



RiR 2018:10

Number of participants in new labour market policy measures

– wishful thinking instead of accurate volume forecasts

Summary and recommendations

Background

Labour market policies should contribute to improved labour market matching. As part of this work the Swedish Public Employment Service allocates people to various labour market policy programmes and measures to strengthen the individual's opportunities to obtain or retain a job.

In the period 2006–2015 the Government introduced more than 20 new labour market policy measures. An important part of the Government's preparations for new labour market policy measures is to forecast the number of participants. These volume forecasts are made for example to calculate costs and priorities between different expenditures in the central government budget. They also act as reference data for long-term forecasts of employment and unemployment.

The volume forecasts thus fulfil several important functions. At the same time there have been indications that the labour market policy measures launched by the Government in several cases have not achieved the expected number of participants. In view of this, the

Swedish NAO decided to audit the Government's volume forecasts of new labour market policy measures.

Purpose and implementation

The purpose of the audit has been to examine the accuracy of the Government's volume forecasts of new labour market policy measures as well as to assess whether they are performed in such a way as to enable reliable future forecasts of volumes. The audit answers the following audit question:

- Have the Government's forecasts of future volumes for new labour market policy measures been accurate and well-founded?

In the audit the Swedish NAO has compared volume forecasts and outcome for 23 measures that the Government introduced in 2006–2015, as well as using case studies to audit how the volume forecasts for five of these measures were prepared and documented.

The case studies consist of the Trainee Programme in public administration for people with disabilities, Supervised Work Training, Vocational Introduction Employment, Education Contracts and Trainee Jobs. These cases have been selected to obtain variation between measures in terms of factors that may be expected to influence the degree of difficulty in making an accurate forecast.

Audit findings

The Swedish NAO's overall conclusion is that there is considerable room for improvement in the Government's volume forecasts for new labour market policy measures. The audit shows that the Government's volume forecasts have systematically overestimated the expected number of participants and costs for the entire period examined.

Systematic overestimation of the scope of the measures

The Swedish NAO has compared the Government's volume forecasts before the measure is started with the actual number of participants in the first three years for 23 measures. The audit shows that the Government systematically overestimated the future number of participants and the costs for the entire period studied. For six out of ten volume forecasts the actual number of participants was a maximum of 25 per cent of that expected.

In some cases, the implementation period was underestimated, and the measure then eventually reached the desired volumes. At least as common, however, is that the measure remains at a low level until it is discontinued. Almost half of the measures started in the period 2006–2015 were discontinued within four years.

For the Education Contract measure it was not possible to compare the estimated number of participants with the actual outcome, since we were unable to follow up the subsequent number of participants in a reliable way.

Deficient analysis and documentation of volume assessments

The Swedish NAO audited whether the Government has taken into account factors that in previous studies have shown to influence the number of participants in its forecasts of participant numbers for five labour market policy measures. These factors are: size of target group, competition between measures, demand and motivation of jobseekers and employers, capacity of education and training providers, labour market trends and time for implementation.

For four out of five measures audited there was no clear documentation of how the volume forecasts had been made. Interviews and working material show that all measure lacked analysis of several factors of importance for development of participant numbers in labour market policy measures. However, all volume forecasts are based on a more or less developed analysis of the size of the target group.

On the basis of case studies, it is difficult to draw any definite conclusions about the extent to which better preparation would lead to more accurate volume forecasts. In the view of the Swedish NAO, however, it is a reasonable assumption that systematic preparation based on known explanatory factors would increase the accuracy of the Government's volume forecasts.

Optimism bias a reason for overestimation

The fact that the Government consistently assumes more participants in the measures than later proves to be the case indicates that there is a tendency towards optimism bias in the forecasts rather than difficulty in making an accurate forecast. If the inaccuracy had been solely due to forecasting difficulties, the deviations would probably have been more evenly distributed between overestimation and underestimation, and not as now almost entirely consisting of overestimation. A possible reason for this excessive optimism is an "internal perspective" where assessment of the outcome does not take into account previous experience from similar projects. In some cases, the difference

between forecast and outcome is probably also due to the volume forecasts being targets for the number of participants in the measures rather than realistic forecasts.

Several risks associated with overestimated volume assessments

The audit shows that there are several risks associated with overestimation of the number of participants in new measures, above all that resources are tied up in labour market policy measures without being used. In 2008–2016 on average SEK 1.2 billion (15 per cent) per year of the appropriation for labour market policy programmes and measures was not used. The audit shows that overestimated volume forecasts were probably the main reason for the unused funds of almost SEK 2.3 billion in 2016.

Systematic overestimation of the number of participants in new measures also risks leading to lower cost efficiency for labour market policy. The Government has launched on average two new measures per year in the period audited. In some cases, the implementation costs of these measures were considerable, while the number of participants has not come near the number expected. High, fixed implementation costs, combined with low participation means high unit costs. This in turn reduces the probability of the measure being cost efficient.

Another risk of overestimated volume forecasts is that the Swedish Public Employment Service allocates participants to measures to increase volumes rather than acting on the basis of what is best from the point of view of the jobseeker. When forecasting volumes there is also a risk of underestimating the implementation period so that the measure gets out of step with other measures or in relation to the business cycle. There is also some risk that systematic overestimation of participant numbers in labour market policy measures may reduce the quality of forecasts of future employment and unemployment.

Recommendations to the Government

The Swedish NAO believes that systematic preparation based on known explanatory factors would increase the accuracy of the Government's volume forecasts. The volume forecasts and their preparation should be well documented in this context to enable follow up and learning for future forecasts. Moreover, in the view of the Swedish NAO, it is important to follow up both volume forecasts and outcome of labour market policy measures to enable evaluation of the impact and effects of the measures.

In view of the above, the Swedish NAO makes the following recommendations:

- In its volume forecasts of new labour market policy measures, the Government should systematically take into account factors that have previously proved to influence the number of participants. The assumptions and analysis should in this context be documented to enable follow-up.
- The Government should report the volumes it expects for the measures and ensure that it is subsequently possible to follow how many people participated in the measures.
- The Government should follow up and evaluate the accuracy of its volume assessments and analyse the reasons for any deviations.