JOBS JOLT: EVALUATING PREDICTED FISCAL SAVINGS

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Abstract

Jobs Jolt is a package of Active Labour Market initiatives that was funded on a fiscally neutral basis. The package is to be funded through income support savings from achieving positive employment outcomes for clients. A key purpose of the evaluation is to identify whether these savings occurred. Achieving such an objective presents a unique and difficult challenge. This paper discusses the process of developing a theoretical model to predict fiscal savings for a package of diverse initiatives, the lessons from that work, and some challenges faced in moving from an ex ante to an ex post fiscal model.

Introduction

Jobs Jolt is a self-funding package of Active Labour Market initiatives introduced in 2003. Jobs Jolt set out to to address the skills and labour shortages evident in New Zealand in recent years, and in doing this, to reduce fiscal expenditure through increasing the numbers of people exiting from benefits into employment.

The package comprises 13 initiatives that share a common employment focus but differ in target populations, the locations they operate in, and the mechanisms through which they seek to assist people into work.

Jobs Jolts was funded on the basis that it would be fiscally neutral. Accordingly, policy makers needed a robust model to predict the fiscal savings from each initiative within the package. Moreover, the Jobs Jolt evaluation is required to determine whether the initiatives achieve the predicted savings.

In this paper we discuss the challenges of developing a model to predict fiscal savings for a package of diverse initiatives and the issues we face in translating this ex ante cost benefit model into an ex post one.

Context: Growing importance of outcomes

The New Zealand Government is extending public service accountability from outputs to outcomes. Accountability for outcomes is evident in government departments now being required to provide a “Statement of Intent” that describes how their outputs will contribute to their stated outcome goals. In the main, this involves applying many of the principles of programme evaluation to government

activities (ie a clear statement of expected outcomes, an intervention logic, and the development of measures to test this logic).

One consequence of the growing importance of outcomes is a shift in thinking by policy makers and Ministers about different ways to fund government programmes and initiatives. One example is the notion of fiscal neutrality.

Using outcome savings to fund programmes

Fiscally neutral funding involves funding a programme in one area of government through expected savings generated by the programme in other areas of government activity. One obvious "outcome" link is between employment assistance and payment of income support. Employment programmes assist people into employment. Assisting people into employment leads to a reduction in income support costs. It is a simple step then to argue the future savings from reduced income support can fund the programme in question.

Jobs Jolt is the first package in New Zealand to attempt to fund a series of employment initiatives in this way. In this case, the cost of the Jobs Jolt initiatives will be funded over five years by an expected reduction of income support costs over the same period.

Ex ante fiscal model

While simple in theory, applying fiscally neutral funding is complex when applied to employment assistance, from both a forecasting and an evaluation perspective. To date, few evaluations have attempted to show the net impact of employment programmes, which is a necessary condition for demonstrating any fiscal savings. Amongst the matters to be considered is taking into account any negative effects on non-participants (ie displacement and substitution). This is in addition to the problem of providing sensible predictions of the number of participants, expected outcomes, and direct impact of very diverse programmes within a coherent model.

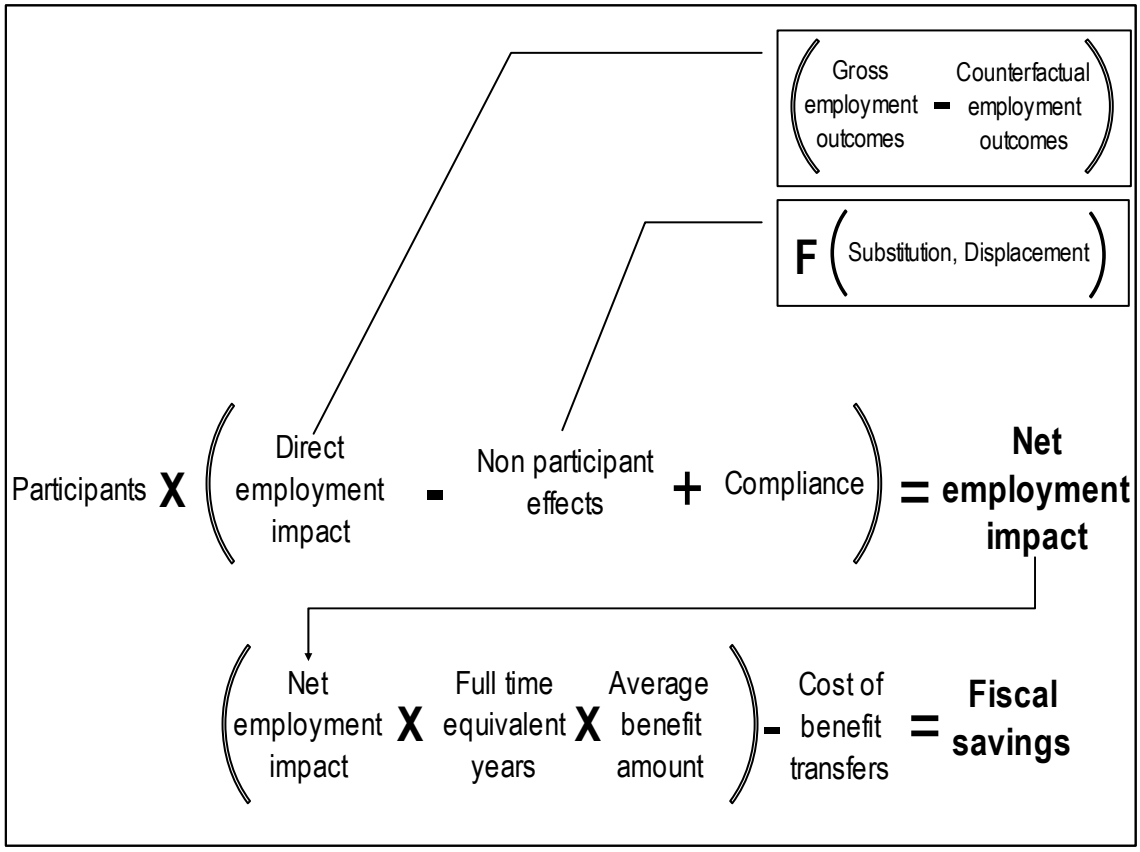
To meet these challenges, we developed a fiscal savings model that comprised a standard template of how employment programmes lead to fiscal savings, taking into account their effects on participants and non-participants. The model took a "bottom up" approach, asking policy analysts to provide such as cost and participant numbers, as well as estimates that are more difficult to quantify, such as the impact of initiatives on participant's outcomes. For non-participant impacts, such as substitution and displacement, the impact estimates were selected from a range of high, medium, or low values, depending on advice received from policy analysts.

To ensure maximum consistency and debate, assumptions and estimates for each of the initiatives were reviewed and agreed to by the three agencies involved (ie Department of Labour, Ministry of Social Development, Treasury). The New Zealand Cabinet agreed to fund Jobs Jolt based on the fiscal savings forecast by the model.

Components of the ex ante fiscal model

The model comprises a number of components that contribute to the calculation of fiscal savings for each initiative. The relationship between each component is demonstrated in Figure 1 (Appendix 1 contains a glossary of terms).

Figure 1: Components of the Fiscal Model: Individual Initiative Template



Fiscal savings were calculated for each initiative and subtracted from projected costs, which resulted in a net cost or net saving for each initiative. The net amounts were then aggregated to calculate the fiscal impact of the Jobs Jolt package. In this instance, the portfolio approach was beneficial because the net costs of some initiatives could be offset by net savings of others, resulting in fiscal neutrality at package level. This meant initiatives that are focused more towards social rather than employment outcomes were not immediately excluded.

Challenges faced in predicting fiscal savings

Challenges in developing the ex ante model fell into two broad categories: the need for strong assumptions, and institutional restrictions.

Strong assumptions

The initiatives: In many instances, there was limited information about the initiatives that make up the Jobs Jolt package. Many of the programmes were newly developed, without detailed designs or precedence in the national or international domains. Where similar programmes existed, evaluations were often lacking, making it difficult to assess their likely impact. Thus, strong assumptions needed to be made at the outset around the empirical information to be used in the model. Similar issues are encountered when estimating non-participant effects (eg substitution, displacement).

The implementation: Fiscal modelling assumes the initiatives operate as intended. One consequence of implementing several untried initiatives is that implementation often differs from original design. The extent to which these adjustments may affect fiscal savings varies from initiative to initiative, but even the smallest change could

affect the overall fiscal neutrality of the package. It was also understood that initiatives might be altered or discontinued before the end of the evaluation period. Thus, some savings could be made through reduced expenditure; however, this may not cover the costs already outlaid or the loss to the package of certain anticipated savings.

The economy: While the model was developed in collaboration with the MSD unit responsible for macroeconomic forecasting and modelling, we could not accurately predict what contextual changes would occur over the five-year period during which Jobs Jolt will operate. Contextual changes include factors affecting the economy, labour market needs and skills shortages, unemployment levels, the strength of the New Zealand dollar and the political environment. Significant contextual shifts have already occurred in the New Zealand economy, with unemployment levels at 4% — well below those forecast when the Jobs Jolt package was developed.

Institutional restrictions

Institutional factors may limit or constrain the design of the fiscal model. For example, savings could only be included in the years the programme was running and savings through additional taxation were excluded. Generally, such restrictions substantially reduced the proportion of total programme savings predicted in the model.

Lessons from the ex ante model development

"One size fits all" template

The fiscal model was based on a simple small-scale time-limited programme affecting a small minority of eligible job seekers. This "one size fits all" approach proved inadequate when applied to a package of diverse initiatives. For example, many of the initiatives affected whole populations of benefit recipients, were ongoing instead of time-limited, or did not fit the fiscal year format. While a generic template is a useful starting point for developing fiscal savings models and may prove suitable for many initiatives, it is important to be able to move beyond it when an initiative does not fit in such a specific frame of reference.

Clarity in documentation

Clear and easily accessible documentation that records the logic and basis for assumptions is critical to ensure continuity in the evaluation. Often, a fiscal model will continue to be used for many years after those involved in the original specifications have moved on to other projects. The terms used in the model, the underlying rationale and the common understandings reached by the modelling team and policy analysts need to be clearly documented.

Good communication

Good communication between the fiscal modelling team and policy analysts: It is essential to have clear and regular communication between the modelling team and policy analysts. Often, these two specialities will have different technical backgrounds and vocabularies. The modelling team needs to ensure they fully understand the information on the programme design, intent and desired outcomes provided by policy analysts. The policy analysts need to understand how this information is used in the fiscal model and ensure it is interpreted correctly. Common understanding of key parameters such as participation and outcomes levels should not be taken for granted, and particular attention should be paid to ensuring more complex concepts, such as impact, substitution and compliance, are well explained and understood by both groups.

Time for quality assurance

In general, there is little time available to develop bids for government funding; Jobs Jolt was no exception. However, where funding is tied to expected savings it is much more important to ensure a sound argument exists for the bid. The success of any future bids using fiscally neutral funding will depend on the record of accomplishment of delivering the expected savings.

Ex post fiscal model

Migration of the model from an ex ante forecast context to an ex post evaluation context presents additional challenges that fall broadly into two categories: challenges encountered when the model changes and challenges encountered when initiatives change.

When the model changes

The first iteration of the fiscal savings model, as used to generate forecasts, is unlikely to represent the best possible fiscal modelling solution. It is important to maintain an ongoing process to review and improve the fiscal savings model over time to ensure that estimates represent the best available approaches to estimating savings. Processes to manage changes to the model need to be put in place early on, both to ensure that changes are necessary and appropriate and to manage the consequences of possible revisions to fiscal savings estimates. This is of particular relevance for models that span several years.

Processes put in place to improve the model need to be independent. These processes should act to improve the model from a technical perspective, and must be "blind" to the savings impact of those improvements. This will help to avoid any risk of improvements being perceived as being driven by a need to preserve fiscal neutrality.

When the initiatives change

Over time, the implementation of initiatives will inevitably change. This will affect the validity of the fiscal model. It is important to develop an agreed change process for initiative changes at the beginning of the evaluation process. It is also essential to update the fiscal modelling team on changes in the initiative implementation on the ground, to ensure that updated estimates are based on appropriate information.

Evaluation mode

As we move into evaluation mode, we face additional challenges in communicating to stakeholders the limitations of early fiscal estimates and testing the assumptions laid out in the ex ante model. As we are still in relatively early phases of package lifecycle, additional challenges may arise as the package matures.

Communication of limitations of the estimates

As any project moves from forecasting to evaluation mode, there is an expectation that findings will be reported. The time required to generate ex post estimates needs to be clearly communicated to stakeholders at the outset.

The Jobs Jolt package has attracted a great deal of attention from a variety of sources, including political, media and community groups. The fact that the Jobs Jolt package has the goal of fiscal neutrality means there is particular interest in the fiscal savings generated, yet calculating aggregate ex post fiscal savings for the package as a whole is the final step in a lengthy process. The speed and accuracy with which aggregate fiscal savings can be reported for Jobs Jolt is limited by the diversity of the

package, the amount of work required to calculate net impact for each initiative (eg in designing counterfactuals), and the fact that, as with any outcomes analysis, reliable meaningful outcomes findings only become available after implementation is well under way. Initiatives need time to operate and generate outcomes, and time is needed to collect and interpret quantitative and qualitative information. This information is required to feed into the various aspects of the fiscal savings equation to derive the ex post estimate. In this context, there is a challenge to effectively manage stakeholders' expectations regarding the availability and accuracy of fiscal savings data, communicate the limitations of preliminary findings, and still deliver timely findings.

Evaluating impact

In the evaluation phase, some of the concepts employed in the fiscal model will be easier to measure than others. The fact that the substitution, displacement and compliance effects will be difficult to measure should not act as a deterrent to including them in the ex ante model. In some instances, it may become necessary to measure indirect "indicators" of impact, rather than the direct effect itself. Running qualitative and quantitative work streams in parallel will allow more in-depth understanding of how programmes operate in practice. Such an approach can inform the development of indicator measures.

Conclusion

From an evaluation perspective, there are a variety of issues to consider both when developing ex ante fiscal models for the estimation of savings and in using these models to calculate ex post savings. These issues can be largely overcome by clear communication, forward planning and an understanding of the limitations of the process.

Despite these issues, and the uncertainties associated with ex post fiscal savings estimates, there are considerable advantages in an evaluation context when using this fiscal savings modelling approach. The approach clearly defines the criteria by which initiative success can be measured and communicated, which provides a clear focus of evaluation activity and reporting.

Further work on this project will continue to develop improved tools and approaches for fiscal savings estimation of social programmes. Work will also continue to improve techniques for testing assumptions used in the estimation of fiscal savings, and refining measurement of the various input parameters. Finally, we will consider the overall utility of the "portfolio approach" of assembling packages of initiatives on the basis of their ex ante fiscal savings estimates.

Appendix 1: Glossary of terms

Compliance effect

The compliance effect is the change in people's behaviour in response to being required to participate in an initiative. Compliance effects occur in two ways: either through belated declaration of employment activity or people regarding the inconvenience of participating as too high relative to the alternatives.

Counterfactual employment outcomes

This is the proportion of participants who would have been off benefit even if they had not participated in the initiative. For example, if the counterfactual outcomes for a given initiative with 1,000 participants are 50 percent in the first year, then we expect that 500 participants would have exited the benefit without the intervention.

Direct employment impact

This represents the additional employment outcomes of the initiative's participants over and above the counterfactual employment outcomes. It is calculated as the gross employment outcomes minus the counterfactual employment outcomes. This is often referred to as micro economic impact.

Displacement

The loss of employment among firms competing with those firms who receive assistance in creating employment opportunities. Displacement is considered a greater risk where the initiative directly assists firms in creating employment opportunities, especially where expenditure reduces operating costs (eg wage subsidies).

Full Time Equivalent Years

Participants will not all exit benefit at the same point in a programme year. Therefore we must consider the full time equivalent years of benefit saved to get to fiscal savings.

Gross employment outcomes

The employment outcomes of the initiatives' participants. This is the total number of participants expected to exit the core benefits in a given period of time. It is generally expressed as a percentage of the participants. Gross employment outcomes are not necessarily due to the initiative. They include outcomes that may have occurred whether or not the participation would have taken place.

Net employment impact

The overall employment impact of the initiative, allowing for non-participant effects such as substitution and displacement. This is sometimes referred to as the macro economic impact. The net employment impact is the direct employment impact plus the compliance effect minus any substitution and displacement effects. Thus, if the direct impact and compliance effect results in 100 more people in employment, and combined substitution and displacement leads to an increase of 80 people receiving income support, then there is a net increase of 20 people in employment. In other words, the initiative increased the total number of employed by 20.

Participant

A person who participates in, or is affected by (directly or indirectly), a jobs jolt initiative. Specific participant definitions differ from initiative to initiative.

Substitution

The extra employment outcomes among participants will come at the expense of those job seekers who would have taken the job, had the participants not received assistance. Substitution effects are considered to occur mainly where the skills of a job seeker have increased or where they are better able to find employment opportunities.