

Template for costing the policies of opposition parties

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Description of policy
<p>The policy that was originally costed was to create a full-time job for six months paid at the minimum wage for all young people unemployed for over a year. Because claimant count/unemployment forecasts are insufficiently detailed to predict future unemployment for particular ages or durations, the policy was costed for 2012-13.</p> <p>Source: "Under Labour, a job is guaranteed. For at least six months. At least at the minimum wage. With real training. And real prospects. Labour's Real Jobs Guarantee. Real jobs, Real wages, a real chance for our young people." http://www.labour.org.uk/speech-by-ed-miliband-to-labours-youth-conference,2012-03-16</p> <p>The youth jobs guarantee costing is revised here for the year 2013-14, to reflect the latest data. In addition, the following youth policy has been announced, which reduces the number of young people who will be eligible for the jobs guarantee. This is also reflected in the revised costing of the jobs guarantee.</p> <p>Labour press briefing 18th June 2014: "Around 100,000 young people – seven out of 10 of those claiming JSA – have skills below level three, but are prevented by benefit rules from training while looking for jobs. Labour will end entitlement to adult out-of-work benefits including JSA for young people aged 18-21 and replace it with means-tested support conditional on them training, in the same way as government offers support to those in higher education. Exceptions will include those already with the qualifications they need to secure decent jobs, as well as those with very young children or disabilities which prevent them preparing for work. IPPR estimate that their approach would save £65 million simply from the restriction on adult benefits even after allowing for support for those that need it."</p>
Additional policy assumptions
<p>It is assumed that:</p> <ul style="list-style-type: none">• "Young people" refers to the 18-24 age group, in line with other government youth unemployment policies such as the Youth Contract.• The unit cost of the guaranteed full-time job is the same as for the Future Jobs Fund (FJF), which had a similar offer of a full-time job for six months at National Minimum Wage, noting that the unit cost is higher than the wage cost alone. This also assumes that the unit cost of providing a job for someone who has claimed Jobseeker's Allowance for six to nine months is the same as providing a job for someone who has claimed Jobseeker's Allowance (JSA) for over one year.

- The proposed means-tested support for 18-21 year olds with skills below level three, with conditionality based on training (hereafter referred to as the “youth allowance”), reduces the number of 18-24 year olds on JSA and eligible for the youth jobs guarantee.
- Youth allowance assumptions based on policy description:
 - If you are unemployed and over 21, you can claim youth JSA and are eligible for the jobs guarantee.
 - If you are unemployed aged 18-21 and have level 3 qualifications, you can claim youth JSA and are eligible for the jobs guarantee.
 - If you are unemployed aged 18-21 and do not have level 3 qualifications, you receive the youth allowance and train until you reach level 3 qualifications
 - If you are unemployed aged 18-21 and you reach level 3 qualifications by training, you stop receiving the youth allowance, start claiming youth JSA and become eligible for the jobs guarantee
- Very young children are assumed to be between 0 to 4 years old inclusive, in line with the age of the youngest child for lone parent Income Support eligibility. 18-21 year olds with a child in this age group are exempted from the youth allowance, continue to claim JSA, and are therefore eligible for the jobs guarantee.
- All JSA claimants are assumed to be capable of preparing for work, and therefore not exempted from the 18-21 youth allowance on the basis of disability. This means that all JSA claimants are potentially eligible for the jobs guarantee.

Additional technical modelling assumptions or judgements required

Due to limitations of the data available, specifically the lack of unemployment forecasts broken down by age and duration on benefit, the cost of the described policy cannot be estimated for 2015-16. Instead, the Treasury has used data which has become available since the previous version of this costing to estimate the cost of the policy in the 2013-14 fiscal year.

The unit cost of the FJF from the DWP evaluation is £6,850 in 2012-13 prices. The unit cost has been updated to 2013-14 using the GDP deflator.

18-21 year olds who are put on the youth allowance, and are therefore ineligible for the jobs guarantee, do not feature in the costing and are subtracted from the overall 18-24 JSA stock and through-flow figures. Because young people must have been claiming JSA for at least one year to be eligible for the jobs guarantee, those who achieve level 3 qualifications soon after the policy introduction will not become eligible for the jobs guarantee in the first year of the policy.

If needed, information required on distributional effects of the policy

None requested

Cost/Revenue to the Exchequer over five years

Due to limitations of the data available, specifically the lack of unemployment forecasts broken down by age and duration on benefit, the cost of the described policy cannot be estimated over a five year horizon. Instead, the cost of the policy is estimated for the 2013-14 fiscal year only.

Revised cost of the youth jobs guarantee

The revised cost of the youth jobs guarantee is estimated to be £540 million in 2013-14, rounded to the nearest £10 million. This includes 18-24 year olds who reach one year on the claimant count during 2013-14, as well as the existing stock in April 2013 of 18-24s on the claimant count for over one year.

This policy cost is substantially lower than the previous estimate of £1.04 billion in 2012-13. There are a few factors underlying the revised figure:

- (1) The unit cost of the policy is higher in 2013-14, having been uprated by the GDP deflator. (+£20 million)
- (2) The number of 18-24 year olds reaching 1 year on JSA in 2013-14 was over 3,000 a month lower than in 2012-13. (-£250 million)
- (3) The existing stock of long term claimants was around 15,000 higher in April 2013 than April 2012, which partly offsets (2). (+£90 million)
- (4) The main cause of the lower policy cost in this revised estimate is the assumption that 18-21s without level three qualifications and without young children are moved from JSA to a youth allowance, and are therefore ineligible for the job guarantee. This reduces the number of 18-24s claiming JSA for over a year by around 40%, although the proportion differs slightly between those who have only just reached a year on JSA, and those in the stock who have been claiming JSA for a year or more. (-£360 million).

This costing does not include any offsetting savings in line with departmental guidance.

Cost of the youth jobs guarantee compared to the Future Jobs Fund

The estimated annual cost of this policy (£540 million) is lower than the cost of the FJF over its entire 18 month duration (£680 million in 2012-13 prices, as reported in the DWP evaluation¹). A key difference between the policies is that the FJF applied to claimants of all ages, whereas the youth jobs guarantee only applies to 18-24s. Another reason for the cost difference is that alternative employment support options were available alongside the FJF under the Young Person's Guarantee, so not all young people who had claimed JSA for six months took up a FJF place.

In 2010-11, 78,020 people started on the FJF scheme. This costing assumes that all 18-24 claimants unemployed for at least one year, who are not on the youth allowance for 18-21s and therefore ineligible for the jobs guarantee, would take up the offered job. This means that in 2013-14, 77,000 young people would have started the job guarantee. This figure includes both the stock of 18-24s already unemployed for over one year and the through-flow of claimants who reached one year on JSA during 2013-14.

Detailed breakdown of the youth jobs guarantee costing

For 2013-14			
Jobs guarantee unit cost			
A	Unit cost of FJF placement in 2013-14 prices	£6,968	Full-time job for six months at NMW was the FJF offer, so uses FJF unit costs. Upated from 2012-13 prices to 2013-14 prices using GDP deflator. (Source: DWP analysis of FJF costs and benefits ^[1] , and GDP deflators for 2012-13 and 2013-14 ^[2])
18-24s newly eligible for guaranteed job each month			
B	Number of 18-24s who reach 1 year on claimant count (CC) each month (through-flow)	4,982	Average number of young people that reach one year on the claimant count each month. May 2013 - March 2014 average (April through-flow is part of April stock, see notes) (Source: nomis data)
C	Proportion of 18-24 1 year CC though-flows who would be assigned to youth allowance for 18-21s	43%	Proportion of 18-24s that report claiming JSA for 12 to 18 months who: <ul style="list-style-type: none"> - are aged 18-21; - have below level 3 qualifications; and - do not have young children. They are assigned to youth allowance and therefore ineligible for jobs guarantee. Source: Labour Force Survey Q2 2013 to Q1 2014 average.
D	2013-14 monthly through-flow of 18-21s assigned to youth allowance [A*B]	2,128	Number assigned to youth allowance and therefore ineligible for jobs guarantee.
E	2013-14 monthly through-flow of 18-24s on CC for 1 year not on youth allowance [B-D]	2,854	Monthly 18-24s eligible for jobs guarantee: 18-24s reaching one year on the claimant count, minus ineligible 18-21s assigned to the youth allowance
F	Monthly cost of through-flows in 2013-14 [A*E]	£19,888,779.72	Multiplies monthly through-flows by unit cost
G	Annual cost of through-flows in 2013-14 [F*11]	£218,776,577	Only 11 months because April through-flow is included in April stock (see notes)
Stock of 18-24s eligible for guaranteed job at introduction of policy			

H	April 2013 stock of 18-24s on CC over 1 year	74,075	(April 2013) (Source: nomis data)
I	Proportion of 18-24 over 1 year CC stock who would be assigned to youth allowance for 18-21s	38%	Proportion of 18-24s that report claiming JSA for a year or more who: - are aged 18-21; - have below level 3 qualifications; and - do not have young children. They are assigned to youth allowance and therefore ineligible for jobs guarantee. Source: Labour Force Survey Q2 2013 to Q1 2014 average.
J	April 2013 stock of 18-21s assigned to youth allowance [H*I]	28,458	Number assigned to youth allowance and therefore ineligible for jobs guarantee.
K	April 2013 stock of 18-24s on CC for 1 year not on youth allowance [H-J]	45,617	18-24s on the claimant count for one year or more, minus 18-21s assigned to the youth allowance
L	Cost of work placements for 18-24 April 2013 stock [A*K]	£317,866,151.75	
Total cost of 18-24s on jobs guarantee (stock + through-flows)			
M	Overall 2013-14 cost [G+L]	£536,642,729	
N	Rounded overall 2013-14 cost	£540,000,000	

Notes:

- To obtain the estimate for 2013-14, the costing above takes into account both the through-flow of young claimants reaching one year on the claimant count each month, and the initial stock who have claimed for over one year in April 2013. However, the April 2013 stock also includes those who reached one year on the claimant count in that month, so through-flows are only counted from May 2013 onwards.
- The costing does not adjust the unit cost for age group because, according to DWP FJF analysis, "The cost paid to each organisation was a maximum of £6,500 for each job: 40% (£2,600) was paid in advance to cover set up costs. 60% (£3,900) was claimed in arrears based on actual weeks worked by FJF employees (i.e. £150 per week for a maximum of 26 weeks)."
There is no indication here that different payments applied for over or under-25s.
- The costing assumes that there is no attrition, i.e. that all participants stay in the six-month job for its entire duration. This is reasonable based on DWP's quotation of the FJF unit cost as £6,500 and low FJF attrition rates.

Distributional effects (if none requested, any significant):	
Comparison with current system (if applicable):	
<p>In the current system, support to long-term and vulnerable jobseekers is provided through the Work Programme. The majority of 18-25 year olds are referred to the Work Programme after spending 9 months on JSA, with earlier referral for the most vulnerable young people. Since June 2011 over 1.5 million people have been referred to the Work Programme, of which 420 million were young people.</p>	
Other comments (including other Departments consulted):	
HMT costing, methodology agreed with officials at the Department for Work and Pensions.	
<i>To be completed by Permanent Secretary's Office</i> Date costing signed off:	8 August 2014
<i>[If applicable]</i> Date revised costing signed off:	