



Rialtas na hÉireann
Government of Ireland

Government Response to Ireland's Competitiveness Challenge 2023

Publication of the Government's response
to the National Competitiveness and
Productivity Council report

28th November 2023

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This is the fourth formal response issued by Government to the Competitiveness Challenge Reports published by the National Competitiveness and Productivity Council (NCPC) each year. Previous responses were published on 29 November 2022, 30 November 2021 and 25 November 2020 and can be found on gov.ie.

The Government recognises the importance and value of the Council's work in assessing Ireland's competitiveness and productivity and is committed to responding meaningfully to the Council's recommendations. *Ireland's Competitiveness Challenge 2023* was published by the NCPC on 28 September 2023. Following this the nineteen recommendations of the report have been considered by Government.

Ireland's Competitiveness Challenge 2023 is framed by the ongoing inflation and cost of living challenges brought about by developments in global energy markets following the Russian invasion of Ukraine, as well as legacy issues related, amongst others, to Covid-19 and Brexit. In this context, the Council identified both immediate competitiveness issues for consideration by Government, as well as four medium-term strategic challenges to Ireland's competitiveness and productivity performance.

These four medium-term strategic areas are to:

- Reduce the cost of doing business in Ireland;
- Significantly improve the planning, development and delivery of infrastructure;
- Accelerate progress on the usage and generation of energy in line with our climate targets; and
- Enable stronger productivity growth through research, development, and innovation.

In total a set of nineteen actions were proposed by the NCPC for consideration. The Government, having reviewed these, welcomes the focus of the NCPC on both immediate competitiveness challenge, and on the four priority areas, and agrees both on their importance and their relevance to our continued competitiveness and productivity performance.

The following paper outlines how the Government is responding or will respond to the nineteen actions proposed by the NCPC.

Immediate Issues Facing the Irish Economy

Recommendation 1.1: The NCPC recommends that the CCPC:

- (i). undertakes additional analysis of local level competition; and*
- (ii). conducts more high-level targeted market studies, to better understand the degree to which competition within selected sectors is effective.*

Responsibility: Department of Enterprise, Trade and Employment; Competition and Consumer Protection Commission

The Government welcomes and agrees to the NCPC's recommendation to enhance analytical work on the competition issues affecting businesses. Work in this regard is underway led by the Competition and Consumer Protection Commission (CCPC).

In October 2021, the CCPC established a dedicated research unit to conduct research to assist the organisation's strategic goal of being a leading voice in representing the interests of consumers and promoting competition. The main research project for 2024 is a State of Competition study which will analyse competition across several sectors in the Irish economy. Competitive markets bring several benefits for consumers including lower prices, wider choice and higher quality products and services. Identifying competition issues in markets, particularly in the context of the current cost of living crisis, is an important priority for the CCPC.

In addition, the CCPC will soon publish the results of its Consumer Detriment study which examines the major issues experienced by consumers across multiple markets. Findings from both of these studies will inform the CCPC's follow-on work, including in-depth sector profiles which allows for analysis at national and local level.

Recommendation 1.2: The NCPC recommends that, given the recent fall in labour market participation by older males with lower levels of education, a specific focus on reengaging this cohort by rolling out engagement programmes through INTREO should be introduced in order to boost participation.

Responsibility: Department of Social Protection; Department of Further and Higher Education, Research, Innovation and Science

Under *Pathways to Work*, the Government's national employment services strategy, the Government is committed to working for all and leaving no one behind. *Pathways to Work* includes actions to assist older people into employment and those with lower levels of education. The strategy recognises older workers as facing particular barriers in accessing the labour market and has a range of commitments that are being progressed. The Mid-Term Review of *Pathways to Work* and the updated strategy will be published before year end.

In order to inform the review, the Department of Social Protection undertook a public consultation. One of the issues raised in the public consultation is the need to provide additional aid for those with lower levels of education. This aligns with the need to upskill and reskill in the context of the green and digital transitions. In order to deliver on this issue, the Department of Social Protection and Department of Further and Higher Education, Research, Innovation and Science are forming an interdepartmental working group, which will examine barriers to participation in education, training and employment for priority cohorts, including those with lower levels of education.

With regards the provision of additional targeted education and training, 16 Education and Training Boards (ETBs), funded through SOLAS, provide a range of programmes at levels 1-6 on the National Framework of Qualifications to cater for the needs of adults, including older males with lower levels education.

The Skills to Compete initiative is part of the SOLAS Recovery Skills Response Programme, which forms part of Ireland's National Recovery and Resilience Plan (NRRP). Skills to Compete offers a package of targeted, modularised education and training aimed at assisting re-entry into the workforce, including for older males with low levels of education. These are delivered through the 16 ETBs including through contracted training, to effectively target individuals. As of August 2023, over 16,000 learners have taken part in Skills to Compete courses this year. SOLAS anticipate that the ETBs will exceed their annual target of 21,637.

Additionally, older people are one of the priority cohorts identified in the Adult Literacy for Life (ALL) Strategy. One of the areas intended for focus in the coming months is digital skills for older people.

Cost of Doing Business in Ireland

Recommendation 2.1: The NCPC recommends that the recommendations from the Retail Banking Review are addressed as a matter of priority, by all responsible parties.

Responsibility: Department of Finance; Central Bank of Ireland; CCPC; Retail Banking Sector

The Government welcomes the recommendation on effectively following up on the Retail Banking Review. The Department of Finance is overseeing implementation and is working alongside the retail banking sector, colleagues in the Central Bank and other Government Departments, and external stakeholders to ensure that the Irish retail banking sector can assist consumers, SMEs and the economy and provide retail banking products and services in an efficient and competitive manner. The recommendations arising from the review were targeted to achieve this objective.

Each recommendation made by the Banking Review identifies the body or bodies responsible for delivery of that recommendation and where appropriate contain timelines for delivery of the recommendations, which are being adhered to. In the case of some of

the main objectives regarding the Access to Cash and the development of a National Payment Strategy, these are on target for being delivered by the end of 2023 and mid-2024.

Implementation of many of the recommendations requires close collaboration between the Department of Finance and the Central Bank. The Central Bank is working on the implementation of recommendations. The Bank is currently undertaking a major review of the Consumer Protection Code and the outcome of this significant piece of work is likely to include several of the recommendations of the Review.

Other recommendations require implementation by other State agencies, such as the Competition and Consumer Protection Commission (CCPC), Government Departments and other relevant stakeholders. The retail-banking sector has been contacted regarding their role in carrying out those recommendations which fall to them. It is crucial that the retail-banking sector ensures the interest of consumers are a priority in their organisations and seek to work together, where possible, to deliver the best outcomes for the economy and citizens.

Recommendation 2.2: The NCPC recommends that:

- (i). the report commissioned by the Department of Justice to carry out an economic analysis of models or approaches to reducing litigation costs is published, and that its findings are progressed as a priority;*
- (ii). the CSO continues to expand the SPPI survey with a specific focus on developing a more granular sectoral dataset with respect to legal services on a scale that is statistically robust; and*
- (iii). the longstanding recommendation for the provision of a specialist conveyancer profession be implemented in the context of reforms on the digitalisation of conveyancing that will enhance efficiency and competition in legal services.*

Responsibility: Department of Justice; Central Statistics Office

In response to the report of the Review of the Administration of Civil Justice, the Minister for Justice commissioned a multi-criteria analysis of the two competing approaches to reducing litigation costs recommended in the report. The analysis was also to consider other options that may achieve the same objective. The analysis was undertaken by Indecon Economic Consultants. The Department has recently received the final report and expects to publish it shortly. The report's findings are being examined and will inform the development of policy options to reduce litigation costs, for business, individuals and the State.

Development of any measures to reduce costs will also need to be cognisant of their potential impact on competition, transparency, quality of services, maintaining access to justice and improving the efficiency and effectiveness of the legal system.

The CSO is committed to expanding the Service Producer Price Index (SPPI) survey with a strong focus on developing more granular sectoral data in order to measure important services prices such as legal costs from an enterprise competitiveness perspective. Expanding the coverage of the SPPI will require continued investment by the CSO in both data collection and analysis, including greater sample sizes to enable the necessary sectoral breakdowns. It is intended that the rebased SPPI series will be published in mid-June 2024 with the further development of the expansion work after that. The new canvass survey will be issued in Q3 2024 for inclusion into the publication in the first half of 2025.

From Q1 2024, under regulation (EU) 2019/2152 on European Business Statistics (EBS), CSO will extend the coverage of the SPPI to cover virtually all business service sectors (NACE sectors H to N, except K). The sectors which will be covered include Transportation and Storage, Accommodation and Food Service Activities, Information and Communication, Real estate activities, Professional, scientific and technical activities (which includes legal services) and Administrative and maintain service activities.

The Minister for Justice requested the Legal Services Regulatory Authority (LSRA) to report on the possible creation of a new profession of Conveyancer in Ireland. The Department recently received the report and is carefully considering its recommendations, and what appropriate actions can be progressed arising from them.

Infrastructure – Planning, Development and Delivery

Recommendation 3.1: The NCPC recommends that the Draft Planning and Development Bill 2022 is progressed and enacted without delay.

Responsibility: Department of Housing, Local Government and Heritage

The Government welcomes the recommendation of the NCPC on progressing the Planning and Development Bill 2022. The timely enactment of the Bill is a priority for Government.

The Planning and Development Bill 2023 was approved by Cabinet for consideration of the Houses of the Oireachtas on 3 October 2023. The Bill ensures that the planning system remains fit for purpose to meet the needs of the future population, whilst balancing main pillars of the Irish planning system such as public participation, environmental considerations and delivery of major infrastructure such as roads, housing and renewable energy.

The scale of the Bill will require a phased introduction accompanied by updated and revised secondary legislation and guidance, as well as a programme of training of planning practitioners. Work is underway to examine and identify existing secondary legislation which will require updating, and as well as identifying any new secondary legislation required. Work is continuing to develop the programme to outline the secondary legislation.

Recommendation 3.2: To speed up the delivery of housing supply, the NCPC recommends:

- (i). the accelerated implementation of Housing for All, with a particular emphasis on tackling the viability challenge; and*
- (ii). increased emphasis on driving innovation and productivity through Modern Methods of Construction (MMC), by monitoring and reporting on progress of the Roadmap for increased adoption of Modern Methods of Construction (MMC) in Public Housing Delivery.*

Responsibility: Department of Housing, Local Government and Heritage; Department of Enterprise, Trade and Employment

The Government welcomes the recommendation on accelerating the delivery of Housing for All – A New Housing Plan for Ireland which was launched in September 2021 as the Government’s housing plan to 2030. The Government acknowledges the challenges faced in the housing sector and continues to progress the implementation of Housing for All as a priority. The delivery of the Plan is underpinned by multi-annual, multi-billion euro State investment and focusses on all elements of the housing system. Guaranteed State investment of over €5 billion is being made available for the delivery of increased housing supply in 2024. This increase in supply is vital to meeting demand, moderating price inflation, and focusing on affordability.

Housing for All sets out a vision and a plan of action up to 2030. It has a built-in annual review mechanism to respond to progress made in implementing the plan, to challenges in implementation, and to changes in the external environment. The second annual update of the Housing for All Action Plan was published on 14 November. It sets out the priorities for the year ahead to activate and accelerate the delivery of housing. Supply, which is crucial to delivering on our housing needs, is increasing. In 2022, almost 30,000 homes were delivered. This number exceeds the Housing for All target by over 5,000 homes and is the highest number of home completions in a decade. In the first nine months of this year, almost 22,500 new homes were delivered, a 8% increase on the same period last year. The Government is confident that the 2023 target of 29,000 new homes will be exceeded. Strong commencements over the first nine months of 2023, allied with the recent upward trend in new residential planning permissions and our continued focus on the reforms and innovation needed to improve the viability of housing construction will ensure that this progress is sustained in the coming years. The Government continues to look at ways to accelerate delivery of housing and continues to keep Housing for All under review.

In relation to driving productivity through Modern Methods of Construction (MMC), the Roadmap for increased adoption of Modern Methods of Construction in Public Housing Delivery was published in July.

The Roadmap is a clear signal that Government wants to access the most innovative construction methods to deliver housing more efficiently and sustainably across all channels including the Land Development Agency, Approved Housing Bodies, social housing Public Private Partnerships (PPPs), for example. It also signals the commitment by Government to work with the sector as a whole to create the conditions for MMC to thrive.

The 28 actions in the Roadmap take a holistic approach to the MMC ecosystem, catalysing improvements throughout the entire production. The Department of Enterprise, Trade and Employment, is chairing the MMC Leadership and Integration Group (LIG), which will oversee the delivery of the Roadmap and the associated actions, and reports into the Housing for All Industry Capability Working Group on implementation.

The MMC LIG was established by Department of Enterprise, Trade and Employment to promote a culture of innovation in residential construction, as envisaged under Housing for All and to ensure integration and coordination across a range of existing and emerging MMC relevant entities and initiatives. The Group is seeking to ensure that emerging innovations and new technologies being developed and deployed by the industry in Ireland and abroad, and promoted by the public sector, can be showcased, and demonstrated in a coordinated and timely manner.

Recommendation 3.3: To adequately prepare and plan for the development of Ireland's economy, the NCPC recommends that detailed demographic analyses of the Census 2022 results, with a particular focus on the future composition of housing demand in Ireland, is undertaken to inform the First Revision of the National Planning Framework.

Responsibility: Department of Housing, Local Government and Heritage

The Government agrees with the Council on the importance of integrating the Census 2022 results with the First Revision of the National Planning Framework. The National Planning Framework is currently based on the demographic and econometric projections undertaken by the Economic and Social Research Institute (ESRI) in 2017, further to the 2016 Census of Population. The ESRI have been commissioned to update this demographic and econometric modelling work and to make adjustments, where necessary, to these projections taking account of the results of the 2022 Census, in connection with the First Revision of the National Planning Framework.

The high-level review of National Planning Framework implementation to date was completed in August 2023 by the Expert Group and the report was published on 7 September 2023. This report is currently informing the revision procedure including ongoing stakeholder consultation. The expected timeline for completion of the revision procedure is April 2024.

Recommendation 3.4: To improve delivery of water and wastewater infrastructure, the NCPC recommends that there should be increased effort and innovation in Uisce Éireann's project management capability and delivery processes in order to meet important targets in its operations.

Responsibility: Department of Housing, Local Government and Heritage

The Government agrees with the Council on the importance of empowering the work of Uisce Éireann with the objective of delivering a world-class public water services authority that meets customer needs, operates in line with best practice, represents value for money for the State and facilitates economic development.

The Commission for Regulation of Utilities (CRU), Ireland's independent energy and water regulator, required that an independent review be undertaken in order to review the issues and identify actions that Uisce Éireann would need to undertake to improve its overall investment planning and delivery capabilities. This review was conducted by the consultants, Scottish Water International (SWI), in Q1 2020. Following this Uisce Éireann submitted an implementation plan for the SWI recommendations to the CRU in December 2020. This implementation plan outlined how the SWI recommendations have been considered and are being managed and set out a programme for delivery by the end of 2022.

Uisce Éireann has since submitted quarterly implementation reports, available online, to the CRU, outlining the progress being made implementing the plan. The final quarterly progress report was prepared in the Q4 2022 in which Uisce Éireann outlined that all recommendations identified through the SWI Review have been fully implemented.

In Q2 2023 CRU commenced an independent technical review of Uisce Éireann's implementation of actions to improve its overall investment planning and delivery capabilities in conjunction with external consultants, which is due to be completed shortly.

Recommendation 3.5: To increase the capability of the construction sector to deliver on Ireland's infrastructural commitments, the NCPC recommends that, in line with the recommendations as outlined in the OECD's review of Ireland's National Skill Strategy, the Government should promote and strengthen pathways from schools into further education and training and apprenticeships, particularly in relation to the construction sector.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science

The Government agrees with the recommendation that pathways from schools into further education and training and apprenticeships should be strengthened in order to develop a well-balanced tertiary system and diversified supply of skills, in line with the

OECD Skills Strategy Ireland: Assessment and Recommendation, published in May 2023.

Recent years have seen large intakes onto construction and construction-related apprenticeship programmes. As of the end of September 2023 there were a total of 4,009 registrations across the designated 30 programmes. Of these 3,414 were in construction and 595 were in construction-related programmes.

Under *Housing for All*, a National Demonstration Park for MMC is being developed at the National Construction Training Campus at Mount Lucas. The overall aim of the Demonstration Park is to share knowledge and experience of MMC and to help advance relevant skills development in the construction sector. To identify and quantify projected future MMC skills requirements in Ireland, the Expert Group on Future Skills Needs (EGFSN) has commissioned research that will assess needs across the industry over coming years and make recommendations as to appropriate responses from the tertiary education system, and industry, to meet expected increased demand for a range of MMC related roles. On completion of this work, the Department of Further and Higher Education, Research, Innovation and Science will develop an action plan to implement the recommendations.

The Report on the Analysis of Skills for Residential Construction & Retrofitting 2023–2030 and the corresponding action plan was published in December 2022 and indicates the actions needed to achieve 50,831 new entrants into the construction sector, from professional, craft, operative and other trade routes to meet housing and retrofitting targets outlined in *Housing for All* and the National Retrofit Plan. The Careers in Construction Action Plan was published in August 2023 and actions are aimed at minimising barriers to construction careers, promoting career opportunities and making construction jobs more attractive to women. This will involve changes in structure, training and upskilling, and promotional activity.

Energy – usage and generation

Recommendation 4.1: The NCPC recommends that the Government:

- (i). Closely monitor the uptake by enterprise, and in particular that of small firms, of micro-generation support and efficiency schemes - with the view to ensuring targets are reached with potential to review scheme arrangements if uptake is below target.*
- (ii). Generate a profile of firms availing of micro-generation and efficiency support schemes in order to better target sectors and firms which are not availing of supports.*

Responsibility: Department of the Environment, Climate and Communications

The Government welcomes and agrees with this recommendation. The Department of the Environment, Climate and Communications and the Sustainable Energy Authority of

Ireland (SEAI) are liaising to closely monitor the take-up of the enhanced Non-Domestic Microgen Grant (NDMG), which is operating on a pilot basis to the end of 2023. The NDMG provides financial assistance to help businesses and other sectors to install solar PV panels to generate electricity on site. This technology reduces commercial electricity costs and increases security of supply, while enhancing a positive sustainability image. Grant funding is available for systems up to a maximum 1000kWp. The monitoring includes the sectoral breakdown of firms availing of grants, to better identify sectors which are not availing of assistance.

There has been a high uptake by SMEs, in particular, of the community energy grants and the scheme for energy audits, of existing schemes administered by SEAI.

The scheme is proving successful with over 584 applications to date, amounting to a total installed capacity of 46,391kWp. The average system size is 79kWp and applications are being seen across a wide variety of industry sectors. The following table provides a snapshot of percentage applications by sector.

<i>Applicant Sector</i>	<i>% of Total Apps</i>
Commercial Business	55.8%
Accommodation	7.7%
Agri	3.3%
Education	1.5%
Care Facility	2.2%
Care Provider	2.6%
Community & Sport	5.1%
Food & Beverage	5.5%
Leisure Centre & Activity	1.1%
Retail	15.0%

Recommendation 4.2: The NCPC recommends that the Government should continue its efforts to deliver offshore wind infrastructure at significant scale, in order to increase the cost competitiveness of Ireland's renewable energy.

*Responsibility: Department of the Environment, Climate and Communications;
Department of Enterprise, Trade and Employment*

The Government is fully committed to delivering and improving Ireland's offshore wind infrastructure. A cross-Departmental Offshore Wind Delivery Taskforce has been established to drive delivery and capture wider and longer term economic and business opportunities associated with the development of offshore renewables in Ireland. This includes the identification of infrastructure development and supply chain opportunities as Ireland's offshore wind industry is developed.

The landmark results of ORESS 1, the first offshore wind auction, earlier this year underscored the Government's ambitions and are the clearest signal yet that Ireland can become a renewables powerhouse. Over 3 Gigawatts of capacity has been procured from

four offshore wind projects, which will deliver over 12 Terawatt hours of renewable electricity per year. This is the largest volume of renewable energy Ireland has ever procured at auction. It is also enough to power over 2.5 million Irish homes with clean electricity and reduce greenhouse gas emissions by over 1 million tonnes in 2030.

These developments come under Ireland's Phase One approach to offshore wind energy developments. The second offshore wind energy auction, ORESS 2.1, is set to launch in 2024. ORESS 2.1 will be the first auction to take place in Phase Two and will procure up to 900 Megawatts of capacity from areas designated for Offshore Renewable Energy by Designated Maritime Area Plans.

As part of their work on the Offshore Wind Delivery Taskforce, the Department of Enterprise, Trade and Employment is developing a National Industrial Strategy for Offshore Wind. This Strategic Roadmap is to be published in the first half of 2024. This Strategy will aim to ensure that Ireland maximises the economic benefits associated with our targets for offshore wind. This will involve identifying measures to build a capable and resilient supply chain and ensure that our strong RD&I ecosystem extends to the offshore wind sector, to achieve the greatest economic impact possible arising from Ireland's future energy use and routes to market for our renewable energy. An interdepartmental group through which officials working across Government in the offshore wind sector has been convened and will guide the development of the NISOW. Extensive public consultation is also informing development of the strategy. A strategic roadmap for the NISOW is being designed to complement the Department of the Environment, Climate and Communications' future framework for offshore renewable energy.

Recommendation 4.3: The NCPC recommends that the Government:

- (i). Ensures sufficient resourcing within the planning system to minimise delay of energy infrastructure; and*
- (ii). Monitors resourcing and considers active international recruitment for specific planning and related skills in light of domestic labour market tightness.*

Responsibility: Department of the Environment, Climate and Communications; Department of Housing, Local Government and Heritage; Department of Further and Higher Education, Research, Innovation and Science

The Government welcomes this recommendation which is consistent with commitments in the Programme for Government. In particular the Government has committed to increased resourcing of An Bord Pleanála and local authority planning services to deal with the broad range of functions delivered, including in relation to planning for and consenting of energy infrastructure. When all approved posts are filled over 300 people will be employed by ABP, representing an increase in excess of 50% since 2021. Additional funding has also been allocated to assist with local authority planning staffing needs in 2023.

Analysis is being undertaken in relation to the availability of relevant skills and expertise and a set of actions is being developed in a Ministerial Action Plan to respond to the capacity challenges. The action plan will focus on increasing the potential routes into the planning and related professions and increasing the level of uptake of available options, having regard to the need for consideration of professional accreditation and education standards. The Ministerial Action Plan is expected in Q1 2024, with a steering group established to oversee its implementation through working groups.

The skills and workforce workstream in the Offshore Wind Delivery Taskforce is working to identify and remedy any immediate skills needs across the system. It is also working on the development of a detailed skills assessment report which will assist the development of skills capability and the workforce required to maximise the economic and societal benefits of offshore wind. This workstream foster innovation in research, science and technology with the aim of reducing project delivery costs and increase the performance and reliability of offshore wind energy technology. The workstream is considering a range of actions required to ensure a sustainable pipeline of suitably qualified individuals to progress Ireland’s offshore renewable energy ambitions. This may include active international recruitment of relevant roles including, but not limited to, those in the planning field.

Productivity – Research, Development, and Innovation

Recommendation 6.1: The Council recommends that obstacles impacting SME engagement with the R&D tax credit be reviewed, with amendments made to the design of the measure, as appropriate. This review should address:

- *The benefits of the R&D tax credit by firm size and sector and analysis of the trends that have emerged regarding the profile of claimants and the primary cost drivers;*
- *The capacity to introduce a pre-approval mechanism for potential claimants of the R&D tax credit, the merits of this, and the potential resource implications; and,*
- *The scope for a recalibration of the R&D tax credit to support innovation as defined in line with the Oslo manual.*

Responsibility: Department of Finance; Department of Enterprise, Trade and Employment; Office of the Revenue Commissioners

The R&D tax credit was reviewed in 2022, along with the Knowledge Development Box (KDB). A public consultation was also held as part of that review. Twenty-one responses to the public consultation were received from a range of respondents, including companies, advisory firms, and Government Departments. The scope for econometric analysis was limited due to the nature of the data available and the distortions created by multinational activity. What is clear is that business expenditure in R&D has increased and spill-over effects from industry into higher education are evident. The review was published on Budget Day as part of the Budget 2023 Report on Tax Expenditures.

A review of a R&D tax credit claim involves a review of the science test (to ensure that the activities are qualifying R&D) and a review of the accounting test (to ensure that the amounts claimed are correct). The introduction of a pre-approval system, which by definition would involve detailed engagement with Revenue (albeit in advance of claiming the credit), may not sufficiently reference the reluctance of smaller companies to claim on the basis of the risk of a review afterwards.

Furthermore, even with a pre-approval process, there would still be the need for compliance checks and reviews of a proportion of claimants under normal Revenue risk management or audit procedures, so there would be times when the science test would still be reviewed if a risk were identified.

Irish legislation for qualifying activities is based largely on definitions from the OECD Frascati manual. The Frascati definition is more stringent, requiring the product to be ‘new to the world’. A move to the Oslo Manual definition would be a significant expansion in scope of the relief and would be expected to come at a high cost to the Exchequer. This cost would be difficult to quantify as innovation is much wider in scope and would bring a huge amount of activities within the remit of the regime.

As announced in Budget 2024, the tax credit for all qualifying R&D expenditure will be increased from 25% to 30%. This will maintain the current net benefit of the credit for companies subject to Pillar Two and will deliver a net benefit to companies not subject to the new minimum tax rules. An increase to the first-year payment threshold from €25,000 to €50,000 has also been announced. This threshold is the amount up to which a claim can be paid in full in the first year, rather than paid in instalments over three years.

Recommendation 6.2: The Council recommends that further research be undertaken to provide a more robust view of Ireland’s performance across all dimensions of innovation. This should include:

- (i). An assessment of Ireland’s performance on international indices such as the GII, having accounted for the impact of globalisation on Irish GDP, for example, through the use of alternative metrics where appropriate, such as GNI*¹; and,*
- (ii). Engagement with international data providers, where required, to identify and address data gaps that may be undermining Ireland’s performance in international indices of innovation or the interpretation of this performance. This will provide a more robust evidence base on which to frame and develop innovation policy.*

Responsibility: Department of Enterprise, Trade and Employment; Department of Further and Higher Education, Research, Innovation and Science

The Government welcomes this focus by the NCPC on innovation and recognises that innovation is a major enabler of productivity growth and a driver of international

competitiveness. The latest international assessments of innovation, relying on composite indicators (such as the Global Innovation Index and the European Innovation Scoreboard), would suggest that Ireland remains a strong performer in relative terms, however, there are signs that this relative performance is weakening.

The Government agrees with the NCPC's view that a more robust assessment of Ireland's innovation performance is needed, and recognises the challenges associated with the interpretation of data that is scaled using GDP when attempting to benchmark Ireland's performance internationally.

Department of Enterprise, Trade and Employment officials – through the NCPC Secretariat – will assist planned research that will include a re-assessment of Ireland's performance in the Global Innovation Index using GNI*. This work should provide a clearer view of how Ireland performs in innovation internationally and will provide a valuable evidence base regarding possible areas requiring intervention. It is envisaged that work will result in a follow-up NCPC Bulletin on the topic of innovation and comparative international indicators. This work will be completed by Q1 2024.

The Department will also engage with international data providers to ensure that they have the latest available Irish data, and that any outstanding data gaps are dealt with. This will ensure that estimates of Ireland's relative performance are up to date, and that composite indicators are based on the latest and most reliable information available.

Recommendation 6.3: Recognising the key role that the security of digital systems will play in the adoption of digital technologies and the success of digitalisation more broadly, the Council recommends that:

- (i). The required supports be provided to the National Cyber Security Centre, to empower it to fulfil the expanded mandate set-out in the National Cyber Security Strategy; and,*
- (ii). As a priority, Government should bring forward legislative proposals giving effect to the planned expansion of the NCSC and the establishment of the NCSC Advisory Council.*

Responsibility: Department of Environment, Climate and Communications; National Cyber Security Centre

The Government welcomes this recommendation. Substantive actions are underway which will respond to the proposals made by the NCPC. Successive National Cyber Security Strategies have set out plans to develop national capacity in the National Cyber Security Centre as well as public bodies and operators of critical infrastructure. These Strategies also seek to assist our cyber security industry to ensure availability of relevant products and services, and to focus on the cyber security skills gap by investing in training and education. Significant progress has been made and the Government has substantially increased investment in the National Cyber Security Centre over recent years.

In June 2023 the Government approved the Mid-Term Review of the National Cyber Security Strategy setting out an additional 18 Measures to be implemented across the pillars of the Strategy before the end of 2024. The Mid-Term Review highlighted the need to invest further in national capabilities to ensure Ireland fulfils its obligations under the second EU Network and Information Security Directive. The Mid-Term Review included a revised staffing target of 80 WTE for the NCSC as well as significant enhancements in the NCSC's services to and engagement with stakeholders. These measures are already being implemented and further progress will be achieved with additional funding approved in the 2024 Estimates.

With regard to the Advisory Council, its establishment is a Measure in the Mid-Term Review, and it will be implemented before the end of 2024. Relevant legislative provisions will be included in the draft Heads currently being prepared in by the Department of Environment, Climate and Communications.

Recommendation 6.4: The Council recommends that outstanding actions set-out in the Government's AI strategy, and the AI Skills report, be progressed as a priority, and, in support of this, the Council recommends the publication of targets and timelines for its implementation. In addition, the Council recommends that the required supports should be provided to facilitate rapid implementation of the AI Standards and Assurance Roadmap, with annual reporting on progress made.

Responsibility: Department of Enterprise, Trade and Employment; Department of Further and Higher Education, Research, Innovation and Science; Department of Public Expenditure, NDP Delivery, and Reform; National Standards Authority of Ireland

The Government welcomes the recommendations in relation to the whole-of-government national AI Strategy, *AI - Here for Good*. The Strategy sets out how Ireland can be an international leader in using AI to benefit our economy and society, through a people-centred, ethical approach to its development, adoption and use.

A progress report on the AI Strategy was published in August 2023. Of the 33 items identified, 8 items are marked "Complete," 24 are "In progress" and only one is "Outstanding." The outstanding item listed is "Conduct a mapping of the AI R&I ecosystem" and the Department of Enterprise, Trade and Employment will work with the Department of Further and Higher Education, Research, Innovation and Science to ensure this is progressed as a priority.

The National Standards Authority of Ireland (NSAI) has now moved into the implementation phase and is actively engaged in implementing the AI Standards and Assurance Roadmap actions in collaboration with the AI sector and expert community through its national AI standards committee, the AI research, development, and

innovation community, the Department of Enterprise, Trade and Employment and the European and international standards bodies and organisations with an interest in AI.

NSAI and its experts are actively engaged in EU and international activities to develop standards in AI. A new draft ISO AI management systems standard is expected to commence a public consultation before year end 2023. In addition, working with the Department of Enterprise, Trade and Employment, NSAI is examining mechanisms to assist AI experts in engaging in international standardisation so that Irish industry contributes effectively to the development of international AI standards.

Recommendation 6.5: The Council recommends that the Government publish a comprehensive action plan for supporting the growth of Ireland’s quantum computing ecosystem, to be informed by international best practice, with specific priority actions and key delivery milestones. This action plan should:

- (i). Identify the infrastructural needs of Ireland’s quantum sector, including quantum hubs and open-access research facilities.*
- (ii). Examine the skills needs of Ireland’s quantum sector and consider the training programmes, including postgraduate courses, that will assist in meeting the long-term skills needs of the quantum sector.*
- (iii). Consider policies that seek to attract specialist skillsets from abroad as well as inward investment by firms operating in the quantum sector.*
- (iv). Identify existing funding vehicles and policy tools that could be leveraged in support of the development of Ireland’s quantum sector, for example, the Irish Innovation Seed Fund, the Seed and Venture Capital Scheme, the Disruptive Technologies Innovation Fund, and the R&D tax credit.*

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Enterprise, Trade and Employment; National Standards Authority of Ireland

The Government published *Quantum 2030, A National Quantum Technologies Strategy* on 15th November 2023. This strategy sets the national course with a core vision by 2030 to make Ireland an internationally competitive hub in Quantum Technologies at the forefront of scientific and engineering advances, through research, talent, collaboration and innovation. The National Strategy for Quantum Technologies assists and aligns with relevant national strategies, including, *Impact 2030: Ireland’s Research and Innovation Strategy*, *Harnessing Digital: The Digital Ireland Framework*, *Technology Skills 2022: Ireland’s Third ICT Skills Action Plan* and the *Economic Recovery Plan 2021*.

Quantum 2030 focuses the efforts of Ireland’s quantum technologies community on areas of emerging growth in quantum technologies where Ireland can achieve a competitive advantage.

Ireland already holds an important position in the technology sector as a competitive global hub. Ireland’s research and innovation community has built a solid foundation of fundamental and applied research into quantum technologies. As a result, Ireland is now

strongly positioned to play a pivotal role in the development of quantum technologies and to reap the benefits of increased research, development and innovation in this area in the future.

The opportunities and challenges offered by quantum technologies require a strong national strategy and action plan similar to those that have been developed in other countries and in the European Union. *Quantum 2030* leverages and coordinates the community's existing efforts and resources in order to advance Ireland's strategic interests in the second quantum revolution.

The strategy will be accompanied by the establishment of a new strategy governance structure, chaired by the Department, comprising representatives from Government Departments, industry and academia that will drive and oversee implementation of the new strategy across Government.

Quantum 2030 is structured around five pillars. These are:

Pillar 1: Supporting excellent fundamental and applied quantum research

Internationally excellent research underpins advances in quantum technologies. This pillar focuses on strengthening work in Ireland in fundamental and applied quantum research to enable breakthrough discoveries and feed the pipeline of innovations and technologies.

Pillar 2: Nurturing top science and engineering talent

This pillar focuses on developing a pipeline of agile, innovative and highly skilled individuals across the spectrum of quantum science, engineering and technology.

Pillar 3: Strengthening national and international collaboration

The scale of the challenges and investment required to realise quantum technologies means that some projects are only feasible through large-scale national and international collaborations. Greater national and international collaboration will allow Ireland to contribute to and learn from large-scale projects and best practice in quantum technologies.

Pillar 4: Fostering innovation, entrepreneurship and economic competitiveness

This pillar seeks to stimulate innovation and entrepreneurship in quantum technologies and related areas, including in indigenous small and medium-sized enterprises (SMEs). It also aims to strengthen collaborative work between academia and enterprise.

Pillar 5: Building awareness of quantum technologies and real-world benefits

As quantum technologies are new and evolving at pace, it is important that we build awareness of quantum technologies and their real-world benefits across a broad range of stakeholders. The purpose of this pillar is to have a quantum-literate society that takes full advantage, for everyone, of the benefits quantum technologies can bring.

Recommendation 6.6: The Council recommends the adoption of a sector-specific approach to tackling the barriers to digitalisation faced by Irish enterprises, to be reinforced by the Government's existing Harnessing Digital framework. This approach should address:

- (i) The relatively low incidence of online or e-sales for smaller firms, and the fall in the share of expenditure on digitalisation for medium and large firms over 2019 to 2021;*
- (ii) The low uptake of digital technologies for firms operating in the construction sector; and,*
- (iii) Barriers relating to the broader digital infrastructure, including access to a skilled digital workforce, and barriers arising from the costs of finance, that may be prohibiting firms from investing in digitalisation.*

Responsibility: Department of Enterprise, Trade and Employment

The Government welcomes the Council's recommendation with regard to the adoption of a sector-specific approach to tackling the barriers to digitalisation faced by Irish enterprises. It is a priority for the Government to drive a step change in digital adoption in all enterprises.

The Government is committed to assisting the digitalisation of Irish enterprise as part of the implementation of the National Digital Strategy, *Harnessing Digital – The Digital Ireland Framework*. The first progress report on the implementation of the *Harnessing Digital* framework was published in December 2022. The report highlights that progress has been made across all of the strategy's dimensions. The Government is determined to aid more business owners to enhance their online capabilities and presence to exploit opportunities in existing and new markets, and there are number of aid available to enterprises to assist them in adopting digital technologies.

Under the Enterprise Dimension of *Harnessing Digital*, the Government has committed to driving a step-change in the digitalisation of enterprise across the country. The Strategy sets out specific objectives around the digitalisation of enterprise, including that at least 90% of our SMEs reach at least a basic level of digital intensity by 2030, and that at least 800 businesses receive assistance from the Digital Transition Fund by 2026. Reducing the digital divide between early adopters and firms that have not yet started their digital journey is a priority.

Enterprise Ireland also continues to encourage and assist client companies to engage with the digital transition. They provide a suite of aid ranging from strategy development to innovation project assistance, to training and capability building. The focus is on digital automation in the wider manufacturing sector, including food manufacturing, engineering, and life sciences. Enterprise Ireland also encourage clients to engage with the wider assistance eco-system at 3rd level and the newly launched European Digital Innovation Hubs.

Regarding online sales, Enterprise Ireland’s Digital Marketing Capability grant has provided assistance to over 220 clients in the past 6 years. In addition, the Government continues to consider new ways to make it easier for enterprises of all sizes to digitalise and reap the benefits in productivity from digitalisation, and through the Department of Enterprise, Trade and Employment, monitors the available state aid for enterprises on an ongoing basis. To bridge the gap between the levels of digitalisation in the indigenous, locally traded sector and the larger MNCs, work is underway between Department of Enterprise, Trade and Employment, Enterprise Ireland, and the LEO Centre of Excellence to identify what additional aid can be provided to businesses to assist their digitalisation.

To boost the uptake of digital technologies, the €85 million Digital Transition Fund to assist companies in their digital journey opened for applications in June 2022, with plans for a new Digital Portal. The Digital Portal is currently in the final stages of development and will be open to all enterprises by the end of 2023. The Government is aware that there are barriers to the adoption of digital technologies by enterprises including lack of awareness of digital solutions and their benefits, access to investment finance, and skills. Businesses across all sectors will be able to use the portal to self-assess their digital needs and be directed to appropriate aid and funding options and be provided with recommendations to improve their level of digitalisation.

Recommendation 6.7: The Council recommends:

- (i) The Government should reform the National Training Fund (NTF) to better foster lifelong learning in workplaces in line with the recommendations outlined in the OECD’s review of Ireland’s National Skills Strategy.*
- (ii) The Government should ensure that the NTF surplus is deployed to deliver training programmes that assist in meeting skills needs in the areas of the digital and green transitions, AI, and quantum computing.*

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Enterprise, Trade and Employment

A comprehensive review of the National Training Fund (NTF) was commissioned by the then Department of Education and Skills as part of a package of reforms announced to accompany the decision in Budget 2018 to raise the NTF Levy. The independent review examined the existing operation of the NTF and provided 14 recommendations to inform its future direction. The recommendations focused on the future direction of the NTF have been, and continue to be, focused on through the annual estimates and the allocation of expenditure from the Fund. The NTF has been able to react to, and continues to react to, changes in the economy and the shift in the labour market in order to assistance the larger working population, to deliver on the higher demand for lifelong learning as the influence of technology increases and to focus on emerging areas of skills and labour shortage.

Educational institutions and enterprise-led workforce development providers assist training in digital skills, green skills, transversal skills to individuals for the labour market participation and life-long talents. Skillnet Ireland's Future Dynamics Programme is aimed at stimulating innovative programmatic responses to meeting skills needs in the areas of the digital and green transitions and future industry challenges, with special emphasis on cutting-edge collaborations between business, industry bodies and tertiary education sector. Programmes developed through this model include Ireland's first Masters in AI, Ireland's first MSc in Blockchain and a range of post-graduate and lifelong learning provision in areas such as Robotics, Green Skills Micro Credentials, Sustainable Finance, FinTech and Data Science. The NTF continues to be dynamic and flexible in its funding provision particularly for initiatives identified in recent years as being extremely important for Ireland's success nationally and internationally.

As announced in Budget 2024 the Government is committed to the continued effective and sustainable use of the NTF, given its vital role in future proofing the skill needs of the labour market and ensuring workers can access lifelong learning opportunities. Options for the NTF will be considered, including the potential for legislative changes, focused on the future operation of the Fund, reflecting upon the current surplus in the Fund and the funding needs of further and higher education.

END

