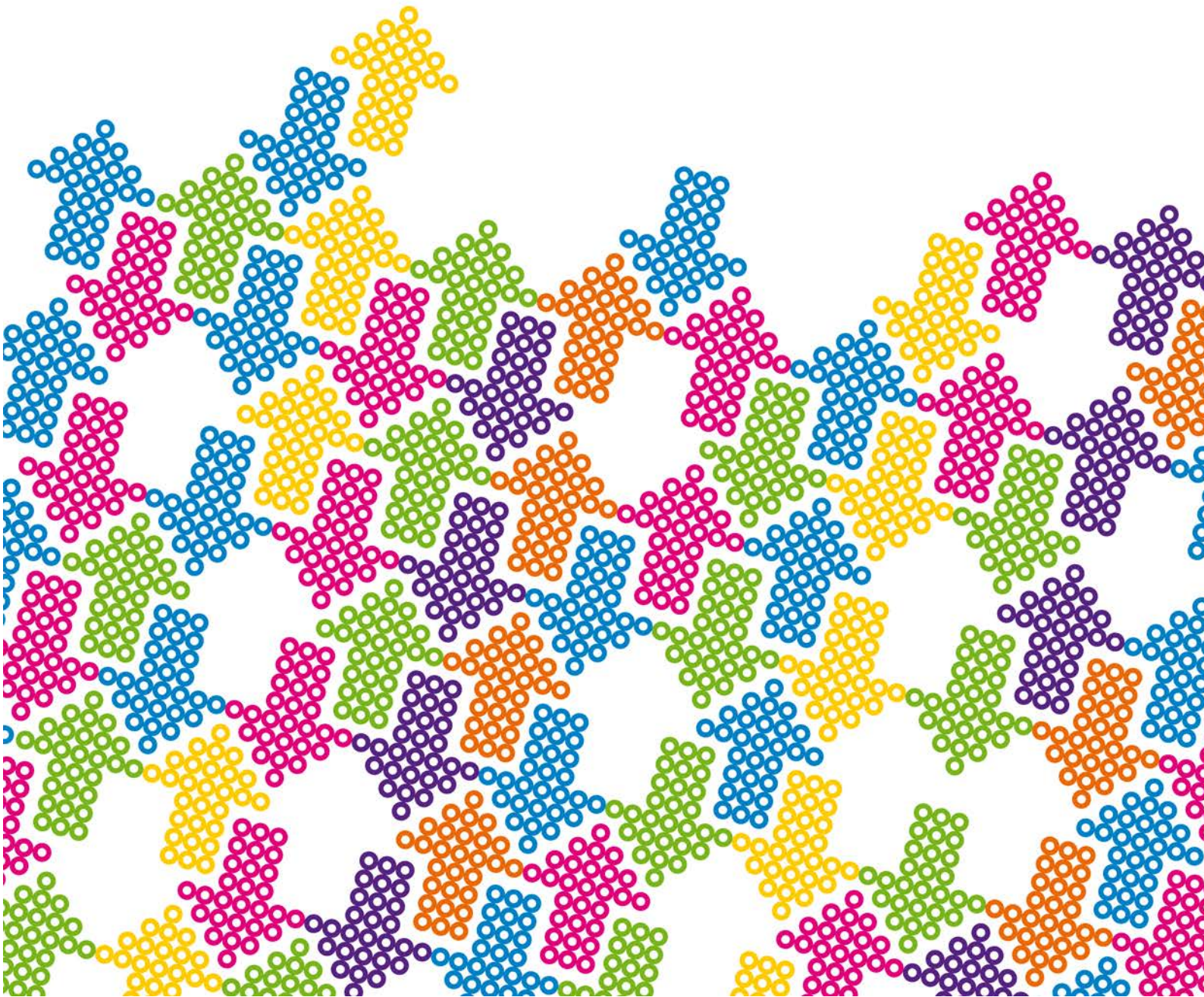




NCC Submission to the Action Plan for Jobs 2015

January 2015



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Introduction

National competitiveness is a broad concept that encompasses a diverse range of factors and policy inputs including education and training, entrepreneurship and innovation, Ireland's economic and technological infrastructure and the taxation and regulatory framework. Only by ensuring that Irish based firms can compete successfully here and abroad can we create the employment, income and wealth necessary to improve the lives of all of our citizens.

The Action Plan for Jobs represents an ambitious multi-year process that aims to deliver on the Taoiseach's commitment to make Ireland the best small country in the world in which to do business and is a key element of the Government's policy approach to rebuilding the economy and getting people back to work. Of particular note, is the commitment to implementation. This is based on a structured monitoring regime which reports on a quarterly basis the actions that have, or have not, been delivered for that particular quarter.

The Action Plan for Jobs recognises the fundamental link between competitiveness and job creation, and is a key mechanism to drive competitiveness in all areas of economic activity. Previous Action Plans have provided a sharp focus on specific aspects of the competitiveness agenda, particularly in the area of costs, achieving a top-five international competitiveness ranking, and making Ireland the best small country in which to do business. A number of NCC members (industry partners) also play an active role in promoting the implementation of key reforms.

The development of the APJ 2015 provides further opportunity to maintain this focus on competitiveness, and in this regard, the National Competitiveness Council is delighted to contribute to its development through this submission. Further, the Council would like to see the focus accorded to competitiveness policy under the APJ 2014 continue over the next twelve months.

Recommendation

1. The Cabinet Committee on Jobs and Economic Recovery should continue to monitor progress on competitiveness issues identified by the National Competitiveness Council. In this regard, the Council's annual reports (*Ireland's Competitiveness Scorecard*, *Costs of Doing Business*, and *Ireland's Competitiveness Challenge*) should be brought to the Cabinet Committee for noting, and the Chairman of the Council should present to the Cabinet Committee on an annual basis.

Responsibility: Cabinet Committee on Jobs and Economic Recovery (supported by the relevant Senior Officials Group), Department of An Taoiseach, Department of Jobs, Enterprise and Innovation, National Competitiveness Council

Background

Earlier this year, the Council published *Ireland's Competitiveness Scorecard 2014*, which analysed Ireland's competitiveness performance vis-à-vis 18 competitors¹. This benchmarking report provides the Council with the necessary evidence to identify those policy areas most in need of action.

Ireland's international competitiveness has improved. Many of the competitiveness gains achieved in recent years, however, have arisen because of cyclical factors. External pressure to reform also played an important

¹ See National Competitiveness Council, *Ireland's Competitiveness Scorecard 2014*, Forfás, July 2014

role. Paradoxically, an improving economy could quickly erode these gains and choke off recovery if costs increase; skills become scarcer, infrastructure congested, etc.

We must learn the lessons of past mistakes. A return to growth should offer the space to accelerate and deepen the pace of reform – rather than delay inevitable actions. The 2015 Action Plan for Jobs must be the most ambitious reform plan yet. It is important that we do not become complacent about the need for continuous reform. We must tackle those factors that affect our competitiveness negatively.

The recently published *Competitiveness Challenge 2014* report sets out a range of policy measures to enhance Ireland's medium term competitiveness. The Council focus on six major themes:

- Addressing cost competitiveness;
- Broadening the tax base and investing in economic infrastructure;
- Enhancing our skills base;
- Developing our enterprise base;
- Improving access to finance; and
- Enhancing trust in public and private institutions.

The Action Plan for Jobs focuses primarily on shorter-term, tangible actions (i.e. actions that can commence, or be delivered upon, over the next 12 months). The Council has, therefore, built on the analysis in both the *Scorecard* and *Challenge* reports to identify a range of prioritised short-term actions, which can build the foundations for our longer-term international competitiveness².

For deeper analysis of Ireland's performance in these areas, why they are important for Ireland's competitiveness and where the Council believe Ireland needs to get to in the medium to longer term, please refer to Ireland's Competitiveness Scorecard 2014 and Ireland's Competitiveness Challenge 2014.

² In line with this approach, and given the timing of the most recent Budget, the Council have decided to exclude actions seeking to change taxation policy in the current fiscal period from this submission.

1. Cost of Doing Business

Despite significant improvement, the need for further gains in cost competitiveness is still evident through high levels of unemployment and low levels of business investment. However, against a backdrop of modest recovery, cost pressures are already re-emerging.

Particular focus is required to address domestically influenced cost factors in the labour market, in the energy sector and in the property market as rapid increases in prices have the potential to produce adverse knock-on consequences in terms of prices and wage expectations across the entire economy. Such adverse cost developments put all of the recent hard-won competitiveness gains at risk.

1.1 Labour Costs: Replacement Rates

High costs, including high labour costs that are not supported by high productivity, damage enterprise development and employment creation. Wages increases, supported by productivity improvements, allow the benefits of enhanced competitiveness to be shared, and support recovery in the broader domestic economy. Measures to improve productivity are outlined in later chapters.

The State's main influence relates to issues such as the level of taxation on labour, how taxes are applied, and social welfare entitlements (which influence replacement rates³). As noted, previously, taxation policy changes for 2015 have already been finalised. The focus in this chapter is on the implementation of social welfare reforms and replacement rates.

Most individuals face replacement rates of less than 70 per cent. Replacement rates tend to be lower for single people than for married couples. The inclusion of housing benefits has an adverse impact on results pushing several recipient types above the 70 per cent threshold, particularly those earning less than the average wage⁴.

Welcome reforms (i.e. Housing Assistance Payment provisions) are being piloted in six local authority areas that will allow people to take up employment and retain housing support - subject to a means test. The scheme is due to be rolled out nationally from January 2015. It is crucial that, depending on the success of the pilot, rollout is carried out as speedily as possible.

Recommendation

2. Subject to a successful pilot, the Housing Assistance Payment scheme (HAP) should be rolled out nationally in 2015. Once fully implemented, the impact of HAP on replacement rates should be assessed to ensure that it successfully reduces barriers to employment, whilst protecting living standards.

Responsibility: Department of Environment, Community and Local Government

Replacement rates evolve as average incomes fluctuate in response to labour market developments, and as budgetary changes to taxation, social insurance contributions and social welfare rates are implemented. It is important that policy makers remain cognisant of the impact that any such changes have on the incentive to work. As a result, replacement rates need to be monitored on a regular basis.

³ The replacement rate measures the proportion of out-of-work benefits received when unemployed against take home pay if in work. In general, a replacement rate in excess of 70 per cent is considered to act as a disincentive to work. It is also important to note that additional costs, such as travel and childcare arising from the decision of an individual to return to work, can have a significant impact on incentives to work, particularly for second earners.

⁴ Callan, T., Keane, C., Savage, M., Walsh, J.R. and Timoney, K., Work Incentives: New Evidence for Ireland, published in ESRI, Budget Perspectives 2013, Research Series No. 28, September 2012

Recommendation

3. Continue to review social welfare supports (i.e. relating to those in receipt of Jobseekers Benefit or Jobseekers Assistance) to ensure that (a) part time workers have a significant financial incentive to avail of full time employment opportunities; and (b) the receipt of secondary benefits does not impede employment take-up.

Responsibility: Department of Social Protection, Advisory Group on Tax and Social Welfare on Working Age Payments

1.2 Energy Costs

A reliable and competitively priced supply of energy is vital for business and its ability to compete successfully in international markets. From a competitiveness perspective, the challenge facing Ireland is to reduce energy costs while delivering on our security of supply and environmental sustainability objectives.

The Department of Communications, Energy and Natural Resources (DCENR) is currently developing a new Energy Policy White Paper. This provides a timely opportunity to reassess our energy priorities and ensure we are making the right policy choices today to support long-term economic growth and international competitiveness. From a cost competitiveness perspective, it is necessary to differentiate between controllable costs that can be influenced by domestic policymakers and non-controllable costs (e.g., fuel costs) which are determined globally⁵. While international fuel prices exert a very significant influence of energy prices here, it is important that we acknowledge the impact of policy decisions made in Ireland on energy prices.

Recommendation

4. The 2015 White Paper on Energy should address the range of concerns expressed in the recently published Competitiveness Challenge 2014 report. In particular, actions are required to address the controllable cost components of energy costs in Ireland.

Responsibility: Department of Communications, Energy and Natural Resources

Policies that promote energy efficiency are also important from a competitiveness perspective - not only are they amongst the most effective tools to improve environmental sustainability, policies and actions which promote energy efficiency are also effective in reducing costs and improving security of supply.

Recommendation

5. Actions are required to reduce energy use and lower peak demand, including:
- Continued and enhanced efforts are required by Government departments, enterprise agencies and business representative associations, to ensure that businesses (in particular small business), are fully aware of how best to reduce their energy use.
-

⁵ For example, according to the CER, approximately 60 per cent of the electricity cost base is outside of Ireland's control (it is higher for larger users), a large part of which is accounted for by fuel. See CER, Pass-Through Costs for Business Electricity Customers from 1st October 2013 (CER 13/229), October 2013. A recent report from Forfás on sectoral regulation includes an assessment of the drivers of costs in the energy sector. See Forfás, Sectoral Regulation: A study to identify changes to sectoral regulation to enhance cost competitiveness, April 2013.

-
- Measures to improve domestic energy efficiency (e.g. smart metering, retrofitting of homes) need to be progressed.
 - Measures to manage public energy use can also reduce peak demand. For example, provision of more efficient public buildings (educational and health facilities, public offices, etc.), the electrification of public transport, and working with large, public sector energy users such as Irish Water to reduce and smooth usage.

Responsibility: Government departments, enterprise agencies, business representative associations, Sustainable Energy Authority of Ireland

1.3 Property Costs

Site Value Tax

The current rapid increases in house prices and residential rents have the potential to produce adverse knock-on consequences in terms of prices and wage expectations across the economy. Concerns also persist about the supply of commercial property – for example, expansion in hotel accommodation has not kept pace with the increase in demand, particularly in Dublin, resulting in escalating prices and a loss of competitiveness. The Construction Strategy notes the importance of a good supply of commercial premises as a key requirement for economic progress.

Budget 2015 has already introduced a number of changes that should assist the property and construction sectors. Further, the Minister for Finance has stated that he will launch a public consultation exercise to determine whether landowners are holding onto zoned or serviced development lands for higher prices; depending on the outcome of this process, the Minister will examine the taxation measures that might be taken.

The Council, however, calls for a much more fundamental change - one that combines reform of the commercial rates system alongside a taxation mechanism that will incentivise sustainable development and efficient use of land. As outlined in the *Competitiveness Challenge*, an annually recurring site value tax on commercial property, levied without regard to how land is used or what is built on it, is considered the most effective type of property tax in terms of ensuring the most productive use is made of land⁶. Essentially, a site-value tax rewards those who use land well and punishes speculators and land-hoarders.

As it stands, the existing system of commercial rates does nothing to encourage the efficient use and development of vacant commercial land. Indeed, the current system of commercial rates serves to weaken the incentive for existing business to expand and discourages entrepreneurship. Consideration should therefore, be given to replacing the current system of commercial rates with a site value tax, in conjunction with a reform of the urban planning system to ensure that the appropriate mix of commercial property is delivered.

Recommendation

6. The feasibility of introducing a site-value tax for commercial property to replace the current system of commercial rates should be explored in 2015. This should occur at part of the planned consultation on the hording of zoned land.

Responsibility: Department of Finance, Department of the Environment, Community and Local Government

⁶ Site value is measured based on the rental value of the land. A SVT is ordinarily charged as a percentage of the value of a site with regular valuations undertaken by an independent statutory body.

Long Term Development of the Construction Sector

The primary goal for policy should be to provide a coherent policy response and regulatory certainty around issues like planning and zoning, and facilitating the supply of additional housing units. The Government's strategy for the sector, *Construction 2020*⁷, seeks to achieve this and recognises the need for a whole of Government approach to achieve implementation.

Recommendations

7. Implement *Construction 2020, A Strategy for a Renewed Construction Sector*. In particular, the development of a national planning framework, the publication of the general scheme of a Planning Bill, and the proposed Policy Statement on Planning are key milestones, which need to be set out in the Action Plan for Jobs 2015.

Responsibility: DPER, DECLG, DCENR, DES, DJEI, Local Authorities, Enterprise Ireland and Other Relevant State Bodies

8. A whole of Government approach is required to ensure that appropriate policies are implemented to avoid the creation of future sustained property bubbles.

Responsibility: Departments of Finance, Central Bank of Ireland, Department of the Environment, Community and Local Government, the Cabinet Sub-Committee on Construction 2020, Housing, Planning and Mortgage Arrears

Rent Reviews

The Land Conveyancing and Law Reform Act 2009 ensures that all new commercial leases signed from March 2010 contain a provision that rents can be reviewed both upwards and downwards on review⁸. The Government has noted that despite extensive consideration, it has not proved possible to develop a targeted scheme to tackle upward only rent reviews in pre-March 2010 business leases. While the advice of the Attorney General on this matter is covered by privilege, in order to provide full transparency, the Council believe that the advice received on this matter should be published.

Recommendation

9. In the interests of transparency, the Government should consider publishing the most recent advice from the Attorney General on the issue of upward only rent reviews, as well as any other relevant inputs received on the potential impact of their abolition.

Responsibility: Government, Attorney General

⁷ Government of Ireland, *Construction 2020, A Strategy for a Renewed Construction Sector*, May 2014.

⁸ Land and Conveyancing Law Reform Act, 2009

2. Macroeconomic Stability and Public Investment

Stable and sustainable public finances are a prerequisite for competitiveness. Despite the corrective action taken to date, further actions are needed in coming years to ensure that debt remains firmly on a declining path while protecting the nascent recovery⁹.

The availability of competitively priced world-class infrastructure (e.g., energy; telecoms; transport – road, public transport, airport, seaports; waste and water) and related services is critical to support competitiveness. Investment levels in Ireland need to increase from the current low base – indeed, there is a need to recover the ground lost during the recession. Measures to encourage business investment are also essential.

2.1 Increasing and Targeting Public Investment

Ireland's Competitiveness Scorecard highlights that Ireland's infrastructure still lags countries with which we compete for trade and investment. Public capital expenditure has declined significantly since 2008; Government spending has fallen from 5.3 per cent of GDP in 2008 to 1.8 per cent in 2013. The Council believe that it is time to reverse some of the cuts to the capital expenditure budget in recent years. The forthcoming capital review, which will set out capital expenditure levels out to 2019, should strive to ensure that capital expenditure (as a percentage of GDP) mirrors that in competitor countries that are at a similar stage of infrastructural development. Government must also be ambitious in availing of external sources (e.g. EU/European Investment Bank, institutional lenders such as pension funds etc.) to fund infrastructure delivery.

Recommendation

10. The forthcoming capital review should strive to ensure that capital expenditure (as a percentage of GDP) mirrors that in competitor countries that are at a similar stage of infrastructural development.

Responsibility: Department of Public Expenditure and Reform

In terms of targeting investment at those areas that can have the most significant impact on competitiveness, the Council has identified a range of infrastructure priorities. These are summarised below and are elaborated upon in the *Competitiveness Challenge 2014*.

- *Water services:* It is vital that the current water services constraints in Dublin are addressed urgently; to support regional development, Ireland needs to deliver sufficient capacity to support expansion plans and new developments, especially in the large regional urban centres;
- *Telecommunications:* Ireland needs to prioritise the investment required to deliver the Government's commitment to provide fibre based broadband services to all parts of the country;
- *Social Housing:* In the context of rapidly increasing rents and residential property prices, an expansion in the supply of social housing is urgently required;
- *Transport:* There is a need to enhance urban mobility in Dublin¹⁰ and the other city regions by ensuring existing resources are focused on providing public transport services that best meet changing customer needs and provide high quality access to, from and within the main cities¹¹;

⁹ Recent revisions to CSO National Income and Expenditure data mean that the end-2013 debt ratio has changed from 123.7 per cent of GDP to 116.1 per cent of GDP even though the value of the debt and the economy which has to service it is the same.

- *Transport:* A number of bottlenecks in the road network should be addressed to capture the full benefits of the significant investment in road and other infrastructures already made;
- *Energy:* While energy infrastructure is not funded directly from public capital expenditure budgets, public policy has a critical role to play in ensuring that the private sector invests in a timely manner to ensure the current and future needs of enterprise are met;
- *Waste management:* A range of infrastructures are required along the waste hierarchy. Public policy has a key role to play in ensuring that the private sector invests in a timely manner to meet enterprise needs.

In addition, and as discussed in more detail in section 4.2, it is also important that Government maintain its commitment to invest in research and development to support innovation and productivity growth.

Recommendation

11. It would be welcome if the Council's infrastructure priorities were reflected in the Action Plan for Jobs 2015 and in the forthcoming Capital Review strategy.

Responsibility: Department of Public Expenditure and Reform, Government departments involved in infrastructure development

2.2 Knowledge Development Box

Investment decisions are made based on a number of factors including the costs of doing business, skilled and responsive labour markets, well-developed infrastructure, access to markets, a predictable and non-discriminatory legal and regulatory framework, macroeconomic stability, and the competitiveness of the tax system.

The international tax environment is evolving rapidly. Partially in response to these initiatives, Ireland has recently announced a range of initiatives. The Council believes that the primary long-term challenge is to ensure that Ireland continues to be an attractive location to develop business operations with substance. Measures aimed at making Ireland a more attractive location to hold and exploit intellectual property (IP) in and for key internationally mobile individuals to work from (where there is a key skills shortage and very limited risk of displacement), should be prioritised. In this context, the Minister for Finance has announced the creation of a 'Knowledge Development Box' to support investment in knowledge-based capital.

Recommendation

12. Subject to the results of a cost-benefit analysis, the introduction of a broad based, sustainable knowledge development box which supports investment and real job creation should be a key goal in the Action Plan for Jobs 2015.

Responsibility: Department of Finance

¹⁰ Within Dublin, delivery of the actions outlined in the National Transport Authority's (NTA) investment plan for the Greater Dublin Area should be prioritised to fully capture the benefits of existing infrastructure (e.g. Luas Cross City and the re-opening of the Phoenix Park Tunnel).

¹¹ The Department of Transport, Tourism & Sport is currently developing a Strategic Framework for Investment in Land Transport. For more information, see www.dttas.ie/corporate/publications/english/public-consultation-investing-our-transport-future

3. Developing the Skills Base

The skills of the workforce are a primary driver of productivity and long-term competitiveness. Skills development across all levels of the education and training system must remain a priority for policymakers.

The Irish education and training system is currently undergoing a significant level of structural reform. In this regard, the Council is focused on two particular challenges:

- Implementing the new Further Education and Training strategy and delivering the structures to provide better high quality, flexible and responsive education and training programmes, with a particular focus on activation for the unemployed; and
- Continuing with the ongoing reform and modernisation of the apprenticeship system.

3.1 Further Education and Training

Significant changes are underway in the area of FET and in apprenticeship training. SOLAS and the Education and Training Boards (ETBs) are working together, and with other parts of Government and with employers, to ensure that FET programmes are more flexible and responsive to meet the needs of jobseekers and industry.

Employer Engagement

Employer input is critical to ensure that investments are targeted in areas of current shortages and where future demand is forecast, to set strategic direction and assess the continuing relevance of education and training offerings, and to support the development and evolution of curricula. Employers can also enhance the quality and balance of education and training programmes and, perhaps most challengingly, providing sufficient opportunities for on-the-job training as required through internships, placements, traineeships, etc.¹².

There is a need to enhance employer engagement across all of the FET system. Success, however, will be dependent on securing robust employer engagement at local level.

Recommendation

13. Robust local and regional structures must be developed to facilitate employer (and other stakeholders as appropriate) participation in the identification of the required skills, the development of relevant curricula, selection of candidates and the provision of sufficient internship and traineeship opportunities as appropriate. Once developed, it is essential that the details of these national, regional and local structures are clearly communicated to industry.

Responsibility: Department of Education and Skills, Department of Social Protection, SOLAS, Education and Training Boards, Employer Representative Bodies, Enterprise Agencies, Higher Education Authority

As well as communicating with employers about the structures, there is also a need to communicate with learners. To enhance engagement with and take-up of FET programmes, the stand-alone value of a FET qualification (and progression within FET) must be widely communicated and understood. In this regard, the comprehensive communications campaign proposed in the strategy is of paramount importance.

¹² It is notable that company training spend per person employed has decreased in recent years. Source: Annual Business Survey of Economic Impact, Various years, Forfás.

Recommendation

14. Further Education and Training (including apprenticeships) must be seen as an attractive option leading to rewarding career opportunities and progression options (to additional further education and training, and higher education) over the span of an individual's working life. In this regard, the comprehensive communications campaign proposed in the strategy should be advanced in 2015.

Responsibility: SOLAS, Education and Training Boards

3.2 Labour Market Activation, Coordination and Evaluation

Activation programmes are essential to prevent the marginalisation of unemployed workers and to minimise the risks of long-term unemployment. Activation programmes also need to facilitate the re-entry into the labour market. FET and activation programmes are closely intertwined. Measures that are focused on improving employability should:

- Meet identifiable labour market / enterprise needs;
- Target candidates appropriately to programmes based on their abilities, skills and learning requirements;
- Demonstrate progression pathways for the learner to employment/self-employment, or to further/higher education and training; and
- Include structured internships providing work experience opportunities within enterprise.

In this regard, employer engagement in programme design and delivery will be an important determinant of success (i.e. in terms of meeting the learners' needs to progress to employment and the employers need for appropriate workplace skills).

The Council has previously commented on the importance of providing adequate resources to support activation programmes and the work of Intreo¹³. In addition, Intreo and SOLAS will need to deepen collaboration and complement each other to produce successful activation efforts, particularly in guiding the unemployed to effective programmes.

Recommendation

15. As well as putting in place arrangements to facilitate high level strategic cooperation between SOLAS and 'Intreo' about the design of relevant FET provision and referral arrangements, local protocols should be developed to provide seamless linkages between 'Intreo' offices and local ETBs. Career Guidance (i.e. appropriate and effective matching of learners and programmes) is a particularly important element of successful activation.

Responsibility: Department of Social Protection, SOLAS, Intreo

Evaluation is an essential tool to ensure that labour market programmes result in the desired outcome. It is important that all programmes continue to evolve to maintain and improve their effectiveness. The planned review of post-leaving certificate courses in 2015 is welcome in this regard.

¹³ National Competitiveness Council, NCC Submission to the Action Plan for Jobs 2014, Forfás, December 2013

Recommendations

16. All labour market programmes should be evaluated on a regular basis with resources focused on those programmes proven to deliver on their objectives, and with direct relevance to the labour market.

Responsibility: Department of Education and Skills, Department of Social Protection, SOLAS

17. Information on progression paths (e.g. progression rates, first jobs locations, etc.) from further education and training courses should be collected, utilised (e.g. to shape future courses) and disseminated to learners and employers to promote engagement.

Responsibility: Department of Education and Skills, Department of Social Protection, SOLAS

3.3 Apprenticeships

Following the report of the independent review group on apprenticeship¹⁴, an apprenticeship implementation plan was published in July 2014¹⁵. Two interlinked elements of the plan are of particular interest to the Council, namely

- The welcome expansion of the apprenticeship model into a range of new enterprise sectors and occupations; and
- The recognition that apprenticeships need strong support from employers if they are to meet the needs of enterprise, address future demand, and be relevant in relation to content and curricula - particularly in relation to the development of apprenticeships for new occupations.

The Council is particularly supportive current reforms that will broaden the scope of apprenticeships beyond their traditional, construction-centric approach. The rollout of new apprenticeships in sectors such as modern manufacturing (i.e. in the food, medical devices, engineering and Pharma/Biopharma sectors), engineering, transport and logistics, wholesale and retail, and hospitality sectors would be particularly welcome.

The Council suggest that the development of apprenticeship programmes be prioritised so that high employment sectors and/or sectors experiencing high levels of replacement demand are addressed as a matter of urgency. The development of apprenticeship programmes in the recommended sectors will serve to boost productivity through the provision of accredited, enterprise-relevant skills, and should contribute to lower churn rates (and thus lower costs) through the provision of more structured career paths for learners.

As with the previous discussion on FET, employer engagement (and indeed, engagement by all relevant stakeholders) is a prerequisite for success. Employers and their representative bodies need to invest time now to develop coherent, relevant *and* sustainable proposals that will meet their needs. To ensure that sufficient demand exists to sustain new apprenticeships, employers and their representative bodies will need to collaborate for the benefit of all employers in the sector nationally and to raise their sectors' profile as a career path amongst school-leavers and jobseekers. The Skillnets model may provide one option for employers to collaborate, identify their skills needs, and develop proposals for new apprenticeships.

¹⁴ The report contains a large number of recommendations for the extension of apprenticeship to new sectors and for modernising the existing apprenticeship system. See Apprenticeship Review Group, Review of Apprenticeship Training in Ireland, December 2013

¹⁵ Department of Education and Skills, Apprenticeship Implementation Plan, July 2014

Recommendations

18. The development of new apprenticeships in key sectors such as modern manufacturing, engineering, transport and logistics, wholesale and retail, and hospitality (i.e. sectors which demonstrate active employer engagement, are large employers and/or experiencing high replacement demand) should be prioritised.

Responsibility: Employers, Employer Representative Bodies, Trade Unions, Quality and Qualifications Ireland

19. Employers and their representative bodies need to prepare for the National Apprenticeship Council's forthcoming call for proposals, identifying those skills needs which can best be met through the development of new apprenticeships.

Responsibility: Employers, Employer Representative Bodies, Quality and Qualifications Ireland

4. Developing the Enterprise Base

Ireland's economic growth is dependent on a sustainable, competitive enterprise. To achieve sustainable economic growth and create meaningful jobs, therefore, we need a strong and dynamic range of MNCs, large enterprises, SMEs and a steady flow of new business start-ups.

4.1 Promoting Investment, Trade and Diversification

The Council believe a strong focus on encouraging private sector investment in productive enterprise is critical to maintain the existing capital stock and to provide a platform for future growth and job creation. While capital investment in manufacturing is recovering, the level of investment remains below pre-recession levels. Ultimately, Ireland's relative attractiveness to investors (both indigenous and foreign) is shaped by a combination of factors that determine the environment for enterprise and our international competitiveness. In terms of indigenous enterprise, it is essential that Ireland offers a taxation environment that encourages entrepreneurs and business owners to invest in productive activities. In this regard, there are strong concerns that the UK's relative competitiveness has improved significantly in recent years (e.g. reduced capital gains taxes for entrepreneurs), with the risk that entrepreneurs, particularly serial entrepreneurs will invest in the larger UK market rather than in Ireland.

Recommendation

20. The Department of Finance should continue to monitor Ireland's comparative tax offering. Specifically, the Action Plan for Jobs should contain a commitment to benchmark the competitiveness of Ireland's enterprise tax offering as it relates to indigenous exporting firms.

Responsibility: Department of Finance

Skills development is a key consideration for investment decisions.

Foreign language capability is essential for enterprises to compete. The development of a national foreign languages strategy is of particular importance. Formal international selling programmes and modules in international selling in third-level business courses, together with greater promotion of international student placements such as ERASMUS are key priorities to develop our international exports and investment footprint into the future.

In relation to the supply of ICT skills, despite the progress made to date on implementation of the ICT action plan, two issues remain. Firstly, there is a need to increase awareness amongst CAO applicants of the career potential offered by the sector; secondly, more places in relevant third level courses need to be made available.

Recommendations

21. The finalisation of the national foreign languages strategy should be expedited, and should provide an integrated and coherent approach to foreign language teaching in all learning contexts. In particular, the domestic supply of modern foreign language skills at third level should be scaled up, reflecting the needs of enterprise, i.e. German, French, Spanish, Italian and emerging market languages such as Mandarin Chinese, Japanese, Russian and Arabic (at relatively lower numbers).

Responsibility: Department of Education and Skills/higher education institutions

22. To increase ICT skills output, continued implementation of the ICT Action Plan remains a priority, and in this regard, expansion in both the supply of third level places on enterprise relevant ICT courses, and demand for such courses amongst learners is required.

Responsibility: Department of Education and Skills, Department of Jobs, Enterprise and Innovation, Department of Social Protection, Higher Education Authority

Tourism is recovering. There is positive momentum that we need to continue to build on, reopening and developing new air and sea access routes, investment in product and experience development outside of the main cities and clustering of activities, increased promotion in new markets of Asia, and sustaining improvements in cost competitiveness and perceptions of value for money.

Recommendation

23. Aggressively implement measures required to achieve the potential of the tourism sector to grow employment by 50,000 over the next decade, including in the areas of air and sea access, skills development and training and experience development.

Responsibility: Department of Transport, Tourism and Sport, Department of Public Expenditure and Reform

Over 70 per cent of global trade is now in intermediate goods and services and in capital goods. OECD data suggests that FDI in Ireland is largely responsible for Ireland's high participation rates in global value chains, despite some impressive successes in the agri-food sector. Enhancing exports from indigenous firms and increasing linkages across the economy offers potential to deepen indigenous firms' links in global value chains.

Recommendation

24. A continuing focus on developing greater linkages between indigenous and foreign owned firms should be progressed in the 2015 plan.

Responsibility: Enterprise Ireland, IDA Ireland, Department of Jobs, Enterprise and Innovation

4.2 Enhancing Productivity, Innovation and Research and Development

Productivity offers significant potential to enhance competitiveness and living standards as it allows for sustainable pay increases without eroding cost competitiveness. At present, however, Ireland's productivity base is concentrated amongst a relatively narrow range of sectors and firms¹⁶. Increased competition in the domestic economy and the greater diffusion of technology and skills can boost productivity.

In relation to competition policy, a continued and sustained focus on the introduction of greater competition is required. Across the economy, there are still a number of sheltered sectors where opportunities exist for further reform. These include banking, energy, professions (e.g. legal), transport (i.e. bus transport), groceries/retail sector and utilities¹⁷.

¹⁶ National Competitiveness Council, Ireland's Productivity Performance 1980-2011, Forfás, April 2012

¹⁷ Competition Authority, Annual Report, 2013

Recommendation

25. The enactment of the Legal Services Bill should be expedited. As well as addressing regulatory and accountability concerns, it is important that the Bill include provisions to facilitate greater competition. In this regard, any review of proposed measures to allow for the creation of multidisciplinary practices (i.e. allowing lawyers to work in a single, combined practice alongside accountants and other professionals) should be prioritised with a designated date for completion, as a key measure to reduce costs and support competitiveness.

Responsibility: Relevant Government Departments, Relevant Regulators, Competition Authority

Government has recognised the importance of investment in science, technology and innovation to Ireland's economic development. To achieve a transition to a new economic model based on innovative enterprises exporting to global markets, continued and sustained Government commitment to investment in innovation is required.

The current research intensity target for Ireland under the EU's Europe 2020 programme is 2.5 per cent of GNP (2 per cent of GDP). Government should re-commit to that target.

In terms of how funding is spent, the implementation of research prioritisation is proceeding. Public investment in R&D that is competitively awarded for economic objectives is required to be aligned with key areas or platforms (approximately 50 per cent of the total public investment in research falls within the scope of Research Prioritisation). Continued commitment over the lifetime of research prioritisation is needed to realise the impacts of this realigned investment.

Finally, it is important that public funds are spent in an appropriate manner. The Research Prioritisation Steering Group has identified 13 "systemic recommendations" designed to improve the efficiency and effectiveness of the science, technology and innovation system, in order to support the implementation of prioritisation. It is vital that adherence to and implementation of these recommendations continues.

Recommendation

26. Government should re-commit to the EU's Europe 2020 research intensity target of investing 2.5 per cent of GDP (2 per cent of GNP). It is also essential, not only that this spend continues to be focused on identified priority areas of national potential, but that implementation of the 13 systemic recommendations to improve the efficiency and efficacy of the public RDI funding system continues.

Responsibility: Department of Jobs, Enterprise and Innovation, Department of Public Expenditure and Reform, Science Foundation Ireland

The Government has set a target for Ireland's drawdown from the European Framework Programme for Research and Innovation 2014 - 2020, Horizon 2020, of €1.25 billion. As the majority of Horizon 2020 funding is awarded on a competitive basis to international collaborations, a prerequisite for achieving this national target is a national research and innovation system with sufficient capacity in the requisite areas to be able to compete successfully both with and against their EU peers. This will require mobilisation of all stakeholders, in particular the Higher Education Institutions, which attract most national funds for research, and which host almost all of Ireland's publicly funded research capability.

Recommendation

27. Ireland should maximise drawdown from available funding sources such as the European Framework Programme for Research and Innovation 2014 – 2020. This will require working closely with industry to ensure collaborative funding, in particular working with the multi-national sector which, under previous Framework programmes, has been under-represented in terms of participation rates.

Responsibility: Higher Education Institutions, Enterprise Ireland, Department of Jobs, Enterprise and Innovation, Department of Education and Skills, Science Foundation Ireland, IDA Ireland

4.3 Supporting Entrepreneurship

The Action Plan for Jobs process has accorded significant focus to addressing issues of concern to potential entrepreneurs, including access to finance, mentoring, etc. It is important to note that entrepreneurship can take many forms and can be driven by both necessity and opportunity. As part of the 2014 Action Plan for Jobs, the Government finalised an entrepreneurship policy statement.

Recommendation

28. The implementation of the National Entrepreneurship Policy Statement should be prioritised.

Responsibility: Department of Jobs, Enterprise and Innovation

To facilitate the development of an entrepreneurial culture, it is important that the State's administrative system operates as efficiently as possible and minimises the costs placed on firms. It remains important that Ireland's performance in this space is continually monitored, particularly vis-à-vis our key competitors, through for example, the World Bank's Doing Business Index¹⁸. Recent changes in the World Bank's methodology place an increased emphasis on the quality of regulations. It is important that a coherent and coordinated process is put in place to monitor performance and drive the delivery of a tangible series of policy and procedural reforms.

Recommendation

29. Continue to monitor Ireland's entrepreneurship and administrative burden performance in international benchmarking studies such as the World Bank and actively pursue reform in areas of identified weakness.

Responsibility: Department of Finance

4.4 Public Procurement

In 2013, the State spent approximately €9 billion on supplies and general services. As a result, public procurement represents a crucial lever through which the State can affect national competitiveness.

The establishment of the Office of Government Procurement as a single agency with responsibility for procurement policy and centralised purchasing arrangements in Ireland is a central tenet of the current reform

¹⁸ World Bank, Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises, October 2013

programme and ultimately the OGP will be responsible for approximately 60 per cent of procurement expenditure, totalling €5.4 billion¹⁹.

The move to a centralised procurement system will undoubtedly affect SMEs. While cost savings and efficiency gains are necessary and welcome, any such measures should be fully cognisant of outcomes and benefits achieved from the perspective of Irish enterprise in general, and the SME sector specifically²⁰. The Council have previously commented in detail about how public procurement can be utilised to support the SME sector, although it is worth reiterating the main points again in the recommendation below. At the same time, the Council recognise the role that companies themselves can play – for instance, SMEs need to take responsibility for improving their tendering skills so that they can actively participate in and compete for public contracts. Further detail is available in *Ireland's Competitiveness Challenge 2014*.

Recommendations

30. The procurement system should be aligned to the Government's policy goals and priorities, and not just focus on reducing costs. Other stated government objectives such as supporting jobs, innovation and economic growth should also be considered when planning procurement strategy. An economy-wide understanding of what constitutes value for money should balance cost savings with economic impact.

Responsibility: Office of Government Procurement / Department of Public Expenditure and Reform

31. In order to enhance SME access and participation in procurement, public procurement policy should aim to ensure that as many firms as possible are provided with an opportunity to compete for public contracts. Putting the guidelines contained in Circular 10/14 into practice is of paramount importance in this regard.

Responsibility: Office of Government Procurement / Department of Public Expenditure and Reform

¹⁹ Four large "sectors" (Health, Education, Local Government and Defence) will retain ownership for their mainly sector-specific purchasing.

²⁰ A number of bodies have suggested that there should be specific targets around SME participation in contracts. However, under EU law this would be anti-competitive and could face legal challenge.

5. Finance for Growth

Finance is the life-blood of every business. This requirement extends throughout the business lifecycle - from the development of a business concept, to setting up a business and through to the growth and expansion stages. Funding for investment is necessary for firms to establish and expand their operations, to improve productivity, and ultimately grow the economy for the benefit of all.

5.1 Bank Funding

In a recent review of the Irish economy (May 2014), the IMF notes that *"A sustained job-rich economic recovery hinges on reviving healthy lending. Investment is beginning to rebound from depressed levels, largely financed by retained earnings. In the medium term, however, a paucity of credit would impede the domestic demand revival which is critical for job creation"*.

Credit growth is determined by a combination of the financial system's capability and willingness to provide finance, and demand in the business sector for financing. In Ireland, problems are arising from both weak demand for credit and weak supply of credit. Even before the current financial crisis emerged, a number of longstanding issues were evident in the market for funding in Ireland. This is a particular challenge for start-up SMEs and innovative exporting SMEs that play a crucial role in stimulating employment growth.

The banking system in Ireland has continued to contract. The reduction in debt is being driven by the need of the banks to strengthen their balance sheets and by the wider debt dynamics faced by the Irish business and public sectors, which are undergoing their own process of deleveraging.

The cost of finance continues to be an issue as highlighted in previous NCC research²¹. Cost competitiveness may weaken further as the banks need to rebuild profitability and as the business banking, market has become highly concentrated. Other terms and conditions are also a concern.

Demand for credit is also weak. Many sectors of the Irish economy have significant debt levels and high levels of existing indebtedness affect current demand for credit negatively - Ireland has the second highest Non-Performing Loan ratio in the OECD.

ESRI research²² highlights that credit constraints affect a small but important minority of SMEs (between 4 and 11 per cent). Looking to the future, the ESRI caution that it will be important that the property sector does not "crowd-out" lending to rest of the SME sector and their initial analysis suggests that the credit levels available to the manufacturing sector are below desirable values.

From the Council's perspective, some of the key challenges facing us include:

- Ensuring that the efficacy of measures put in place to improve credit flows through recapitalisation, deleveraging and restructuring of the banks can be assessed and further action taken if required. In this regard, there is a need to continue to monitor bank lending carefully, particularly as the economy returns to growth and demand for funding increases. A particular focus is required on SMEs and manufacturing.
- The newly established Strategic Banking Corporation of Ireland will provide, via intermediaries, approximately €800m of funding to the SME sector. SBCI is designed to address both supply and demand side issues and will work with existing and new providers of finance to SMEs in the Irish market. As SBCI is

²¹ National Competitiveness Council, Costs of Doing Business in Ireland, Forfás, 2014.

²² Gerlach-Kristen, P, O'Connell, B., and O'Toole, C., SME Credit Constraints and Macroeconomic Effects, ESRI, April 2013

reliant on intermediaries (e.g. commercial banks, etc.) to provide funding to SMEs, it is important that we track final flows of credit to SMEs and ensure that it channels additional funding for SMEs.

- Addressing mortgage arrears and completing bank repairs is an essential element in ensuring that sufficient credit is available for enterprise investment. Dealing pro-actively with legacy debt issues of businesses is important for growth. The effectiveness of loan restructuring is important to strengthen company balance sheets, thus facilitating external investment.
- The State needs to continue to work to ensure that the banking system is aligned with the strategic economic growth targets of the economy. In this regard, a move towards a banking system with a deeper understanding of innovative sectors (e.g. software, telecoms, digital content, med-tech and life sciences) and a pro-active overseas banking network are required in the medium term. More immediately, there needs to be a focus on supporting internationally trading businesses in terms of both the provision of credit and the bank facilities/products (e.g., international invoice discounting, performance bonds and specialised leasing, etc.).
- A continuing focus on upgrading skills levels within the banks and financial skills in the wider business sector is important.
- A wide range of initiatives has been rolled out to support access to finance in recent years. Progress is also being made in terms of communicating these initiatives to stakeholders²³. Greater potential exists to build links between individual initiatives. For example, mirroring proposed UK legislation²⁴ which will require the largest UK SME lenders to forward on details of SMEs they reject for finance (where SMEs give their consent) to other finance platforms, potential exists to link rejected SMEs automatically to Irish Government initiatives (e.g. Microfinance scheme, Credit Review Office).

Recommendations

32. There is a need to continue to monitor bank lending carefully, particularly as the economy returns to growth and demand for funding increases. A particular focus is required on the SME and manufacturing sectors where potential deficits have been identified. In regard to the SBCI, it is important that final flow of credit to SMEs is tracked and to ensure that it channels additional funding for SMEs.

33. A pro-active focus on legacy debt and loan restructuring is important.

34. A move towards a banking system with a deeper understanding of innovative sectors (e.g. software, telecoms, digital content, med-tech and life sciences) and a pro-active overseas banking network is required. There needs to be a focus on supporting internationally trading businesses in terms of both the provision of credit and the bank facilities/products (e.g., international invoice discounting, performance bonds and specialised leasing, etc.). Proposals to examine export finance initiatives are welcome.

35. A continuing focus on upgrading skills levels within the banks and financial skills in the wider business sector is important.

36. Potential exists to review the wide range of initiatives that have been put in place in recent years and to build greater links between individual initiatives.

Responsibility: SME State Bodies Group, Central Bank of Ireland

²³ For example, see <https://www.localenterprise.ie/smeonlinetool/businessdetails.aspx>

²⁴ UK Department for Business Innovation & Skills, UK Treasury: Help to match SMEs rejected for finance with alternative lenders, August 2014.

5.2 Other Non-Banking Funding Sources

Bank finance, while important is just one source of finance. Other important sources of funding include equity finance²⁵, accounts receivable/payable (which can entail businesses relying excessively on their suppliers), loans from family, friends or others, off-balance sheet financing sources such as lease financing, hire purchase and factoring, and Government financial support through the State's Enterprise Agencies.

Since 2008, there has been strong growth in the use of 'share and other equity' and the use of 'other accounts receivable' by Irish firms. Diversifying sources of finance offers significant competitiveness advantages. From the Council's perspective, the key actions are listed below.

Recommendation

37. There is strong potential for the State to provide a supporting environment (e.g. seed funding, regulation, etc.) to alternative sources of finance such as peer-to-peer lending.

Responsibility: Department of Finance, State Bodies Group

²⁵ Forfás, A Review of the Equity Investment Landscape in Ireland, January 2013.

6. Social Capital, Corporate Governance and Data Protection

A reputation as a secure and responsible location in which to do business is central to competitiveness. Likewise, countries with high levels of trust are better placed to manage economic and social change, to achieve societal goals without excessive regulation, and experience higher levels of wellbeing. Trust is also important as we pursue economic opportunities in areas such as international financial services, data analytics and other big data sectors. Our data protection infrastructure assumes ever more importance.

6.1 Social Capital and Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a concept whereby enterprises integrate social and environmental concerns into their mainstream business operations on a voluntary basis. CSR goes beyond compliance with legislative requirements - it ensures that the interests of enterprises and the interests of wider society are mutually supportive.

The Government has published a National Plan on Corporate Social Responsibility aims to increase awareness of CSR, its value to businesses and to society as a whole and to encourage enterprises to develop and implement CSR policies and practices in order to increase transparency.

Recommendation

38. It is important that the National Plan on Corporate Social Responsibility is implemented and that data is collected to support the planned review in 2016.

Responsibility: CSR Stakeholder Forum, Department of Jobs, Enterprise and Innovation

6.2 Corporate Governance

The financial and banking crises revealed severe shortcomings in corporate governance.

The Council acknowledges the range of corporate governance reform initiatives that are underway at national and EU level. The development of a White Paper on Crime is of particular importance. The Department of Justice and Law Reform has conducted a consultation exercise on white-collar crime²⁶. In the responses received, stakeholders highlighted a range of concerns including the apparent lack of parity of treatment by the criminal justice system between white-collar criminals and other criminals; the need for comprehensive protections for whistle-blowers; and equipping the various regulatory and enforcement agencies with a range of effective investigative and prosecutorial powers to deal with white-collar crime²⁷.

²⁶ Department of Justice and Equality, White Paper on Crime: Organised and White Collar Crime, Discussion Document No. 3, October 2010

²⁷ Department of Justice and Equality, White Paper on Crime: Organised and White Collar Crime, Discussion Document No. 3 - Overview of Written Submissions Received, April 2011

Recommendation

39. The completion of the White Paper on Crime and plans to give effect to that policy should be prioritised. It is important that the White Paper includes proposals to address the issues raised as part of the consultation on white-collar crime.

Responsibility: Department of Justice and Equality

Elsewhere, in the interests of improved transparency and accountability, the Council believe that more stringent conditions should be imposed on companies departing from the Corporate Governance Code^{28&29}. To make Boards of Directors more effective, the composition and activities of the board of directors need to be re-examined. The EU Commission has recently proposed revisions to the existing Shareholder Rights Directive (Directive 2007/36/EC) would tackle corporate governance shortcomings relating to listed companies and their boards, shareholders (institutional investors and asset managers), intermediaries and proxy advisors (i.e. firms providing services to shareholders, notably voting advice).

At the same time, measures to reform Ireland's corporate governance regime must also be cognisant of the need to maintain a pro-enterprise regulatory regime and avoid the imposition of unnecessary administrative burdens on firms.

Recommendations

40. The Council recommends that listed companies be required to provide more transparent and detailed information justifying any departure from the Corporate Governance Code (where applicable).

Responsibility: Department of Jobs, Enterprise and Innovation / Central Bank / Department of Finance / Irish Stock Exchange

41. In the context of the European Commission's ongoing work on corporate governance, a study should be conducted to examine the role and composition of Boards of Directors and to develop actions to make them more effective and responsive to stakeholder interests.

Responsibility: Department of Jobs, Enterprise and Innovation / Central Bank / Department of Finance / Irish Stock Exchange

6.3 Privacy, Data Protection and Data Analytics

Only by ensuring that Ireland's data protection regime offers best in class regulation, can we continue to win highly mobile international investment in the data analytics sector and other sectors which are data intensive.

²⁸ Currently companies listed on the Irish Stock Exchange's main market are legally obliged to comply with the Combined Code on Corporate Governance. As for other "listed companies" (i.e. on Irish markets other than the main market, such as IEX), Stock Exchange rules require all companies to report on how they have implemented the provisions of the Combined Code on a comply or explain why.

²⁹ In April 2014, the Commission published a recommendation on the quality of corporate governance reporting ('comply or explain' principle) which aims to improve corporate governance reporting by listed companies. Most corporate governance is soft law and it is thus essential that the 'comply or explain' approach, whereby a company that chooses to depart from the applicable corporate governance code must give reasons for the departure, works well. This approach offers companies an important degree of flexibility, as it recognises that, in certain circumstances, non-compliance with some recommendations might correspond better to the company's interest than 100 per cent compliance with the code. However, companies that depart from the applicable corporate governance code often fail to provide appropriate explanations for the departure, which makes it more difficult for investors to take informed investment decisions.

While big data has the potential to create exciting and valuable opportunities for individuals, communities, organisations and societies, it also introduces new challenges when it comes to data capture, management, security and privacy.

Ireland's reputation in this space is and will continue to be a significant determinant of success. In this regard the appointment of a Junior Minister with special responsibility for European Affairs and Data Protection is a welcome development, as is the recent announcement of a "data protection roadmap" to ensure that Ireland's approach to data protection in the digital economy is 'best in class' globally³⁰.

Effective enforcement of the current and future data protection obligations on companies, including assessment of the adequacy of safeguards in the case of data analytics, will require the allocation of appropriate resources (both the level of resources and depth) to the Data Protection Commissioner.

Recommendation

42. The Office of the Data Protection Commission needs to be resourced in a manner that ensures effective and efficient enforcement of data protection regulations, and at a level that supports Ireland's ambition to become a leading European data analytics centre.

Responsibility: Department of Justice and Equality

43. To secure and enhance our international reputation, a benchmarking exercise should be conducted to assess the competitiveness of Ireland's data protection regime vis-à-vis regimes in key competitors.

Responsibility: Department of Justice and Equality

³⁰ The data protection roadmap will include giving the Office of the Data Protection Commissioner its own vote, similar to the CSO under the aegis of the Department of the Taoiseach and also proposes the establishment of an Interdepartmental Committee on data issues and related structures for wider dialogue. See http://www.merriestreet.ie/en/News-Room/Releases/Minister_Murphy_sets_out_Data_Protection_Roadmap_after_Cabinet_Decision.html

