

Labour market policy and what works: The UK experience

Lessons from the Work Programme

LMC-UCD Geary Joint Conference: 6th February 2017

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Outline of presentation

- Some observations on methods of LMP evaluation in the UK
- Some history – the development of UK active LMP
- Recent changes and the Work Programme
- Preliminary reflections on the impact of the Work Programme

Labour market policy evaluation methodologies in the UK

- Despite UK ‘evidence-based policy-making’ tradition, very few ‘gold standard’ impact evaluations of LMPs (RCT)
 - RCTs mainly small, non-mainstream and/or local trials (questions about scalability)
 - Some quasi-experimental evaluations (control groups, PS matching), difference-in-difference
- Main constraints on use of RCT
 - Political impatience: rolling out national programmes simultaneously to entire eligible population. No possibility of counterfactual or control group
 - Public/political concern about denying ‘treatment’ to individuals in control group
 - Concerns about contamination of control group in real-time evaluations
- But growing interest in RCT
 - Expect to see more RCTs applied to ALMPs in the next few years
 - E.g. current “Innovation Fund” trials: activation-type interventions for people with health conditions

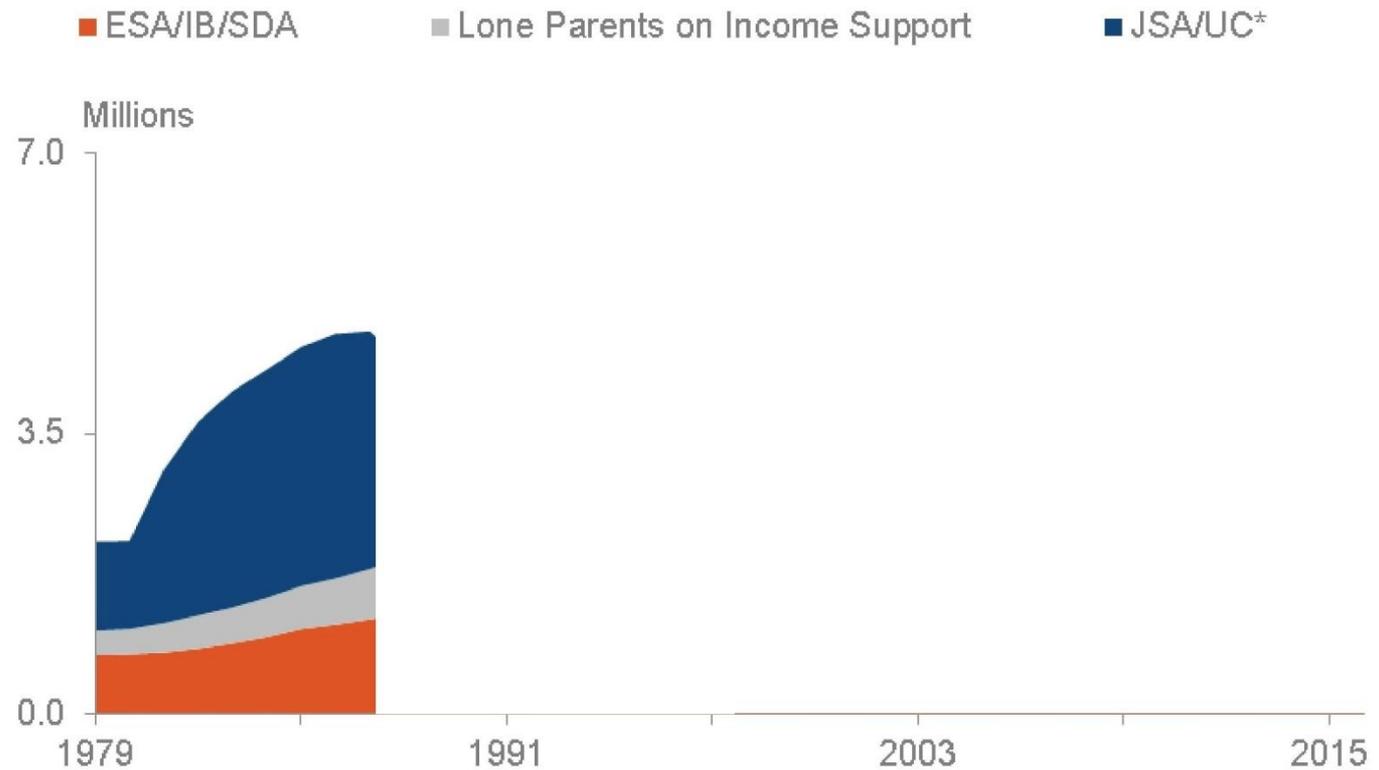
Evolution of ALMP in the UK: 1

- Evolution in line with international consensus on what works:
 - 'work first'/job-search assistance: cheap; generally good short-term impact; medium/longer impact more variable (matching issues, revolving door)
 - Human capital/training: more expensive; poor or negative short-term impact (lock-in); much better long-term impact (if well-targeted)
 - Subsidies: expensive; positive short-term effects (often smaller in long-term); high risk of displacement
 - Job creation in public sector: expensive; positive short-term effects (by definition); zero or negative long-term effects (stigma?); displacement risk
- Since 1980s
 - Public sector job creation and subsidies virtually disappeared from UK ALMP portfolio
 - Main exception self-employment subsidies (driven by ideology rather than evidence)
- Since 1990s
 - UK ALMP portfolio dominated by work-first/job-search assistance
 - Human capital/training programmes for unemployed greatly reduced

Evolution of ALMP in the UK: 2

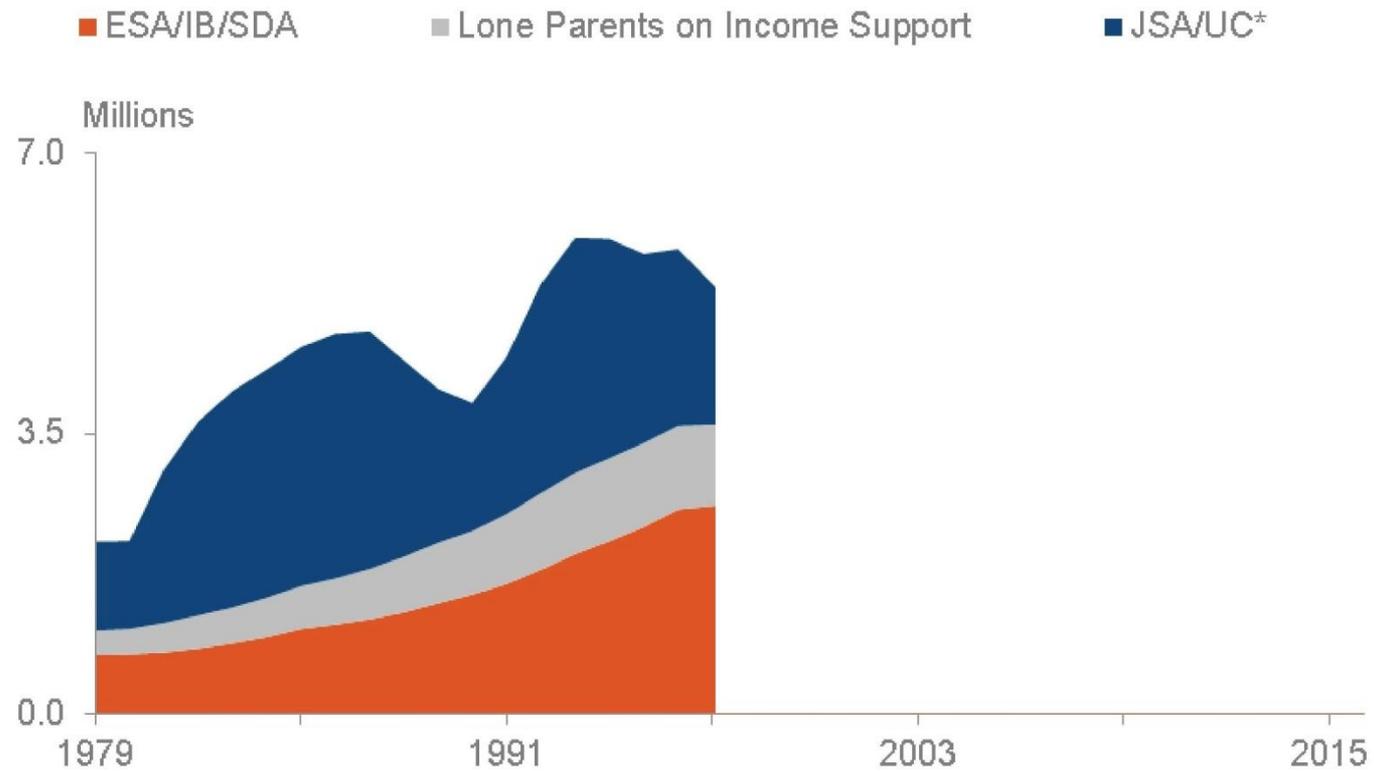
- However, also worth noting:
 - UK policy interest in ‘what works’ focuses not just on what interventions work but increasingly on which funding and incentive structures work in contracting for and managing programmes. Questions include:
 - Private/public/mixed approach to delivery?
 - Financing based on input cost or ‘payment by results’ (output/outcome)?
 - Government-prescribed interventions or ‘black box’ approach?
 - Relationship between annual ALMP budgets and a) wider public spending; b) longer-term public budgets?
 - For most of recent history, (implicit) outcome variables for ALMP were benefit off-flows/savings, rather than labour market variables (employment probabilities, earnings levels)

Recent history of 'out of work benefits' in UK



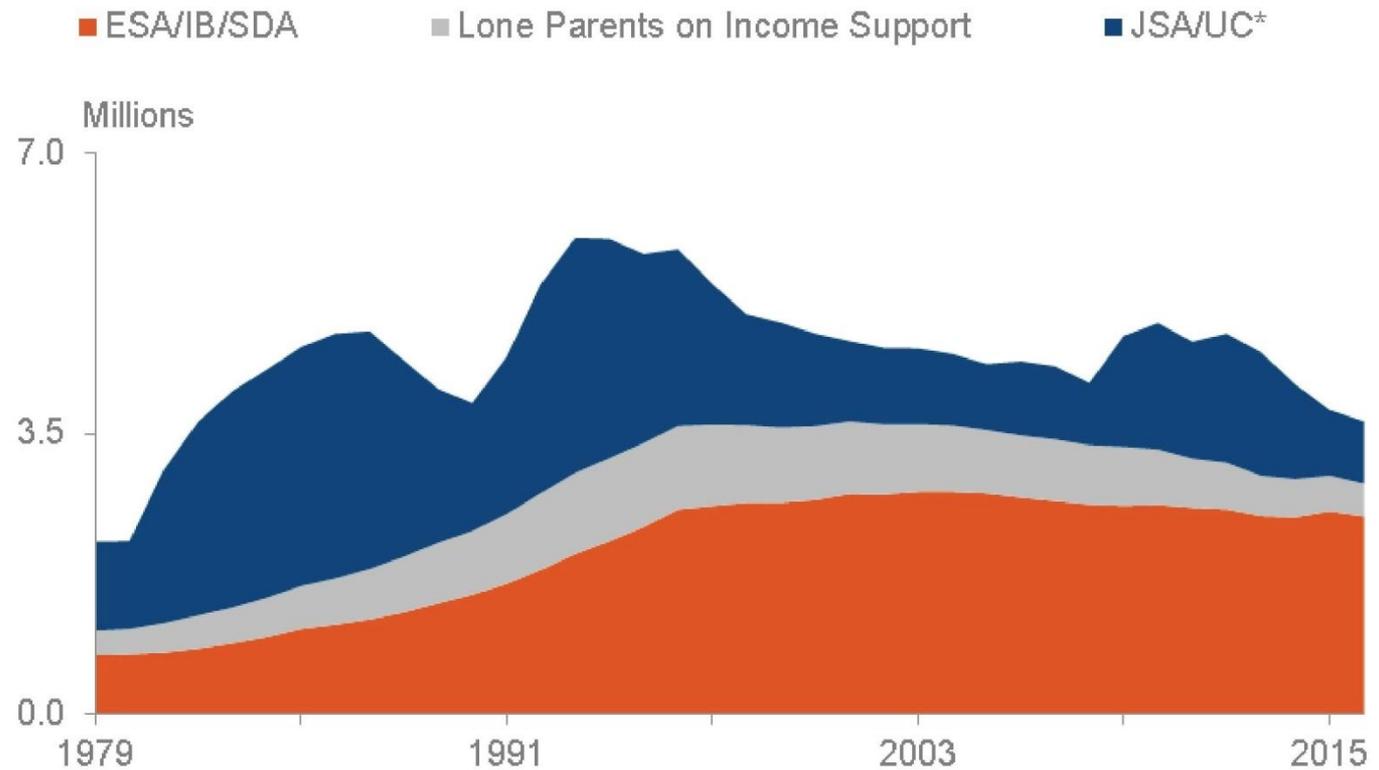
Source: ONS Labour Market and DWP Benefit Statistics, February 2016, Great Britain

Recent history of 'out of work benefits' in UK



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Focus on benefit off-flows

- ‘Work-first’ approach, prioritises *job-search support and placement*, supported by *tough ‘activation’ regime with benefit sanctions*
- Advantages
 - Simple, clear target for PES and LM policy
 - Based on the main (short-term) source of cost to public purse of worklessness, plus...
 - avoids 1980s problem where reductions in unemployment benefit followed by increases in disability benefits
- Disadvantages
 - No emphasis on interventions with ‘soft outcomes’ (health, confidence, social integration, wellbeing), which may have ‘hard outcomes’ (leaving benefit or entering work) only in longer-term
 - Benefit off-flows not necessarily positive outcomes
 - e.g. among 2.88m leaving unemployment benefit within 12 months of claim (Aug 11- Jul 12):
 - 23.2% flowed back to benefit or left active LM [No benefits saving, and some moved to more costly benefits]
 - 18.5% found work [benefits saved plus extra tax revenues]
 - 58.3% unknown destination. [benefits saved, but may generate other social costs]

Why does benefit off-flow model persist?

- Deficiencies of benefit-off flows emphasis long recognised
- Short-term approach reinforced by UK government budgeting:
 - LM policy spend part of 'Departmental Expenditure Limit' (DEL): tightly controlled by annual budget cycle.
 - Benefit spending part of 'Annual Managed Expenditure' (AME): unpredictable, varies with economic cycle.
 - DWP budget for AME is 10x higher than for DEL
 - Treasury doesn't normally permit 'DEL-AME switch', i.e. allocate future AME spending to current DEL budget as investment to reduce future AME spending.

Recent changes and the Work Programme

- Work Programme is important shift in UK LM policy
 - First integrated national programme for all categories of out-of-work long-term unemployed/inactive benefit recipients
 - aiming to generate economies of scale and efficiencies in contracting processes
 - Programme delivered entirely through private/NGO providers, on an outcome-based 'payment by results' approach
 - Payments emphasise a) employment and b) sustained employment
 - aiming to shift emphasis from 'work first' to longer term outcomes
 - Differential payments for different groups
 - aiming to prioritise 'hard to place' & diverse support for needs of different groups
 - 'black box' model – no central prescription of service
 - aiming to encourage innovation in provision
 - First major programme for which a limited version of 'DEL-AME' switch was allowed, with funding for programme (partly) provided by savings from future benefits

Overall impact/efficiency of Work Programme (1)

- No robust estimates of overall impact: national programme introduced simultaneously for entire eligible population, so no control/counterfactual
- Some estimates of ‘provider’ effect possible, using random allocation of participants to providers within contract areas¹
- General conclusions from existing data/evidence:
 - Introduced in 2011 at trough of economic downturn
 - On average, seems to have performed (slightly) better than predecessor programmes
 - Overall, programme generated more job entries, and more sustained jobs than DWP target (adjusted for macro-economy): from mid-2011 to mid-2016, 1.87 million participants, of whom 26.7% secured “job outcome” (DWP adjusted benchmark = 24.5%)²
 - Total cost per participant = GBP £1,281 (approximately half that of previous programmes for similar target groups), so highly efficient by comparison (Similar outcomes for half the cost)
 - But at sub-group level, WP performed much worse than target for the most disadvantaged (especially disabled) participants

1: Dorsett R, Lucchino P, *The Work Programme: factors associated with differences in the relative effectiveness of prime providers*, DWP 2016

2: Learning and Work Institute, *Work Programme Statistics*, Sept 2016

Overall impact/efficiency of Work Programme (2)

- Macro-econometric analysis² (not impact evaluation) based on modelling off-flows from JSA (unemployment benefit) only (only part of WP target group), before and after WP introduction, shows:
 - Of 1.5 million long-term unemployed WP entrants (June 2011 to April 2014), 107,000 more entered work than would have been the case without the programme. Approx 10% of all job starts among LTU during the period
 - Cost-benefit analysis (under conservative assumptions) suggests present value of lifetime wider benefits of programme:
 - Government - £140m p.a. (compares with £1.4bn cost of programme – including other participants - over the period)
 - Labour - £140m p.a.
 - Capital - £80m p.a

Other impacts of Work Programme: tackling the 'revolving door'?

- WP evidence to date shows that for those who enter employment and trigger a 'sustainment payment', average duration in employment is c.65 weeks
- No direct comparison possible with previous programmes (different statistical measures), but overall the WP data suggests higher durations of employment
- Big variations in duration of employment by personal and labour market characteristics. More likely to secure sustained employment if:
 - Female
 - Young
 - No disability/health condition
 - Have recent work experience
 - In area of low unemployment
 - Received more intensive adviser contact (causality unclear)

Other impacts of Work Programme: ‘black box’ and emphasis on sustained employment triggers innovation?

- More innovation in contract design and administration than in service provision
- Provision still dominated by traditional ‘work-first’ and low cost interventions, but seems that black box has encouraged (limited) diversification compared with previous programmes

% of participants receiving	Flexible New Deal	Work Programme	% pt diff
CV, job application help	65%	75%	+10
Action plan	65%	68%	+3
Skills assessment	45%	57%	+12
Financial support for job search	37%	42%	+5
Motivation/confidence building	25%	38%	+13
Careers advice	20%	35%	+15
Skills training course	17%	27%	+10
Financial advice	?	23%	? + 23
Work experience/volunteer placement	28%	19%	- 9
Basic skills support (literacy/numeracy)	11%	18%	+7
Health/disability support	7%	17%	+10
Self-employment support	6%	16%	+10
Support for caring responsibilities	?	8%	? +8
Housing support	?	7%	? +7
Support in relation to criminal record	?	4%	? +4
Help with drug/alcohol problems	?	4%	? +4

Other impacts of Work Programme: financial structure

- Innovative financial structure included:
 - Contracts 100% payment by results
 - Differential payments (higher for hardest-to-help groups)
 - Possibility of DEL-AME switch
- Contracting cycle led to 'vicious spiral' of under-spending with
 - lowest cost interventions prioritised
 - Significant evidence of 'creaming' and 'parking'
 - Higher cost specialist providers rarely used
 - Differential payments failing to counter creaming and parking, as:
 - Payment categories based on crude benefit categories
 - No link to robust claimant profiling of 'distance from labour market'
 - Providers used their own profiling tools, which reinforced creaming and parking
- Despite programme design, DEL-AME switch not really triggered
 - Rather than AME savings from future years being used to fund expanded DEL spending, DWP under-spend in DEL was returned to Treasury.

Concluding thoughts

- WP has moved away from simple benefit off-flow emphasis, supported by new financing and contractual arrangements (PBR, black box, differential outcome payments..)
- Some evidence of:
 - Improved cost-efficiency
 - More sustained employment
 - Innovation in provision (not all 'work first')
- But:
 - Disadvantaged groups still do much worse
 - Incentive structure has failed to prevent creaming and parking
 - Contracts still promoted short-term low cost interventions, and failed to trigger DEL-AME switch