

Staff Paper 2015

Analysis of Jobseekers and Related Expenditure

Irish Government Economic and Evaluation Service

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Summary

2015

- The **2015 REV allocation** for Jobseekers Allowance/Benefit was **€3.014bn**.
- This allocation was inclusive of €107m to take account of the movement of former One Parent Family Payment recipients into Jobseekers Transition Payment in July. This cohort amounted to approximately 14,000, slightly less than expected and it is now estimated that only €100m of the €107m allocation will be incurred; while they are not counted towards the numbers on the Live Register (LR) they are counted towards the cost. A further 2,600 former one parent family recipients moved directly onto Jobseekers Allowance.
- The **2015 projected outturn** for JA/JB is **€3.098bn**, which gives a projected **overspend of €84m**. This is due to more people than projected on the LR and the average cost being higher than projected.
- Total Jobseekers Expenditure was over profile by almost €50m at end-August.
- The LR is projected to end 2015 at 320,000 and at an **average of 345,000 (inclusive of the effect of the addition of 2,600 former OFP recipients)**.
- The profiled average cost per thousand for 2015 was €8.61m, before taking account of the additional cost of the transferred OFP cohort. We estimate that the actual average cost per thousand will be **€8.69m** exclusive of the JST cohort and **€8.98m** when they are included.

2016

- The average LR is projected to be **306,250 for 2016**, taking account of the expected impact of the JobPath activation initiative.
- The **funding requirement for 2016 is estimated at €2.833bn**, a reduction of **€265m** on the projected 2015 outturn. This is based on an average cost of **€9.25** million per 1000.
- Based on these estimates a further **€23m would be saved on supplementary benefits**, bringing total LR related savings to **€288m**.

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1. Investigation of the 2015 position

1.1 Current Position:

The allocated expenditure in 2015 for Jobseeker's Allowance (JA) and Jobseeker's Benefit (JB) was €3.014 billion, inclusive of €107m to cover movement of former One Parent Family recipients into the Jobseeker line from July onwards. At the end of August the spend on JA/JB was almost €50m or 2.3% ahead of profile. As of 18 September the LR was around 338,000 (c. 335,500 excluding OFP wash through) which was c. 12,500 above the profile of c. 325,600. In addition to JA and JB, there is expenditure on working age employment supports which is related to the LR. Expenditure on employment supports to end-August totalled around €705m which was approximately €14m (or 2.0%) below profile.

1.2 Estimated JA and JB expenditure:

There are three important items when considering JA and JB expenditure, all of which contribute to overall expenditure. If any of these items perform differently than expected they can cause expenditure to vary from profile. The three items are

- The level of the Live Register (LR)
- The number of recipients in payment
- The average payment values

1.2.1 Estimated Average LR at end 2015

The estimated average weekly LR for 2015 was set at 337,700. This estimate provided the basis for the expenditure on LR related schemes. At 11 September the average weekly LR figure was approximately 3,263 over the estimated figure for that week. While expenditure on LR schemes will be lower in 2015 than in 2014, the level of savings will be significantly less than expected. The LR is projected to outturn at an average of 343,700 when the OFP transfers are stripped away. The addition of 2,600 former OFP recipients to the JA figures from July onwards adds 1,300 to the average, bringing the total to an estimated average of 345,000 for end 2015.

The reasons for the difference between the LR expected outturn and expenditure in 2015 and the profile we projected last year are dealt with in detail later in this chapter.

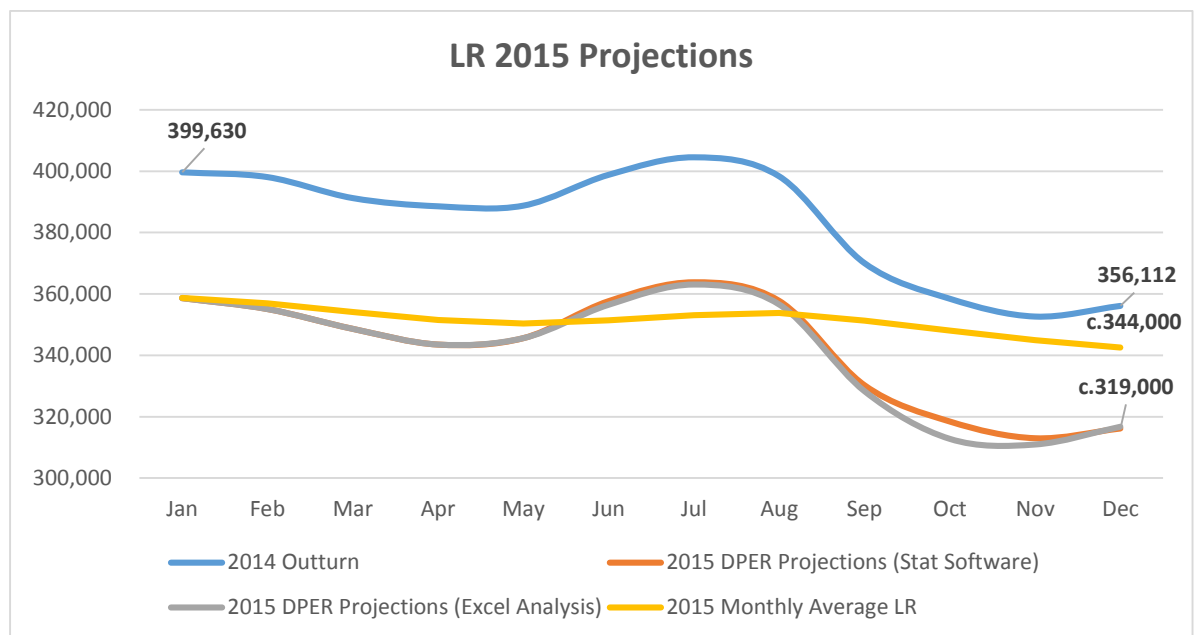
1.3 Methodology

This section outlines the methodology used to derive our projections for Live Register numbers and costs.

We have used two methods, one using an excel analysis and the other using statistical software.

The excel analysis takes the net reductions/increases in the LR in the past year and applies this trend going forward to the end of 2015. On average, the net weekly variance per week between 2014 and 2015 is minus 52 (i.e. there are 52 less people on average per week falling off the LR in 2015 than there were in 2014). This net reduction is applied to all weeks out to end December 2015. By this method, we calculated that the LR is likely to finish this year in the region of 320,000.

The second method uses the statistical software is the X-12 ARIMA package devised by the U.S. Census Bureau. The package's primary function is to provide seasonally adjusted figures to counter seasonal variations in time-series data, however it also provides projections based on the data available. The software estimates that the LR will finish in the region of 319,000.



Source: DPER Projections

1.3.1 Validation of the model

For 2014 the average weekly LR figure was projected to be 389,000 however the actual outturn was slightly **lower** at 384,000 – a variance of 5,000, or 1.3%. This shows the model performed well in 2014.

Similarly original forecasts for 2015 estimated the average weekly LR figure to be 337,700 and the average cost per 1,000 to be €8.6 million. However recently revised

estimates, based on higher than expected outturn figures earlier this year, suggest that the average figure will be closer to 345,000 at the end of 2015 with an average cost per 1,000 of €8.98 million (this increase is partly explained by the movement of 2,600 individuals from the One Parent Family Payment to the LR in summer 2015).

Taking into account the one-off transfer of former OFP recipients, the gap between the 2015 projection and the current estimate of the 2015 outturn is 4,700, a variance of 1.4%. Subsequent sections will deal with the main factors accounting for the variance in 2015.

Nor is the analysis in this section on estimated 2015 numbers and costs done in isolation from the calculations for 2016. One informs the other and the emerging trends observed in 2015 in terms of weekly reductions in numbers, %s in payment, average costs etc combine to inform the 2016 projection.

That said there are challenges associated with accurately estimating the average Live Register numbers in any year. The methodology employed here is robust and has performed well. However, unanticipated developments during the year in terms of labour market trends, economic context developments or policy changes can all influence actual results and contribute to a variance against the original projection. Also, given the disconnect between Live Register numbers and unemployment rates, macro-economic forecasts of unemployment for the coming year are not necessarily representative of LR trends. Further analysis of the underlying trends in both the Standardised Unemployment Rate and the Live Register will be undertaken in 2016.

1.4 Updated 2015 Projections

➤ *Current Ceiling Adjustments based on LR pressures:*

LR allocations are now adjusting downwards as the numbers of JA and JB decrease. The EU Fiscal Rules which come into effect next year indicate that cyclical reductions in unemployment expenditure must be returned to the Exchequer.

1.4.1 The numbers of recipients in payment

Payments to certain groups are funded from JA/JB even though they are not included in the LR figures. Systematic short-time workers¹, Self-employed persons², Over 65's³, Momentum participants and JST provide the majority of the c. 35,000 (as of end-August) on JA/JB but not on the LR. Therefore as of end-August, the JA and JB claim load was around 393,000 as opposed to the 357,000 LR figure (see Table 1 below). The numbers in receipt of a payment have increased due to fewer people awaiting their claims to be processed.

Table 1: JA/JB recipients on and off the LR:

	<i>End August 2014</i>	<i>End August 2015 (Estimated)</i>	<i>Difference</i>
LR	398,325	357,125	-38,800
Systematic short-time workers	1,491	934	-557
Self-employed	10,609	9,910	-699
Short-Term Enterprise Allowance	568	447	-121
Work Placement Programme Open	45	33	-12
Work Placement Programme Graduate	7	5	-2
Over 65s	5884	7959	2075
Labour Market Education Fulltime (Momentum)	338	405	67
Jobseekers Transition	1944	15921	13977
Total JA + JB claim load	419,211	392,739	-26472

¹ Systematic Short-time scheme is for a temporary situation where an employer may put workers on a part-time schedule but will revert to full-time in the near future. Therefore employees are not expected to seek other work. This is a JB payment.

² Self-Employed people are not treated as employees, therefore they are not included on the LR. This is a means-tested JA payment.

³ They are not of Working Age and are therefore not included in the LR.

Total on JA or JB but not on LR	20886	35614	14728
Not on LR as % of total JA+JB claim load	5.0%	9.1%	4.1%

Source: Department of Social Protection

The average number of weekly recipients of JA/JB is over profile by 2,235 in the year to date, as is the LR by 10,550 in the year to date (see Table 2). The table shows that 86.75% of JA/JB claimants are in payment as a percentage of the LR, while DSP profiled that 86.8% would be in payment, a variance of 0.05%.

The increase of those in receipt of a payment is solely on JA, which as section 1.2.3 will show, has a higher average cost than JB. This increases the average cost per 1,000.

Table 2: Percentage of the LR in receipt of payment and not in receipt of a payment – August 2015

	<i>Actual YTD</i>	<i>Profile YTD</i>	<i>Variance</i>	<i>% Variance</i>
Jobseeker's Allowance	265,387	260,014	5,373	2.0%
Jobseeker's Benefit	41,812	44,949	-3,138	-7.5%
Total recipients of JA + JB getting a payment	307,198	304,963	2,235	0.7%
End August average LR	354,127	351,326	-10,550	-3.0%
JA + JB claims in receipt of a payment as % of LR	86.75%	86.8%	0.05%	

Source: Department of Social Protection data.

1.4.2 The average value of JA/JB payments:

The average value of the payments is also key to estimating JA and JB expenditure. If LR numbers decrease but the average payment value increases then savings might not be realised. The average payment values on JA/JB are higher than expected in 2015. Another factor which affects the average payment is the proportion of claimants receiving a full Jobseeker's payment. If there are a greater than expected number of recipients receiving a full payment, then the average payment value will be higher.

The average payment values for those who receive a payment increased on Jobseekers Allowance & Jobseekers Benefit from August 2014 to August 2015 (see Table 3). The average payment to end-August is higher than profile on JB by around €0.37 per week and higher than profile on JA by €0.83 per week. DSP state that JST related people will have an impact on this as they have a higher average payment value as a result of having child dependents.

Table 3: Average payment values of those in payment year on year, and against profile

	<i>End August 2014</i>	<i>End August 2015</i>	<i>Profile End August 2015</i>	<i>Difference</i>
Jobseeker's Allowance	196.48	196.43	195.60	€0.83
Jobseeker's Benefit	179.03	184.51	184.14	€0.37

Source: Department of Social Protection data.

1.4.3 Average Cost per 1000 in 2015

The main measure used to illustrate the average payment values and the number of recipients in payment on the LR is the average cost per thousand on the LR. At end-August, the cost per 1,000 on the LR was €8.79m. This is expected to rise for the rest of the year as the JST cohort have a more expensive average cost and will therefore push the overall average upwards.

The average cost per thousand in 2015 was estimated at €8.61m per thousand.

However, it has been running ahead of that throughout the year due to the cases that remain on the LR having slightly higher average costs. We have taken account of the fact that as the LR reduces there may remain a cohort with slightly higher average costs.

In order to project the average cost for the whole year we have taken the average cost at end August for the year to date of €8.79m and reduced it to take account of the effect of the movement of the former OFP recipients onto the LR costs.

The full year effect of the addition of the OFP recipients would add approximately €0.56 per thousand to the average cost. The effect of the OFP cohort on the average cost is calculated by dividing the additional cost they are imposing on the LR by the projected average for the year.

By applying a pro rata reduction to the August average to take account of the effect of the additional cohort since July (i.e. for one sixth of a year), the average cost for the LR in 2015 exclusive of the OFP cohort is c. €8.69m per thousand ($8.79 - .56/6$, i.e. $8.79 - 0.1$).

Given the addition of this cohort for a half year in 2015, this brings the estimated average cost per thousand in 2015 (Inclusive of the OFP) to €8.98 million, giving a total projected cost of €3.098 billion, €84m above the allocation of €3.014 billion.

Table 4: The Average Cost per Person on the LR 2013 – 2015

	<i>Total Cost of JA and JB</i>	<i>Weekly average on LR</i>	<i>Average Cost per 1,000 on LR</i>
	€'000	#	€000
2013	3,667,557	420,000	8,737
2014	3,276,600	390,000	8,660
2015*	3,098,000	345,000	8,980

Source: Department of Social Protection; *Authors calculation

1. 5 Reasons for variance between profile and outturn in 2015

It is important to note that the LR is becoming a less reliable indicator of unemployment. The LR is a subset of the total JA and JB⁴ recipient figures, it has also become a less reliable guide for estimating expenditure due to unemployment. The key reason that JA and JB expenditure is over profile is down to the profiling of:

1. The number of recipients in payment: The LR is down by a weekly average of 3,849 (at 18 September), although the average weekly JA/JB recipients in payment are ahead of profile by 2,235 at end August.
2. The average payment values: The changing labour market in Ireland makes it hard to estimate the average payment values for Jobseekers, and the additional cohort of One Parent Family Payment claimants has added complexity to those estimates.

All of these factors, have been taken into account in the updated 2015 projections for the average LR and JA/JB Expenditure. The original and revised estimates are summarised in the table below.

Table 5: REV 2015 Projections/Updated 2015 Outturn

	<i>Excl. OFP Impact</i>	<i>Weekly average on LR</i>	<i>Average Cost per 1,000 on LR</i>
	€m	#	€m
Allocation	2,907	337,700	8.61
Estimated Outturn	2,998	345,000*	8.69
Difference/Overspend	84	7,300	0.08

*Including OFPs

The projected 2015 overspend (b) – (a) = €84 million.

⁴ JB recipients include persons signing for credits.

2. Analysis of Jobseekers and Related Expenditure for 2016

2.1 LR Projections 2016

2.1.1 Department of Finance QNHS projections

Expenditure allocated to LR related schemes in any given year is based upon the estimate of the LR that year. The LR projections for 2015 and 2016 based on QNHS projections can be seen in Table 6.

Table 6: LR weekly average projections

	2015	2016
SES (Apr 15) *		
QNHS Unemployment Rate	9.6%	8.8%
Estimate LR (DPER calculation)	336,000	307,600

Source: DPER/DSP - Budget figures; Department of Finance - Spring Economic Statement.

*These projections were the latest available published data at the time of writing this paper. More up to date figures were subsequently published in Budget 2016.

The average LR for 2015 was estimated at 337,700. However, as outlined earlier, our projections show that the outturn average LR figure will be 345,000. Subsequently, the Department of Finance published unemployment projections on a QNHS basis in the Spring Economic Statement. The SES paper projected 8.8% unemployment for 2016 which by applying a conversion rate (outlined in appendix 1) equates to an LR average of c. 307,600. The conversion rate on the SES projections suggests the 2015 average LR will outturn around the 336,000 mark and that the LR could drop to 307,600 in 2016. However, it must be noted that this is purely an academic exercise and linking the QNHS and LR is difficult as both measure different things. There will be an updated published set of projections of the Unemployment rate in Budget 2016. We set out our projections for the end of year and 2016 in the next section.

There is a degree of sensitivity around the QNHS and how it interacts with the LR figures. For example, if the QNHS was to fall by an extra 0.1% in 2016 the LR is projected to fall to 303,000.

2.1.2 Our Projections

We have examined the LR independently, using the excel analysis mentioned in Chapter 1. A key factor in estimating the average LR for 2016 is where the end-year 2015 LR will finish.

The projections above are on the basis that the trend of 2015 over 2014 continues. This gives us a starting position for 2016 of around 320,000. As mentioned above, this is a key factor in estimating the average LR for the following year. With this starting position and assuming the trend continues to slow down by 52 less people coming off the LR per week year on year, the average LR in 2016 would be 309,000 (see table 8), with an end year figure of 287,000.

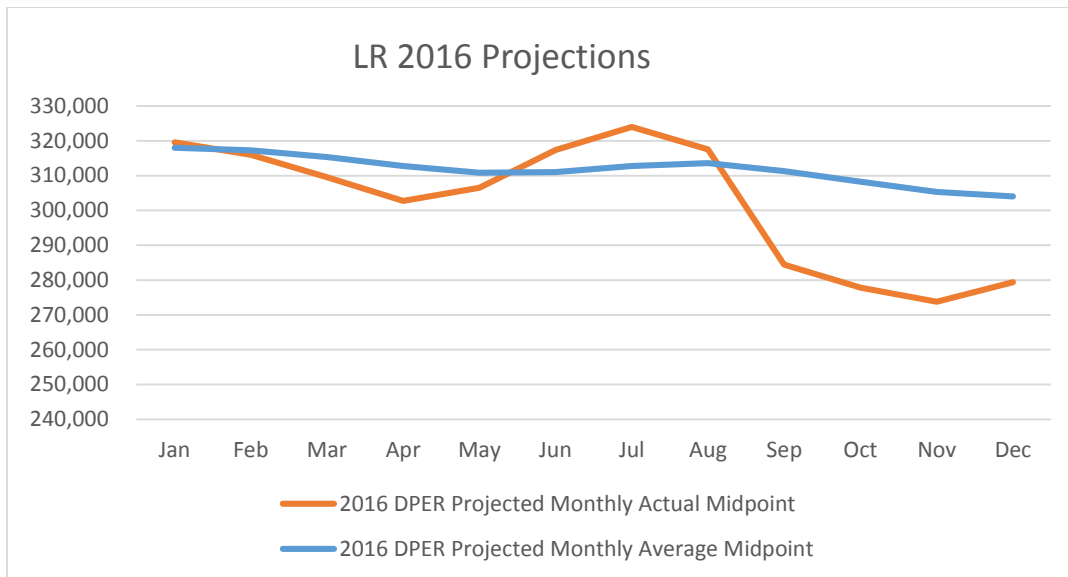
Alternatively, we have looked at the possible scenario where there is no trend over the next year and a half. This means that there are no weekly year on year changes from September 2015 onwards. Table 8 details this under the 'no trend' figures. This scenario shows that the average LR for 2015 would decrease slightly to 344,000 (inclusive of the OFP cohort) and the end year position would be close to 319,000. With this starting position and no net gains the 2016 position would be slightly different; the average would now be estimated at 307,000 and the end-year position in 2016 would be 283,000.

Table 8: LR Scenarios for 2015

<i>Scenarios</i>	<i>2015</i>		<i>2016</i>	
	Average	End-Year Position	Average	End-Year Position
Trend Continues	345,000	320,000	309,000	287,000
No Trend	344,000	319,000	307,000	283,000

Source: DPER projections

Following the trend continues method we project the average LR for 2016 to finish at approximately 309,000. We project additional reductions in the LR in 2016 due to the activation program, JobPath, which aims to get the long term unemployed back into the Labour Market. We project the LR to finish at **306,250** including the JobPath impact.



Source: DPER Projections

2.2 The average cost per 1,000 on the LR 2016

The weekly average number of persons on the LR is projected to drop from 345,000 in 2015 down to 309,000 in 2016. At end-August, the cost per 1,000 on the LR is €8.79 million. As outlined in chapter 1, this figure has skewed upwards as a result of the addition of the former one parent family recipients, so we calculated the average cost per thousand minus the addition of this cohort at c. €8.69m per thousand. The additional JST recipients are estimated to add €178m to LR costs in 2016, calculated on the basis of their average payment value of €213.85 per week. This adds an estimated €0.56m to the average cost per thousand. Taking €8.69m (the latest available figure) as our base and adding €0.56m we get an average cost per thousand of **€9.25m** in 2016.

3. Conclusion & Total LR Savings in 2016

The trend on the LR has been positive throughout 2014 and 2015, and the Department of Finance Spring Economic Statement projections estimated that the labour market would continue to improve in 2016. Our analysis indicate that the LR should fall to c. 309,000 next year. A further 2,750 is projected to fall off this figure as a result of JobPath which would bring the projected LR for 2016 306,250.

On the basis of our average cost per thousand projection of €9.25m, together with the projected LR level of 306,250, the funding requirement for 2016 is estimated at €2.833bn. The projected outturn for JA/JB in 2015 is €3.098bn. This gives savings of **€265 million** in 2016.

There are savings on supplementary benefits due to a reducing LR burden. The most recent estimate of these savings is €0.6 million per 1,000 on the LR, which takes into account spending on Fuel Allowance and Rent Supplement. At our projected LR of 306,250 the additional savings on Supplementary Benefits would amount to **€23 million** in 2016, giving a total savings figure of **€288m**.

APPENDIX 1

The average conversion rate over the last year was 34,951 (i.e. each 1% on the QNHS unemployment equals 34,951 on the LR). We used this conversion rate on all the Department of Finance projections.

Month	LR	QNHS Unemployment Rate	Conversion Rate (LR ÷ QNHS rate)
2014M09	370,050	11.1	33,338
2014M10	358,630	11.1	32,309
2014M11	352,647	10.8	32,653
2014M12	356,112	10.4	34,242
2015M01	358,630	10.4	34,484
2015M02	355,124	10.1	35,161
2015M03	348,676	9.9	35,220
2015M04	343,551	9.9	34,702
2015M05	345,633	9.8	35,269
2015M06	356,520	9.7	36,755
2015M07	363,628	9.7	37,487
2015M08	359,076	9.5	37,797
Average	355,690	10	34,951
Stability Programme Update Conversion			
2015	335,532	9.6	34,951
2016	307,571	8.8	34,951

*Transfers of BTEA recipients and temporary workers from the Educational sector have a negative impact on the summer months of the LR. This would help explain the seasonal change.