

Template for costing policies of opposition parties

Description of policy
<p>Training support for young people.</p> <p>The policy is to 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.</p> <p>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.</p> <hr/> <p>Ed Miliband MP said: "So for 18 to 21 year olds, we will replace Job Seekers' Allowance with a new youth allowance. An allowance dependent on young people being in training...And to pay for these changes in tough times, we should say young people will be entitled to financial support only if they really need it. Assessed on the basis of parental income, as we do for those young people who go to university."</p> <p>Source: Ed Miliband speech to the IPPR, 19th June 2014, http://press.labour.org.uk/post/89247199889/ed-miliband-speech-to-condition-of-britain-report</p> <p>Labour press notice (18th June): "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."</p>
Additional policy assumptions
<p>This costing covers:</p> <ol style="list-style-type: none">1. The savings made from ending entitlement to adult out-of-work benefits for under 21s without a L3 qualification2. The cost of the Youth Allowance for 18-21s without L3 who satisfy the parental means test3. The savings from the group who are no longer eligible for JSA and therefore not subject to JSA conditionality4. The costs of providing additional training for those who qualify for the Youth Allowance <p><u>Assumptions (provided by Special Advisers)</u></p> <ol style="list-style-type: none">1. The savings made from ending entitlement to adult out-of-work benefits for under 21s without a L3 qualification<ul style="list-style-type: none">• The following benefits are in/out of scope:<ul style="list-style-type: none">○ Include both income related and contributory JSA○ Exclude Income Support○ Exclude ESA (both Support Group and WRAG)○ Exclude Housing Benefit – since the opposition don't mention Housing Benefit and it isn't an out-of-work benefit.• The following people are in scope (unless they fall into one of the exemptions below):<ul style="list-style-type: none">○ 18-21 year olds without a level 3 qualification

- Exemptions:
 - People with young children. To define young children, use the Income Support Lone Parents age limit (0-4 years).
- 2. The cost of the Youth Allowance for 18-21s without L3 who satisfy the parental means test**
 - The youth allowance is paid at the same rate as JSA for 18-24yr olds - £57.35 per week
 - For the parental means test use the same means test as for higher education (taper from £25,000-£42,000).
- 3. The savings from the group who are no longer eligible for JSA and therefore not subject to JSA conditionality**
 - See assumptions above re ending entitlement to adult out-of-work benefits for under 21s without a L3 qualification.
- 4. The costs of providing additional training for those who qualify for the Youth Allowance**
 - Type of training – assume that young people use the current FE system and therefore the appropriate unit costs.

Additional technical modelling assumptions or judgements required

Due to limitations of the data available, specifically the lack of unemployment forecasts broken down by ages 18-21 on benefit, and uncertainty around future unemployment forecast, the cost of the described policy cannot be estimated for 2015-16 and beyond. Instead, we have produced a costing for one year, using the latest available data (2013-14). Benefit data is not available broken down by ages 18-21; instead we have used data for 18-24 year olds and scaled it by the proportions set out below.

- All young people eligible for training and the Youth Allowance take up this offer
- Proportion of 18-24 year olds aged 18-21 without a level 3 qualification: 38%/43%/48%
 - The 43% assumption is derived from LFS data (LFS Q2 2013 – Q1 2014 average). Sensitivity of 5% around this figure has been added to reflect uncertainty around this assumption.
 - This implies that 62%-79% of 18-21 year olds are without a level 3 qualification.
- Existing number of unemployed 18-24 year olds in April 2013: 386,000 (Source: NOMIS)
- Flow of unemployed 18-24 year olds between May 2013 and March 2014: 1,250,000 (Source: NOMIS)
- Average number of 18-24 year olds unemployed but in full-time education between April 2013 and March 2014: 155,000 (Source: LMS Oct 14)
- Average number of 18-24 year olds inactive but in full-time education between April 2013 and March 2014: 1,140,000 (Source: LMS Oct 14)
- Volume of JSA claimants (19-21) currently receiving level 3 or below training (England only): 75,000
 - We have assumed an additional 15,000 for Wales and Scotland based on JSA caseloads for this age group

- Proportion under the £25,000 parental means test: 57% (Source: FRS 2012/13)
- Proportion under the £42,000 parental means test: 91% (Source: FRS 2012/13)
- Further education training cost: £2,300
- Average operational cost of JSA regime: £900 (Future Jobs Fund evaluation – see notes below)

Notes:

- To obtain the estimate for 2013-14, the costing uses the number of existing JSA claimants in April 2013 and JSA on-flows from May 2013 – March 2014. This may overestimate the costs by potentially double-counting those young people that have already flowed off JSA.
- A range has been provided for the assumption of 18-21 year olds without a level 3 qualification. This is owing to data limitations in self reported Labour Force Survey data.
- The average operational cost of the JSA regime is taken from the evaluation of the Future Jobs Fund. Whilst the JCP regime has changed since the period evaluated in this evaluation, it is the most recent, robust evidence available.
- This policy is costed using existing numbers of JSA claimants and JSA inflows. Claimants with children under the age of 5 will be excluded as they claim Income Support for Lone Parents. There may be some joint JSA partner claims with a child under 5 but these have not been included as the anticipated impact is negligible.
- There are a number of behavioural effects that have not been included; for example, some young people may change from working alongside part-time study to full-time study to obtain the allowance, others may move into work more quickly to avoid training or may stay longer on the youth allowance than they would have done on JSA before moving into work. These could all have a bearing on the final cost but we have no way of estimating these effects so have excluded them.
- There may be some additional DEL savings from the JSA conditionality regime as a result of 18-21s with below level 3 qualifications moving onto the Youth Allowance, however it is not clear from the policy announcements what level of interaction this group would have with the Jobcentre; we have therefore assumed no DEL savings from this group.

If needed, information required on distributional effects of the policy

N/A

Cost/Revenue to the Exchequer over five years

Due to limitations of the data available, specifically the lack of unemployment forecasts broken down by ages 18-21 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 a single year only, using the latest available data (2013-14).**

The DEL and AME costs and savings of this policy depend on the assumed proportion of 18-24 year olds aged 18-21 without level 3 qualifications. The table below summarises these costs, rounded to the nearest £10m:

Percentage of 18-24s aged 18-21 with below Level 3 qualifications	Volumes (millions)*	DEL	AME
38%	0.84m	-£1,060m	+ £20m
43%	0.95m	-£1,230m	+ £20m
48%	1.06m	-£1,390m	+ £20m

*volumes include both stock and flow

The costing does not include any offsetting savings that could result from behavioural effects or revenue, as their size is uncertain. Potential savings may result from shorter benefit claims resulting in lower benefits expenditure, higher tax revenues and lower operational costs of support for those not in employment.

Detailed breakdown of the youth allowance costing

Costing for one year (based on 2013-14 data)			
	Description	£m	
A	The AME savings made from ending entitlement to JSA for under 21s without a L3 qualification	+£930m – +£1,170m	<ul style="list-style-type: none"> Number of 18-21 year olds on JSA with less than a Level 3 qualification multiplied by average annual JSA benefit per participant
B	The AME cost of the Youth Allowance for 18-21s without L3 who satisfy the parental means test	-£910m – -£1,150m	<ul style="list-style-type: none"> Paying youth allowance to those currently claiming JSA and who have less than level 3 qualifications and are under the parental means test Those that are currently unemployed or inactive but in full time education (and therefore not claiming JSA) but have less than level 3 qualifications and are under the parental means test
C	The DEL savings from the group who are no longer eligible for JSA and therefore not subject to JSA conditionality	+£50m – +£60m	<ul style="list-style-type: none"> Savings made from removing those with below level 3 qualifications but above the parental means test from the JSA regime
D	The Net DEL costs of providing training for those who qualify for the Youth Allowance	-£1,110m – -£1,460m	<ul style="list-style-type: none"> Net cost of Further Education training for those who qualify for the Youth Allowance
	TOTAL AME cost/saving [A-B]	+£20m	(May not sum due to rounding)
	TOTAL DEL cost/saving [C-D]	-£1,060m – -£1,390m	

Distributional effects (if none requested, any significant):	
Comparison with current system (if applicable):	
Under the current system jobseekers remain on JSA for the duration of their claim and are referred to a number of appropriate interventions at varying points in their claim.	
Other comments (including other Departments consulted):	
Department for Education and Department of Business, Innovation and Skills analysts were consulted when determining the unit cost of training, and to quality assure the costs. Department for Work and Pensions carried out this costing and it has been signed off by the DWP Permanent Secretary.	
<i>To be completed by Permanent Secretary's Office</i> Date costing signed off:	9 December 2014
<i>[If applicable]</i> Date revised costing signed off:	