Future of the National Training Fund

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1. Introduction

This paper outlines Ibec's investment priorities for the National Training Fund (NTF) to meet existing and future industry skills needs. The surplus in the NTF stands at €855 million and this year will increase by a further €150 million. The surplus without increases in expenditure will rise to €1.4 billion if expenditure is stable, and €1.9 billion if Covid emergency spending returns to normal levels. The surplus should not be equivalent to more than 6 to 9 months income of the fund. A mechanism must urgently be put in place to utilise the existing surplus and to prevent the year-on-year increase of unspent employer contributions. It is untenable that employers' contributions would continue to accumulate while the demand from business for upskilling and reskilling goes underserved, particularly in the context of a tight labour market where upskilling and reskilling is critical for the attraction and retention of talent.

A lack of key skills remains a challenge for almost 81% of employers in Ireland. While businesses continue to face difficulties filling vacancies in areas such as IT, finance and the experience economy, the emergence of new technologies and megatrends such as climate change are fuelling a rapid transformation of the skills needed across the workforce. Accessing the surplus of the NTF to invest in digital skills, green skills, management skills and employability skills will be critical for building the resilience of our workforce to the future of work.

The surplus in the NTF is an opportunity to leverage the increasing interest among employers in lifelong learning to drive innovation and a step-change in skills delivery. However, in previous years we have seen the NTF used as a short-term measure to address the funding crisis in higher education. In the context of a rapidly changing business environment, expenditure from the NTF must align with its core objectives: to raise the skills of those in employment; to provide training to those who wish to acquire skills for the purpose of taking up employment; and to provide information in relation to existing, or likely future, requirements for skills in the economy.

To deliver on these objectives, employers must be closely engaged with the oversight of the NTF and deeply involved in investment prioritisation. As part of this process, more detailed information around investment from the NTF and its impact must be made available. Annual evaluation reports on the NTF including counterfactual modelling of programme impacts must be published, as recommended as part of the Review of the NTF Implementation Plan.

Ibec's key priorities for the future of the National Training Fund:

1. Improve the monitoring and evaluation of the National Training Fund
2. Enhance enterprise input to the governance and prioritisation of the National Training Fund
3. Leverage the National Training Fund to implement a Lifelong Learning Strategy for Ireland to prepare individuals for the digital and green twin transition
4. Introduce a National Training Voucher Scheme to encourage more employers to engage in upskilling and reskilling of their workforce
5. Introduce a time-limited National Training Fund rebate to support businesses most impacted by increasing labour costs
6. Expand access to education and training through the further development of flexible learning opportunities, including microcredentials
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10. Incentivise more SMEs to engage in the apprenticeship programme by addressing cost barriers
11. Support the early-stage development of new apprenticeship programmes through additional funding for education and training providers
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13. Boost the capacity of the Regional Skills Fora Managers
14. Develop a centralised portal for education and training offerings

Further detail on Ibec's investment priorities for the National Training Fund is included in Section 3 of this paper.

2. Economic overview of the National Training Fund

The NTF and expenditure trends

The NTF levy has increased by 0.1 percentage points of the total wage bill in the State in each of 2018, 2019 and 2020 – to a total of 1% of the total national wage bill. At a workplace level, this means that the average spend on the NTF for companies per euro of wages has increased by 42% over the past four years. For this reason, there has been greater scrutiny from companies on the use of those funds.

The NTF is not part of the DES vote, but it is included under the expenditure ceiling of the Department of Further and Higher Education, Research, Innovation and Science. To spend increases which have accrued in recent years in the NTF levy revenue, the Department would need an increase in its ceiling, to facilitate an increase in expenditure. Unilaterally the Department cannot make that decision and it is ultimately one for the Government.

Departmental ceilings add to General Government Expenditure and are thus governed by the EU fiscal rules in normal times. Whereas they have been suspended in recent years, these rules when in place limit the growth of Government expenditure to something resembling the growth rate of the economy.

In this respect the NTF operates differently to the Social Insurance Fund (SIF), a significant proportion of the expenditure of which is related to unemployment insurance. Unemployment insurance, as a cyclical expenditure, is exempt from the expenditure benchmark of the fiscal rules.

Like all voted expenditure which falls under these rules, income accruing to the NTF cannot be spent unless it is either part of the allowable fiscal space (broadly in line with economic growth) or is offset by other tax increases or spending cuts elsewhere. Buoyancy does not count toward additional 'fiscal space'. Further increased income to the NTF, due to buoyancy effects, has therefore remained unspent. The increases in the rate of the NTF levy has resulted in some increased spending in recent years – but only in line with that tax increase in the year it was made.

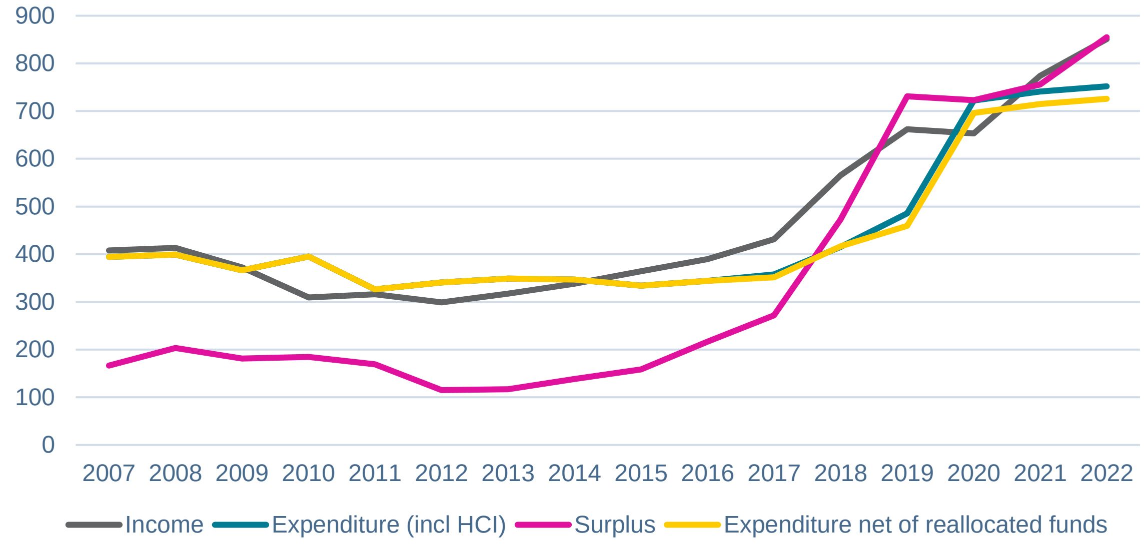
More recently, the Government has adopted a domestic fiscal strategy which places a 5% cap on core expenditure growth and delivering on existing funding commitments. This is after accounting for non-core, one-off, spending such as Covid supports. Due to the external environment expected over the coming 18 months these rules have also been suspended for 2023.

Overall expenditure, income, and the NTF surplus

Figure 1 shows the income and expenditure of the NTF on a gross basis from 2007 to 2022. Over the period between 2007 and 2016 both closely followed each other with contributions almost wholly matched by expenditures on skills and training

In year increases in the employer contribution brought in an additional €57 million in 2018, €66 million in 2019, and €65 million in 2020. In 2022 a cumulative €250 million in income will accrue to the fund from these increases, with further buoyancy in the labour market adding to the total. By 2025 the fund will be taking in over €300 million annually greater than it would have without these increases in the employer contribution.

Figure 1: NTF finances 2007 to 2022 (Department forecasts after 2022)



Note: Data are Department of Education forecasts based on no policy change from 2023 onward

There have also been re-allocations of funding (in accounting terms) between the NTF and other votes in recent years. About €38 million in 2018 and €56 million in 2019 of programmes below NFQ level 5 have been switched from the NTF to the exchequer. This is mainly focused on the movement of Solas/ETB programmes which are focused on social inclusion. On the other hand, €6 million in 2017, €31 million in 2018, €83 million in 2019 and a further €28 million in 2020 of HE labour market focused provision has been switched from the general exchequer to the NTF (with no increase in overall funding for those schemes).

Including base effects, increases in the rate, and buoyancy effects – total annual income to the NTF has increased by €487 million between 2015 and 2022. Expenditure, however, has only increased by €392 million (net of fund reallocations from and to the exchequer). And of this increase, over €120 million was temporary Covid related schemes.

The surplus in the NTF has increased from €152 million in 2015 to over €855 million in 2022. This surplus was experiencing an annual growth rate of north of €200 million in the pre-Covid era and will return to this level in the absence of additional spending.

The projected income of the NTF is expected to rise to over €1 billion annually by 2025 and the reserve surplus of the NTF by 2025 will rise to €1.4 billion if expenditure is stable, and €1.9 billion if Covid emergency spending returns to normal levels.

The NTF and the fiscal rules

In the past, limits on expenditure imposed by the fiscal rules have been blamed for the accumulation of surpluses in the NTF. This, however, is not the case. The accumulation of surpluses is solely driven by questions of expenditure prioritisation in Government.

The current EU fiscal rules are focused on four numerical rules:

- The budget deficit must be below 3 per cent of GDP;

- The gross public debt must be below 60 per cent of GDP. If it is higher, it must decline annually by at least 1/20th of the gap between the actual debt level and the 60 per cent reference value;

- The structural budget balance (that is, the budget balance that excludes the impact of the economic cycle and one-off fiscal measures) must be higher than the country-specific medium-term objective (MTO), which, in the case of EMU countries, has to be chosen at or above -0.5 per cent of GDP, or -1 per cent for countries with a debt-to-GDP ratio below 60 per cent. If the structural balance is lower than the MTO, it must increase by 0.5 per cent of GDP per year as a baseline;

- The adjusted measure of real government expenditures (deflated by the GDP deflator forecast) cannot grow faster than the medium-term potential economic growth if the country's structural balance is at its MTO or higher. If the structural balance has not yet reached its MTO, expenditure growth must be lower than potential growth, to ensure an appropriate adjustment towards the MTO.

In a recent submission to the European Commission review of the Economic Governance structures of the EU Ibec advocate for three changes to these rules in the areas of debt levels, appropriate measures and the treatment of investment. These changes are aimed at making the rules robust but simpler, more sensitive to the 'quality of public spending and avoiding pro-cyclicality. This review is unlikely to result in concrete changes until at least 2024.

It is the case that in each Budget year under the pre-Covid fiscal rules the Government have a set of choices within the available fiscal space. The current Government was forecast, at the time of the Programme for Government, to have €11 billion in available 'fiscal space' whilst obeying the expenditure rule over its lifetime. This has since been far exceeded due to the Covid emergency. However, were the fiscal rules to be re-instated in future years, it remains a policy choice to forgo using the accumulated surplus of the NTF by increasing the expenditure ceiling for the Department of Education. Given the funds are accumulated this would have no impact on the General Government Deficit.

There is another argument that the surplus can be used to fund ongoing re-training initiatives when the income to the system falls (i.e. during a recession). Given the pro-cyclical nature of the Commonly Agreed Methodology[1] which underlines the expenditure rule – there is significant concern that in fact the available fiscal space may tighten during a recession.

Finally, the existing 'flexibility' within the fiscal rules[2] only allows deviation from the Medium-Term Objective (MTO) in relation to their structural deficit and has no impact on the expenditure rule as outlined above.

When it comes to the more recent domestic fiscal rules, the relationship between the NTF surplus and the rules is again straightforward. The rules in a normal year would allow 5% growth in core expenditure, about €4 billion in Budget 2023 – had the rules not been suspended.

In either case there is no special or specific restriction on the use of the NTF funds as part of this fiscal headroom. It is purely, again, a political choice. A decision between spending on skills or spending elsewhere.

[1] https://bruegel.org/2019/10/why-structural-balances-should-be-scrapped-from-eu-fiscal-rules/
[2] http://data.consilium.europa.eu/doc/document/ST-14345-2015-INIT/en/pdf

3. Ibec Priorities for the Future of the National Training Fund

1. Improve the monitoring and evaluation of the National Training Fund

Improving the monitoring and evaluation of the NTF is a key recommendation from the Indecon review of the fund. As part of the NTF Review Implementation Plan, the Department of Further and Higher Education, Research, Innovation and Science is responsible for the publication of a NTF evaluation report on an annual basis, including counterfactual modelling of the impact of skills programmes. An evaluation report does not appear to be publicly available since 2019. It is important that the evaluation report is published on an annual basis to support evidence-based decision making and to maximise the impact of the NTF. Information in the report should be provided at a sufficient level of granularity to enable business representatives to make informed decisions on the prioritisation of expenditure.

2. Enhance enterprise input to the governance and prioritisation of the National Training Fund

The ability of employers to input into the strategic direction of the NTF as well as the prioritisation of investment is critical to responding to existing and future skills needs. The introduction of the NTF Advisory Group as a recommendation of the Indecon review puts in place a mechanism for greater engagement with employers. However, meetings of the Advisory Group are irregular and infrequent. The current process for engaging the Advisory Group is not sufficiently structured to provide a process for employers to input regarding annual expenditure decisions in a timely manner.

3. Leverage the National Training Fund to implement a Lifelong Learning Strategy for Ireland to prepare individuals for the digital and green twin transition

While Ireland's lifelong learning participation rate stands above the EU average at 13%, Ireland continues to fall behind our international counterparts such as Sweden (34.7%), Finland (30.5%) and Netherlands (26.6%)[3]. The NTF is an opportunity to financially underpin a strategic approach to lifelong learning and upskill Ireland's workforce to prepare for the digital and green transition across all sectors of the economy. Further investment in upskilling, reskilling and lifelong learning opportunities in the critical skills areas should be supported through Springboard+.

4. Introduce a National Training Voucher Scheme to encourage more employers to engage in upskilling and reskilling of their workforce

The Indecon Review of the NTF recognises the need to introduce a new innovative pilot initiative to increase in-company training and thereby increase productivity and innovation capacity, particularly in SMEs. The introduction of a National Training Voucher scheme has the potential to boost in-company training and widen participation in upskilling and reskilling to include all businesses and employers. Based on the principle of cost reimbursement, firms should be able to claim back expenses for training costs during the year undertaken with an accredited education and training provider. Such a scheme is highly attractive to business as it provides greater flexibility and freedom to plan and source relevant training directly without the burden of national administrative scaffolding or programmes which may or may not align with their strategic needs.

5. Introduce a time-limited National Training Fund rebate to support businesses most impacted by increasing labour costs

The rollout of auto-enrolment, the living wage, pensions, statutory sick pay and other leave proposals already announced will add 9% to average labour costs in Ireland over the coming decade. For many domestic facing firms and SMEs, the cost of implementing increases in pensions coverage and wage floors will be higher. These costs are on top of existing pressures facing Irish companies related to energy, commodity and transport costs. Companies in sectors most challenged by these labour market transitions will need additional

[3] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Adult_learning_statistics

supports to implement changes. This should take the form of both a break from payments to the NTF for the period of where viability is challenged and a further rebate of up to 2% of payroll (or two years payments) equivalent in training vouchers to be utilised for the upskilling and reskilling of staff.

6. Expand access to education and training through the further development of flexible learning opportunities, including microcredentials

Investment in flexible learning opportunities such as part-time courses, blended and online learning, short courses and microcredentials is critical to supporting more individuals to engage in learning. The success of the MicroCreds project should be built upon and additional funding should be used to support the development and rollout of microcredentials across Ireland.

7. Mainstream successful projects from the Human Capital Initiative Pillar 3

Pilot projects launched under Pillar 3 of the Human Capital Initiative have been important in enhancing the innovation and agility of the higher education system to respond to future skills needs. To ensure the maximum benefit from these initiatives, an impact review should take place and additional funding should be delivered to mainstream successful projects as appropriate to drive the transformation of the broader higher education system.

8. Invest in industry-academia collaboration to respond to industry skills needs and drive innovation in teaching and learning

Industry-academia collaboration in skills provision is critical to responding to existing and future skills needs of business, providing opportunities for work experience and work-based learning and enhancing the overall employability of education and training programmes. Funding should be utilised to strengthen industry-academia collaboration across institutions and to develop innovative models for collaborative education and skills delivery.

9. Ensure that programmes supported by the National Training Fund support close-to-labour market skills requirements

Investment from the NTF should focus on close-to-labour market skills requirements and targeted initiatives to support enterprise training and preparing individuals to take up employment opportunities. NTF programmes which are not meeting explicitly employer defined upskilling should be discontinued or funded from alternative exchequer sources. While PLCs provide education opportunities for a diverse group of learners, PLCs are not responsive enough to the labour market needs of industry to meet the criteria to be funded from the NTF.

10. Incentivise more SMEs to engage in the apprenticeship programme by addressing cost barriers

We are now reaching a critical phase of Generation Apprenticeship where more employers are urgently needed to address the existing backlog of learners and meet the targets set out in the Action Plan for Apprenticeships. While the introduction of the €2,000 employer incentive scheme is welcomed by employers, businesses continue to face significant costs barriers in employing apprentices related to recruitment, training, employment, mentorship, backfilling of positions, and subsistence. These costs can be particularly challenging for SMEs. To encourage more smaller businesses to take part in apprenticeships, the existing employer incentive should be increased to €7,000 for SMEs. As SMEs often have limited HR functions and capacities, additional supports around the recruitment of apprentices should also be developed.

11. Support the early-stage development of new apprenticeship programmes through additional funding for education and training providers

It takes multiple years to build the reputation and visibility of an apprenticeship programme needed to attract large numbers of employers. This can make it difficult in the first year to coordinate a critical mass of employers to cover the cost of organising education and training provision. In some industries and regions, this has resulted in an untapped pool of employers who are ready but unable to employ apprentices as training programmes cannot be organised in their location due to low employer numbers. Unleash the existing pent-up demand for apprenticeships and invest in the expansion of apprenticeship programmes by providing additional funding for the first three years of new apprenticeship programmes to allow education and training providers to organise training with fewer employers.

12. Support employer engagement with Skillnet networks

As the employer-led networks are best placed to understand the training needs of companies in their sector and region and to develop programmes which are most suited to meeting these needs, it is essential that additional funding for Skillnet Ireland is directed towards employer-led Skillnet networks. Employer engagement with Skillnet networks can be further supported through increasing the level of subsidies available to employers, and particularly the introduction of new incentives for networks to target and recruit SMEs.

13. Boost the capacity of the Regional Skills Fora Managers

A network of Regional Skills Fora Managers was created as part of the Government's National Skills Strategy to provide dedicated contact points for employers to connect with the education and training system in their region. Further investment is the Regional Skills Fora is needed to boost the visibility of Regional Skills Fora to employers and to increase the capacity of Fora Managers to engage more businesses. Increased investment in the Regional Skills Fora Managers should with greater alignment, coordination and information sharing between the Regional Skills Fora and the broader skills architecture.

14. Develop a centralised portal for education and training offerings

Ireland has an internationally renowned education and training system with many high-quality offerings. However due to the sheer multitude of offerings, it can be challenging for an employer to navigate the system and understand what option is best for their workforce and strategic business needs. A centralised portal which showcases all education and training offerings, and the various levels and pathways would support employers to navigate the system and engage in programmes.

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About Ibec

Ibec is Ireland’s largest lobby group and business representative. We campaign for real changes to the policies that matter most to business. Policy is shaped by our diverse membership, who are home grown, multinational, big and small and employ 70% of the private sector workforce in Ireland. With 36 trade associations covering a range of industry sectors, 6 offices around Ireland as well as an office in Brussels. With over 240 employees, Ibec communicates the Irish business voice to key stakeholders at home and abroad. Ibec also provides a wide range of professional services and management training to members on all aspects of human resource management, occupational health and safety, employee relations and employment law.

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