

# RESEARCH SUMMARY

## Understanding Performance Variation

This Understanding Performance Variation Project consisted of two linked studies: an econometric analysis of factors associated with variation in job entry rates and the construction of a needs-based funding formula, to look at how resource might be moved to help equalise outcomes. The work was led by GHK, with Cambridge Econometrics doing the econometric analysis and Bannock Consulting doing the needs-based funding formula.

### Main Findings

The main econometric model:

- Explained 67% of the variation in District level job entry rates using the main job entry rate (job entries divided by unemployed) and 59% when using the alternative job entry rate (job entries divided by unemployed and inactive).
- Included exogenous factors to represent client and local area characteristics, which were the Index of Multiple Deprivation, ethnic composition of JSA claimants and notified vacancies per claimant.
- Also included endogenous factors, which were the percentage of permanent staff, Employer Outcome Targets, Business Delivery Targets, and job-brokering budget per claimant.
- Found that variation in labour market demand (as measured by vacancies per claimant) accounted for the largest amount of performance variation, followed by the job brokering budget per claimant and the index of multiple deprivation.
- When transferred to different client groups suggests that for clients closest to the labour market (i.e. the more job ready), exogenous factors such as demand for labour offer the greatest explanatory power. Clients further from the labour market have a relatively greater effect from the Jobcentre Plus ‘full service offer’ or endogenous factors on job entries.

The needs-based funding formula:

- Considers how funding for Jobcentre Plus Districts might be allocated in order to maximise equality of outcomes.
- Assumes a fixed national budget and produced a range of options for funding determined by different combinations of labour market and deprivation measures.
- Generally shows that districts such as North London, Liverpool and North Nottinghamshire would gain resource and Devonshire, Wiltshire and Nottingham would lose.
- Involves an overall shift to areas where job entries are more difficult to get and so leads to a net reduction in national job entry totals.

# EXECUTIVE SUMMARY

## 1. Introduction

GHK, in association with Cambridge Econometrics and Bannock Consulting, were commissioned to improve understanding of performance variation. Two studies were undertaken within this project, using the same building blocks but applying different approaches. The first study takes an econometric modelling approach to understanding performance variation. The study uses a statistical model to identify the significant drivers of past performance. The second study builds on the results from the econometric work to develop a needs-based funding formula to support progress towards achievement of greater equality of outcomes. It suggests a resource allocation to address the effects of local labour markets and deprivation on equality of employment rates.

## 2. Study One: Econometric Analysis

### *Approach*

The first study, by Cambridge Econometrics, started with a review of previous work undertaken and built on this, choosing initial variables to represent factors that are likely to affect performance. The analysis then looked at the degree of spatial variation of the chosen measures of jobcentre performance and analysed the correlation between selected output and input indicators to suggest why performance variation might exist. The results of these were used in the construction of an econometric model, which tests this understanding and analyses the size of the effects of particular characteristics on Jobcentre Plus District performance.

The main measure of Jobcentre Plus performance used was job entry rates in each District, defined as total job entries divided by unemployment. Analysis was also carried out of job entry rates defined as total job entries divided by the inactive and unemployed.

### *Results*

The initial data analysis found:

- job entry rates negatively link to population density, high ethnic composition of JSA claimants, relatively high values on the Index of Multiple Deprivation and staff turnover.
- job entry rates are positively linked to high employment rates, high notified vacancies and management performance indicators (EOT, BDT and CST were used). There is also a positive correlation with job-brokering budget per claimant, proportion of permanent staff and unexpectedly with the amount of staff sickness/absence.

The main econometric model:

- explained 67% of the variation in District level job entry rates using the main job entry rate (job entries divided by unemployed) and 59% when using the alternative job entry rate (job entries divided by unemployed and inactive).
- Included exogenous factors to represent client and local area characteristics, which were the Index of Multiple Deprivation, ethnic composition of JSA claimants and notified vacancies per claimant
- Also included endogenous factors, which were the percentage of permanent staff, Employer Outcome Targets, Business Delivery Targets, and job-brokering budget per claimant.
- Found the variables had the expected sign, and most were statistically significant.

- Found that variation in labour market demand (as measured by vacancies per claimant) accounted for the largest amount of performance variation, followed by the job brokering budget per claimant and the index of multiple deprivation.

The preferred equation was re-estimated for four priority groups. The factors that accounted for the largest variation in the job entry rate for:

- lone parents were job brokering budget per claimant and the Business Delivery Target. With just over 49% of District performance explained (the lowest of the four groups), this indicated much less responsiveness to labour market variation than other groups.
- disabled and sickness benefit were the Index of Multiple Deprivation variable, almost matched by the role of the job brokering budget.
- Job Seekers Allowance was the Business Delivery Target, followed by the labour market demand measure of vacancies per claimant.
- the long-term unemployed were the Employer Outcome Target and the Business Delivery Target.

### **3. Study Two: Constructing a Needs Based Funding Formula**

#### ***Approach***

Bannock Consulting undertook an examination of needs based funding formulae as a separate but inter-linked part of the overall Understanding Performance Variation project. The model developed differs in nature from the econometric analysis: whereas the econometric analysis represents a range of factors that contribute to current job entry rates in districts, the model here describes a method of breaking down the funding into blocks and adjusting district funding within some of these blocks to reflect local labour market and area characteristics. Therefore the output from the model is not a description of where we currently are but illustrations of what the resourcing would look like, and how that differs from where we are now, under a range of scenarios to support equalising outcomes.

In devising an approach to undertake this study there were two initial sets of problems with which to deal. These were:

- how to measure disparity (ie. what indicators to use), and
- how to measure 'need' if Jobcentre Plus is to address those disparities.

In relation to Jobcentre Plus it therefore allocated resources to:

- supply statutory services to individuals i.e. benefit processing,
- deliver job brokerage services in given labour markets, and
- equalise outcomes in given localities given the characteristics of those localities and the consequent effect on the inputs needed to deliver the outputs.

#### ***Results***

These separate resource needs were modelled as three distinct funding blocks – benefit processing, job brokerage and equalising outcomes. Using these three funding blocks three scenarios were constructed. Holding the benefit processing block steady within districts and within the constraint of the current total national budget, the ratios between the other two were varied by setting ratios which:

- provided for the same per capita allocation per registered unemployed person as per inactive person (scenario 1 - 12:88),

- provided for the same as above but adjusted for a maximum employment rate, which was set at the level of the district which currently has the highest rate. (scenario 2 - 38:62), and
- provided for the same as Allocation 1 but restricted the allocation to equalise outcomes to the 10% of Districts with the lowest employment rates (scenario 3 – 12:88).

Scenarios one and two are examples where districts such as North London, Liverpool and North Nottinghamshire would gain resource and Devonshire, Wiltshire and Nottingham would lose. Scenario 3 moves resource to the 9 most deprived districts and away from all the others. Although we do not currently have information to build into the model on marginal returns to increasing resource, all three scenarios involve an overall shift to areas where job entries are more difficult to get and so involve a net reduction in national job entry totals.

## **5. Conclusions and Recommendations**

The models developed suggest that for clients closest to the labour market (i.e. the more job ready), exogenous factors such as demand for labour tend to offer the greatest explanatory power. However, the further the client is from the labour market (i.e. including the inactive client group) then the greater the relative importance of the Jobcentre Plus 'full service offer' or endogenous factors on job entries.

Importantly, in all the econometric models developed the estimated per capita budget for job broking proved to have both a positive and significant effect on job entries.

The focus of the Needs Based Funding study is on allocating resources to equalise employment rates (as per the PSA objective), not to equalise job entry rates. It moves funding and job entries from areas where the marginal cost of an additional job entry may be low, to areas where the marginal costs of a job entry are much higher. The result is fewer job entries in total, but a narrowing of differences in employment rates.

What the additional funding should be used to purchase or provide is not addressed. The Cambridge Econometrics analysis and qualitative findings from other research exercises suggest that the funding should be used to enhance:

- maximising the volume of appropriate vacancies captured,
- investing in active vacancy filling and matching services,
- addressing staffing issues on the front-line,
- investing in management, given that endogenous variables featured so strongly in the analysis, and
- encouraging and supporting effective participation of Jobcentre Plus in partnerships to address areas of deprivation.