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Methods for evaluating the cost-effectiveness of worklessness interventions

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Methods for evaluating the cost-effectiveness of worklessness interventions

Report for Improvement and Efficiency West Midlands

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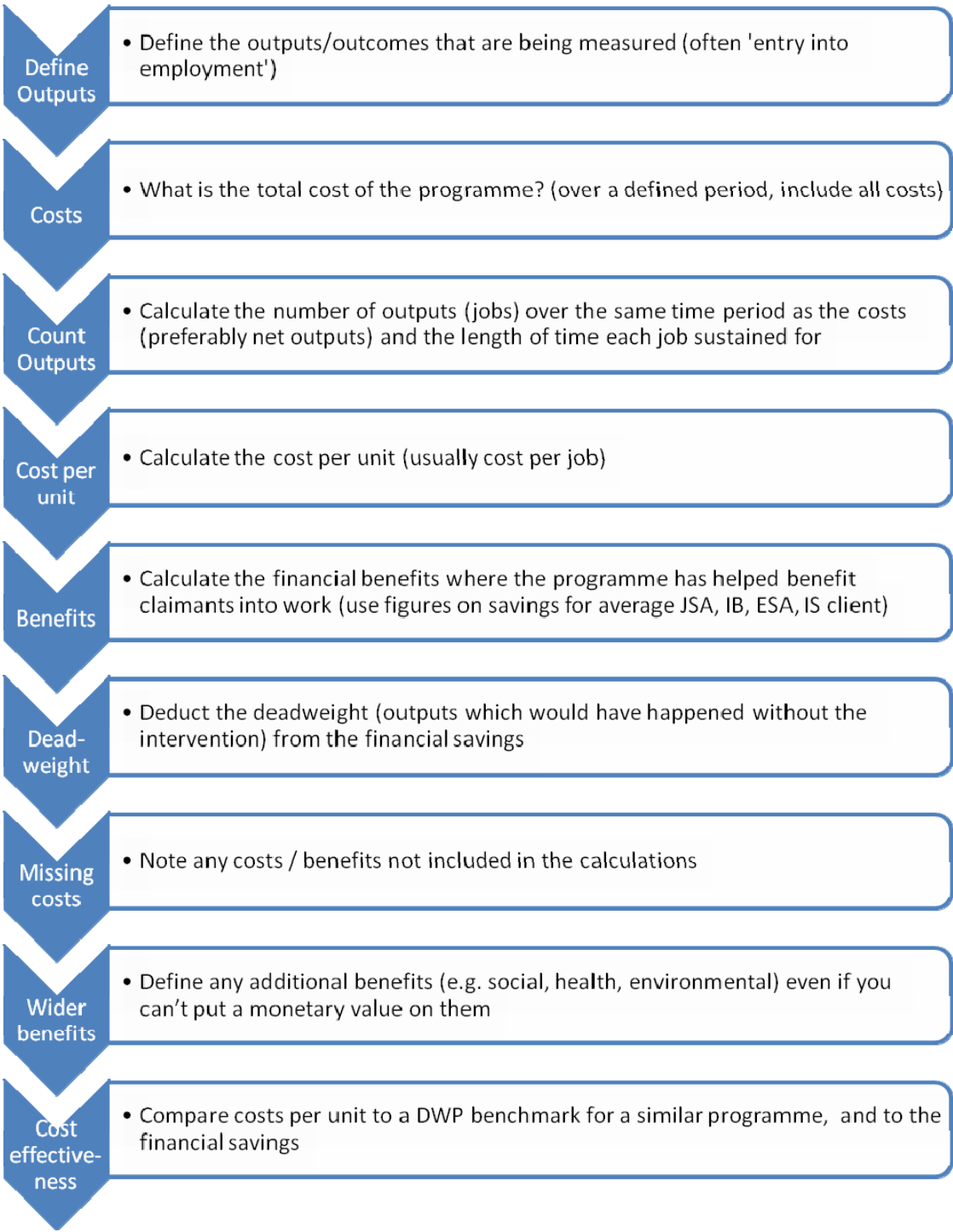
1 Summary

This paper is the result of a review of the literature on evaluating the cost-effectiveness of worklessness interventions. The aim of the review was to come up with a preferred approach on how to carry out an evaluation of this type that could be used across the West Midlands.

Carrying out a full cost-effectiveness analysis of a worklessness programme is not a straightforward exercise and there are many considerations and areas for caution to be taken into account at each stage of the process - these are set out in the main part of this report. Figure 1 below, is a summary diagram that describes the main stages involved in carrying out a cost-effectiveness evaluation.

Thinking about the data that will be required at each of these stages *before the project starts* and developing a monitoring and evaluation framework to capture these data would be the best way to support the process of carrying out a cost-effectiveness evaluation.

Figure 1: Main stages in carrying out a cost-effectiveness evaluation of a worklessness intervention



2 Background

This paper is the result of a review of the literature on cost-effectiveness/value for money evaluations of worklessness interventions.

The scope of the literature review was to:

- look at existing benchmarks and ways of calculating unit costs of worklessness interventions;
- consider whether wider social benefits and costs of interventions can be estimated; and
- consider local level approaches to evaluating interventions.

The aim of the review was to recommend a preferred approach for calculating the cost-effectiveness of worklessness interventions to be used in the region. This paper sets out the preferred approach and things to consider when carrying out an evaluation of the cost-effectiveness of a worklessness intervention.

3 Introduction

The purpose of carrying out a cost-effectiveness evaluation is to allow a comparison of the costs of programmes that are delivering similar outputs. The difficulty with this exercise is that interventions addressing worklessness will be dealing with different client groups and will have different outputs, for example moving a client into a job or providing training to move them closer to the labour market. Some client groups will be harder to help than others and therefore delivery costs may be higher. Comparing the cost-effectiveness of different programmes requires caution.

It is also important to set out that value for money and cost-effectiveness exercises should be about more than just comparing unit costs. The quality of the outputs should also be considered, and in the case of worklessness programmes this would mean, for example, looking at the quality and sustainability of the jobs achieved and impact on the client's earnings and quality of life.

The literature suggests that carrying out a full cost-effectiveness analysis of a worklessness programme is not a straightforward exercise. The guidance used by the Department for Work and Pensions (DWP) ¹ to evaluate the cost-effectiveness of national programmes is complicated and requires a lot of data collection and resources. Local evaluations tend to compare programme costs with outputs to get a cost per unit and then compare these to DWP benchmarks for similar national programmes.

Therefore what is provided in this paper is necessarily a compromise between what the literature and government guidelines say should be done and what is feasible. It sets out some pointers from the literature of what should be considered when carrying out a cost-effectiveness evaluation. Also included are some helpful resources and signposts to published evaluations.

¹ [Review of the DWP Cost Benefit Framework and how it has been applied](#), 2007, DWP

4 Carrying out an evaluation of the cost-effectiveness of a worklessness intervention

The following sections comprise the main stages in carrying out a cost-effectiveness evaluation and points to consider at each stage.

To make the process of carrying out an evaluation of this sort easier it will be helpful to develop a monitoring and evaluation framework at the start of each project. Thinking about each of these stages at the beginning of the project will ensure that useful data can be collected throughout the delivery which can then inform a cost-effectiveness evaluation.

4.1 Objective of the intervention

It is important to set out what the aim of the worklessness intervention is and therefore what outputs or outcomes are to be measured. In many cases this will be outcomes such as 'entry into employment' or 'entry into sustained employment'², but may also be about outputs such as 'access to training/services' or 'engagement with services' or looking at 'distance travelled' towards the labour market.

However, DWP evaluations of national programmes only provide unit costs per job and costs per participant and it is therefore 'entry into employment' that is the focus of this paper. The fact that the framework used by DWP only measures employment outcomes is recognised as problematic by the National Audit Office, especially when evaluating the cost-effectiveness of programmes which have other outputs or outcomes.³

4.2 Programme costs

In order to evaluate cost-effectiveness you need to know the costs involved in running the programme.

² Employment sustained for, say, 6 or 12 months.

³ [Helping people from workless households into work](#), p42

Most of the literature suggests that, in the cost analysis, you should take all of the costs of running the programme into account including staff costs, premises costs, travel costs etc.

The costs should be taken over the same time period as the benefits measured.

DWP guidelines suggest that ideally the costs would be taken once the programme has reached a steady state so that the initial set-up costs do not distort any unit cost analysis.⁴ However, for local programmes it is likely that set-up costs are much higher in proportion to delivery costs and so it will be important to include them in an evaluation of cost-effectiveness.

4.3 Outputs

The other key bit of information needed is the number of outputs provided by the programme. As already mentioned the outputs should be measured over the same time period as the costs.

To be able to compare to national DWP programmes the outputs that need to be recorded are the number of jobs gained and the number of participants in the programme.

DWP and government guidance^{4,5} says that ideally the number of job outputs would be **net outputs**, that is, the number of jobs gained that would not have happened in the absence of the intervention (number of additional jobs). This can be difficult to calculate and would require either random allocation of clients to either a control group or the programme and then measuring the impacts, or comparing people on the programme to a similar group of people not on the programme. This is probably beyond the capacity of local evaluations. An alternative option would be to use estimates of net outputs from an evaluation of a similar programme and it may be this option which is the most realistic. DWP have calculated unit costs per job gained (as well as unit costs per additional job gained) and so calculating the number of additional jobs is not necessary to be able to compare a local programme with a DWP programme.⁶

Another output that may be important is the number of sustained jobs gained. This recognises that worklessness programmes need to be about more than just helping clients into work as there is a recognised problem of people cycling between work and benefits. Helping people to find work which they can sustain is important.

⁴ [‘Review of the DWP Cost Benefit Framework and how it has been applied’](#), 2007, DWP

⁵ [The Green Book: Appraisal and evaluation in central government](#), p52

⁶ Net impacts can also be calculated later by deducting for deadweight - see section on ‘Issues around measuring financial benefits/savings’

The number of sustained jobs output is also useful when measuring financial savings from the programme in benefits payments saved and taxes gained. To be able to calculate this you need to have an idea of the length of time clients are entering employment by tracking how long clients stay in a job and how many remain in employment after a specified time period.

4.4 Costs per unit

Once you have the number of outputs and the costs you can calculate the cost per unit. If you have only one output, for example, number of jobs gained, this calculation is simple:

$$\text{Cost per job gained} = \text{total programme cost} / \text{number of jobs gained}$$

It is also useful to calculate the cost of the programme per participant:

$$\text{Cost per participant} = \text{total programme cost} / \text{number of participants}$$

This reflects the fact that not all clients will be able to be supported into employment but may move closer to the labour market as a result of the intervention. This is especially true for programmes working with socially excluded and vulnerable groups. Looking at the costs per participant rather than cost per job takes this into account.

Many programmes will have more than one output which makes this analysis much more difficult. Ideally you would be able to split up the costs according to each output and so, for example, have the cost of the programme which is helping people into employment and a separate cost for the part of the programme helping people to access training and then work out individual unit costs. However, this doesn't reflect how most programmes operate. So in most cases, where there are multiple outputs you would still have to divide each output by the total programme costs i.e.

$$\begin{aligned} \text{Cost per job gained} &= \text{total programme cost} / \text{number of jobs gained} \\ \text{Cost per participant accessing training} &= \text{total programme cost} / \text{number of} \\ &\text{people accessing training} \end{aligned}$$

This method is fairly crude and may overstate the cost per job and make comparison to the DWP benchmark costs difficult. This should be recognised in the discussion.

4.5 Benchmarks

In 2006, DWP reviewed all of its programmes using its cost-benefit framework and calculated the cost per job entry and cost per participant. These figures can be found in a table in the appendix and can be useful as a benchmark for local evaluations. However, there are several areas for caution in comparing to other programmes.

As previously mentioned each intervention will be aimed at a different client group or groups which will affect the delivery costs. For example, programmes helping people with drug/alcohol problems or requiring workplace adaptations for disabled people will be much more expensive.⁷ The benchmark used should be a programme that is aiming to help a similar group of people.

Whether the programme is mandatory or voluntary will also affect the costs of getting a participant into employment. Costs per unit should be compared against a programme which is of a similar nature.

The size of the programme will also affect unit costs with programmes helping smaller cohorts of people tending to be more expensive.⁷

The location of the programme is also important. Many programmes operate in deprived areas and may be more costly due to a disadvantaged labour market and weak demand for labour and/or the complexity of barriers faced by people looking for work.⁸ These, therefore, should be compared to national programmes working in deprived areas, such as employment zones. The London worklessness costs audit also notes that, in London, delivery costs of national DWP programmes are higher.

There is also some discussion in the literature about programme delivery being more expensive in rural areas due to higher travel costs for example.⁹ The Work and Pensions Committee suggests that more evidence is needed on this and DWP should be collecting data to allow costs in rural and urban areas to be evaluated.¹⁰

⁷ [Local work: Empowering local government to tackle worklessness](#), p63

⁸ [Helping people from workless households into work](#)

⁹ [Delivering national employment and skills programmes to vulnerable groups in rural England: Needs, Barriers and Solutions](#)

¹⁰ [DWP Commissioning strategy and Flexible New Deal](#)

4.6 Measuring financial benefits/savings

The financial savings and benefits of moving a workless person into employment can result from the following: savings in benefit payments (Jobseekers Allowance JSA, Incapacity Benefits IB/ Employment Support Allowance ESA, Income Support IS, Housing Benefit HB, Council Tax Benefit CTB), savings in passported benefits like free school meals and help with health costs, and income from increased Income Tax and National Insurance payments.

There may also additional costs to the exchequer of moving someone into work in tax credits which wouldn't be included in the programme costs.

Calculating financial benefits obviously differs according to which client group, and therefore benefits being claimed, the programme is supporting.

Freud's review for DWP on welfare to work¹¹ provides some figures on the savings for moving the average claimant on JSA, IB or IS into work. These have subsequently been updated by DWP¹². The table below shows the benefits saved and taxes gained for moving an average claimant from each of these groups into work for one year.

	First order fiscal benefit of obtaining work for 12 months
JSA	£7,800
IB	£8,160
ESA	£8,500
IS-Lone Parents	£6,380

Source: DWP, unpublished report. Figures are those used in the DWP tax/benefit model that forms the basis of their Cost Benefit work. The 'first order' estimate combines income statistics, in and out of work estimates, and taxation estimates and assumes that all jobs are additional.

To translate these figures into savings for individual programmes you need to know the number of programme participants who were claiming each benefit, the number of these gaining a job and the how long the job was sustained for.

¹¹ [Reducing dependency, increasing opportunity: options for the future of welfare to work](#), p7

¹² 'Total Place Cost Benefit Framework', DWP. Report unpublished but in public domain, contact Joseph.Cleese@dpw.gsi.gov.uk for a copy

The evaluation of the Family Employment Initiative¹³ provides an example of how these calculations can be made. In this evaluation they knew the percentage of clients who were claiming each benefit at the start of the programme and then assumed that the profile of those entering employment was the same. They then estimated the proportion of clients entering employment who sustained the job for a year to enable them to estimate the net impacts of the programme.

In addition to these savings from out-of-work benefits and income from taxes there will also be savings in HB and CTB which may not be included in the figures presented in the Freud report. The London cost of worklessness audit estimated the costs in HB and CTB for workless people in London. This involved estimating how much HB and CTB is paid to workless people as these benefits can also be paid to people on low incomes.

It is important to note that all of these estimations involve calculating the costs and benefits based on an average client from each claimant group. Each individual's circumstances will affect the amount of savings and costs and in the evaluation of Pathways to Work, it is suggested that using a 'representative' person may not give a reliable picture.¹⁴ It is important to bear this in mind when analysing the monetary benefits of each programme and either to note in the evaluation that the costs are for the average client and discuss the implications of this or where possible present a range of estimates for different client groups.

4.7 Issues around measuring financial benefits/savings

In the section on measuring outputs, we mentioned the recommendation to measure the additional benefits only and not those that would have happened in the absence of the intervention. One way to do this is to calculate the 'deadweight' in the programme, that is the outcomes that would have happened without the intervention, and deduct this from the savings.

The evaluation of the Family Employment Initiative also provides an example of how to calculate the deadweight and deduct this from the savings. They carried out a survey of the programme's clients to find what percentage felt they would have found a job without the programme. 10% of clients felt they would have found a job anyway and so they made a 10% reduction in the savings.

Deducting the deadweight is not necessary if you have been able to calculate the costs per additional job and so have already taken into account the net impact.

¹³ [Evaluation of the Family Employment Initiative](#)

¹⁴ [A cost-benefit analysis of Pathways to Work for new and repeat incapacity benefits claimants](#)

Financial benefits and savings are usually calculated as those benefiting the exchequer but some evaluations also look at the financial benefits for individuals of moving into employment.¹⁴

Worklessness and economic exclusion in the West Midlands account for 20% of the regional output gap¹⁵, which is the gap between GVA per head in the region and the UK as a whole. Programmes to address worklessness and help people enter employment will increase the productivity of these individuals and increase GVA per head. Guidance¹⁶ does exist on translating the number of jobs gained into increases in GVA (as used to assess impact of Regional Development Agencies). However, this uses the average GVA per job in the region. Often, the jobs gained through worklessness interventions for workless people will not be 'average' jobs.

The savings to the exchequer obviously increase the longer employment is sustained. The savings calculated in the Freud review were based on employment being sustained for one year. The National Audit Office carried out a review of the cost of national DWP programmes and how long jobs needed to be sustained for there to be a net benefit to the exchequer. This is calculated by deducting the costs (programme costs and tax credits) from the savings (in DWP benefits, CTB, HB, Income Tax paid, NI contributions and employers NI, and indirect taxes) based on different job durations. They found that most programmes break even when employment is sustained for 22 months.¹⁷

4.8 Costs/benefits not measured

In carrying out an evaluation of cost-effectiveness it will not always be possible to measure all of the costs or benefits resulting from the programme.

The London audit notes that the costs to participants of starting work (such as transport costs, extra laundry costs or increased debt repayments) are often missing from the analysis of costs. Other costs, such as where clients are referred to other services may also be difficult to include.

It may also not be possible to measure all of the benefits, irrespective of the wider social benefits discussed below. The calculations involved in measuring the savings in benefit payments alone are difficult and may not always be feasible.

The literature suggests that it is important to acknowledge and discuss which costs and benefits are missing from the analysis and the implications that this may have.¹⁸

¹⁵ West Midlands Economic Strategy

¹⁶ [RDA Evaluation: Practical Guidance on Implementing the Impact Evaluation Framework](#)

¹⁷ [Sustainable employment: supporting people to stay in work and advance](#)

¹⁸ [Review of the DWP Cost Benefit Framework and how it has been applied](#)

4.9 Measuring wider social benefits

Most worklessness interventions will have many more benefits and positive outcomes than the purely fiscal benefits, such as reduced benefit payments, of helping someone into employment. Wider social benefits may include better health and quality of life of participants, reduction of crime in the area, or an increase in income of the participants. Measuring these types of benefits is much more of a challenge.

The Government is interested in the use of the Social Return on Investment (SROI) model, particularly to help Voluntary and Community Sector organisations to measure their economic impact. Guidelines on how to use SROI are available¹⁹ as well as examples of SROI methods being used to analyse worklessness interventions.²⁰ SROI analysis involves putting a monetary value on all of the benefits resulting from an intervention; there is a project database which provides sources of evidence and costings for use in SROI analysis.²¹

A recent report by Demos²² looking at how social value can be measured found that there are many different ways of calculating this but that the SROI model is the favoured one and the model that we should be working towards using. However, the report also said that calculating SROI is complicated and currently beyond the capacity of many of the third sector organisations that they reviewed in the report.

In evaluating worklessness interventions, DWP guidelines don't recommend putting monetary values on these difficult to measure outcomes such as health, self-esteem, child welfare or life satisfaction as there is no reliable way of estimating these impacts. The London audit of worklessness costs²³ also notes that there is also a research problem in that it is difficult to identify the direction of causation between, for example, poor health and worklessness. The report suggests that if an intervention can be shown to be cost-effective - the monetary benefits outweighing the costs - then any other wider positive outcomes are an additional benefit.

¹⁹ www.sroi-uk.org/

²⁰ See [Coventry Local Enterprise Growth Initiative \(LEGI\) SROI Assessment: Job brokers or Evaluation of the Family Employment Initiative](#)

²¹ See <http://www.sroiproject.org.uk/sroi-database.aspx>

²² [Measuring social value: The gap between policy and practice](#)

²³ [Counting the cost: a worklessness costs audit for London](#)

Although it is difficult to put monetary values on the additional social benefits that might result from worklessness interventions it is important that these aren't discounted altogether. Government guidelines on carrying out an evaluation state that "There will be some impacts, such as environmental, social or health impacts, which have no market price, but are still important enough to value separately".²⁴ Therefore in carrying out an evaluation of cost-effectiveness, all of the benefits should be described even if it is not possible to put a monetary value on them. To do this, SROI guidelines say that you should involve stakeholders to discuss and map all of the outcomes and impacts of the intervention.

4.10 Overall cost-effectiveness

The cost-effectiveness of a programme can be assessed in two ways. Firstly, by comparing to benchmarks of costs per unit provided by similar programmes (where this is possible) or secondly, by calculating whether the benefits of the programme outweigh the costs.

The Freud review recommended that DWP develop a model to allow it to understand the full costs and benefits of moving different client groups into work. This would make the process of comparing worklessness interventions for cost-effectiveness much easier.

²⁴ [The Green Book: Appraisal and evaluation in central government](#), p22

5 Useful resources

The Excel file which accompanies this report contains the following resources:

Sheet 1 - A list of references used in this review and other useful reading with links to each report

Sheet 2 - A summary of programme evaluations included in literature review

Sheet 3 - A summary of other literature included in the review

Sheet 4 - DWP programme costs

Sheet 5 - Details of some of the DWP programmes

6 Appendix

DWP cost-effectiveness measures 2005-06

Source: DWP work and pensions committee evidence for report on [DWP's commissioning strategy and the Flexible New Deal](#), 2009 and National Audit Office, '[Helping people from workless households into work](#)', 2007 for costs per additional job

Programmes	Client Group	Voluntary or Mandatory	Number of Participants	Cost per gross job entry	Cost per participant	Cost per additional job
Jobseekers						
New Deal for Young People (NDYP)	18-24 year olds unemployed for 6 months	M	236,200	£2,619	£866	£11,720
New Deal 25+ (ND25+)	Over 25s unemployed for 18 months	M	127,900	£3,532	£983	£12,180
New Deal 50+ (ND50+)	Over 50s unemployed for 6 months	V	61,720	£435	£133	£3,620
Lone Parents and Partners						
New Deal for Lone Parents (NDLP)	Lone parents	V	212,620	£841	£365	£4,950
New Deal for Partners (NDP)	Spouses or partners of benefit claimants	V	4,230	£2,296	£1,107	£76,540
Disability Programmes						
New deal for Disabled People (NDDP)	Unemployed people with a disability	V	65,980	£2,372	£1,136	£6,780
Pathways to Work (seven districts)	Incapacity Benefit claimants	M (for new claimants)	69,369	£2,434	£492	£9,910
Employment Zones (EZ)						
EZ NDYP	Unemployed young people who live in a EZ	M	11,570	£4,283	£1,296	£21,360
EZ ND25+	Unemployed people aged over 25 who live in a EZ	M	27,670	£4,688	£1,167	£18,810
EZ NDLP	Unemployed lone parents who live in an EZ	V	10,970	£3,952	£1,265	£23,250

Nb. Caveats and further details about each of these programmes are available on sheet 5 in the accompanying excel file.

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