



Irish Government Economic and Evaluation Service

# Labour Market Synopsis

Issue 4

Active Labour Market Programmes

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The analysis contained within this paper was carried out by members of the Irish Government Economic and Evaluation Service (IGEES). Those views contained within do not necessarily represent those of the Department, the Minister for Public Expenditure and Reform or the Government.

## **Executive Summary**

Active Labour Market Policies (ALMPs) are the principal means by which the employability of the unemployed, through the provision of training and reskilling opportunities, is increased and their detachment from the labour market prevented. This paper seeks to assess the performance of Ireland's full-time ALMPs with a view to determining which perform best in terms of employment outcomes.

## **Introduction**

Ireland's unemployment rate continues to recede from a peak of 15%. The past 12 months in particular has seen the labour market stabilise with a 6% decline in the number of people in unemployment recorded. At 12.5%, however, the unemployment rate remains a cause for concern and efforts are required to ensure that recovery in the labour market is maintained and strengthened further.

Of particular importance is the prevalence of long-term unemployment which remains at almost two-thirds of the total. A key policy objective in this area must be to ensure that the gains from economic recovery and the resulting employment opportunities extend to this group.

Active Labour Market Policies (ALMPs) are the principal means by which the employability of the unemployed, through the provision of training and reskilling opportunities, is increased and their detachment from the labour market prevented. This paper seeks to assess the performance of Ireland's ALMPs with a view to determining which perform best in terms of employment outcomes. Exits from the Live Register will be used as a proxy for measuring their effectiveness.

While ALMPs are only one tool for reducing unemployment, the sizable Exchequer resources (€1.5bn in 2013) directed towards this area requires that conclusions regarding their effectiveness must be drawn. This point is particularly important given the resource constraints currently faced by the Exchequer.

## **Labour Market Activation in Ireland**

The labour market's exceptional performance in the years preceding the financial crisis had somewhat diminished the importance of ALMPs with policies in this area directed mostly towards reskilling those already in employment and those cohorts of the labour market who were especially hard to reach. The scale and structural nature of the current long-term unemployment challenge, however, has prompted a shift in public policy towards increased engagement with those on the Live Register (LR) with DSP now administering schemes with expenditure of over €1bn in 2013.

**Table 1: Working-Age Income Supports Relative to ALMP Expenditure**

	2007	2008	2009	2010	2011	2012	2013
Department of Social Protection	€2.223bn	€2.640bn	€3.576bn	€4.336bn	€4.523bn	€4.532bn	€4.409bn
SIF <sup>1</sup>	€1.186bn	€1.629bn	€2.610bn	€2.250bn	€1.676bn	€1.462bn	€1.084bn
ALMPs	€808m	€868m	€878m	€914m	€1.053bn	€1.191bn	€1.136bn
NTF <sup>2</sup>	€396m	€399m	€366m	€395m	€326m	€341m	€362m
Ratio	35.3%	29.7%	20.1%	19.9%	22.2%	25.6%	27.2%

(Source: Department of Social Protection; Revised Estimates Volume 2007 – 2013)

The composition of DSP expenditure on the labour market, both on passive (income supports) and active measures, has changed considerably since 2007. Due to the large increases in unemployment during the initial stages of the economic downturn, the proportion of expenditure allocated to providing working-age income supports to the unemployed increased considerably. Since then, however, and in line with the increased provisions aimed at activating the long-term unemployed, ALMPs share of total expenditure on the labour market has started to increase.

The figures outlined in Table 1 relate to DSP's entire working-age income and employment supports and also take into account those programmes provided by Fás. For the purposes of this paper, the analysis will be inclusive only of full-time programmes on offer from Fás and DSP given their central role in the development of labour market policy and reskilling the unemployed.

## **Long-term Unemployment and the need for ALMPs**

Long-term unemployment is the defining characteristic of Ireland's labour market at present. It is within this context that policies must increasingly turn their attention towards further engagement with the long-term unemployed in order to assist in returning these members of the workforce to employment.

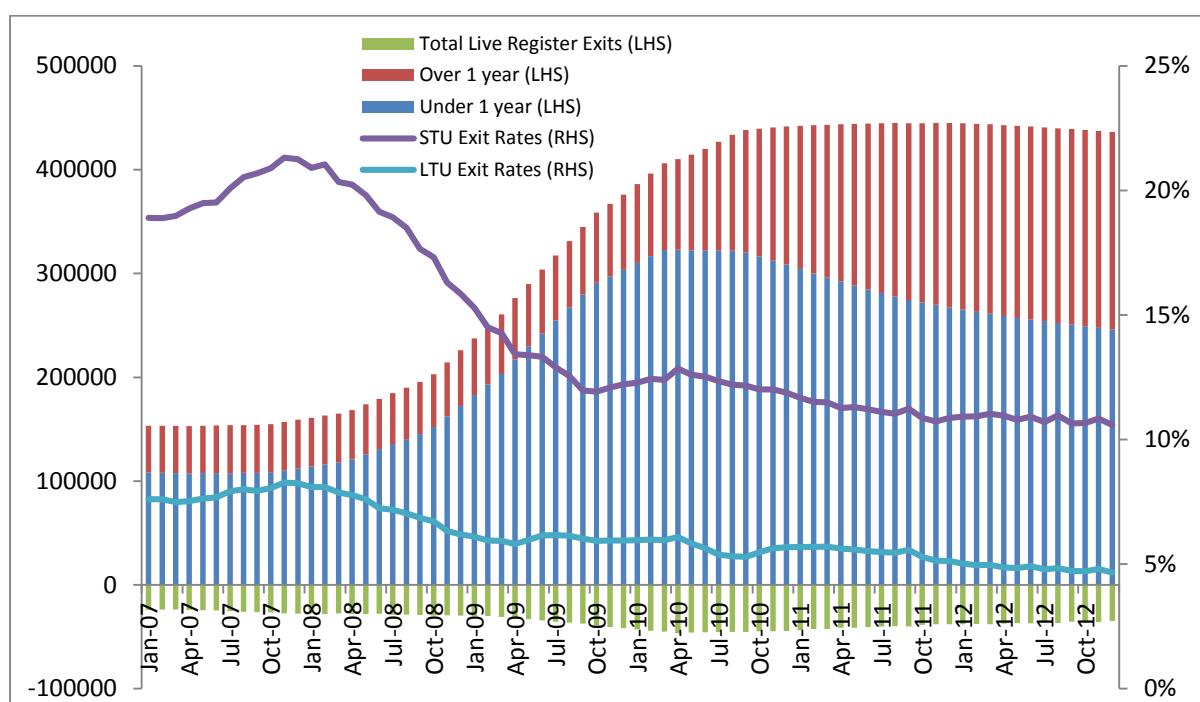
Graph 1 demonstrates the changes undergone in Ireland's labour market over recent years and the challenges it currently faces. Albeit from a much higher base, short-term unemployment exit rates fell by a greater percentage than long-term unemployment exit rates.

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<sup>1</sup> Social Insurance Fund

<sup>2</sup> National Training Fund

**Graph 1: Monthly Live Register Exit Rates by Duration: 2006 – 2012**



(Source: Central Statistics Office, Department of Social Protection)

- Monthly exit rates from the LR, averaging 15% across both cohorts during 2006, have collapsed for the short- and long-term unemployed and only recently have they begun to stabilise at c.11% and c.3% respectively. In 2013, long-term unemployment exit rates have improved once again.
- While initially exit rates from long-term unemployment were impacted less, many of those who entered unemployment between 2008 and 2009 subsequently became long-term unemployed. The large inflows into long-term unemployment during this period have weighed heavily on exit rates for this cohort ever since; and
- Throughout this period there was growing evidence of hysteresis among the long-term unemployed who now faced declining probabilities of exit<sup>3</sup>. This trend has been reversed somewhat with the encouraging stabilisation of the labour market.

A key objective for labour market policy, especially as we continue to see signs of a return to stability and marginal employment growth, will be to increase the proportion of LR exits going to the long-term unemployed. While there remains much work to be done in terms of striking a more appropriate balance between short- and long-term exit rates, this transition has already begun as we find that the proportion of total LR exits attributable to the long-term unemployed has risen from 14% to 26% over the past number of years.

A comprehensive response to Ireland’s long-term unemployment problem will, however, require their continued prioritisation and even further dedication of resources to this group. With unemployment expected to fall to 11.4% by 2016<sup>4</sup>, effective labour market activation will primarily serve to keep this cohort of Ireland’s unemployed attached to the labour

<sup>3</sup> Labour Market Synopsis – Issue 2: Long-term Unemployment

<sup>4</sup> Medium Term Economic Strategy: 2014 - 2020

market. A more buoyant recovery thereafter may then allow for long-term unemployment to reduce, as happened in the 1990s, at a faster rate.

## Targeting of Activation towards the Long-term Unemployed

The current difficulties within the labour market have prompted an increase in the allocation of resources to, and the number of places on, most labour market activation programmes with DSP expenditure in this area roughly twice that of 2007 levels. The focus of policy must ensure that the provision of training is allocated towards the appropriate labour market cohorts.

In line with the shift in policy towards increased engagement with, and activation of, the long-term unemployed, this paper examines the effectiveness of the following labour market activation schemes:

**Table 2: Active Labour Market Programmes in Ireland (Full-time)**

Department of Social Protection	Expenditure (2012)	Fás	Expenditure (2012)
Community Employment	€330m	Bridging/Foundation	€8m
Tús	€67m	Community Training	€43m
Back to Work	€127m	Specific Skills Training	€71m
Back to Education	€200m	Traineeship	€33m
JobBridge	€55m	Local Training Initiative	€34m

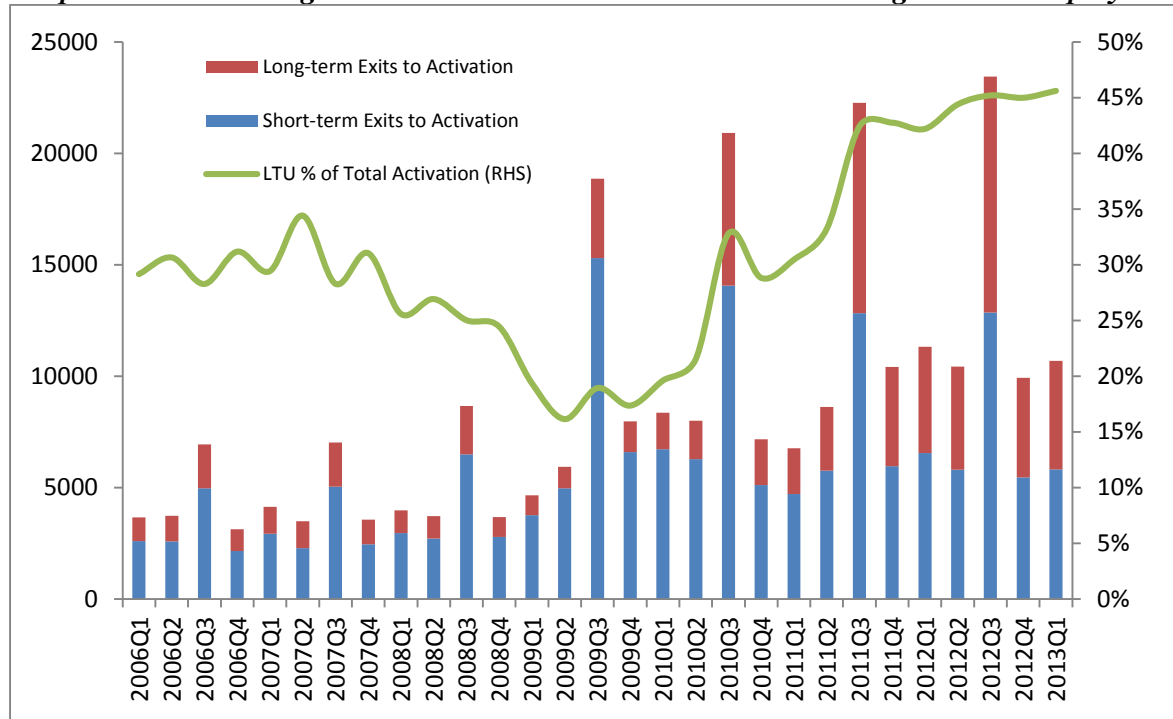
(Source: Department of Social Protection, Fás)

It is important to recognise that expenditure on labour market activation is sizable and spread across different Government Departments. However, those activation programmes outlined in Table 2 represent the most significant areas of expenditure in this area whilst also being exclusively full-time schemes. The omission of other ALMPs is based largely on the lack of available data for effective evaluation as well as, in the majority of cases, the relatively small allocations directed towards these programmes<sup>5</sup>.

Owing to skills atrophy, and to a lesser extent the stigma associated with long-term unemployment, a person's employability significantly deteriorates with longer spells in unemployment. It is therefore essential that the objectives of ALMPs are aligned with this understanding. A profiling system has been implemented by DSP and this will aid in the provision of appropriate education, training and job-search assistance to the long-term unemployed cohort.

<sup>5</sup> Return to Work (€0.5m); Wider Horizons (€1m); Specialist Training Providers (€53m); Online and Blended Learning (€3m); Library Project (€0.5m); Redundant Apprentice Placement Scheme (€8.5m); Evening Courses (€7.5m) and Momentum (€1m)

**Graph 2: Live Register Exits to Activation: Short-term vs. Long-term Unemployed**



(Source: Department of Social Protection)

Graph 2 outlines the numbers of Live Register (LR) claimants exiting to activation schemes and the proportion of those claimants who are long-term unemployed. The spikes in LR exits to activation found in Q3 of every year is attributable the links between the beginning of the academic year and those going from the LR into the Back to Education (BtE) scheme.

As a result of increased Exchequer investment in ALMPs and of course the larger number of Ireland’s labour force encountering unemployment, LR exits to activation (30,000 in 2012) are currently 150% higher than pre-recession levels. It is clear, however, that the proportion of LR exits to activation attributable to the long-term unemployed, while increasing over recent years, remains at below optimal levels with only 45% of exits in Q1 2013 going to this cohort.

While the increased provision of activation is undoubtedly a welcome development, it remains essential that places on activation schemes are targeted towards the relevant cohorts of Ireland’s labour market. The greater levels of churn for the short-term unemployed, wherein significant numbers are leaving the LR without intervention, ensures that resources dedicated towards activating this group entail a considerable degree of deadweight.

Further analysis shows the performance of each individual scheme in this respect with broadly similar results, i.e. increasing LTU participation but from a low base.

**Table 4: Long-term Unemployed Live Register Exits to ALMPs**

ALMP	2007	2008	2009	2010	2011	2012	Expenditure (2012)	Number of Participants (2012)
Community Employment	42%	39%	29%	29%	44%	54%	€330m	21,547
Tús	na	na	na	na	91%	92%	€67m	3,955
Back to Work	53%	53%	45%	43%	53%	61%	€127m	12,181
Back to Education* (2 <sup>nd</sup> level)	22%	22%	19%	33%	38%	42%	€200m	18,652
Back to Education* (3 <sup>rd</sup> level)	34%	35%	25%	40%	49%	51%	€200m	18,652
JobBridge	na	na	na	na	30%	30%	€55m	4,739
Fás	19%	14%	11%	17%	26%	30%		8,909
Bridging/Foundation	19%	32%	32%	44%	44%	na	€8m	2,292
Community Training	6%	30%	30%	31%	31%	na	€43m	3,907
Local Training Initiative	11%	29%	29%	37%	37%	na	€33m	5,546
Specific Skills Training	13%	27%	27%	48%	48%	na	€71m	19,209
Traineeship	10%	27%	27%	31%	31%	na	€34m	5,234

(Source: Department of Social Protection, Fás)

\*Back to Education is not disaggregated into 2<sup>nd</sup> and 3<sup>rd</sup> level when measuring expenditures and participants. The figure of €200m and 18,652 represents total expenditure and participation on Back to Education.

The exception to this trend is Tús which following its establishment in 2011 is aimed exclusively at those on the Live Register for over 12 months and seeks to provide its participants with short-term work placements in their communities. From a policy perspective it is important that the recent successes in distributing more activation places among the long-term unemployed are maintained and further built upon.

## Performance of ALMPs in the Irish labour market

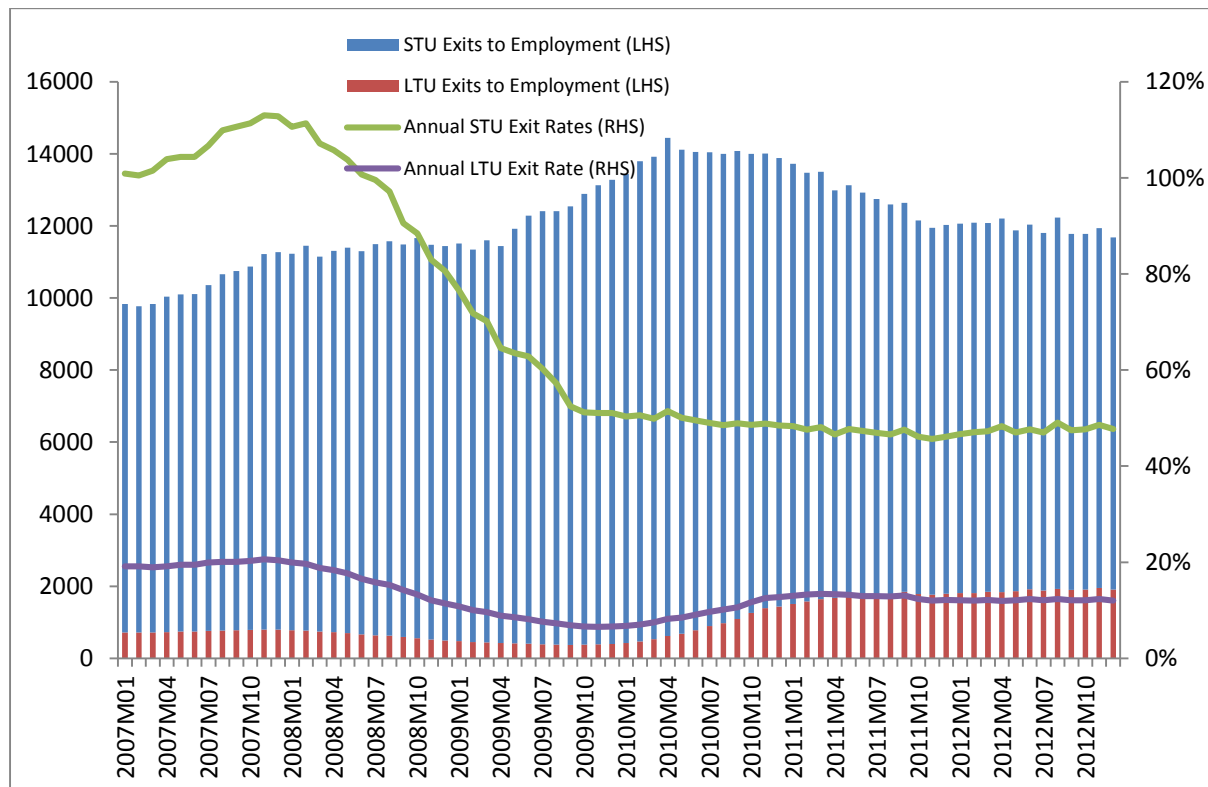
The primary objective of labour market activation is to provide the unemployed with the requisite skills and training required to return to employment. Other objectives of the suite of programmes include improved social outcomes such as greater mobility for disadvantaged individuals. This paper, however, is solely focused on the primary objective of returns to employment. As such, the proxy chosen to measure this objective is Live Register exits to employment.

As can be expected, a higher proportion (80%) of Live Register exits to employment goes towards the short-term unemployed cohort of the labour market. While to date significant progress has been made in shifting the distribution of LR exits to employment more towards

the long-term unemployed, monthly exit rates, currently at roughly 2% (see Graph 1), are insufficient to prompt a significant fall in the long-term unemployment rate.

As with total exits from the LR, exit rates to employment have followed the same pattern of declines followed by a period of stabilisation at lower levels. Constrained employment demand over the short- and medium-term ensures that these rates will remain at depressed levels into the future.

**Graph 3: Live Register Exits to Employment: Short- and Long-term Unemployed**



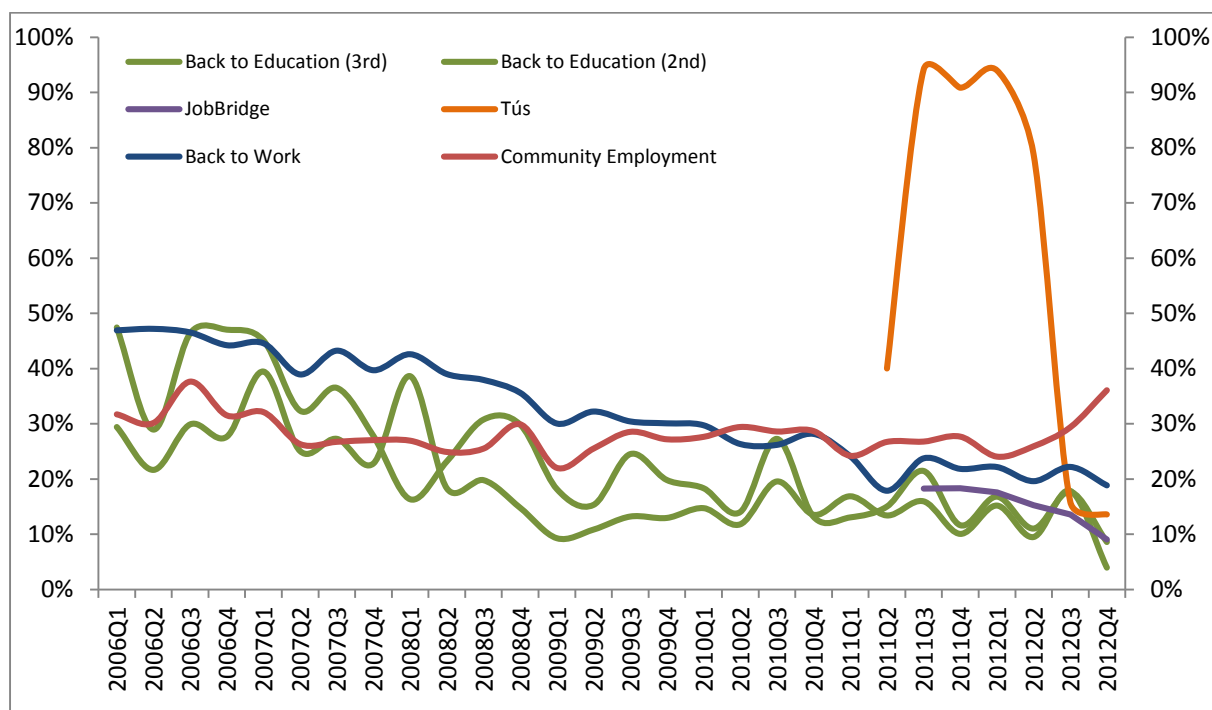
(Source: Department of Social Protection)

Graph 3 compares the exit rates to employment of the long- and short-term unemployed. Having recorded significant falls, annualised exit rates to employment for those on the Live Register are now at roughly 50% and 10% for the short- and long-term unemployed respectively. Due to the poor performance of the economy over recent years, exit rates to employment for those completing ALMPs have followed similar downward trends.

Graph 4 shows the proportion of ALMP participants who succeeded in finding employment following completion of a scheme. The initial findings show broadly favourable outcomes relative to the LR in returning their participants to employment. The proportion of exits attributable to finding employment has been falling over recent years and this, much like LR exits to employment, is broadly in line with the increased challenges which the economy has faced.



**Graph 4: Exits to Employment following completion of ALMPs (DSP<sup>6</sup>)**



(Source: Department of Social Protection)

Looking at the figures presented in Graph 4 in isolation – while supporting the argument that many are finding employment post completion of a scheme – does not allow for effective evaluation of employment outcomes. The exit to employment rate<sup>7</sup>, as analysed on the following page, clearly demonstrates that the performance of these schemes does not compare well with the overall LR.

One would expect that, given the explicit employment objectives of ALMPs, exit rates for those participating on activation schemes would be higher than those on the overall Live Register and especially for the long-term unemployed. What we find, however, is that those completing ALMPs have exit rates to employment which fail to outperform those of the LR. Graphs 5 and 6 depict the exits to employment for DSP and Fás ALMPs respectively<sup>8</sup>.

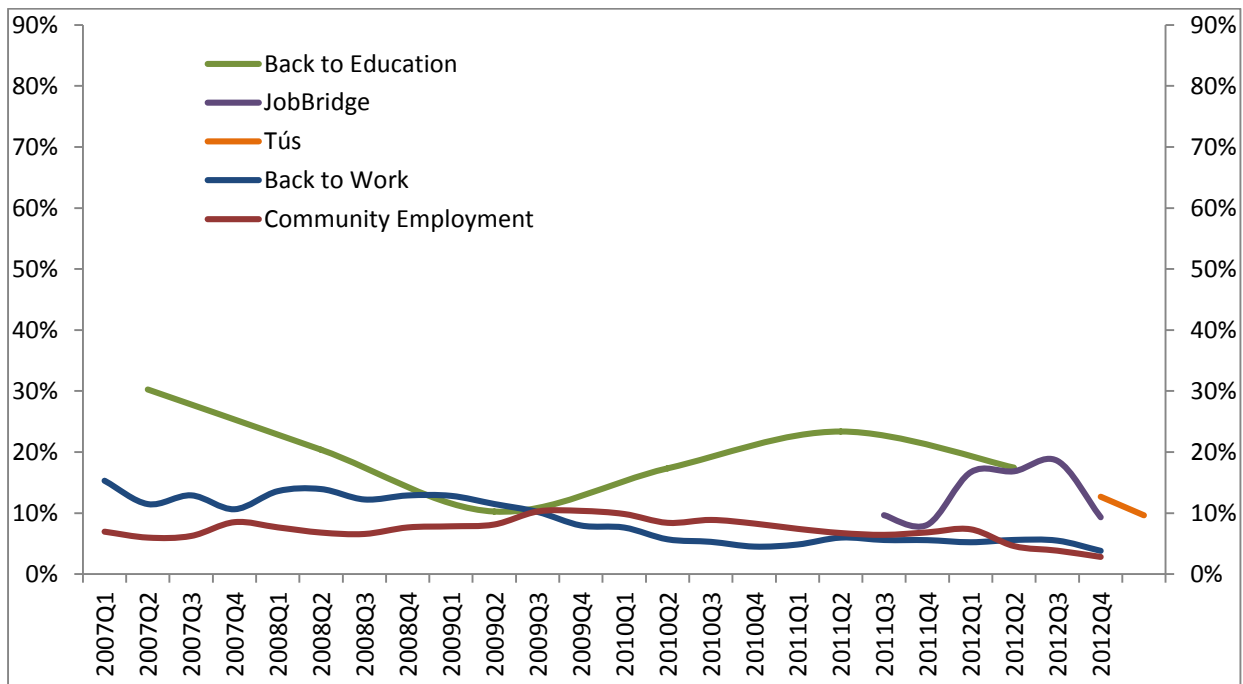
For certain schemes such as Community Employment (CE) and Back to Work (BtW), exit rates to employment following completion of these schemes stand at levels (below 5%) which are significantly below those of the LR. However, further detailed analysis is required to draw further conclusions as CE and BtW schemes are aimed at individuals located far from the labour market.

<sup>6</sup> The JobBridge and Tús schemes are relatively recent initiatives and as such do not lend themselves to comprehensive evaluation of this sort. A further review once the schemes are well established would better allow for conclusions to be drawn as to their appropriateness as ALMPs.

<sup>7</sup> The exit to employment rate as mentioned compares ALMP exits to employment relative to the total ALMP participant cohort. This is the same methodology used in generating the LTU exit rate to employment from the Live Register.

<sup>8</sup> Graph 5 contains DSP analytics data while Graph 6 uses Fás follow-up survey data. While it would be preferable to compare analytics data across both sets of ALMPs, this comparison provides a high-level analysis of exit rates to employment.

**Graph 5: Exits to Employment following completion of ALMPs (DSP)**



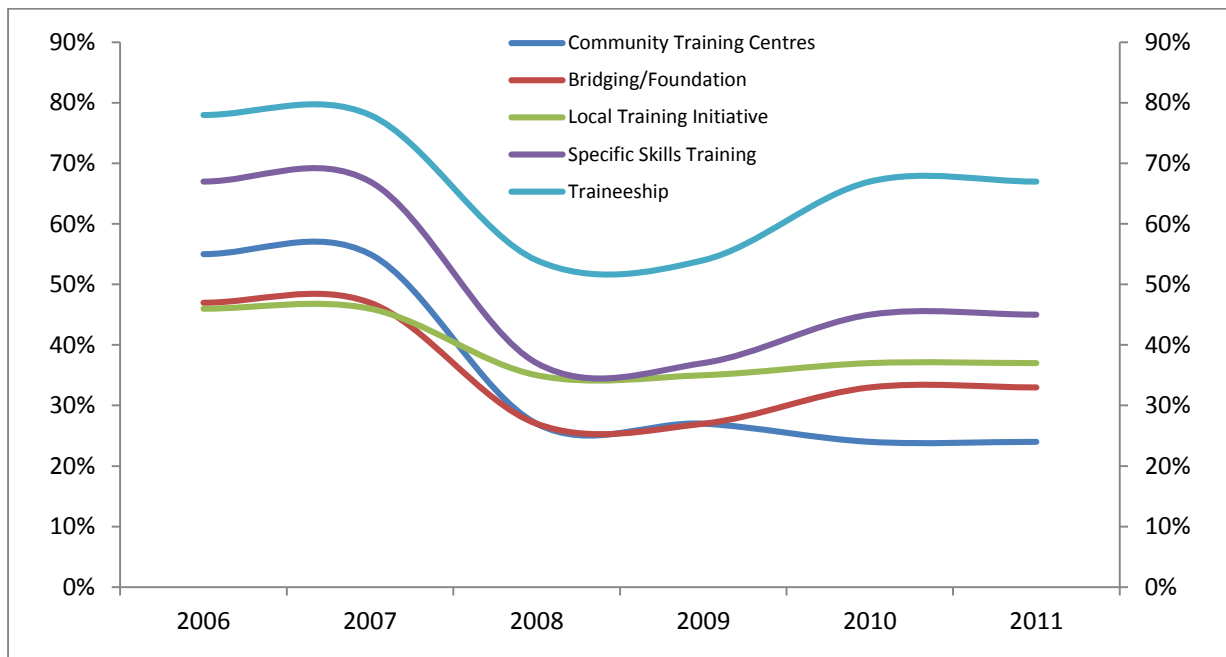
(Source: D/PER calculations using Department of Social Protection Data)

Performance results such as these, particularly in light of the significant levels of expenditure on these schemes (c. €480m in 2013), requires that the necessary reforms are undertaken to ensure that their deficiencies are effectively addressed.

The author does, however, acknowledge that the exit rate to employment as calculated above, through the comparison of total ALMP exits to employment relative to the total ALMP cohort size, is calculated during a period during in which inflows into ALMPs had increased considerably. This, however, is the same methodology used in analysing the LTU exits to employment from the Live Register.

For the purposes of comparing these figures, the methodology used represents an appropriate means by which the effectiveness of ALMPs on offer in Ireland can be measured.

**Graph 6: Exit to Employment following completion of ALMPs (Fás)**



(Source: Fás)

It is clear that comparing the exit rates to employment of those completing DSP ALMPs with Fás<sup>9</sup> ALMPs highlights significant divergence between the performances of both organisations. Fás full-time training courses significantly outperform relative to DSP schemes in terms of improving employability. Key to this divergence may be that many of those schemes offered by Fás are better identify the needs of the enterprise community and provide their participants with the skills required to meet those needs. International and domestic evidence suggests that the closer training is to the needs of the market the better the outcomes<sup>10</sup>.

The success of Fás schemes may also be attributable to the fact that their participants receive recognised qualifications. For example, Community Training Centres (CTCs) are specifically targeted towards early school leavers who would have little chance of finding employment without the qualifications which CTCs offer. While CTCs are the weakest performing scheme among those offered by Fás, effective evaluation must recognise issues such as these in order to draw useful conclusions. However, it must also be acknowledged that the underlying characteristics of the cohorts assigned to DSP and Fás schemes may differ; resulting in variations in exit rates to employment.

This particular point may go some way towards explaining the weaker performance of DSP's ALMPs as the boundary between schemes dedicated to resolving social issues on the one hand, and improving employability on the other, becomes blurred in some instances. Schemes such as CE have a dual role. Their objectives must be clarified further to ensure that

<sup>9</sup> Data used for evaluation of Fás ALMP is taken from the results of the Follow-up Survey (2006/7), (2009) and (2011). As highlighted earlier, the comparison of analytics data to survey data is not ideal for analysis of this sort. Whilst the conclusions found within this paper remain valid, further analysis using more appropriate datasets should be undertaken.

<sup>10</sup> Department of Public Expenditure and Reform: Labour Market Activation and Training

their role in activation can be correctly defined. A number of CE places are designated as ALMPs while others are directed more at disadvantaged cohorts.

While the longer-term effects of these courses diminish over time, wherein employment rates in the years subsequent to course completion decline, it must be acknowledged that of those ALMPs currently available to the unemployed, those provided by Fás perform better on the metrics analysed.

The short-term objectives of ALMPs, particularly when set against the weak performance of the economy, must be aligned with improving exit rates from unemployment. Once exits rates have improved, however, longer-term ideals such as providing the unemployed with lasting, sustainable employment must then be prioritised.

In the context of labour demand at present in the economy, we remain somewhat off those considerations and activation must focus on providing the unemployed with the skills and competencies required to compete for employment opportunities once more.

## Expenditure on Active Labour Market Programmes

As highlighted at the opening of the paper, Exchequer expenditure on ALMPs will amount to some €1.5bn in 2013. Expenditure of this size can only be justified if performance represents value for money. As shown in the previous section, in the case of some of Ireland's ALMPs, there is clearly room for improvement. Even for those better performing schemes, the realities of resource constraints cannot be ignored and measurement of their performance must be cognisant of their costs.

Tables 3 and 4 highlight the divergent cost per person on each of Ireland's ALMPs. Overall, the cost per person on each of the schemes examined above has remained broadly stable over the past number of years. However, range of costs is significant.

**Table 3: Cost per Person on DSP ALMPs**

Scheme	2007 (€)	2008 (€)	2009 (€)	2010 (€)	2011 (€)	2012 (€)
Back to Education	8,136	8,413	10,265	9,749	10,125	10,442
Back to Work	5,622	6,329	6,493	8,276	8,496	8,439
Tús	na	na	na	na	6,846	16,966
JobBridge	na	na	na	na	10,643	11,543
Community Employment	16,106	17,841	17,490	17,041	15,881	15,329

(Source: Department of Social Protection)

**Table 4: Cost per Person on Fás ALMPs**

Scheme	2007 (€)	2008 (€)	2009 (€)	2010 (€)	2011 (€)	2012 (€)
Bridging/Foundation	2,860	2,966	2,649	2,909	3,227	3,342
Community Training	10,864	11,955	11,261	9,827	10,998	11,085
Local Training Initiative	5,783	6,325	6,065	5,711	5,958	6,062
Specific Skills Training	3,710	4,209	2,801	2,799	2,892	3,683
Traineeship	6,572	6,643	5,698	5,088	5,820	6,275

(Source: Fás)

Overall, despite their poor subsequent employment outcomes, the activation schemes provided by DSP are much more costly to the Exchequer with the cost per person on all DSP schemes, with the exception of Back to Work, higher than those provided by Fás. This is despite the fact their performance outcomes are relatively poor.

With respect to those schemes provided by Fás, the Community Training Centres scheme has the highest cost per person and, like Community Employment, has the weakest employment performance, while higher performing schemes such as Traineeship and Specific Skills Training incur a lower cost to the Exchequer. However, it is important to state that schemes targeted at those individuals furthest from the labour may reflect a higher cost. The table below is taken from a Forfás report carried out on ALMPs in 2010.

**Table 5: Forfás findings on ALMPs**

	Annual Budget 2008	Numbers completing 2008	% LTU 2008	Cost per Day 2008	% Progressing onto Employment, Training & Education	Cost per participant progressing/ completing	Estimated additional Progression Outcomes
Community Employment	€392m	7,736	92%	€132	44%	€126,938	+1%
Job Initiative	€39m	46	100%	€97	-	€889,000	0
Specific Skills Training	€58m	5,700	3%	€88	68%	€13,640	+5%
Traineeship	€38m	2,235	5%	€88	81%	€20,630	+18%
Bridging foundation	€34m	6,050	4%	€85	54%	€10,408	0
Local Training Initiative	€35m	2,511	0%	€60	69%	€17,621	+13%
Community Training Centres	€52m	1,510	2%	€91	59%	€53,271	0
Apprenticeship	€179m	5,057	0%	€142	Employee	€35,396	Employee
Fás Competency Development Programmes	€43m	32,390	0%	€174	Employee	€1,315	Employee
Skillnets	€26m	53,317	0%	€130	Employee	€487	Employee

Source: Forfás Review of Labour Market Programmes (2010)

In light of the figures outlined above, consideration must be given to the expenditure on each of these schemes and why, in some instances, their higher costs are not representative of improved employment outcomes.

## Conclusion

This paper has sought to evaluate the impacts of Ireland's labour market activation programmes with a view to determining which perform best at returning the unemployed – in particular the long-term unemployed – to work and which, given their outcomes, represent the greatest value for money.

Firstly, there remains room for improvement in the targeting of activation towards the long-term unemployed. At present this group comprises only 45% of Live Register exits to activation despite the fact that long-term unemployment accounts for 60% of total unemployment. While some progress has been made in engaging further with the long-term unemployed, these relatively low rates of exits to activation are insufficient to prevent hysteresis from becoming even further ingrained in Ireland's labour market.

From a public expenditure viewpoint, the deadweight incurred as a result of targeting the short-term unemployed necessitates that the limited resources available to policymakers must be directed to those most in need of intervention. The arguments, therefore, for prioritisation of the LTU cannot be ignored and further efforts are required to maintain the progress made in this area.

Data presented in this paper raises concerns regarding the effectiveness of certain schemes on offer from DSP. Certain programmes, with high costs per participant, have poor employment outcomes when compared with Live Register claimants. Whilst acknowledging the dual role of certain programmes in providing labour market and social outcomes, consideration must be given to the reorientation of resources towards schemes which will provide participants with the requisite skills for returning to employment.

Some of the reforms highlighted above are currently in train and encouraging progress towards correcting the definition of schemes has been made. Community Employment, for example, has restructured the Childcare Strand in consultation with the Department of Children and Youth Affairs (DCYA) with a view to providing participants with FETAC qualifications. There remains, however, a considerable amount of work to be done in this area.

It is important to consider schemes aiming to provide training and reskilling as only one tool at the disposal of policymakers in their endeavours to reduce unemployment. The challenges facing Ireland's economy and labour market over the coming years are considerable and initiatives besides active labour market policies will be required to lower unemployment. With that said, however, the levels of expenditures allocated to these measures require a certain level of successful outcomes. The poor employment outcomes for some schemes as set out in this paper demonstrate that this may not presently be the case.