

Comprehensive Review of Expenditure  
Thematic Evaluation Series

## Labour Market Activation and Training



CENTRAL EXPENDITURE EVALUATION UNIT  
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## Labour Market Activation and Training – Summary Overview

- International evidence on active labour market policies (ALMPs) shows that job search assistance has positive effects in the short-run, classroom and on the job training yield favourable benefits in the medium to long-run, public sector job programmes are not effective activation strategies and there can be high deadweight and displacement associated with private sector job subsidies.
- For effective activation systems, a number of organisational arrangements should be in place:
  - The public employment service and benefits functions should be integrated
  - Job search assistance should be accompanied by monitoring and sanctions
- Specific research in the case of Ireland has shown that:
  - Existing interview and referral processes in FÁS have not proved effective, potentially on account of the absence of monitoring and sanctions although training programmes have been more effective
  - Training programmes which target higher skill areas are most effective
  - The community employment scheme is not well aligned to the labour market
- Progress has been made in re-orienting the activation system including the establishment of the National Employment and Entitlements Service and the introduction of strategies for enhanced engagement with the unemployed.
- This paper maps the provision of ALMPs in the Irish context using a typology of provision based on supply/demand and market alignment axes
  - This analysis shows that a high proportion of our supports have weak market linkages, that spending on programmes with a higher risk of deadweight and displacement is comparatively low and spending on ineffective employment supports makes up close to 40 percent of total spending.
- Analysis by Forfás has split the cohort of unemployed workers into 4 target groups which have different activation and training needs
  - Using this framework this paper posits that the existing offering adequately caters for the needs of three of these groups while the activation reforms being progressed should assist in maximising the return from existing supports to the remaining group.
- The Key recommendations are as follows:
  - Community Employment is not an ALMP and accounts for too high a proportion of the relevant spend
  - The pace of implementation of activation reforms should be accelerated (notwithstanding resource constraints) and there should be a greater move towards conditionality of payment.
  - Generic and foundation skills are important but there should be a greater focus on specific skills and more incorporation of work placement in the training offering
  - The national training fund should be dismantled and training should be funded in the same way as general voted expenditure
  - It must be ensured that the referrals process works optimally in order to iron out kinks in the system and maximise the return on the €1.2 billion currently being spent in this area.

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## 1. Introduction and Context

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The deterioration in the Irish economy experienced since early 2008 has had severe implications for the labour market. From about 4½ per cent at end 2007, unemployment now stands at 14 per cent. Jobs growth and labour market policies are accordingly afforded high priority in the Programme for Government and recognised as key challenges for economic policy. This paper, which is an input to the Comprehensive Review of Expenditure, considers policy and expenditure in relation to labour market activation and training. This issue is of a thematic nature, principally relevant to the remit of the Departments of Social Protection and Education and Skills.

Employment has fallen by 325,000 since peaking in Q4 2007: one out of every seven jobs that existed at the peak has been lost and almost half of these job losses have come in the construction sector. While the youth unemployment rate is very high, the largest group out of work are 25 to 44 year olds, and males in this age group in particular reflecting the impact of the collapse in the construction sector on unemployment.

While there has been net outward migration in 2009 and 2010 - with around 35,000 people leaving in net terms last year - Ireland continues to attract inward migration in gross terms, in spite of the adverse economic conditions. Finally, non-Irish nationals are far more likely to leave the country once they lose their job than stay and receive benefits.

It is against the backdrop of these labour market trends that activation and training policy in Ireland operates. This paper is a high-level evaluation of expenditure and policy in this area. The structure is as follows: Section 2 outlines international and Irish evidence on the most effective types of policy intervention; Section 3 describes progress to date in implementing important reforms in these areas; Section 4 presents a decomposition of relevant characteristics among the cohort of unemployed workers and how this dictates the appropriate policy response; Section 5 maps the current provision of training against two analytical frameworks; Section 6 outlines a potential issue with the National Training Fund and finally Section 7 draws some conclusions and recommendations on fine-tuning policy in light of these.

This paper does not consider the interaction between taxation, the social protection system and potential structural disincentives to labour force participation. D/PER has carried out research on

this topic in the past<sup>1</sup>. The Programme for Government makes provision for the establishment of an Advisory Group on Tax and Social Welfare which will be charged with considering these issues. The Group's schedule of work is expected to run over the next 2-3 years and will also be relevant to this field.

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## 2. Activation and Training - What Works?

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### 2.1 International evidence

Active Labour Market Policies (ALMPs) can be broadly classified as supply-side measures (such as job search assistance and training programmes) and demand-side measures (such as private and public sector employment support schemes). Research has also shown that the closer activation measures are to the labour market, the more likely they are to be effective. A typology of ALMPs has been developed as shown in Figure 1 below.

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**Figure 1 Typology of Active Labour Market Programmes**

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<b>Labour Market Leverage</b>	<b>Market Orientation</b>	
	<i>Weak</i>	<i>Strong</i>
<i>Supply – Training</i>	General Training	Specific skills training
<i>Demand – Employment</i>	Direct Employment Schemes (e.g. Community Employment)	Employment Subsidies

Source: ESRI<sup>2</sup>

Section 5 considers the existing training and activation offering in Ireland through this framework.

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<sup>1</sup> The general finding of this work was that replacement rates are generally moderate for most cohorts but tend to rise when secondary benefits are included. In addition there is international evidence which suggests that high replacement rates are not necessarily a problem once accompanied by strong activation systems.

<sup>2</sup> O' Connell, P, S McGuinness and E Kelly (2011) *The Impact of Training for the Unemployed*. Presentation to Policy Institute Research Symposium, "Employment and the Crises, Work Migration, Unemployment, 11 March, 2011

A recent meta-analysis of labour market interventions reviewed almost 100 studies conducted internationally between 1995 and 2007 and found a range of common findings<sup>3</sup>. The review considered four types of ALMP:

- Classroom or on-the-job training
- Job search assistance or sanctions for failing to search
- Subsidised private sector employment
- Subsidised public sector employment

The authors point to a number of conclusions from across the studies:

- Job search assistance can have favourable impacts, particularly in the short-run
- Classroom and on-the-job training are not particularly effective in the short-run but can yield favourable medium- and longer-term impacts
- Public sector jobs programmes (i.e. the bottom left quadrant in Figure 1) are less successful than other types of ALMP

In particular, the findings on public sector jobs programmes accord with earlier research (and evidence in relation to Ireland as discussed below). Other international evidence has shown a high level of deadweight and displacement associated with private sector subsidies (i.e. the bottom right quadrant in Figure 1).

## 2.2 Optimum activation strategies

Activation mechanisms seek to encourage job seekers to be more active in their efforts to find work and/or increase their employability. OECD research has outlined a number of key components of optimum activation strategy<sup>4</sup>:

- a) Registration for placement and assessment of work availability as preconditions for benefit payment
- b) Regular and intense interventions during the unemployment spell by the Public Employment Service
- c) Explicit Regulations regarding job search requirements
- d) Direct referrals to vacant jobs
- e) Referrals to ALMPs with compulsory participation for some jobseekers

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<sup>3</sup> Card, D, J Kluve and A Weber (2010) "Active Labour Market Policy Interventions: A Meta-Analysis". *The Economic Journal* 120 F452-F477

<sup>4</sup> OECD (2007) *Employment Outlook*

## 2.3 Research in Ireland

A number of recent studies specific to Ireland have looked at activation and training issues. Again, a level of consensus has emerged across this research. A number of the issues uncovered in this research are already being addressed (as discussed in Section 3).

The OECD's 2009 review of activation policies in Ireland drew a number of important conclusions<sup>5</sup>:

- Activation measures should be greatly intensified, including a marked increase in the frequency of face-to-face contacts with the unemployed
- Experience from elsewhere shows that this can be achieved by refocusing existing resources
- The placement and benefits function should be integrated (this is being progressed at present)
- The Community Employment Scheme should not be expanded, even if unemployment increases

A Forfás review of labour market programmes reported similar findings<sup>6</sup>:

- Efficiencies can be realised by integrating the public employment services
- Activation specifically geared towards young people will be critical
- Community training and local training need to be brought closer to the labour market
- The Community Employment Scheme is not well aligned to the labour market
- Training which is closest to the labour market and which has employer involvement is most effective

Most recently, the ESRI has evaluated the National Employment Action Plan (NEAP)<sup>7</sup>. The study analysed the effects of (i) referral by the Department of Social Protection for an activation interview with FÁS and (ii) participation in training programmes provided by FÁS following an activation interview. The key findings were as follows:

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<sup>5</sup> Grubb D, S Singh and P Tergeist (2009) *Activation Policies in Ireland*. OECD Social Employment and Migration Working Papers No 75.

<sup>6</sup> Forfás (2010) *Review of Labour Market Programmes*

<sup>7</sup> McGuinness S, P O'Connell, E Kelly and J Walsh (2011) *Activation in Ireland: An Evaluation of the National Employment Action Plan*. ESRI Research Series Number 20.

- Up to 25 percent of those eligible for assistance were not identified and referred. The report contends that this would not have happened with better system integration between FÁS and D/SP (and so should not arise in the future)
- Under the NEAP, those who had a previous unemployment spell and received an intervention were not eligible for an intervention during the present spell. The authors note that this feature runs counter to activation objectives
- The analysis found that those who participated in the NEAP referral process were *less likely* to become employed. On this point however the report notes that this may be related to participants being aware that they were unlikely to face monitoring or sanctions as a result of failure to search actively, or obtain employment.
- On the positive side, FÁS training programmes were found to increase participants' employment prospects. A greater focus on short-term training programmes in areas where jobs are likely to emerge in the future is therefore recommended.

Earlier ESRI research considered the Community Employment Scheme (CE)<sup>8</sup>. The analysis found that:

- CE participants re-entering the workforce are highly likely to fall back into long-term unemployment
- This accords with international evidence on the very limited effectiveness of public sector job creation programmes

CE should therefore not be considered an active labour market policy intervention although it – and supports with similar characteristics - accounts for roughly 40 percent of the relevant spend (or some €470 million) in 2011.

Finally, a recent ESRI report evaluated the impact of various training programmes for the unemployed<sup>9</sup>. The research finds that those who participated in training were less likely to be unemployed at the end of the two-year period under consideration. The effects of training vary however with the level and type of training: there are strong positive effects in job-search skills and medium-high level specific skills (i.e. the top right quadrant in Figure 1 above), more modest

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<sup>8</sup> O'Connell P, S McGuinness and J Walsh (2009) ESRI Research Series No 10

<sup>9</sup> McGuinness S, P O'Connell and Elish Kelly (2011) *“One Dummy Won't Get it: The Impact of Training Programme Type and Duration on the Employment Chances of the Unemployed in Ireland”* ESRI Working Paper No 410.

positive effects of training in general vocational skills and no significant effect from low-level skills<sup>10</sup>.

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### 3. Re-orienting the Activation System and Training Offering - Progress to Date

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The key element of the policy response to ongoing labour market challenges is the re-orientation of the system of activation. Progress has been made to date in this regard. The National Employment and Entitlements Service is being established with the objective of integrating the employment support services currently provided directly by the Department of Social Protection with those currently provided by FÁS into a single service.

The integration of employment services and related benefit payment services within D/SP will provide a 'one stop shop' for people wishing to establish their benefit entitlements, seek employment and / or seek advice about their training options.

D/SP and ESRI have developed a new client profile tool to capture relevant personal information of claimants. This will inform the approach to engagement taken with each individual. We understand that the details of the type and frequency of engagement are currently being finalized. A potential approach, preferred by D/PER, is set out in the box below.

#### Potential Pathways to Employment under NESS

As part of the NEES the further development of *Pathways to Employment* will provide enhanced interaction under with each unemployed individual at clear milestones as follows:

- A 3 month engagement, comprising a group interview and an identification of needs, followed by where necessary;
- A 6 Month engagement, comprising a Job assist interview, with the potential for a mandatory short term job seeker course, followed by where necessary;
- A 12 month engagement, comprising mandatory referral to training course/work placement; followed by where necessary:

An 18 month engagement, comprising further intervention such as referral onto the Community Work Placement Schemes as a last resort.

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<sup>10</sup> As noted later in this paper however, there is still an important need for more generic and bridging type training so as to address critical skill deficits among certain cohorts.

As noted in Section 2, job search and other activation supports are more effective when accompanied by monitoring and sanctions. In addition, Irish research found that the absence of sanctions is a potential factor limiting the effectiveness of referral processes under the NEAP. Consistent with this evidence, it will be important to bring greater conditionality to social welfare payment in the future. The Social Welfare Act 2010 makes provision for sanctions in certain situations.

The critical challenge now is that implementation of these important reforms is accelerated in order to prevent further growth of long-term unemployment.

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#### 4. Demand for Training and Skills - Analysis of Profile of Unemployment

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Analysis by Forfás in early 2010 provided a detailed picture of employment and unemployment within the labour market and sought to propose possible ways of targeting cohorts within unemployment for specific activation measures<sup>11</sup>.

By cross-tabulating unemployment by age and educational attainment, the research pointed to potential target cohorts which have above average levels of unemployment and particular educational characteristics. The target groups were identified as:

- Group A: 20–54 year olds with no formal/primary level education. The types of intervention recommended for this cohort are numeracy/literacy support, bridging, job search and community employment with educational content.
- Group B: 15-19 year-olds with lower secondary/upper secondary/PLC level education. The most important intervention here in future is the prevention of early school leaving.
- Group C: 20–54 year-olds with secondary level education. This is the largest cohort and deciding the appropriate form of intervention is all the more challenging given that this group has generally been out of the education system for so long. It is likely that this group has been heavily affected by the collapse in construction activity and so interventions should focus on retraining and preparing individuals to return to work in other sectors.

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<sup>11</sup> Forfás (2010) *Profile of Employment and Unemployment*

- Group D: 20-24 year-olds with PLC and third-level education. This cohort already has specific qualifications. Gaining workplace experience is the imperative here through traineeships, job search, internships etc.

In terms of the numbers in each cohort, the original Forfás research has been updated using the most recent data (that for Q4 2010) as illustrated in Table 1.

<b>Table 1 Numbers in Most Concentrated Unemployment Cohorts</b>	
<i>Group / characteristics</i>	<i>Number</i>
Group A: 20–54 year olds with no formal/primary level education	26,200
Group B: 15-19 year-olds with lower secondary/upper secondary/PLC level education	15,700
Group C: 20–54 year-olds with secondary level education	139,900
Group D: 20-24 year-olds with PLC and third-level education	9,200
<b>Total</b>	<b>191,000</b>

*Source:* Compiled by EGFSN from QNHS data

This analysis provides a useful framework for understanding the required policy response: it is essentially a profile of the ‘demand’ for training and activation. The next step in the assessment of policy is to consider the appropriateness of the ‘supply’ of interventions, i.e. the actual provision of training and activation as discussed in the next section.

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## **5. Supply of training and skills: optimising the offering**

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### **5.1 Framework**

This section provides an analysis of existing activation and training measures from two perspectives. First, Section 5.2 considers relevant exchequer spending through the typology of labour market policies shown in Figure 1. Financial allocations are presented in terms of supply- and demand-side measures and in terms of closeness to the labour market.

Second, Section 5.3 attempts to map provision of activation and training measures in terms of the compatibility of existing provision with labour market demands. This element uses the target cohorts A,B,C & D outlined in Section 4 above to classify training and activation measures.

From these two perspectives it will be possible to assess the appropriateness of existing labour market provision.

## 5.2 Typology of Programmes and Labour Market Alignment

### Scope

An important aspect of this type of exercise is to establish the scope of policy measures under consideration. The general approach is to include programmes which have the stated aim of reducing unemployment or preparing individuals for unemployment. Certain schemes with parallel objectives such as supporting employment of people with disabilities or supporting the reintegration of people recovering from substance abuse were excluded from the analysis. The programmes included are:

- The Community Employment and Jobs Initiative Schemes run by the Department of Social Protection and internship programmes.
- Full-time further education programmes under the remit of the Department of Education and Skills such as post Leaving Certificate (PLC) and vocational training.
- Training programmes under the remit of the Department of Education and Skills such FÁS programmes and the labour market activation fund.

More general enterprise and science, technology and innovation supports such as those administered by IDA, EI and SFI were considered beyond the scope of the present paper.

### Expenditure by Quadrant

Expanding Figure 1 to take account of expenditure in each quadrant, it is possible to assess the alignment of existing measures with best practice as per international and domestic literature. Figure 2 illustrates.

Figure 2 Typology of Active Labour Market Programmes - Spending by Quadrant<sup>12</sup>

Labour Market Leverage	Market Orientation		Total	
	Weak	€ mil		Strong
<i>Supply – Training</i>	Youthreach	67	PLC	186
	VTOS	80	FÁS specific skills	106
	Literacy / numeracy etc	35	FÁS apprenticeships	68
	FÁS community training	44	FÁS traineeships	33
	Back to Education	17	LM Activation Fund	15
	FÁS Bridging	14	Skillnets	1
	Community Education	10		
	Guidance	6		
	Jobs clubs	6		
	<i>Sub total</i>	<i>249</i>		<i>409</i>
<i>Demand – Employment</i>	Community Employment	362	JobBridge	13
	Rural Social Scheme	46	Back to Work Enterprise Allowance	91
	TÚS	30		
	D/SP JI programme	29		
	<i>Subtotal</i>	<i>467</i>	<i>Subtotal</i>	<i>104</i>
<b>Total</b>	<b>716</b>		<b>513</b>	<b>1,229</b>

Source: D/PER analysis using D/SP and D/ES data.

To recap, research has shown that the closer activation and training measures are to the labour market, the more likely they are to be effective. In terms of whether supply or demand side initiatives are preferable, both are shown to be effective, although in the case of employment subsidies, studies show a high risk of deadweight and displacement.

<sup>12</sup> This analysis excludes the Back to Education Allowance which costs almost €200 million. This spending is difficult to apportion using this framework as it is essentially a horizontal measure supporting education across the range of skill levels and market alignment. It is however a considerable additional support.

In terms of the findings of the above analysis we can draw out the following conclusions:

- €716 million, or 58 percent of relevant expenditure is spent on programmes with 'weak' linkages to the labour market.
- €467 million is spent on public sector employment programmes. This represents 38 percent of the total labour force training and activation budget. This is in spite of the volume of international and domestic evidence illustrating the limited effectiveness of such programmes<sup>13</sup>.
- Spending on private sector employment subsidies does not represent a significant proportion of expenditure (although this data excludes wage subsidies to support the employment of people with disabilities and those recovering from substance abuse). An employment subsidy scheme had been a feature of the policy-response to unemployment in 2009 and 2010 but has since been discontinued.

In considering this typology, there is an obvious temptation to view all those programmes on the left hand side of the 'Market Orientation' axis as less preferable than those on the right. This is to oversimplify however: given the characteristics of the labour market and low basic skill levels among certain cohorts of unemployed it is necessary to maintain a level of general skills and education programmes in order to equip individuals with the necessary foundations to pursue more specific programmes and in order to meet important educational and social objectives. At the same time it is likely that places on more generic and basic skill courses can be delivered with fewer resources than more specialised courses.

What is critical is that the enhanced system of engagement with the unemployed will involve clear progression from general training to more specific skills as individuals bridge basic skills gaps. The referral and activation systems must ensure this happens.

Ensuring enterprise involvement in design of courses is also important so as to ensure that skills are aligned to labour demand. It is understood that this element has been strengthened in the current Springboard call.

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<sup>13</sup> Although it should be noted that more recent programmes in this quadrant – such as TÚS – do involve more limiting and conditional elements such as specific time periods. Such features are more likely to bring a degree of effectiveness to employment supports.

### 5.3 Alignment of Programmes with Labour Market Demands

The second approach is to look at the apportionment of existing provision in light of the decomposition of unemployment set out in Section 4. This analysis uses the available data to generate an approximate picture of suitability of provision. There are some gaps in data and the analysis is also curtailed by the fact that certain courses span across skill levels or are broadly appropriate for more than one cohort. What follows therefore is essentially a further aid to understanding training provision, but not in itself a complete analysis.

#### Group A: 20-54 year olds with no formal/primary level education

This cohort accounts for 26,200 unemployed persons. Table 2 shows an estimate of the number of places on FÁS courses broadly aimed at those comprising Cohort A

<i>Programme</i>	<i>Number Places</i>
Bridging Foundation Training	4,960
Return to Work Programme	400
Community Training Centres	4,829
Local Training Initiatives	7,048
<b>Total</b>	<b>17,237</b>

*Source:* Compiled from FAS data

In addition to these measures there is substantial provision of training and education by the VECs relevant to this cohort. This includes basic education such as literacy and numeracy training.

Also of relevance here is the CE scheme. As per the Forfás Review of Labour Market Policies, educational components should be incorporated to a greater extent.

Combining both FÁS and VEC offerings, it can probably be concluded that there is adequate provision of supports to this cohort. The challenge now should be to ensure the appropriate referral of unemployed people to these measures.

#### Group B - 15-19 year-olds with lower secondary/upper secondary/PLC level education

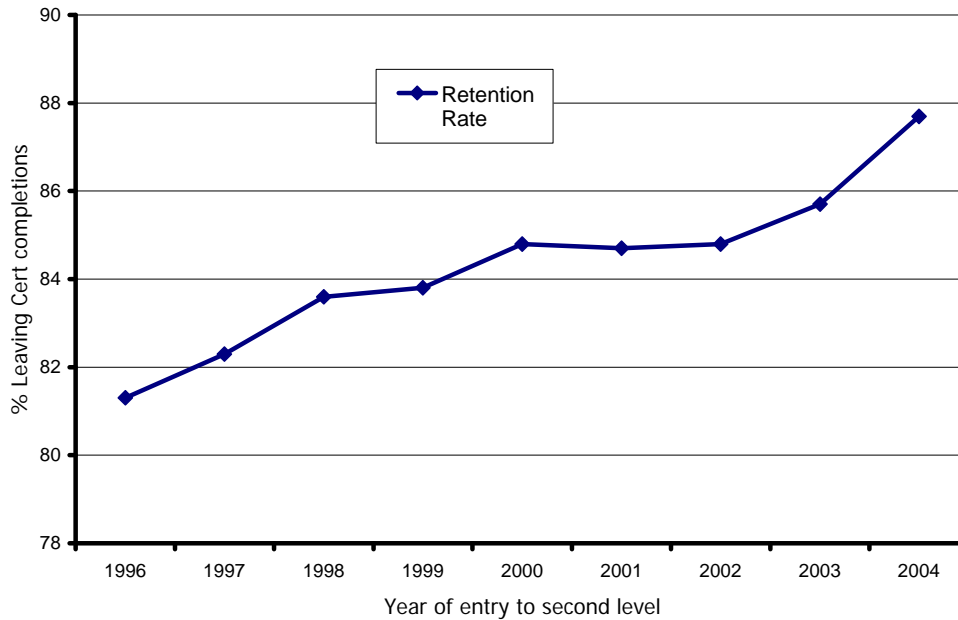
The key intervention regarding this cohort and in terms of reducing future entry to this cohort is to prevent early school leaving. Most recent data show positive progress in this regard: the

number of students staying in school to complete second-level education is at its highest rate ever<sup>14</sup>. Figure 3 shows the trend in Leaving Certificate Completions for each entry cohort since 1996.

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**Figure 3 Leaving Certificate Retention Rate**

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Source: Department of Education and Skills

This trend may be attributable to a degree to interventions such as the School Completion Programme. The primary drivers however are more likely to be simple market forces: the absence of employment opportunities removes the main disincentive to school completion. It should nonetheless be ensured that appropriate policies to promote school completion are in place when employment growth does take hold.

### Group C: 20-54 year-olds with secondary level education

This cohort is by far the largest and the most problematic in terms of devising a coherent policy response. In some ways this group is too large and diverse to be a useful unit of analysis and further work is required to identify sub-groups and how this might influence the appropriate policy response. By and large, this group is dominated by displaced construction workers and is predominantly male.

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<sup>14</sup> Department of Education and Skills (2011) *Report on Retention Rates of Pupils in Second-Level Schools*.

This cohort accounts for approximately 140,000 unemployed persons. Table 3 shows an estimate of the number of places on FÁS courses broadly aimed at those comprising Cohort C

**Table 3 Estimate of FÁS Courses Targeting Cohort C, 2010**

<i>Programme</i>	<i>Number Places</i>
Specific Skills Training	27,285
Traineeships	6,693
Evening and online courses	58,933
Technical Employment Support Grant	13,700
<b>Total</b>	<b>106,611</b>

*Source:* Compiled from FÁS data

So while the detail of both the supply side and demand side data is patchy at present, there is – at an aggregate level at least – a high level of provision of supports broadly aimed at this cohort. Again these supports are augmented by VEC offerings which can be important at this level in addressing basic or general skill deficits for individuals who may have acquired more specific skills in certain areas.

At this point it is worth revisiting the recent ESRI research noted above that reviewed the effectiveness of the types of measures relevant to this cohort. The research constructed a dataset from a number of administrative sources and from this matched treatment and control groups to assess effectiveness of training programmes.

Of use here is the data on the type of training in terms of duration and level of specificity. Table 4 below shows the distribution of the courses entered into by the treatment group.

**Table 4 Distribution of Sample FÁS Training Programmes by Training Type and Level**

<i>Training type</i>	<i>Average duration (weeks)</i>	<i>Percent</i>
Job Search Training	8	8
General Training	17	41
Specific Skills – Low	18	29
Specific Skills – Medium	19	16
Specific Skills - High	40	4

*Source:* ESRI

This suggests that almost 80 percent of those receiving training attended either general or low-skill level courses. When considered alongside the finding that highest skill level courses have the greatest impact on employment prospects, this raises an issue in relation to the suitability of the current offering. As noted in Section 5.2, it is imperative to address the basic skill deficits. Notwithstanding this point however, these findings suggest a move in the direction of more specific training at higher skills levels is appropriate at present. This should be coupled with a more proactive approach to mapping training paths for individuals as part of the pathways to employment engagements. Such a strategy can help ensure the adequate progression of those who have bridged basic skill gaps.

Finally there should be a greater focus on work placement as part of any training offerings for this cohort.

#### Group D: 20-24 year-olds with PLC and third-level education

There are around 9,000 individuals in this category, for whom the key challenge is to acquire workplace experience. The offering of supports in this area has been expanded recently, in particular as part of the jobs budget.

The workplace internship programme – JobBridge – is the main intervention of relevance here. Launched in May 2011 the programme provides for 6,000 places. As a demand-side employment support, there is a risk of displacement however expenditure levels are comparatively low at €13 million for 2011.

#### 5.4 Smoothing Kinks in the System

Further education and training have played a limited role in activating the unemployed. At present the State spends well in excess of €1 billion on relevant supports in this area. There is anecdotal evidence that there has not been close enough integration of the various training and education offerings and insufficient familiarity with what's on offer by those referring the unemployed to training places. Such system bottlenecks curtail the effectiveness of the State's existing spend in this area. Eliminating these can maximise the return on the very significant expenditure levels detailed above.

The Government is currently considering a proposal to overhaul administrative arrangements in this area and these reforms offer an opportunity to iron out any remaining kinks and realise enhanced effectiveness. The box details the potential approach and related points

## **SOLAS: The Proposed Further Education and Training Authority**

The Government is considering the establishment of a new further education and training authority, SOLAS. The new body will have responsibility for coordinating and funding the provision of integrated further education and training services and programmes. If progressed, FÁS will be disbanded and SOLAS will act as the new management structure to coordinate the further education sector.

It is intended that the proposed arrangements can lead to the further education system playing a more involved role in activation of the unemployed. Over time the FÁS training centres and VECs will be integrated, thereby leading to a 'one-stop-shop' for further education and training services.

These reforms can assist in maximising the efficiency of the referral process. The proposed new body provides an opportunity to ensure full integration of training offerings. It should therefore be ensured that:

- The training and further education offering is appropriate to the needs of the unemployed
- Provision caters for enterprise-driven labour demands
- Full inventories of training and education offerings are available at a local level and integral to the D/SP referral processes
- Further education and training generally play a greater role in the activation process and there are strong and close working relationships between D/SP and the proposed new body.

Review of cost effectiveness of various interventions was largely outside the scope of this paper. Efficient delivery should be a focus in the future however. While the proposed reforms under SOLAS can assist this process, other measures such as increased contestability of training provision should be looked at.

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## **6. The National Training Fund**

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### **6.1 Background**

In addition to voted expenditure under the relevant subheads, spending in this area is supplemented by the National Training Fund (NTF). The NTF was established under the National Training Fund Act 2000. The fund is resourced by a levy collected from employers as part of

social insurance contributions. It was set at 0.7 percent of the reckonable earnings of employees in 2009. The Fund can be used to support programmes which aim to:

- raise the skills of those in employment
- provide training to those who wish to acquire skills for the purposes of taking up employment
- provide information in relation to existing, or likely future, skills requirements in the economy

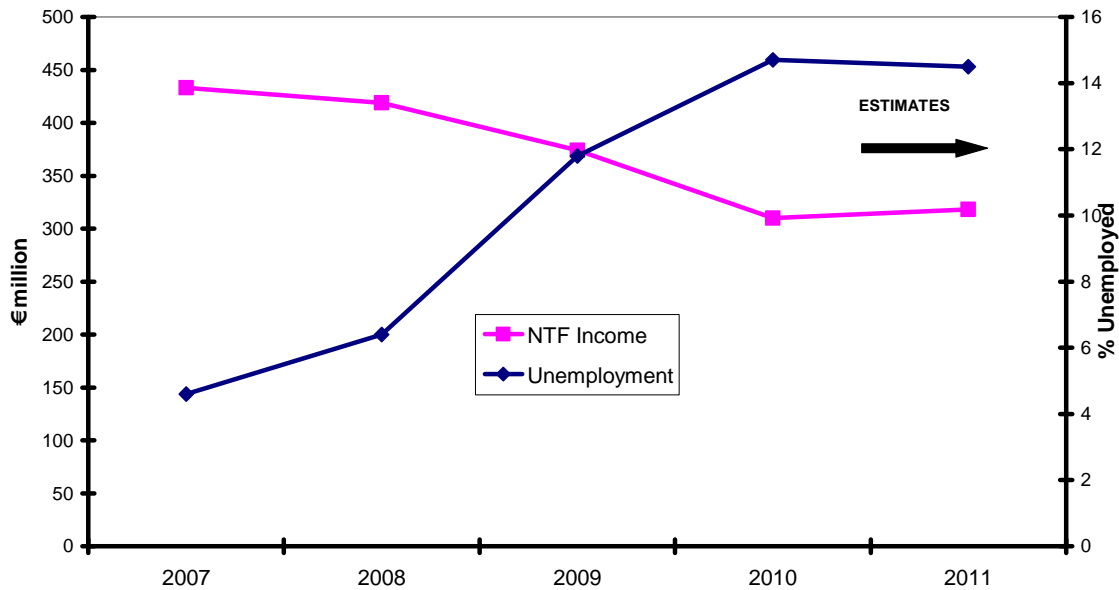
## 6.2 Disadvantages of funding Arrangements

The key disadvantage of funding training through what is essentially a hypothecated tax is that revenue available is pro-cyclical: the higher the level of employment and lower the level of unemployment, the higher the revenue available. While the training needs of those in employment are obviously important, the imperative of training those in unemployment is more acute at present. This is driven by the major structural changes going on in the labour force, in particular the collapse of employment in the construction industry.

Expenditure exceeds income in the Fund at present and so a large surplus – which peaked at €189 million – is currently being run down to meet the shortfall. The surplus is forecast to have fallen to €68 million by end 2011.

Figure 3 below illustrates the pro-cyclical nature of income to the Fund as it is currently organised.

**Figure 3 National Training Fund Income and Unemployment, 2007 - 11**



Sources: CSO unemployment data, Department of Finance forecasts, Revised Estimates for Public Services 2007–11

Aside from any labour market issues, the hypothecation of revenues reduces flexibility and the Government’s ability to react optimally to various developments.

## 7. Recap of Findings and Recommendations Arising

Arising from the foregoing analysis, the following findings are drawn and associated recommendations are made:

- The pace of roll-out of reforms to the activation systems should be accelerated and a greater focus on monitoring, sanctions and conditionality of payment introduced.
- The Community Employment Scheme is not an active labour market policy and any decisions over its future funding levels should not be considered in the context of strategies to address unemployment.

For a given level of expenditure a far greater return can be expected from training and skills provision than from community employment and this is supported by a range of domestic and international evidence. Where public sector job creation programmes are pursued, time limiting and job search conditionality should be involved.

- Full integration and coordination between providers of state funded training should be achieved and this should be a core objective of the proposed new agency, SOLAS.
  
- It is critical that the referral processes under the proposed pathways to employment approach is best place to maximise the return on the State's very significant investment in this area. D/SP case officers must be sufficiently aware of the education and training options available at both national level (e.g. Springboard, JobBridge, etc) and local level (e.g. VECs, FÁS, Skillnets) and there must be very strong working relationships between D/SP and the proposed new agency, SOLAS.
  
- While foundation skills and bridging are important, the evidence suggests that there should be a slight shift in the direction of the provision of higher-skilled training and a greater focus on work placement as part of training offerings.
  
- The training and activation offering must remain responsive in terms of the needs of the unemployed and attuned to the needs of enterprise.
  
- The National Training Fund as constituted should be dismantled. The proceeds of the levy should be treated in the same way as other tax receipts and training initiatives funded in the normal way through appropriate programme subheads.