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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Tom King MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NA

18 April 1985

Dear Secretary of State

**COST-EFFECTIVENESS OF PUBLIC EXPENDITURE MEASURES
RELATED TO EMPLOYMENT**

The Fourth PAC Report on Special Employment Measures made the following major recommendation:

"As Special Employment Measures are a preferred use of a given amount of public funds, alternative uses of those funds which might achieve the same or similar objectives should be fully examined and evaluated. There should be renewed efforts both to derive ways of comparing alternative forms of public expenditure, and to assess - even if only on a broad basis - the second round economic effects of SEMs".

The inter-departmental Manpower Group already reviews each year your Department's employment and linked training measures, and sets out the main options for change which are relevant to the Public Expenditure Survey. This involves assembling broadly comparable data for the relevant programmes; comparing their cost-effectiveness by means of the methodology developed for the employment measures; and assessing their longer-term macro-economic and supply side effects. The common focus of this comparison is described in the attached paragraphs from this year's Public Expenditure White Paper.

The most effective way of responding to the PAC's recommendation would be for existing programmes involving financial support, which aim specifically to contribute to reducing unemployment or increasing employment, to be evaluated in a way consistent with the approach already adopted by the Manpower Group in respect of employment and training measures.

I understand that the Manpower Group is beginning its work for this year's review and that at its first meeting

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the chairman invited papers from representatives of other Departments which have programmes with similar objectives to the current employment measures and which can be compared in terms of cost-effectiveness. I would be grateful if relevant information can be brought before the Group. The Group will, of course, as part of its normal work also be considering whether its current approach to evaluation can be improved further. I am sure that regular evaluation of programmes with broadly similar aims would help considerably with our consideration of the various options for making the best use of the resources available to tackle the problem of unemployment. As the Manpower Group already exists on an interdepartmental basis it is the obvious forum in which to take forward this comparison between different programmes.

I think it is very important in terms of the cost effective use of taxpayers' money for us to have as a general requirement that when new proposals for public expenditure are put forward primarily or largely on grounds of cutting unemployment or increasing employment, that supporting information about comparative cost-effectiveness is always provided and that evaluation is done on a continuing basis. This should be calculated using the same criteria and approach as used by the Manpower Group modified when necessary to take account of the particular circumstances of individual services. This development could be useful in a wide range of circumstances, for example comparative evaluation of support for industries where current levels of output and employment are unprofitable. Adequate weight will need of course to be given to longer term supply side effects of measures.

Last summer officials prepared an interdepartmental report, "Expenditure Programmes relevant to Employment", on the comparative cost-effectiveness of selected public expenditure programmes. In discussion of this report at a meeting held by the Prime Minister, there was broad agreement that the proposals outlined above represented a sensible way forward.

Copies of this letter go to the Prime Minister, Keith Joseph, George Younger, Nicholas Edwards, Patrick Jenkin, Norman Fowler, Norman Tebbit and Douglas Hurd, whose officials are represented regularly on the Manpower Group. In addition, Leon Brittan, Peter Walker, Michael Heseltine, Michael Jopling and Nicholas Ridley. Further copies of the report "Expenditure Programmes Relevant to Employment" are available for those Departments who did not receive a copy last year or through representation on MISC 107 which reported to E(A) before the Budget.

Yours sincerely
Peter Rees

for PETER REES

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[Approved by the Chief Secretary]

90. The employment measures are designed to produce a cost-effective and constructive means of reducing unemployment. They have been developed progressively to work with the grain of the labour market and contribute towards longer-term employment objectives. Qualitative or longer-term effects of each measure need to be evaluated separately in assessing overall effectiveness. A common focus for estimating their effect as an alternative to unemployment, however, has been their immediate impact on the numbers unemployed and the net cost per person no longer unemployed (allowing for reduced payment of social security benefits and, where appropriate, increased revenue from tax and national insurance contributions). The latest available estimates for 1984-85 are summarised in Table 3.4.10.

91. Figures for both the effect on unemployment and the net cost per person no longer unemployed have to allow for 'deadweight' (the fact that in almost all schemes some of the money will pay for things that would have happened anyway) and for 'substitution' (the fact that in most schemes some of the new activity supported will be at the expense of existing activity and of employment elsewhere). Neither of these factors can be measured precisely - they have to be estimated, usually on the basis of a survey; and the estimates can change both with new surveys and with adjustments designed to improve the effectiveness of schemes.

3.4 Industry, energy, trade and employment

Table 3.4.10 Cost-effectiveness of Employment Measures

	Approximate gross cost per filled place or per person supported	Approximate net cost per person no longer unemployed	Percentage impact on unemployment
	£ 1984-85		%
YWS	560	2,400	20
JSS	750	-200	100
JRS - Full-time	3,250	1,650	92
JRS - Part-time	1,590	550	80
CP	4,290	2,200	77
CI	2,370	1,400	97

92. These figures should be interpreted with caution:

- (i) they are averages associated with present levels of coverage and present assumptions; the marginal cost of expanding any particular scheme could be substantially different;
- (ii) they allow only for savings which occur during the period when an individual is supported. In some cases there will be a continuing gain to the exchequer long after support has ceased;
- (iii) they take no account of the wider impact of the measures on the labour market or the economy more generally.

However, subject to these qualifications, the figures are the basis of calculations of the relative cost-effectiveness of the measures.

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