

NCC Submission to the Action Plan for Jobs 2014

December 2013

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Introduction

The National Competitiveness Council was established in 1997. It reports to the Government on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position. Forfás provides the Council with research and secretariat support.

In May 2013, the Minister for Jobs, Enterprise and Innovation requested the Council to develop actions on competitiveness for implementation through the Action Plan for Jobs. This paper is the Council's input to that process.

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

Why Competitiveness Matters

Generating sustainable broad based export-led growth is essential to rebuilding our economy. In order to deliver growth, Ireland's international competitiveness needs to continue to improve.

National competitiveness is a broad concept that encompasses a diverse range of factors and policy inputs including education and training, entrepreneurship and innovation, Ireland's economic and technological infrastructure and the taxation and regulatory framework.

In the short term, cost competitiveness is a critical foundation. Productivity growth, however, is the preferred mechanism to improve competitiveness in the longer term as it can support cost competitiveness in tandem with high and increasing wage levels and improving living standards for all.

Ireland's Competitiveness Performance

Forfás recently published an overview of Ireland's Competitiveness Performance¹ which found that Ireland's international competitiveness has improved over recent years - there has been a reduction in a range of key costs including property, business services and unit labour costs and at the same time productivity has increased, public finances are being restructured and employment levels have stabilised despite adverse economic conditions.

- Ireland has had considerable success in reducing a range of costs since 2009, particularly in relation to property costs and a range of business services. Unit labour costs have also fallen in Ireland, although this is partly due to a restructuring of the economy away from less productive sectors. Consumer prices in Ireland have been rising at a much lower rate than the euro area average. However, Ireland is still the 3rd most expensive country for consumers in the euro area.

¹ Forfás, Ireland's Competitiveness Performance 2013, May 2013

- Ireland's productivity performance has improved considerably in recent years, with growth rates well above the OECD average. However, much of this improvement arose from changes in the composition of employment in Ireland during the recession rather than broad based productivity growth. To ensure future productivity growth is sustainable it will be important to provide a supportive environment for investment in high growth sectors which will have the dual effect of both increasing productivity and expanding employment.
- Despite international and domestic difficulties, employment levels in Ireland have stabilised with almost 1.85 million in employment in Q4 2012, an increase of 1.3 per cent on the same period in the previous year. Unemployment also stabilised during 2012, although this was partly due to labour market exits. While companies have benefited from easier access to skills, falling labour market participation and the loss of skills arising from long term unemployment and emigration are of concern.
- The domestic economy remains weak. In 2006, driven by a property boom, Ireland's investment levels were unsustainably high. However, Ireland now has the lowest level of investment within the euro area. High debt levels continue to depress domestic demand across the economy, with household, enterprise and Government debt significantly above euro area levels.
- Despite the significantly high level of investment undertaken in the years prior to the economic crisis, perceptions of overall infrastructure quality in Ireland remain below many other developed economies with Ireland ranking 24th out of the 32 OECD countries benchmarked.

It is still unclear, however, the extent to which these gains are simply a cyclical response to the recession and are likely to be eroded as economic growth improves, or if they are more permanent structural changes as a result of recent reforms. To safeguard the gains made to date and to deliver on the Government's jobs target, the focused efforts to improve Ireland's performance must be sustained.

Ireland must continue to bolster its export growth by focusing on national competitiveness. We must pursue high growth markets, increase our market share with our existing trading partners and ensure that we are well placed to take advantage of the upswing in demand when it occurs. To do this we must continue to take steps to ensure Ireland is an open, cost effective, productive economy. At the same time, weak domestic demand represents a significant drag on economic growth. In this regard, the stimulus elements of Budget 2014 (e.g. the announcement of an additional €200 million capital spend, the Home Renovation Incentive etc.) are welcome.

Ultimately, while the export sector will provide the momentum to drive the rest of the economy, much of Ireland's required employment growth will occur in domestically trading or non-trading sectors. Sustainable policy actions that facilitate growth in these sectors must be pursued in conjunction with the focus on export oriented sectors. The actions set out herein, are designed to support this approach.

The key areas that the Council would like to see addressed in the Action Plan for Jobs 2014 are actions to:

- Enhance labour market competitiveness and skills;
- Boost international cost competitiveness;
- Support entrepreneurship and hence, job creation;
- Support the development of a sustainable construction sector; and
- Improve Ireland's international competitiveness rankings.



Medium Term Actions to Support Competitiveness

The Action Plan for Jobs is primarily concerned with the implementation of actions to support economic and employment growth which can commence in 2014. The topics included in this submission do not address all aspects of competitiveness - rather they focus on a selection of short term issues that the Council believes require immediate action².

In order to address the medium term challenges not captured in this submission, the Council will shortly be commencing work on a new *Competitiveness Challenge* report.

² Given the timing of Budget 2014, the Council have decided not to focus on taxation matters in this submission. Relevant issues will be addressed in the Competitiveness Challenge report.

Section 1: Labour Market and Skills

Across all industries, the quality of the skills available to employers is dependent on a combination of the existing skills of the workforce, the skills emerging annually from the formal education and training system, and inward migration (particularly from the single European labour market). As basic processing, assembling and service functions are offshored and moved out of developed countries and/or the demand for labour is reduced through automation, the future skills focus is on productivity and more knowledge intensive activities. In order to further enhance the supply of skills, Ireland must focus on upskilling the existing workforce and ensuring that the pipeline of future skills is appropriately tailored to meet the needs of the economy.

Given Ireland's persistently high rate of unemployment, it is clear that a particular focus is required on labour market activation, keeping unemployed workers close to the labour market. It is also necessary to minimise any disincentive effects which might arise through high replacement rates.

Skills development, however, is not just about benefiting the enterprise sector. Ultimately improvements in the Irish skills base will enhance the employability of individuals, will increase earnings and living standards and improve quality of life for all.

Issue #1: Training and Activation - Why is it Important?

Skills mismatches in the labour market remain, primarily a result of the collapse in demand for labour as a result of the recession but also arising from the past dominance of the construction sector. Tackling the high and persistent levels of unemployment (and especially youth unemployment³) represents the most urgent challenge for the Action Plan. At the same time, concerns persist about the availability of enterprise relevant skills despite the unemployment crisis. Over the course of the recession, as unemployment and long-term unemployment increased, labour market participation fell - according to the OECD the decline in participation in Ireland was the largest amongst the OECD.

Despite some signs of improvement in the labour market, the process of reducing unemployment will be gradual. While demand remains relatively weak, the reality is that many unemployed workers are ill-equipped to work in those sectors most likely to experience employment growth (i.e. ICT occupations across all sectors of the economy, export sectors and occupations requiring combinations of multi-lingual and technical skills)⁴.

As a consequence, economic growth alone will be insufficient to address these issues. A continuing major programme of up-skilling and re-skilling is essential to support growth in employment and to

³ Taking into account involuntary part-time work and workers marginally attached to the labour market, the youth unemployment rate in Ireland is almost 45 per cent. Based on Eurostat data, Ireland has also one of the largest shares of youth who are neither in employment nor in education (NEET).

⁴ At present, skills shortages are currently limited to specialised positions in the information and communications sector (e.g. designers and developers with specific skill sets such as sophisticated database architecture, JAVA related applications etc.), in high tech manufacturing (mostly in the biopharma sector), in the financial services sector (e.g. risk analysts, credit specialists, actuaries), and in the health sector (e.g. medical doctors, radiographers, and advanced nursing practitioners) For further detail, see Expert Group on Future Skills Needs, National Skills Bulletin 2012, July 2012

support labour cost competitiveness. Equally, activation programmes are essential to prevent the marginalisation of workers and to minimise the risks of long term unemployment. Activation programmes also need to facilitate the re-entry into the labour market of those workers who have lost previously their jobs and who are no longer deemed to be participants in the labour force.

Recent Developments

A number of programmes have been introduced recently, designed to up-skill unemployed workers, and provide them with practical work based experience. The greater emphasis on evaluation, targeting, and accreditation which has accompanied the development of recent programmes (e.g. Momentum⁵, Skillnets' Job-seekers Support Programme⁶, Jobbridge⁷ and Springboard⁸) is to be welcomed. Similarly, the proactive nature of engagement between State agencies and the unemployed set out in Pathways to Work is an important development⁹.

In terms of the State's institutional setup, a system which had developed on an incremental basis over the years has seen a series of positive changes and reforms recently (some of which are on-going), including but not limited to:

- The establishment of SOLAS to oversee funding and policy direction for the Further Education and Training sector. SOLAS will co-ordinate the wide range of training and further education programmes in Ireland. The Establishment Order bringing SOLAS formally into being was signed in October 2013.
- The establishment of 16 Education and Training Boards (ETBs) to replace the 33 Vocational Education Committees and FÁS training centres^{10,11}.
- The development of Intreo as a single point of contact for all employment and income supports (i.e. the integration of employment services and benefit payment services). Eleven Intreo

⁵ Momentum funds the provision of free education and training projects to allow 6,500 jobseekers (who are unemployed for 12 months or more) to gain skills and to access work opportunities in identified growing sectors.

⁶ A number of Skillnets' training networks provide training and work placements through the Job-seekers Support Programme (JSSP). JSSP training courses and work placements are solely for people that are unemployed and are focused on areas where Irish companies have skill gaps/needs.

⁷ Jobbridge is a national internship scheme, which provides up to 5,000 work experience placements for interns for a 6 or 9 month period.

⁸ Springboard is a series of educational courses aimed at areas where there are current or future opportunities (e.g. in finance, green energy, ICT, science and environment, sales and marketing).

⁹ Department of Social Protection, Pathways to Work: Government Policy Statement on Labour Market Activation, March 2012

¹⁰ The Education and Training Boards Bill 2012 was published by the Minister for Education and Skills in October 2012. The enactment of the Education and Training Boards Bill allows for the formal establishment of the 16 new Education and Training Boards. Six FÁS Training Centres will move to the relevant Education and Training Boards by the end of 2013.

¹¹ The June 2013 EU/IMF Memorandum of Economic and Financial Policies requires the authorities to "conduct by September 2013 a strategic review of the training and education provision offered by Education and Training Boards (ETBs) to guide the strategic work of SOLAS and the FET provision by ETBs. The review will evaluate the FET provision in terms of its relevance for labour activation purposes. The review will provide an assessment of the existing provision as well as recommendations to enhance their relevance for activation purposes".

offices opened in 2012, up to 33 are planned for 2013, with the full roll-out to be completed by end-2014.

Policy Discussion and Recommendations

On the institutional side, the rollout of SOLAS and the Education and Training Boards remains a matter of priority. In particular, the effective implementation of the SOLAS strategy at local level will be crucial. As noted by the European Commission, SOLAS needs to rapidly develop a credible strategy to orient the provision of Further Education and Training and to ensure the delivery of high-quality and relevant programmes by the ETBs, in full consultation with relevant stakeholders¹².

The most recent EU/IMF Programme of Financial Support notes that Ireland will “seek that SOLAS submits its strategic plan by end-March 2014, with an update on progress on its formulation by end-December 2013, so that it rapidly takes up its responsibility of ensuring the relevance of further education programmes for jobseekers and employers”¹³. It is vital that these timelines are adhered to and that the rollout of SOLAS is prioritised.

Recommendation: The rollout of SOLAS is essential. The completion of the SOLAS strategic plan by end-March 2014 is a particular priority in this regard. Further, the effective implementation of the strategy at local level will be an essential determinant of success.

Responsibility: Department of Education and Skills

At the same time, it is essential that adequate resources are provided to support activation programmes and the work of Intreo. In relation to the development of Intreo, the OECD have noted that “the pace of reform implementation is slow and the number and scope of unemployed workers covered by the enhanced Intreo services remains low considering the pressing needs for activating the jobless population”¹⁴. It is vital that Intreo is an outcomes focused organisation and that performance in relation to these outcomes is measured and monitored on an ongoing basis.

In July 2013, it was announced that 300 additional staff would be redeployed as Intreo case officers and would be provided with adequate training. While this is welcome, given the scale of the unemployment challenge, more innovative solutions are required. The Government has been considering the potential for private sector involvement in providing employment services to the long-term unemployed¹⁵. According to recent EU/IMF commitments, authorities will “determine the scope and structure of a contracting model of activation services to private providers and issue a request for tender by the end of November”¹⁶.

¹² European Commission, European Economy, Economic Adjustment Programme for Ireland, Spring 2013 Review, Occasional Papers 154, July 2013

¹³ EU/IMF Programme of Finance Support for Ireland, September 2013

¹⁴ OECD, Economic Surveys - Ireland, September 2013

¹⁵ European Commission, European Economy, Economic Adjustment Programme for Ireland, Spring 2013 Review, Occasional Papers 154, July 2013

¹⁶ EU/IMF Programme of Finance Support for Ireland, September 2013

Creating additional supports is essential to addressing skills mismatches. It is important, however, that private sector involvement is designed in a manner that provides real value and minimises deadweight (i.e. the use of private sector service providers must have a positive net impact on unemployment rather than simply creating a substitution effect, whereby those assisted by private providers displace other unemployed workers assisted by the State's institutions). The minimisation of deadweight is an important consideration in relation to the design of all labour market programmes (i.e. programmes should not create a situation whereby incentives are provided to substitute an unemployed worker for an existing employee).

Recommendation: In order to maximise resources to support labour market activation, private providers should be contracted to assist with the delivery of labour market activation supports to the unemployed. Contracts should be awarded on a competitive basis with clearly defined targets and quality assurance as well as regular evaluation to ensure that these targets and standards are adhered to.

Responsibility: Department of Social Protection

Activation measures should primarily aim to improve employability and should be characterised by:

- Identifiable labour market/ enterprise needs - these need to be reviewed and updated on an ongoing basis to reflect changes in needs;
- Ability to target candidates appropriately to programmes based on their abilities, skills and learning requirements;
- Emphasis on quality assurance and demonstrated progression pathways for the learner - to employment/self-employment, further/higher education and training;
- Structured internship / opportunities providing work experience opportunities within enterprise.

Employers have a defining role to play in terms of the success of labour market programmes. Increasing the engagement of employers in employment and training services through stronger partnerships and by giving them greater input into the design and delivery of programmes is essential.

There has been some progress in this regard through the rollout of the Springboard programme and to an even greater extent, with the development of a Higher Diploma Level 8 Conversion Programme in Computing. Such programmes directly link higher education places with identified enterprise needs and have significant employer engagement in course development. In the case of the Conversion Programme, companies were involved in the selection of candidates for entry to the courses, delivery of aspects of the programme and the provision of internship placements during the programme. This close education/ industry engagement increases the prospects of progression to employment on completion of such programmes and also encourages better engagement of jobseekers in up-skilling and conversion where the progress paths are clearer. Wider adoption of models such as this should be considered where evaluations have found positive outcomes. There is

also more scope to align broader education and training provision with the needs of the labour market¹⁷.

As noted by the OECD, evaluation is an essential tool to ensure that programmes result in the desired outcome: limited fiscal resources should be focused on “policies empirically-proven to improve employability; this will require systematic evaluation of labour-market programmes through consistent tracking and randomized trials, followed by decisions to close down ineffective schemes while strengthening successful ones”.

Finally, the OCED (amongst others) have recently highlighted that while Irish labour market policy is moving in the right direction, many of the new policies and programmes do not focus enough on long-term unemployment, given the significant proportion of the unemployed who have been out of work for a year or more^{18,19}.

Recommendation: There should be wider adoption of activation and training programmes which are linked directly to identified enterprise needs, have significant employer (and other stakeholders where relevant) engagement in course development, selection of candidates, and programme delivery, and which offer internships or other work placements to participants.

All programmes should be evaluated on a regular basis with resources focused on those programmes proven to deliver on their objectives.

Responsibility: Department of Education and Skills / Department of Social Protection


Finally, the response to the unemployment crisis has led to the rollout of a plethora of programmes and schemes. This in turn has created its own problems - notably awareness and accessibility. While Intreo will serve as a single point of contact for all employment and income supports for the unemployed, employers do not currently have access to a similar single access point for information²⁰. There is a need to consolidate and integrate the various labour market activation schemes under a single clearly articulated brand. This would help to minimise duplication and confusion and would reduce the administrative burden on employers seeking to participate in labour

¹⁷ In terms of Further Education and Training, a strategic review of the training and education provision offered by Education and Training Boards (ETBs) to guide the strategic work of SOLAS and the FET provision by ETBs is currently underway. The review evaluates FET provision in terms of its relevance for labour activation purposes (i.e. whether it is suited to the needs and abilities of the large pool of unemployed, in particular the long-term unemployed, and to the prospective skills needs of the economy). The review provides an assessment of the existing provision as well as recommendations to enhance their relevance for activation purposes.

¹⁸ OECD, Economic Surveys - Ireland, September 2013

¹⁹ The development of Intreo provides for the profiling of all new jobseekers to determine their probability of exit from the unemployment register and establish an adequate support plan. Only new jobseekers, however, are currently fully covered by Intreo, leaving about 85 per cent of unemployed persons without access to Intreo support.

²⁰ For example, at present, Intreo publish an Employer Information Pack which provides information to employers about the range of supports and services provided companies under the Department of Social Protection, but not about other schemes administered by other Departments or Agencies. Elsewhere, www.skillsplus.ie provides links to a range of activation programmes but not additional information.



market programmes. To support such an initiative, a strong multimedia awareness campaign needs to be launched.

Recommendation: Consolidate and integrate the various labour market activation schemes under a single clearly articulated brand. A comprehensive multimedia awareness campaign is required to support this initiative.

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

Issue # 2: Apprenticeships - Why are they Important?

Workplace training in the form of a modern wide ranging apprenticeship system will be important to ensure that the labour force is sufficiently skilled (and continually upskilled) to meet the demands of the 21st Century workplace. Apprenticeship is the recognised means by which people are trained to become craftspeople in certain designated trades in Ireland.

Background

The apprenticeship programme in Ireland is driven by employer demand, aimed at developing the skills of the apprentice to meet the needs of primarily the construction sector.

Apprenticeship is a blended training programme, with part of the training delivered by employers and part by FÁS (soon to be the Education and Training Boards) and the institutes of technology or colleges of further education. The alternating provision of training in both academic and commercial environments involves each partner contributing designated segments of the training at specific times in the formation process.

The apprenticeship model in Ireland relates to 26 designated trades across the construction, engineering, electrical, motor and print industries (Table 1). It is of particular significance to construction and manufacturing - at the height of the construction boom, the construction sector absorbed 85 per cent of qualifying apprentices²¹. In the manufacturing sector, apprenticeship based trades account for 22 per cent of all employment²².

Table 1: Designated Trades in Ireland


<u>Construction sector</u>	<u>Engineering sector</u>	<u>Electrical sector</u>	<u>Motor sector</u>
Brick & Stonelaying	Mechanical, Automation & Maintenance Fitting	Electrical	Agricultural Mechanics
Carpentry & Joinery	Metal Fabrication	Electrical	Construction Plant Fitting
Floor & Wall Tiling	Sheet Metalwork	Instrumentation	Heavy Vehicle Mechanics
Painting & Decorating	Toolmaking	Instrumentation	Motor Mechanics
Plastering	Industrial Insulation	Refrigeration & Air Conditioning	Vehicle Body Repairs
Plumbing	Farriery	Aircraft Mechanics	
Wood Manufacturing & Finishing		Electronic Security Systems	<u>Printing sector</u>
			Print Media

Recent Developments

Reflecting the primarily demand led approach; apprentice recruitment varies with economic cycles. The rise and fall of the construction sector has had a particularly significant impact on overall apprenticeship numbers. Between 2004 and 2006, approximately 7,100 construction apprentices

²¹ Forfás, Ireland's Construction Sector: Outlook and Strategic Plan to 2015

²² Expert Group on Future Skills Needs, Future Skills Requirements of the Manufacturing Sector, Forfás, April 2013



were recruited each year. Following the collapse, apprentice recruitment in those trades has reduced to just over 700 recruits per annum. Demand in non-construction trades, while variable, has not been subject to the same level of variation as construction trades.

The annual forecasting exercise undertaken on behalf of the Department of Education and Skills suggests that despite stabilisation in the labour market, apprentice recruitment will remain weak over coming years - even taking the most optimistic forecast for each trade, overall apprentice recruitment in 2016 for both construction and non-construction related trades is forecast to be just 22 per cent of peak recruitment. Forecast recruitment into construction trades is even poorer - depending on the economic scenario applied, recruitment in 2016 is forecast to be between 84 per cent and 90 per cent below the pre-recession peak²³.

In 2010, Forfás undertook a Review of Labour Market Programmes²⁴. This review considered the effectiveness of the apprenticeship programme. It found that the Apprenticeship Programme was valuable but was lengthy, costly and cyclical.

At present, the entire apprenticeship model in Ireland is under review. Under the Action Plan for Jobs 2013, the Department of Education and Skills is required to undertake “a review of the Apprenticeship Training Model through consultation with key stakeholders on options for change” and is due to prepare, by Q4 2013, an interim report arising from these consultations.

At the same time, the governance landscape is undergoing significant transformation. As well as the establishment of SOLAS as the Further Education and Training Authority of Ireland, 16 Education and Training Boards are to replace the Vocation Education Committees and will assume responsibility for the delivery of further education and training programmes. These changes provide the backdrop against which this submission must be read. As noted in the Department’s discussion document “any changes to be made to the Irish apprenticeship structure, must ensure that a co-ordinated approach is taken to the future development of education in Ireland and that targets achieved in one area of education do not create difficulties in others”.

Challenges and Policy Recommendations

The Irish apprenticeship model to date has generally produced a supply of well-trained apprentices for each of the relevant occupations. Despite this, the Irish approach is often unfavourably compared with other European models. In many continental European countries apprenticeships are provided at upper secondary level, where typically during the off-the-job component of an apprenticeship students learn not only vocational theory and basic vocational skills but receive also some general education (e.g. maths, literacy skills). In Ireland, apprenticeship is part of post-secondary provision and enrolls many young adults who seek occupational training after completing upper secondary education. The programme is therefore highly occupation-specific, with little emphasis on general competences. The implications of any move towards the development of a German-type model need to be carefully considered (in particular the implications for the current policy of maximising the leaving certification completion rate warrants specific attention).

Amidst all of the calls for reform of the Irish apprenticeship model, a number of themes emerge.

²³ Department of Education and Skills, Apprenticeship Review - Background Issues Paper, May 2013

²⁴ Forfás / Department of Enterprise, Trade and Innovation, Review of Labour Market Programmes, March 2010

- Apprenticeship in Ireland should encompass other means of developing training programmes with employers' involvement, like the traineeship model.
- The merits of including additional occupations in a new approach to apprenticeships should be considered. The limited number of trades and occupations for which apprenticeships are available in Ireland has been the subject of much comment. The OECD have noted that the predominance of construction related apprenticeships in Ireland contrasts with many other EU countries (e.g. Austria, Germany and Switzerland) where apprenticeships are provided for a range of non-technological occupations. Occupations which should be considered include a range of service occupations (e.g. customer support, sales/direct selling, transactions processing & procedures, wholesale/retail, hospitality, catering, healthcare, transport/logistics/supply chain management, horticulture, hairdressing, beautician)²⁵. Formal operative level traineeships and machinist apprenticeships (to meet the needs of modern high tech manufacturing industry) should also be considered.
- The average duration of an apprenticeship which is a minimum of four years (except for print media which is three years) should be examined. The length could be based upon when apprentices attain the competency level required, so that some individuals could complete their training faster if they reached the required skill level based on achieving the required academic standards and experiential learning. Progression should be competency-based rather than time-based.
- As a result of demand-led recruitment into apprenticeships, participant numbers can fluctuate significantly as the economy evolves. This is particularly problematic when the economy experiences sudden shifts, as occurred in the construction sector²⁶. It is important that whatever models (or reforms) emerge from the current review of apprenticeship, the system is designed to manage the impact of economic fluctuations (i.e. that it incorporates robust forecasting, builds in flexibility and embeds transferable skills).
- Curricula must evolve to ensure that they cover all of the tasks needed to be performed in the modern workplace with appropriate length, breadth and depth of technical coverage and work-based practical experience to ensure qualifications and learning outcomes are achieved at the appropriate full NFQ level 5, 6 or 7 (practical engineering apprenticeships may be required at NFQ level 8). Curricula must also be flexible to adapt over time as required.
- Employer and broader stakeholder engagement is an essential prerequisite for the success of the apprenticeship model. Much of its success the German apprenticeship model appears to be predicated on extensive employer engagement, particularly in terms of curricula design²⁷. There

²⁵ OECD, Learning for Jobs - OECD Reviews of Vocational Education and Training - Ireland, February 2010

²⁶ The OECD have suggested that the bias towards construction based trades in the Irish apprenticeship model may have had the unfortunate effect of reinforcing distortions that favoured construction development (over higher-productivity activities in high-tech manufacturing, for instance) given substantial public spending on an apprenticeship system with a very large construction component.

²⁷ It is also worth noting, however, that employers in Germany bear additional costs related to the cost of trainers and materials which is generally covered by the State in Ireland. The German industrial base also differs significantly from Ireland as do the existing governance structures (e.g. the role of Chambers of Commerce).

may be merit in developing a network of companies to recruit and train apprentices - a model used for other types of skills development.

- As well as ensuring the development of appropriate curricula, engagement with employers is important in terms of developing and clearly signalling career paths for those who qualify as apprentices. This is particularly relevant in the manufacturing sector. Unlike international best practice, Ireland does not have a strong track record in establishing clear progression paths from operative level up to senior roles. In order to address this issue, competency frameworks for the main manufacturing occupations should be established and mapped onto the National Framework of Qualifications. Further, learning pathways for the skills associated with each occupation need to be established to facilitate progression between occupations. This would also assist those who wish to enter an apprenticeship from different educational attainment levels including accelerated entry routes recognising prior experience. Consideration should be given to the possibility of an industry-based track to qualifications for higher level occupations, comparable to German Meister or time-served engineer.

Finally, there are a number of practical considerations which need to be taken account of in any reform of apprenticeships, not least of which is the cost element.

Recommendation: Expedite, insofar as possible, the review of the Apprenticeship model, particularly taking into account the needs of the manufacturing and construction sectors. The review should:

- Consider expanding the list of eligible trades and occupations;
- Provide flexibility in terms of duration (i.e. competency-based rather than time-based learning) and curricula (which should evolve to reflect changing workplace requirements);
- Develop options for provision that mitigate against shortages where they result from the cyclical nature of apprenticeship;
- Facilitate greater employer and broader stakeholder engagement. Much of its success the German apprenticeship model appears to be predicated on extensive employer engagement, particularly in terms of curricula design.
- Provide for the recognition of prior learning; and
- Consider the cost implications of any reforms to the current system for the State, employers and potential participants.

Responsibility: Department of Education and Skills

Issue #3: Replacement Rates - Why are they Important?

Replacement rates are important determinants of labour market participation and the take up of employment. In general, a replacement rate in excess of 70 per cent is considered to act as a disincentive to work (i.e. if an individual can receive more than 70 per cent of in-work income in benefits, they will demand a higher wage in the market to retain a monetary incentive to work). It is important to note, however, that replacement rates are not the sole determinant of the decision to take-up employment²⁸.

Background and Data

The ESRI have estimated that approximately 28.7 per cent of unemployed persons in receipt of either Jobseekers Benefit or Jobseekers Allowance have replacement rates in excess of 70 per cent²⁹.

Based on the most recent data, replacement rates tend to be lower for single people compared with married couples (i.e. social welfare benefits tend to create higher disincentive effects for unemployed married couples, particularly those with children).

The inclusion of housing benefits has a particularly significant adverse effect on replacement rates - pushing several recipient types above the 70 per cent threshold, particularly those earning less than the average wage.

In international terms, the replacement rate for the initial phase of unemployment (excluding housing entitlements) for a single person in Ireland is amongst the lowest in the OECD. For a one-earner married couple with 2 children, however, the Irish replacement rate exceeds the OECD average. Irish replacement rates for the long term unemployed - which include housing benefits - were significantly higher than the OECD average for both single earners and one-earner married couples with 2 children (earning 67% of the average wage).

Recent Developments

A range of actions have been taken in recent budgets to reduce replacement rates, including:

- Reductions in the personal rate of payment for new JA claimants aged 18 and 19 years of age (2009);
- Reductions of at least 4.1 per cent in all social welfare payments made to those of working age and larger reductions in JA rates for claimants under the age of 25 (2010)³⁰;

²⁸ It is important to note the interaction between replacement rates, and control and activation measures - the more efficient the control and activation measures a country has in place, the higher the replacement rate it can sustain without creating unemployment traps. For more information on the 70 per cent threshold, see: Department of Finance, Replacement Rates and Unemployment, 2009 and Department of Finance, Tax Strategy Group 11/14, Replacement Rates 2011, September 2012.

²⁹ The most recent review of Social Policy by the Citizens Information Board also identified the existence of a number of barriers to the take up of work. As well as focusing on the anomalies created by various entitlement criteria, they also pointed out the negative impact of processing delays etc. on individual decisions relating to the take-up of employment. See Citizens Information Board, Social Policy Quarterly Report, January-March 2013

³⁰ See Department of Finance, Financial Statement of the Minister for Finance, 9th December 2009

- Increases in the lower threshold for payment of the universal social charge (2012);
- Entitlement to jobseekers benefit is now based on a five day rather than a six day week where a person is working for part of a week (2012);
- Inclusion of Sunday working in the calculation of JB and JA payments for those engaged in casual or part time working (2013);
- The reduced rate of Jobseeker's Allowance and Supplementary Welfare Allowance was extended to older age cohorts (2014).

According to the ESRI, the reforms are having an impact - high replacement rates were more common in 2005 than in 2012³¹.

Policy Discussion and Recommendations

When determining the scope for further reform to support labour competitiveness, a number of other objectives must also be considered. For example, the adequacy and sustainability of the welfare system must be maintained in light of both fiscal and demographic challenges. A key goal here is that “work pays for welfare recipients”. The system must also continue to provide targeted support to those who are most at risk of poverty whilst facilitating and encouraging the transition of individuals from welfare to work. In order to achieve this it is vital that welfare traps are eliminated to the extent possible.

The Advisory Group on Tax and Social Welfare is currently analysing working age income supports with a particular focus on addressing anomalies in the interaction of the tax and social welfare codes. In the longer term, there may be merit in reforming the Irish welfare system so that that unemployment benefits (and consequently replacement rates) decline in line with the length of time a person is out of work, as is generally the case in European systems.

In the more immediate term, the issue of secondary benefits³² and their impact upon an individual's incentive to take up an offer of employment merits specific consideration (i.e. secondary benefits increase replacement rates, and their loss upon the take up of employment may create employment disincentives). At the same time, the impact of withdrawing secondary benefits on in-work poverty needs to be borne in mind. As pointed out by Watson et al., the rate at which such benefits are withdrawn as someone begins to work in what may be an insecure job needs to be carefully planned³³.

Recommendation: Undertake a comprehensive review of secondary benefits retention arrangements for those in receipt of Jobseekers Benefit or Jobseekers Assistance, with a view to establishing whether or

³¹ Callan, T., Keane, C., Savage, M., Walsh, J.R. and Timoney, K., Work Incentives: New Evidence for Ireland, published in ESRI, Budget Perspectives 2013, Research Series No. 28, September 2012

³² Secondary benefits for those in receipt of Jobseekers Benefits and Jobseekers Assistance may include: Rent Supplement, Mortgage Interest Supplement, Fuel Allowance, Rental Accommodation Scheme (RAS), Medical Card and GP Visit Card, Back to School Clothing and Footwear Allowance, School Books Grant Scheme

³³ Watson, D, Maître, B., and Whelan, C.T., Work and Poverty in Ireland: An Analysis of the CSO Survey on Income and Living Conditions 2004-2010, Department of Social Protection, 2012

not they are effective in the long term in removing barriers to the take up of employment.

Responsibility: Department of Social Protection

Similar concerns persist in relation to casual and part-time workers in receipt of jobseeker supports. The number of casual workers in receipt of a jobseeker's payment has increased more than four-fold over the last seven years³⁴, and in 2012, it was estimated that 20 per cent of the Live Register was made up of people who are either casual or part-time claimants receiving a payment due to a loss of working hours as opposed to facing full time unemployment³⁵.

The OECD has noted that Ireland also stands out internationally due to its very high number of unemployment benefit recipients, far above the number of unemployed according to the standard ILO definition used in labour force surveys³⁶. The OECD suggests that these workers receive high work income disregards in the determination of benefit amounts (i.e. disregards are the part of an income that is not counted when benefit entitlements are calculated). The OECD goes on to note that besides being costly, this can add to work disincentive effects. While this system provides strong incentives for jobseekers to take up part-time jobs, part time workers face high marginal effective tax rates when moving to a full-time job and will also lose eligibility for a range of social welfare benefits. It may also encourage some employers to utilise social welfare to subsidise labour costs. The OECD recommends that for part-time workers, work income disregards in the determination of benefits should be made less generous. Recognising this trend, the Department of Social Protection is considering the future structure of the jobseeker schemes. It is important that there are no disincentives in place which would discourage a move from part time to full time employment.

Recommendation: Review social welfare supports for part time work to ensure that supports are structured in a way that does not create disincentives for both employers to offer and employees to take up full time employment opportunities.

Responsibility: Department of Social Protection


Finally, the issue of housing entitlements is especially important in relation to replacement rates. In particular, those in receipt of Rent and Mortgage Supplement tend to have higher than average replacement rates - this payment creates particularly high replacement rates because while it is available to those who are not in employment, in effect, it is not available to those who are in employment. The same ESRI report previously referenced has found that about 7 out of 10 of the unemployed recipients of Rent and Mortgage Supplement face replacement rates of over 80 per cent.

In July 2013, the Government announced that it would proceed to transfer responsibility for the provision of rental assistance to persons with a long term housing need from the Department of

³⁴ PQ 14772/13, Tuesday, 26 March 2013

³⁵ Department of Public Expenditure, Labour Market Synopsis Issue 3, March 2013

³⁶ Pina, Á., Structural Reforms to Reduce Unemployment and Restore Competitiveness in Ireland, OECD Economics Department Working Papers, No. 910, OECD, 2011



Social Protection (currently provided through Rent Supplement) to housing authorities using a new Housing Assistance Payment (HAP)³⁷. The effect of this transfer and the welcome introduction of HAPs will be to remove a barrier to accessing full-time employment that exists under the Rent Supplement scheme. Under HAPs, the contribution that the tenant makes towards the rent will be based on a means test that links the level of contribution to the household income, rather than employment status.

Recommendation: The rollout of the Housing Assistance Payment (i.e. decoupling housing support from social welfare payments) is an essential element in removing barriers to employment and reducing replacement rates. In this regard, it is vital that the necessary legislation (“the Housing (Amendment) Bill 2013”) is progressed rapidly and that subsequently, the scheme is rolled out in an expedited manner.

Once fully implemented, the impact of HAP on replacement rates should be monitored to ensure that the payment successfully reduces barriers to employment, whilst protecting living standards.

Responsibility: Department of Environment, Community and Local Government

³⁷ At present there are around 70 rent schemes in the country operated by individual housing authorities. Under the Housing (Miscellaneous Provisions) Act, 2009, a new regulatory framework will be put in place that will set national parameters for local rent schemes. This new model will be progressive and will allow for a gradual increase in rent contribution as the household income rises.

Section 2: Business Costs

In the absence of a currency devaluation policy lever to manage short term cost competitiveness pressures, the policy focus needs to be on achieving enhanced competitiveness through a combination of cost reductions in key business inputs and enhanced productivity growth. Despite substantial improvements in Ireland's cost competitiveness, Ireland remains an expensive location³⁸. Further, improvements in cost performance have been strongly related to the weak performance of the euro - a factor outside of our control, which is subject to change. A significant proportion of the recorded gains could be quickly eroded if the euro strengthens further.

The Council has benchmarked and made recommendations to reduce a range of business costs in the past. In the context of this submission, the Council wish to focus on legal costs and waste management costs.

Issue #4: Legal Fees - Why are they Important?

Regulation in professional services sectors often limits the scope for competition by restricting entry, allowing for price fixing, granting exclusive rights to perform particular services, and restricting advertising and business structures. These regulations are claimed to be in the interest of consumers on the basis that they improve service quality and overcome information asymmetries. In practice, however, there is little empirical evidence that indicates a positive impact on consumer welfare and it is not always apparent why the regulation of these professions should differ from that of other service providers. OECD indicators examining regulation in professional services suggest that, on average across the OECD, legal services is the profession in which most regulatory hurdles are found³⁹.


Background and Data

Using experimental CSO data, it is possible to examine the change in price levels for a number of business and professional services subsectors over recent years. Based on the Services Producer Price Index (SPPI), in 2011, the cost of most services had fallen to, or below, 2006 levels. The largest decrease in services costs since 2006 has been in the Architecture, Engineering and Technical testing category, where prices have fallen by nearly 12 per cent. The exception to this trend is the Legal, Accounting, PR and Business Management category, where recorded prices remained 1.5 per cent above 2006 levels (i.e. relative to the other professions examined, prices for legal services have proven extremely sticky and have not adjusted downwards to the degree that might have been expected given current economic circumstances).

Looking in greater detail and accountancy and legal costs, it becomes clear that while the cost of accountancy services have continued on a downward trajectory over the course of the last number of years and are now significantly below their 2006 level, legal service costs (solicitors only) remain

³⁸ Forfas, Costs of Doing Business 2012, April 2013

³⁹ Conway, P., and Nicoletti, G., Product Market Regulation in the Non-Manufacturing Sectors of OECD Countries: Measurement and Highlights, OECD, Economics Department Working Papers No. 530, December 2006



approximately 12 per cent above 2006 price levels. Whilst there are limitations to the data, there is further evidence that legal costs remain a cause for concern. According to the World Bank, Ireland remains one of the most expensive locations among those benchmarked in terms of issue of the cost of enforcing a business contract.

Finally, although somewhat dated, the OECD's Product Market Regulation (PMR) indicators for the legal profession shows that Ireland ranks around the middle of the OECD in terms of restrictiveness, though it is more restrictive in particular areas, including legal education and the types of co-operation allowed.

Recent Developments

The legal profession has repeatedly been subject to a range of investigative studies, all of which recommended reform⁴⁰. The Legal Services Bill (currently progressing through the Oireachtas), once enacted, will deliver many welcome reforms and addresses many of the issues raised in the past by the Council.

Elsewhere, the Courts and Civil Law (Miscellaneous Provisions) Act 2013 was signed into law in July 2013. The Act increases the financial jurisdiction limits of the Circuit Court from €38,092 to €75,000 and the District Court from €6,384 to €15,000, bringing them in line with current monetary values (i.e. reflecting increases in price levels) and ensuring that cases are brought to the appropriate court level. The Act also permits the appointment of two additional Supreme Court Judges to tackle the delays in cases before that Court.

Policy Discussion and Recommendations

In establishing independent regulation, improving access and competition, making legal costs more transparent and ensuring that adequate procedures are in place to address consumer complaints, the Legal Services Bill, when enacted, will address many of the concerns expressed in the plethora of reports previously referenced.

However, the high cost of legal services in Ireland is not entirely a result of regulatory factors and so regulatory reform is not the sole response required if costs are to be reduced. While protecting the independence and quality of the judicial system (an important competitive strength in Ireland), there is a need to widen the scope of reform to include reform of court procedures - improved case management, whereby time delays in scheduling and hearing cases is minimised, for instance, offers potentially significant cost savings.

The Legal Cost Working Group has recommended a number of procedural measures to the operation of the legal system⁴¹. For instance, the group recommended that the rules of the court should include a specific order facilitating supervision by the court of the pace of litigation and this should also contain measures to sanction unnecessary delays.

⁴⁰ For example, Trade Commission, The Report of Study into Restrictive Practices in the Legal Profession by the Trade Commission (1990); Legal Cost Working Group, Report of the Legal Cost Working Group , 2005; Competition Authority, Competition in Professional Services- Solicitors and Barristers by the Competition Authority, 2006; Committee of Public Accounts, Third Interim Report on the Procurement of Legal Services by Public Bodies, Dáil Éireann, January 2011

⁴¹ Legal Cost Working Group, Report of the Legal Cost Working Group, 2005

Similarly, the OECD has examined the factors determining judicial performance across a range of countries and highlighted a range of insightful findings⁴². Overall, they find that differences in trial length (which in turn impact upon legal costs) appear to be more a function of the structure of justice spending, and the structure and governance of courts rather than simply the amount of resources devoted to justice. From the World Bank *Doing Business* report we know that the time to resolve a commercial dispute through the courts in Ireland (counted from the moment the plaintiff files a lawsuit in court until payment) is significantly longer than the average for the OECD High Income Countries (650 days compared with 510 days)⁴³. Key findings from the OECD include:

- Larger shares of the justice budget devoted to computerisation, active management of cases by courts and the systematic production of statistics at court level are associated with shorter trial length.
- Investments in court computerisation also correlate with the productivity of judges.
- The majority of courts in OECD countries have electronic forms, websites and electronic registers.
- Trial length is shorter in countries with specialised commercial courts.
- Systems of court governance in which the chief judge has broader managerial responsibilities (e.g. covering supervision of non-judge staff and administration of the budget), display lower average trial length than systems where such responsibilities are differently allocated.

These findings suggest that significant improvements in the performance of the Courts Service are possible through the application of additional technological and management solutions.

Recommendation: Ensure that the Legal Services Bill is enacted before the end of 2013.

Responsibility: Department of Justice and Equality

Recommendation: The procedural reforms recommended by the Legal Cost Working Group are designed to make the operation of the courts more efficient and to reduce cost, and so should be implemented. Any reforms to the Courts Service should also make reference to the findings of the OECD examination of judicial performance.

Responsibility: Department of Justice and Equality

⁴² OECD, *Judicial Performance and its Determinants: A Cross Country Perspective - A Going for Growth Report*, OECD Economic Papers No. 05, June 2013

⁴³ World Bank, *Doing Business 2013*, October 2012

Issue #5: Waste Costs - Why are they Important?

The availability of waste management services and the associated costs continue to be important competitiveness issues for enterprise in Ireland. A key challenge for waste policy in Ireland is to balance economic and environmental goals in a way which will minimise business costs and avoid putting jobs at risk. While waste disposal and compliance costs can represent a significant input cost for businesses, the proportion of total costs accounted for by waste costs varies according to sector⁴⁴.

Measures to reduce the costs of waste management and disposal, while ensuring the State's compliance with waste management targets, would reduce business operating costs thereby creating scope for improved competitiveness and job creation. Reducing the amount of waste generated is the most effective way for businesses to reduce their waste management costs.

Background

Waste management in Ireland is in a transition phase - we are moving from an approach which is heavily dependent on landfill to one which will better reflect and give effect to the waste hierarchy and the polluter pays principle. The publication of the new national waste policy in July 2012 was a welcome development, particularly the re-commitment to the implementation of the waste hierarchy, the creation of larger regional waste markets, and the prioritisation of waste prevention and minimisation⁴⁵.

The waste management industry is comprised of a number of segmented activities: generation, collection, separation, processing and disposal. These are vertically-related activities. Separate markets also exist for commercial (the focus of this submission) and residential waste. Competition at each level of the waste management industry encourages waste management companies to keep their costs down. Furthermore, competition at one level of the waste management industry can also affect costs at another level on the vertical chain.

Despite positive developments such as improvements in recycling performance and recent reductions in waste generated, Ireland continues to perform poorly relative to many key competitors in terms of the provision and cost of waste management treatment options to enterprise.

In terms of landfill costs, in 2012, the average market rate for non-hazardous landfill was €35-45 per tonne (excluding the levy) compared to €112 in 2010. However, the landfill levy in Ireland has increased significantly in recent years, from €30 per tonne in 2010 to €65 per tonne in July 2012, and to €75 per tonne in 2013 which has reversed some of the recent competitiveness gains. Of the benchmarked countries, Ireland had the fifth highest landfill costs (including levies) in 2012. Ireland had the third highest non-hazardous thermal treatment gate fees (including levies) in 2012⁴⁶.

⁴⁴ For example, overall utility costs (which include waste costs) are particularly important for firms operating in the agri-food and chemicals sectors. For further detail, see KPMG, Competitive Alternatives 2012, Forfás Calculations

⁴⁵ Department of the Environment, Community and Local Government, A Resource Opportunity: Waste Management Policy in Ireland, July 2012

⁴⁶ Forfás, Costs of Doing Business 2012, April 2013

Gate fees differ in some countries for the biological treatment of food and green waste. In Ireland in 2012, gate fees for the biological treatment of food waste were €76 per tonne compared to €16 per tonne in Flanders and €50 per tonne in the Netherlands. Gate fees for green waste were €31 per tonne in Ireland in 2012.

Policy Discussion and Recommendations

For the most part waste collections services, including municipal waste collection, are now provided by the private sector. In terms of waste infrastructure, the local authorities' role is by and large confined to bring banks and a few landfills - new infrastructure will be provided by the private sector. However, the sector remains fragmented with many small companies operating in a narrow geographic market. This fragmentation is likely to be adding to costs for end users.

A recent Forfás report on economic regulation has already highlighted many of the policy actions required in this space to support competitiveness (e.g. the reduction in the number of waste regions; actions to reduce waste generation; and the need to strike an appropriate balance between competitiveness and environmental goals)⁴⁷.

The recent waste management policy statement requested the Competition Authority to:

- Maintain an ongoing oversight of household waste collection markets;
- Produce a report in 2016 as part of a mid-term review of the implementation of the new waste management policy.

In order to produce such a report, it is important that relevant price data and other information are collected over a significant time period in advance of 2016 to allow for a meaningful assessment of how competition is working in the residential waste collection market. Such a report should also address issues that touch on business input costs (e.g. landfill gate prices which influence collection costs). The Council believe, reflecting the contribution of waste costs to overall enterprise costs that the Competition Authority's brief should be extended to provide oversight of the commercial waste market.

Recommendation: Implementation of the actions set out in the waste management policy statement is important. On an on-going basis, the Competition Authority should work with the Department of Environment, Community and Local Government and other relevant agencies, such as the EPA, to assess the availability of data and information required to undertake a mid-term review of the implementation of the new waste management policy.

Responsibility: The Competition Authority

Recommendation: As well as maintaining oversight of the household waste collection market, the Authority should also provide oversight of the commercial waste market.

Responsibility: The Competition Authority

⁴⁷ Forfás, Sectoral Regulation - A Study to Identify Changes to Sectoral Regulation to Enhance Cost Competitiveness, April 2013

Section 3: Supporting Entrepreneurship

New business start-ups play a vital role in stimulating job creation, increasing competitiveness, innovation and dynamism in Ireland's enterprise base. Ensuring that entrepreneurs have the capacity to avail of growth opportunities is an essential pillar in securing sustainable economic growth and achieving higher levels of employment.

Issue #6: Entrepreneurship - Why is it Important?

Entrepreneurship is one of the cornerstones of a modern, fully developed economy and the lifeblood of thriving local communities. Increasing the cohort of entrepreneurs in Ireland and providing an environment that supports the growth of their businesses is important for ensuring Ireland's future economy is both sustainable and dynamic.

Background and Data

Given the importance of entrepreneurship as a source of employment creation and economic growth, it is a concern that the numbers setting up new businesses is at historically low levels. The 2012 Global Entrepreneurship Monitor Report shows that:

- The rate of early stage entrepreneurship in Ireland is 6.1%, compared to the OECD average of 8.2 per cent. Rates in the US (12.8%) and the UK (9%) are also considerably higher.
- The rate of those aspiring to be entrepreneurs is 8 per cent, just over half of the OECD average of 14.4 per cent.
- The perceived attractiveness of an entrepreneurial career in Ireland has also continued to decline year on year, and is lower in Ireland (45%) than the OECD average (56%).
- The perception that there are good opportunities to establish enterprises within the next six months in Ireland (26%) is lower than the OECD average (33%).
- We need to generate a step-change in the spirit and culture of entrepreneurship in Ireland.

More broadly, investment levels have collapsed in Ireland in recent years and Ireland now has the lowest levels of investment within the euro area⁴⁸. While a large part of this reflects the collapse in the property market, it also captures the decline in investment in trading sectors of the economy. Small businesses are having particular difficulties in accessing affordable finance⁴⁹.

Policy Discussion and Recommendations

While the intellectual spark and risk taking originates with the entrepreneur, Government can play a key role in assisting the growth of new business - removing barriers, supporting the entrepreneur and assisting them to turn a good idea into a viable business. This of course, is in addition to the role Government plays in shaping the overall environment in which enterprise must operate.

⁴⁸ European Commission, AMECO Database

⁴⁹ Gerlach-Kristen, P., O'Connell, B., and O'Toole, C., SME Credit Constraints and Macroeconomic Effects, ESRI, presented at "SME Financing: Recent Trends and Policy Options" Conference" 19 April 2013

A wide range of Government supports already exist to support nascent businesses and existing firms seeking to expand into new markets. Some of these supports are summarised in Table 2.

Table 2: Supports for Individuals and Businesses, 2013

<p>In terms of <u>tax reliefs</u>, schemes include:</p> <ul style="list-style-type: none"> ▪ Employment Investment Incentive (EII) which provides tax relief for investment in certain corporate trades. ▪ R&D Tax Credit which is designed to encourage investment in R&D by companies in Ireland. 	<p>In order to support expanding businesses seeking to <u>recruit</u> additional employees, the primary Government schemes are:</p> <ul style="list-style-type: none"> ▪ JobsPlus is an incentive which rewards employers who employ long term jobseekers on the Live Register. ▪ JobBridge offers an internship of 6-9 months to a person who has been signing on as available for work and getting a payment or credits for at least three months. ▪ The FÁS Wage Subsidy Scheme provides financial incentives to employers, outside the public sector, to employ disabled people who work more than 20 hours a week.
<p>For those seeking to <u>start their own business</u>, the available schemes include:</p> <ul style="list-style-type: none"> ▪ Seed Capital Scheme which allows an entrepreneur to claim back previously paid income tax to invest equity into a company. ▪ Three Year Corporate Tax Exemption which provides relief from corporation tax on the trading income and certain gains of new start-up companies in the first 3 years of trading. ▪ Back to Work Enterprise Allowance provides Social Welfare support to those who have been signing on for over 12 months and who are starting their own business. ▪ The Short-Term Enterprise Allowance (STEA) gives support to people who have lost their job and want to start their own business. 	<p>The State-provided programmes to support <u>access to finance</u> include:</p> <ul style="list-style-type: none"> ▪ The MicroFinance Fund aimed at start-up, new or growing enterprises across all sectors, with no more than 10 employees. Loans of up to €25,000 are available for commercially viable proposals that do not meet the conventional risk criteria applied by commercial banks. ▪ The Credit Guarantee Scheme facilitates additional bank lending over 3 years to viable micro, small and medium enterprises to help them obtain the working capital and investment that they need. ▪ The Credit Review Office has been established to assist small businesses who are having difficulty in accessing credit or loan facilities.

Source: Department of Jobs, Enterprise and Innovation (edited)

Mirroring the recommendation on training and activation, evaluation is an essential tool to ensure that programmes result in the desired outcome: limited fiscal resources should be focused on policies empirically-proven to improve entrepreneurship and enterprise development.

In addition to these supports, a range of programmes are provided through IDA Ireland, Enterprise Ireland and Údarás na Gaeltachta. There is, however, a serious weakness in terms of business awareness of the actual supports that already exist. This is perhaps understandable given the range of Agencies, Departments and Offices active in this space.

While details on many of these programmes and supports are available on the Department of Jobs, Enterprise and Innovation website (and in a leaflet published as part of the Action Plan for Jobs 2012)⁵⁰ and on the websites of the relevant Agencies, this does not appear to have resolved all of the awareness issues. A range of other initiatives have also been acted upon including:

- Engagement with industry and representative bodies through the SME Funding Consultation Committee.
- The development of a Department of Finance's SME newsletter.
- The publication of a 'funding matrix'⁵¹.
- Targeted communications strategies by individual agencies directly to their clients.

A much more engaging multimedia campaign is required to direct potential entrepreneurs to a central, comprehensive resource which hosts all of the necessary and relevant information.

Recommendation: All programmes should be evaluated on a regular basis with resources focused on those programmes proven to deliver on their objectives.

Responsibility: Programme owners, Department of Public Expenditure and Reform

Recommendation: All of the information on the various supports available to entrepreneurs and those seeking to grow their business should be consolidated and accessible through a single, branded portal. A comprehensive multimedia awareness campaign is required to support this initiative.

Responsibility: Department of Jobs, Enterprise and Innovation

⁵⁰ See www.enterprise.gov.ie/Publications/Financial-Support-for-Irish-Business.pdf

⁵¹ Matrix can be found at <http://banking.finance.gov.ie/wp-content/uploads/State-Financial-Support-for-SMEs.pdf>

Section 4: Supporting the Development of a Sustainable Construction Sector

Whilst export-led growth will ultimately remain the primary driver of the Irish economy, it is important that all sustainable options to stimulate the domestic sectors are considered.

The construction and property sectors remain a vital component of any healthy economy. This section focuses on the outlook for the construction sector, actions to encourage productive use of land, and the need to prevent future housing bubbles. Within the construction and property sectors, however, other concerns persist - including, for example concerns over the level of Local Authority development levies, and the issue of upward only rent reviews for existing contracts (notwithstanding progress in relation to new rent agreements). These issues have previously been addressed in the NCC's Competitiveness Challenge reports.

Issue #7: Supporting the Construction Sector - Why is this Important?

The construction sector has a dual role in Ireland's economy. As a sector in its own right, it directly provides over 100,000 regionally distributed jobs across a variety of occupations and skill levels, and is a key generator of wealth. The sector also provides and maintains the infrastructures and buildings on which every other industry and society depends. Indeed, a competitive and dynamic construction sector and property market forms a crucial part of the business environment and is a critical competitiveness factor underpinning enterprise investment and growth.

Following a most dramatic transition from boom to bust, the sector now faces a tough challenge in seeking to return to a sustainable level of activity in the midst of an unprecedented national and international economic crisis. Ireland's construction sector, however, retains the potential to create regionally distributed jobs and wealth.

Background and Data

As part of the Action Plan for Jobs 2012, Forfás was asked to develop a national strategy for the Construction Sector in consultation with key stakeholders. *Ireland's Construction Sector: Outlook and Strategic Plan to 2015* sets out a vision for the future, acknowledges the extent of current challenges, and identifies priority actions that will support the sector, over the next three years to 2015 and beyond. It places particular emphasis on the need to simultaneously create confidence and momentum in the domestic market; remove unnecessary constraints to the development of infrastructure and buildings; and continue to reinforce capability so that the sector can operate competitively in domestic and international markets.

The importance of the sector to the overall economic wellbeing of the country is clear:

- The construction sector employs 102,700 people directly, accounting for 5.5 per cent of total employment (down from an unsustainable peak of over 12 per cent of total employment at the height of the construction and property boom)⁵².

⁵² CSO, Quarterly National Household Survey, Q2 2013

- In Q1 2012, former construction workers accounted for 25 per cent of total unemployment (equivalent to 77,000 individuals), with an average unemployment duration of almost 29 months⁵³.
- The sector accounts for 6.4 per cent of GNP⁵⁴.
- The value of construction output domestically has dropped by more than 40 per cent per annum in private non-residential building and almost 27 per cent per annum in private residential building over the 2007-2011 period.
- The sector is comprised of over 40,500 enterprises, almost 34 percent fewer than existed in 2006.

Outlook

Both known and anticipated domestic market demand over the next three years points to an overall output position of just under €9 billion, or 6.7 percent of GNP by 2015⁵⁵, only a small increase on the expected out-turn for 2012. At that level of activity any recovery in employment over the next three years will be marginal. These projections are based on a number of assumptions including:

- A continuation of very low house building rates - the total number of new dwellings built in the next three years is projected to increase to 7,000 by 2015, up from 4,000 in 2013 and 5,500 in 2014. Much of the additional activity will be concentrated on repair, maintenance and improvement (RMI) in the residential sector for the period to 2015, including energy retrofitting, which is more employment intensive.
- Limited activity in the commercial property market primarily due to on-going uncertainty regarding economic outlook, an overhang of stock, the tight lending environment, high levels of indebtedness amongst developers and developer/contractors, and cost of construction.
- Weak public capital investment under the multi-annual capital investment framework to 2015 and notwithstanding the additional €2.25 billion in capital investment planned over the 2013 to 2018 period.

Policy Discussion and Recommendations

After a prolonged period of unsustainable growth, the Irish construction sector has contracted to an unsustainably low level of output. The longer this continues, the greater the risk of losing valuable construction expertise and investment to competing locations. It is imperative that construction returns to a sustainable growth path so that it can make an optimal contribution to economic recovery and support other sectors in their contribution. An absence of prudent speculation,

⁵³ People who had previously worked in Construction accounted for 25 per cent of all unemployed persons as of Q1 2012; this has dropped from 30 percent or more in Q1 2009 and Q1 2010. Among males former Construction sector workers account for 36 percent of all unemployment as of Q1 2012. Source: QNHS Unemployment Thematic Report Q1 2005-2012 (updated tables), available at <http://www.cso.ie>

⁵⁴ A measure of gross output from the sector that includes value generated from repair and maintenance projects, based on methodology used in DOEHLG Construction Industry Review and Outlook (CIRO), various years.

⁵⁵ DKM Economic Consultants analysis for Forfás, 2012

compounded by lack of financing has created a scarcity of property solutions for new FDI especially in Dublin city.

The downturn in the domestic market has resulted in more indigenous firms making initial forays into overseas markets. Some Irish construction firms have grown in scale and are competing successfully in international markets, as centres of excellence in areas such as civil and structural engineering, mechanical and electrical contracting, and power, energy and pharmaceutical construction and maintenance. Experience in developing world class high spec facilities catering to FDI pharmaceutical and ICT investments into Ireland over a number of years has helped to build a strong value proposition for Irish construction firms abroad. However, despite significant contraction, the overall size-profile of construction firms remains broadly the same, with the vast majority (96.7 percent) engaging less than 10 people. This is a significant challenge for the sector in the context of realising internationalisation potential.

The Construction Strategy has identified a range of actions focused on five key areas:

- (i) Removing obstacles and restoring confidence in the domestic market;
- (ii) Driving further internationalisation;
- (iii) Embedding competitiveness and innovation;
- (iv) Ensuring the sector is skilled to deliver;
- (v) Transforming governance.

In response, a Government Policy Statement outlining a series of measures to support the sector was published⁵⁶. The Statement outlines the Government's commitment to undertake a series of actions which include:

- Improved coordination and consultation between Government and the industry on matters concerning the long-term development of the sector through the establishment of a new Construction Sector Consultation and Coordination Group.
- Close coordination between the new Construction Sector Consultation and Coordination Group and the Inter-Agency Steering Group on the Property Sector chaired by the Department of Finance, with both groups feeding into the work of the Cabinet Committee.
- In terms of investment, the Government will continue to implement the Public Capital Programme. In addition a range of Government Departments are now developing new options to help secure important investment in the area such as mechanisms for increased private financing and the greater use of PPPs, examining the use of performance bonds and reviewing public service contracts.
- The creation of a new statutory register of builders and contractors will improve transparency within the industry, ensure statutory, regulatory and legal compliance, and contribute significantly to the quality of the built environment.
- The further crackdown on the shadow economy will drive out unscrupulous contractors from the industry thereby supporting responsible and compliant companies and the commitment to

⁵⁶ Measures to Support the Construction Sector, July 2013

examine options to address emerging gaps in the commercial property sector will keep Ireland at the forefront of attracting in new foreign direct investment.

Recommendation: Implementation of the recommendations contained in Ireland's Construction Sector - Outlook and Strategic Plan to 2015 should be prioritised and monitored in the Action Plan for Jobs 2014.

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

In the context of supporting a sustainable construction sector, it is necessary to learn lessons from the recent past. While economic recovery remains fragile and Ireland is a long way from a return to the undesirable construction boom of the mid-2000's, we must take action now to ensure that the conditions which facilitated the property bubble are not allowed to re-emerge⁵⁷.

A recently established Inter-Agency Group on the Property Market is leading cross-Government co-ordination of policy formulation and implementation in the context of the future orientation of the domestic property sector (commercial and residential). A specific sub-group has been formed to consider supply and demand issues in the property market. Given the serious consequences of the recent property boom and subsequent collapse, it is essential that the subgroup develops policy recommendations to ensure that we never again have a sustained property bubble.

Recommendation: The Inter-Agency Group on the Property Market should develop policy recommendations to avoid the creation of future sustained property bubbles.

Responsibility: Inter-Agency Group on the Property Market, Department of the Environment, Community and Local Government

⁵⁷ In the early 1970s, the Kenny report identified measures to control the price of development land but its recommendations were never implemented.

Issue #8: Site Value Tax for Commercial Property - Why is this Important?

Taxing land and property is one of the most efficient and least distorting ways for governments to raise funds. Following recommendations from the Council and others, Ireland has recently introduced an annual value based residential property tax for households. However, the taxation of commercial properties in the form of commercial rates has not changed significantly in many decades - despite long held concerns on its fairness and efficiency. Consideration should be given to replacing the current system of commercial rates (which are a form of property tax levied by local authorities on tenants of commercial properties) with a site value tax.

Background and Data

At present, the revenues generated through the Commercial Rates system enable Local Authorities to provide important services to both businesses and households⁵⁸. The dependence of local authorities on commercial rates has increased sharply in recent years due to reduced central government funding and development charges - for example, the annual Local Government Fund General Purpose Grant Allocation has fell from a peak of €999 million in 2008 to €651 million in 2012⁵⁹.

While the Valuation (Amendment) Bill 2012 will lead to some positive reform, the Council believe more radical change is required⁶⁰. As it stands, the Commercial Rates system does nothing to encourage the efficient use and development of vacant commercial land. In the long term, the provision of sustainable sources of income for Local Authorities is essential.

An annually recurring Site Value Tax (SVT), levied without regard to how land is used or what is built on it, is considered the most effective type of land tax in terms of ensuring the most productive use is made of the land⁶¹.

Since the amount of land is fixed, taxing it cannot distort supply in the way that taxing work impacts upon the supply of labour. Instead a land tax encourages efficient land use and taxes the value added by investment from the community, rather than the value created by the site owner. Property taxes that include the value of buildings on land are less efficient, since they are, in effect, a tax on the investment in that property.


Under a site-value tax, those sitting on derelict sites in Ireland's town centres will be made to use it, sell it on, or pay for the privilege of wasting land. The costs of such vacancies are currently borne by others in general, by other rate payers in particular. Essentially, a site-value tax rewards those who use land well and punishes speculators and land-hoarders. This has obvious benefits such as the rejuvenation of town centres as property developers, for instance, would be less inclined to hoard undeveloped land if they had to pay an annual levy on it. It would also support the availability of land for housing as market needs grow.

⁵⁸ The annual commercial rate for commercial property in Ireland is calculated by multiplying the annual rate of valuation (ARV) by the rateable valuation for the property which is determined by the Valuation Office.

⁵⁹ Department of Environment, Community and Local Government

⁶⁰ The Bill also provides for the introduction of an ability to pay clause and related matters including the abolition of liability on a subsequent occupier to pay property rates incurred by a previous occupier.

⁶¹ Site value is measured on the basis of the rental value of the land. A SVT is ordinarily charged as a percentage of the value of a site with regular valuations undertaken by an independent statutory body.



An effective site-value tax levied on commercial property would produce a sustainable stream of income, encourage efficient land use benefiting town centres, result in more sustainable development and could ultimately replace commercial rates and the development contribution scheme⁶². The Commission on Taxation recognised the strong economic rationale for introducing a land value tax, while also acknowledging the practical difficulties which would have to be overcome (e.g. the difficulty in decoupling the site value from the overall property value; issues relating to the perceived fairness of a site-value approach to taxation)⁶³.

Recommendation: The feasibility of introducing a Site-Value Tax for commercial property to replace the current system of commercial rates should be explored in 2014.

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

⁶² In contrast, a property tax (i.e. a tax levied on buildings, for example) is not levied on undeveloped land, and so is not able to replace Development Levies. For further details see Smart Taxes Network, Implementation of Site Value Tax in Ireland, July 2010

⁶³ Commission on Taxation, Commission on Taxation report, 2009

Section 5: Benchmarking Competitiveness

Benchmarking our competitiveness performance is an essential exercise, and provides a statistical basis for observers to identify Ireland's competitiveness strengths and weakness. Comparing Ireland's performance against our key competitors provides policymakers with the analytical underpinning to formulate policy recommendations designed to maximise Ireland's international competitiveness.

Issue #9: Improving Ireland's Performance in the World Bank's Doing Business Report - Why is this Important?

The World Bank Doing Business project looks at domestic, primarily small and medium size companies and measures the regulations applying to them through their life cycle. Based on standardized case studies, it presents quantitative indicators on business regulation that can be compared across a range of economies and over time. It tracks the time and cost of completing a range of businesses processes. The report has been used by many Governments to promote and measure reform - mostly aimed at enhancing economic competitiveness.

Background and Data

The World Bank's Doing Business Report for 2014 was published in October 2013. The report provides objective measures of business regulations for local firms in 189 economies. Doing Business also provides quantitative measures of regulations across ten different dimensions - starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency – as they apply to domestic small and medium-size enterprises⁶⁴.

Ireland is ranked 15th in the 2014 report - unchanged from the 2013 report. In terms of the sub-headings, Ireland's rankings are summarised in the table below, with last year's ranking provided in the brackets.

Table 3: Ireland's ranking in Doing Business 2014

12 th for "Starting a Business" [10 th]	6 th for "Protecting Investors" [6 th]
115 th for "Dealing with Construction Permits" [106 th]	6 th for "Paying Taxes" [6 th]

⁶⁴ The Doing Business project encompasses two types of data. The first come from readings of laws and regulations by both the local expert respondents and the Doing Business team. The second are time-and-motion indicators that measure the efficiency in achieving a regulatory goal (such as granting the legal identity of a business). Within the time-and-motion indicators, cost estimates are recorded from official fee schedules where applicable. A regulatory process such as starting a business or registering property is broken down into clearly defined steps and procedures. The time estimates for each procedure are based on the informed judgment of expert respondents who routinely administer or advise on the relevant regulations.

100 th for “Getting Electricity” [95 th]	20 th for “Trading Across Borders” [28 th]
57 th for “Registering Property” [53 rd]	62 nd for “Enforcing Contracts” [63 rd]
13 th for “Getting Credit” [12 th]	8 th for Resolving Insolvency” [9 th]

Source: World Bank

Given these rankings, a number of areas stand out as particular weaknesses for Ireland - namely, “Dealing with Construction Permits”, “Getting Electricity”, “Registering Property”, “Trading Across Borders” and “Enforcing Contracts”.

By identifying and addressing the causes of these poor scores, potential exists to improve Ireland’s international ranking and to enhance the operating environment for enterprise. As the World Bank Index primarily focuses on administrative and regulatory matters, enhancing Ireland’s position would not generally require significant investment or expenditure.

Recommendation: The relevant Government Departments and Agencies should identify actions and develop an implementation plan with clear timelines to address the weaknesses highlighted in the World Bank’s Doing Business 2014 report.

Responsibility: Department of Communications, Energy and Natural Resources, Department of Justice and Equality, Department of the Environment, Community and Local Government, Department of Finance, Other Department and Agencies as relevant

Wilton Park House, Wilton Place,
Dublin 2, Ireland

Tel +353 1 607 3000

Fax +353 1 607 3030

www.forfas.ie



**National
Competitiveness
Council**

