

CAG



Prime Minister (2)

To note that a standard approach  
to the evaluation of employment  
measures has been agreed.

Treasury Chambers, Parliament Street, SW1P 3AG

MEAT 8/8

Rt Hon Lord Young of Graffham  
Secretary of State for Employment  
Department of Employment  
Caxton House  
Tothill Street  
LONDON  
SW1H 9NA

8 August 1986

Dear David,

MT

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

at Har PT31

In April 1985, Peter Rees wrote to Tom King and asked that when new or expanded public expenditure measures were put forward with a main or secondary aim of cutting unemployment or increasing employment, their cost effectiveness should be evaluated compared to other programmes. The Prime Minister endorsed that proposal. This minute updates that request in the light of recent inter-departmental work.

A report on methods of evaluation has been prepared by an inter-departmental group of economists under Department of Employment chairmanship (the Reid Group). The official level interdepartmental Manpower Group has now endorsed this report. The report has set out a method of assessing cost effectiveness which can be used on a consistent basis.

This method has three main elements:

- a. estimating first year net Exchequer cost per person taken off the unemployment count wherever this is possible;
- b. assessment of the direct medium term effects including the likely profile of expenditure and its direct effects on employment and unemployment; and
- c. identification and assessment of supply side effects.

It is clearly important to maintain a balance between these three elements quantifying them as far as possible. On the one hand it is important to identify the short term cost effectiveness of different policies. On the other hand the supply performance benefits are crucial in that as the Group agreed they are the only ones which can be expected to

survive and perhaps to contribute to increased employment and reduced unemployment in the long-term.

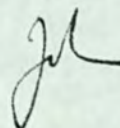
... In the light of this work I think it important that all proposals for new or expanded programmes with a main or subsidiary aim of reducing unemployment or increasing employment should be assessed on the basis recommended by the Reid Group and endorsed by the Manpower Group. The annex to this letter sets out the areas that should be covered in such assessments which will need to be discussed with the relevant Treasury expenditure division (a good example is the assessment of the Enterprise Allowance Scheme which is near the start of Annex 1 to the Reid Group report). I also suggest that the requirement should be incorporated into any relevant guidance documents on policy appraisal and evaluation being prepared in Departments.

At Cabinet it was agreed that during the course of my bilaterals in this year's PES I should follow up with colleagues the need to set targets and performance measures against which programmes could subsequently be evaluated. Clearly having the cost effectiveness of any measures which are employment related assessed on a consistent basis will be extremely helpful for this.

This does not, of course, affect the way in which we consider the financing of additional bids in the Survey. For that purpose we shall need, as normal, to focus on the gross public expenditure costs of colleagues' proposals.

I am copying this letter to the Prime Minister, other members of the Cabinet and Sir Robert Armstrong.

Yours ever,



J MACGREGOR

ASSESSMENT OF PROGRAMMES WITH EMPLOYMENT AIMS

The following items should be included in an assessment of programmes with a main or secondary aim of cutting unemployment or increasing employment:

- (i) Description of the programme; estimated gross annual expenditure (cash terms);
- (ii) Objectives of the programme; with particular reference to employment or unemployment aims;
- (iii) Estimate of first year direct net Exchequer cost per person taken off the national unemployment count\*, calculated after taking account of deadweight, substitution and displacement (see Annex 1 to the Report) using methodology set out in the report;
- (iv) Description (quantified where possible) of medium term direct effects on employment, unemployment and Exchequer costs; including number and duration of jobs created, impact on supplying firms, and profile of direct expenditure costs. Include also results of any investment appraisal (see 2.14-24 of the report)<sup>+</sup>
- (v) Evidence of significant effects on supply performance, using the checklist in Annex 3 of the report;
- (vi) Other relevant effects eg on particular groups or areas, on attitudes, and on wider social factors;
- (vii) Recommended monitoring and evaluation arrangements

Notes

\* First year net exchequer cost per person off the count can normally but not always be estimated. The importance given to it must depend in part on the objectives of the programme and the timescale over which it is intended to achieve its objectives. Other important qualifications are in 2.9-2.12 of the Report.

+ In estimating the number and duration of jobs directly created, evidence should be provided (where available) on any cumulative build-up of benefits or any increase in deadweight and displacement over time. The estimates are direct in the sense that they do not allow for indirect macro-economic consequences. A quantitative measure of medium term cost per job or person off the count cannot be calculated (2.14-2.24). The most important reason for this is that such a calculation would require knowledge of the indirect macro-economic effects of the programme, arising in particular from its effects on the output and labour markets and on the financial markets. Whereas these effects can be assumed to be relatively small in the short term, this assumption is not likely to be valid in the medium term.

