contributes to the development of an equitable and sustainable long term funding model for FET and HE as envisaged in the Expert Group report;
- (ii) Strengthens outcomes from the FET and HE system which are of benefit to employers and the wider economy, and
- (iii) Is collectable without posing an undue burden on employers.

The Proposal

The Expert Group concluded that employers are major beneficiaries of the outcomes of HE, particularly given the high proportion of graduates in the Irish workforce. It strongly recommended the introduction of a structured contribution from employers as a core element of future funding for HE delivered by increasing the National Training Fund levy. The Group also recommended that funding should be used to support programmes in areas of skills demand and flexibly delivered programmes and can also act as a catalyst for greater engagement between academia and employers. As set out in the first section of this paper, the Minister for Education and Skills and the Minister for Public Expenditure Reform agreed that a proposed increase in the NTF should be considered in relation to the funding needs of both the HE and FET sectors. This can lead to a more integrated policy approach to HE and FET provision that will:

- Deliver a skilled and educated workforce to employers;
- Maintain and strengthen the economy's growth potential, and
- Benefit society as a whole. Under the National Training Fund Act 2000, employers contribute to training initiatives, mainly, but not entirely, in the FET areas, through a levy of 0.7% of reckonable earnings in respect of the majority of employees, collected through the PAYE/PRSI system and transferred monthly to the Department of Education and Skills by the Department of Social Protection.

The levy is used to develop skills among those in employment and those seeking employment – with programmes aligned to the future skills needs in the economy. It is estimated by the Expert Group that each 0.1% increase in the levy could raise at least an additional €50m per annum. In light of higher numbers at work and earnings growth, this estimate might be on the low side. Should employment levels reach those forecasted for 2020, together with an assumption of moderate growth in incomes, NTF revenues in 2020 could yield close to €200m over 2015 levels if the rate is increased from 0.7% to 1%. The Ministers' favour a rate increase along these lines on the basis that it can yield real dividends for employers and they look forward to engaging with business on the transformative effects of this investment. Matters arising from this proposal around *other* sources of funding and the impact on labour costs are referenced below. These will, of course, be discussed as part of the consultation process.

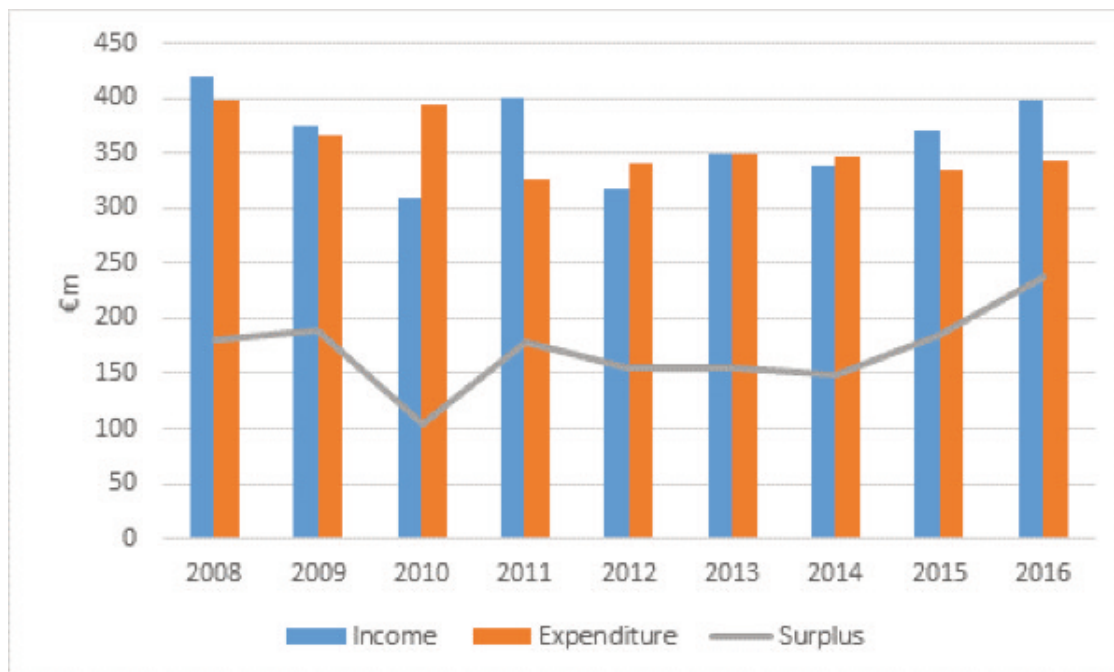
NTF Levy

The levy is currently used to fund training programmes both for those seeking employment and for those in employment. In-employment training includes the apprenticeship programme, Skillnets, Workplace Basic Education Fund, training grants to industry and continuing professional development. Training for employment encompasses ETB training, VTOS, Momentum programmes, as well as Springboard+ and ICT Skills Conversion which lead to qualifications in enterprise sectors which are growing and need skilled personnel. In 2016 the majority (77%) of NTF funding was training for employment; in 2017 this has reduced to about 71%.

Prior to 2012 income from the NTF levy had fallen from a high of €413m in 2008 to €299m. However, since 2012, receipts from the NTF levy have increased annually, due to improved employment levels. The accumulated surplus in the Fund has been critical in maintaining expenditure levels, particularly in the provision of training for the unemployed, in a period when receipts were falling. It is considered prudent to continue to maintain an adequate surplus in the Fund to meet demand in future years and while the surplus represents a very significant sum, it would only cover 7 months NTF expenditure at current levels.

In addition, 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. The surplus remains available for investment in education and training programmes to meet skills needs.

Figure 11: NTF Income and Expenditure 2008 – 2016



Source: DPER and Department of Education and Skills. Figures are rounded up. Income includes levy and components from ESF, EGF, interest and other sources.

In recent years, there has also been a movement of NTF funding back towards programmes supporting people in employment. In 2017, an additional €24 million has been provided for such programmes including €20 million for apprenticeship and €4 million to support Skillnets networks in providing training for employees of member companies. Proposed NTF expenditure in 2017 is estimated to be of the order of €366m.

It might be expected that greater savings would be achieved in NTF expenditure on training programmes under the “for employment” heading. Figure 10 shows expenditure in this area in 2016. With the falling unemployment rate, demand has fallen for programmes that are aimed at supporting people on the live register achieve employment through the provision of specific skills. The specific skills training programme and the traineeship programme fall into this category, although arrangements are being made to broaden access to traineeship. However, demand for other programmes supported under the “for employment” heading are less directly linked to the unemployment rate. This would include the Community Training Centre Programme that supports the progression of early school leavers and the Specialist Training Provider Programmes that supports people with disabilities. The majority of participants in these programmes would not have been in receipt of Jobseekers Allowance or Benefit. As stated earlier in this paper, the Department

of Education and Skills is reviewing the allocation of funding to programmes as between the NTF and Exchequer sources. One objective of this review is to direct NTF allocations in a manner that best reflects enterprise priorities as identified through the revised national skills architecture.

The training levy has not been increased from its statutory rate of 0.7% since its inception in the year 2000, notwithstanding the significant step-change in levels of engagement and alignment between employers and education and training institutions in recent years.

Cost Competitiveness

Any increase in costs for employers clearly has an adverse impact on Ireland's cost competitiveness. This negative impact is compounded in highly cost competitive sectors of the economy such as those that are already subject to increased competitive pressures due to the depreciation of sterling relative to the euro over the past year; indeed, in the post-Brexit environment, the possibility of a further depreciation of sterling cannot be ruled out, which would put additional pressure on profit margins.

In terms of assessing the impact on the economy, a distinction must be drawn between longer-term benefits on the one hand and short- and medium-term costs on the other.

Over the longer-term, the competitiveness of the economy as a whole would clearly benefit from higher levels of human capital, which boosts both total factor productivity and labour force participation rates, and which will continue to be a key source of comparative advantage in an increasingly knowledge-intensive economy.

In the short- and medium-terms, conventional macro-economic modelling shows that an increase in employers' costs of the magnitude outlined previously would have a modest negative impact on GDP and employment levels. In this context, it must be borne in mind that Ireland's GDP is heavily distorted by the multinational sector. It is recognised that 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.

In terms of quantifying the impact of any change, a small firm employing ten people earning an average wage of €35,000, would see their total cost base rise by some €1,000 if the levy was raised from 0.7% to 1.0%. In macroeconomic terms it would, on average, see employers contributing an additional c. €100 per employee per year towards the enhanced investment in further education and training and higher education that Ireland requires. In essence employer concerns must be seen in proportionate terms. While this is relatively modest, it is clear that for some firms/sectors the impact would be negative.

In this context, the Exert Group on Future Skills Needs (May 2016), using vacancy data from the CSO as well as other surveys, found that while the skills shortages were most pronounced in the ICT and professional sectors, many of the indigenous sectors (industry, accommodation and food services and transportation and storage) were also showing difficulty in filling vacancies due to skills shortages. Increased investment in HE and FET can play an important role in alleviating skills shortages in the economy which are impacting adversely on Ireland's international competitiveness and are a source of wage pressure.

In practice, the assessment by employers of the balance between the *impact* of the proposed increase in the NTF levy and the *benefit* of the availability of a high quality skilled and educated workforce, compared with the *cost* of a lower quality HE/FET system that does not meet the skills needs of employers, is the fundamental issue to be addressed through this consultation process. A key consideration in this respect is the opportunity for employers provided by the consultation process to highlight areas where the linkages and engagement with the education sector can be reinforced and intensified to ensure a stronger alignment with key workforce needs – both current and those envisaged and planned for the future.

In effect a joint Exchequer-Employer investment programme can:

- (i) help convey a clear signal both domestically, and internationally, of the value Ireland places on education and training, particularly given ongoing risks that are emerging which simply confirm that a nation's talent pool is the primary driver of competitiveness, and
- (ii) demonstrate collective leadership where the Government and Employers can agree on a high-level national priority and together drive enhanced outcomes in return for additional investment.

Taking full account of all relevant factors, including the trade-off between shorter-term and long-run competitiveness issues set out in this consultation paper, the Minister for Education and Skills and the Minister for Public Expenditure and Reform are satisfied that a modest increase in the NTF levy is appropriate in order to help underpin essential intensified development of Ireland's human capital.

VI. CONSULTATION QUESTIONS AND OVERVIEW

Views are sought on this proposal and on the following questions, to be submitted to ConsultationNTF@education.gov.ie by 5 p.m. on Thursday 13th April 2017:

- **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?*
- **Question 2:** *What are the implications for the National Training Fund Act in a changed landscape of employer-education engagement?*
- **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?*
- **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?*
- **Question 5:** *Is the manner in which we develop, nurture and deploy talent central to HE and FET and other sectoral strategies?*
- **Question 6:** *Are there skills gaps existing or emerging which require a more coherent response from the HE and FET sectors?*
- **Question 7:** *How can better partnerships be forged between Education and Enterprise?*

OVERVIEW

This consultation paper will serve as the basis for a roundtable dialogue with the relevant stakeholders. This will, in turn, form part of a wider process of comprehensively responding to the Expert Group report:

- The Oireachtas Committee on Education and Skills is currently examining the report with a view to making recommendations on the future funding model;
- As part of Budget 2017, Exchequer re-investment in HE has commenced, with a €36.5 million funding package in 2017;
- Technical work will be undertaken on Income Contingent Student Loan Scheme by an inter-departmental group in order to inform future policy options, including in light of recommendations from the Oireachtas Committee on Education and Skills.

The intention is that, taken together, these approaches will contribute to the development of a sustainable long-term funding model for the HE and FET sectors, and will help to drive continued reform, quality and performance improvement across the sectors in line with the ambitions and objectives set out in the policy framework for the sectors.

Given the urgency attaching to this issue, arising from this consultation it is intended to bring forward proposals to Government in this regard which will inform the preparation of Budget 2018.



