



National Audit Office

# Benefit sanctions

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Social Research Association evening seminar

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# Today's discussion

- The role of the NAO and the work we do
- How are benefit sanctions used?
- What impact do sanctions have?
- What next?

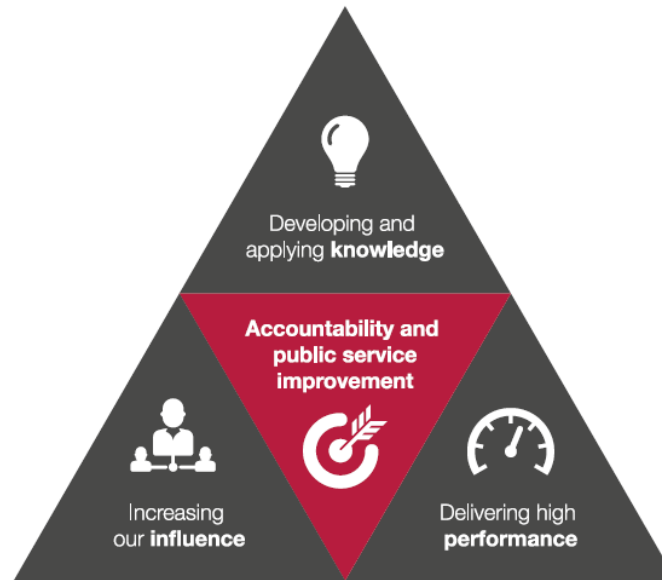
# National Audit Office – who we are

## NAO role

- We **scrutinise public spending** for Parliament
- We help **hold** the bodies we audit **to account** for how they use public money
- Our work helps public service managers to **improve performance and service delivery**, nationally and locally

**Figure 1**

Our strategic objective and enablers



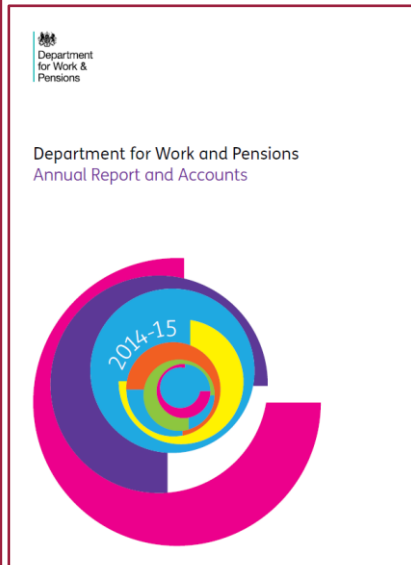
**Note**

- 1 Our overall strategic objective is accountability and public service improvement that is enabled through: developing and applying knowledge; increasing influence; and delivering high performance.

# Our work – reporting directly to parliament

## Financial Audit

442 accounts



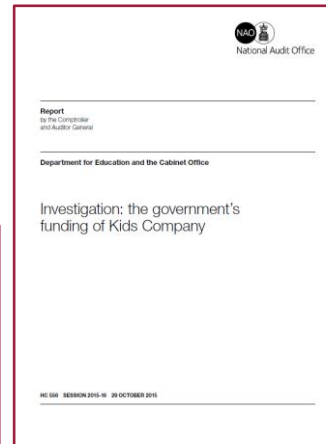
## Value for money

49 reports



## Investigations

13 investigations



Support for Parliament: 60 PAC hearings

Our three main strands of work inform Parliament:

- Whether accounts are **true, fair, and regular** (spent as parliament intended)
- Whether services are **efficient, effective, and economical**
- What **the facts** are for allegations of wrongdoing.
- What would **improve services**: 88% of recommendations accepted

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# Sanctions - getting beneath the numbers

## Rationale

- encourage people to comply with conditions.
- penalise claimants not meeting their responsibilities.

**24%**

proportion of people on JSA who received at least one sanction, 2010 to 2015

- 1.4m: people at risk of sanctions
- unknown: conditions set
- unknown: conditions not met
- 0.8m: referrals for a possible sanction
- 0.4m: sanctions imposed
- £132m: benefit not paid due to sanctions
- £35m: hardship payments for sanctioned people
- £244m: admin cost of conditions and sanctions
- unknown: net benefit or cost to government of sanctions

**\* 2015, JSA+ESA+UC+IS**

# Benefit sanctions – understanding how it works in practice

## 1 Conditional benefit system

Legislation sets out requirements to receive out-of-work benefits.



## 2 Setting and monitoring conditions

The Department and providers interpret, set, and administer conditions.



## 3 Sanction referrals

The Department and providers refer people for sanction decisions if they do not comply with conditions.



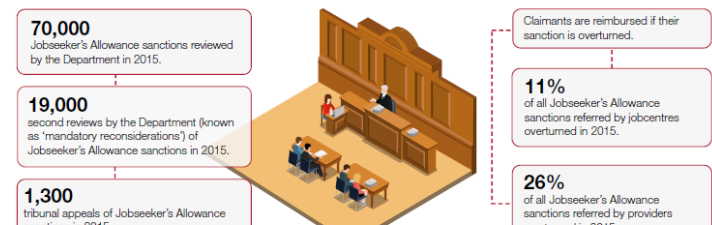
## 4 Sanction decisions

Decision-makers decide whether or not to impose sanctions based on the evidence available.



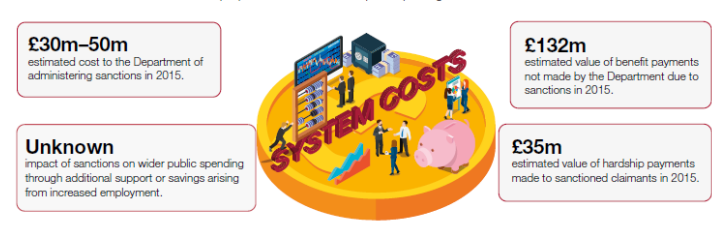
## 5 Reconsiderations and appeals

People can challenge the Department's decision to sanction them.



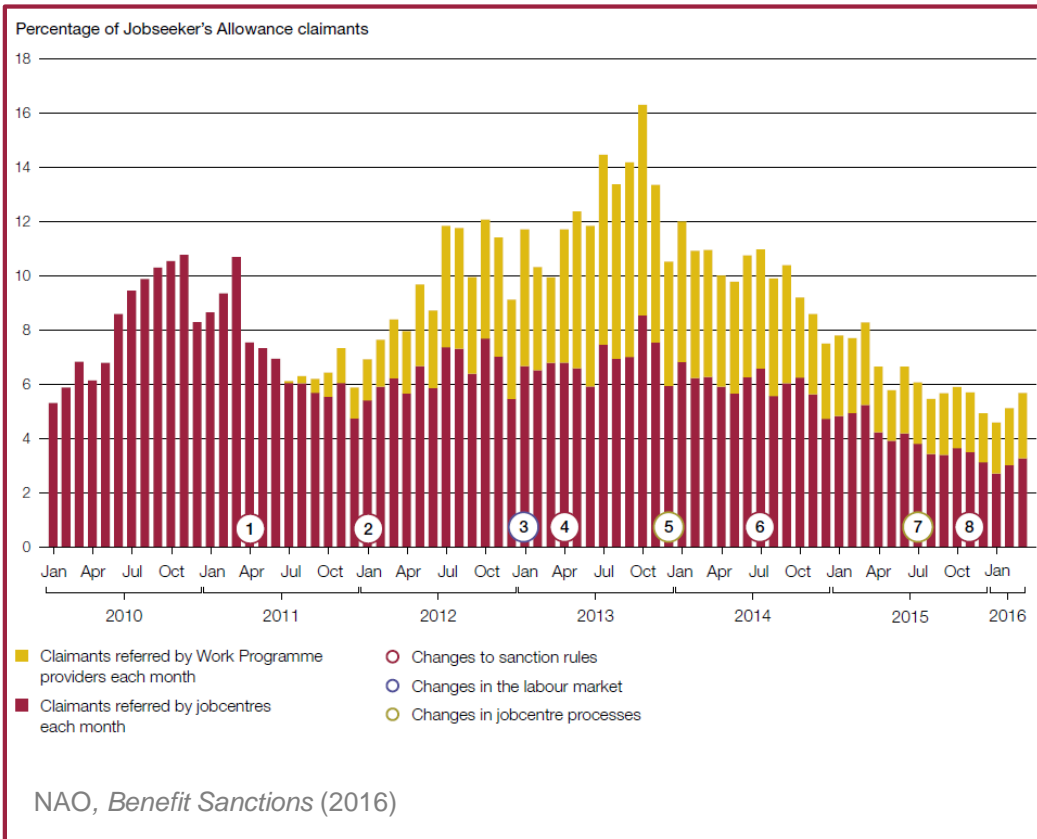
## 6 Costs of the system

Sanctions have costs and benefits for the people who receive them and public spending.



# Variation over time

*Cannot be explained by changing claimant compliance*



## Rise to peak in 2013 then fall

- DWP: because of better employment support leading to increased levels of claimant compliance

## NAO: substantially influenced by management focus and local work coach discretion

- No sanctions for most missed appointments
- Already falling when CCs introduced
- Fall in 'left voluntarily' sanctions

NAO, *Benefit Sanctions* (2016)

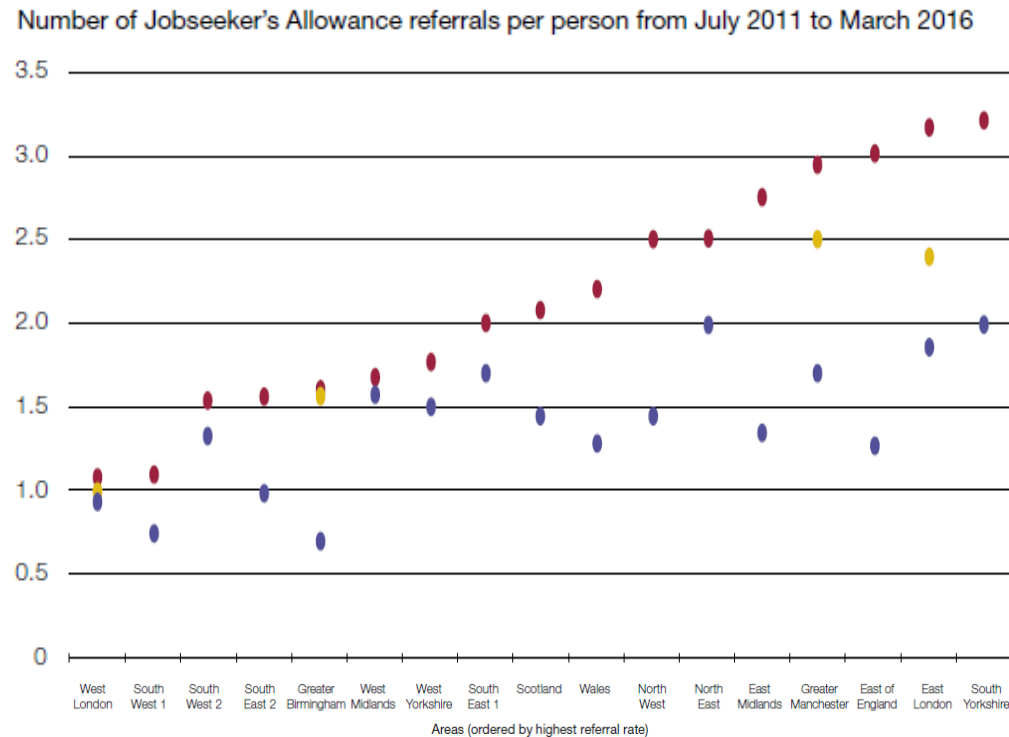
## DISCUSSION

- Why does use of sanctions rise and fall over time?
- How affected by changes in support, such as stronger relationships with advisers?



# Variation between areas

*Unexplained for jobcentres; providers have different practices*



NAO, *Benefit Sanctions* (2016)

## Use varies substantially between providers and jobcentres

- Some make up to twice as many referrals as providers supporting similar people in the same area

## Caused by variation in approach

- number of compulsory activities;
- whether refer all cases of non-compliance as required;
- quality of support may affect claimant participation.

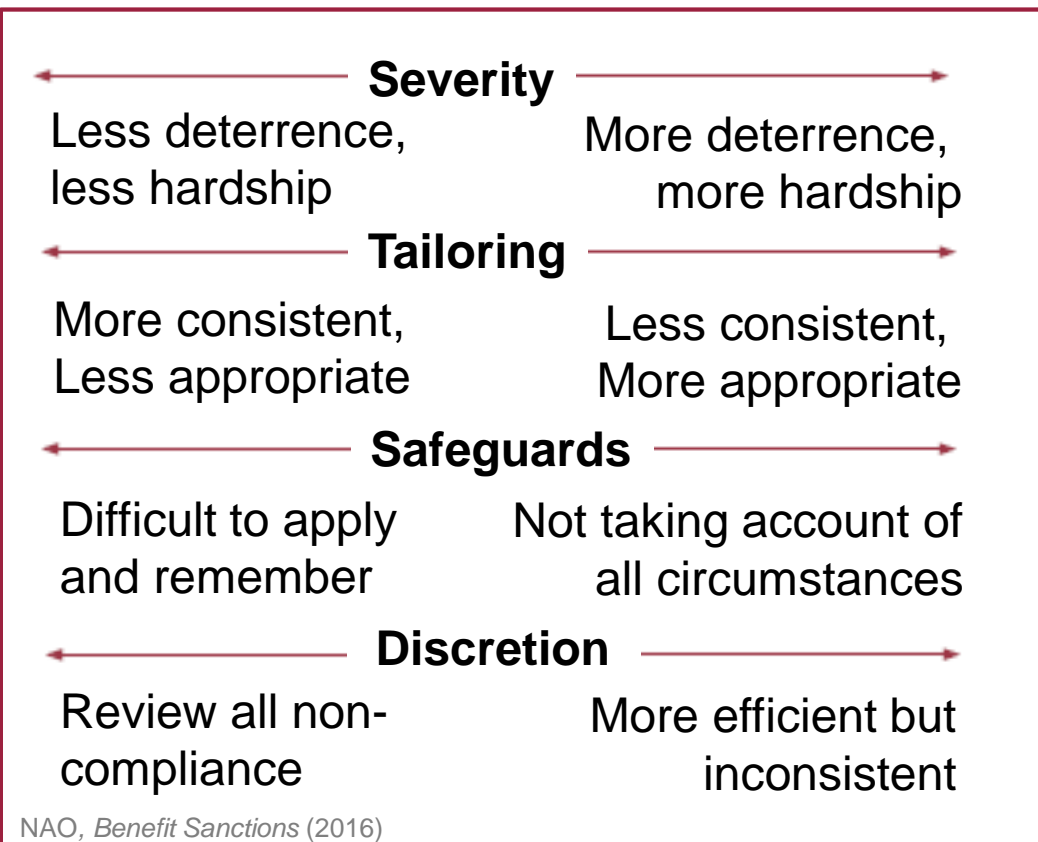
NAO, *Benefit Sanctions* (2016)

## DISCUSSION

- A trade-off between consistent expectations and innovative approaches to support?
- Would discretion not to refer be inconsistent, or an important part of tailored support?

# Policy trade-offs

*We do not consider what the correct level of sanctions should be*



**Sanctions are not uncommon or new**

- Common in other countries
- Used by successive governments

**DO assess how sanctions are used**

- Well designed?
- Fairly administered?
- Effective?

**DO NOT assess whether sanctions should be used**

## DISCUSSION

- Where are the boundaries between policy and practice?
- By what standards should DWP be judged?

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# Benefit sanctions and claimant outcomes

- Intended to incentivise people to find work
- What data are out there to examine this question?
- What is the evidence?

# Work & Pensions Longitudinal Study

- A collection of administrative datasets
- Covering benefit claims, employment spells, sanctions and more (e.g. all jobcentre appointments)
- We combined data from five separate datasets using the encrypted National Insurance numbers

# National Benefits Database

- Information on all benefit claims (the last 15+ years)
- Huge size, 115,546,101 rows
- Unit of analysis: Benefit claim. An individual can have more than one claim
- We created benefit claim histories by matching rows using the encrypted National Insurance Numbers

# National Benefits Database - variables

- Claimant date of birth
- Age at the start of the claim
- Number of children at the start of the claim (unknown quality)
- Number of children at the end of the claim (unknown quality)
- Age of youngest child at the start/end date (unknown quality)
- Type of benefit (JSA, pensions, Income Support etc)
- Type of JSA benefit
- Start date of claim
- End date of claim
- Weekly amount of benefit in payment at the end of the benefit or at the time of the most recent update
- Weekly amount of benefit at the start of the claim
- Jobcentre at the start of the claim
- Jobcentre at the end of the claim
- Postcode (claimant's) at the end of the claim

# National Benefits Database – things to note

- End dates for benefit claims are estimated
- As a result, some individuals appear to claim multiple benefits at the same time (e.g. Jobseeker's Allowance and Employment and Support Allowance).



# Sanction datasets (DMACR, DMAS)

- Information for each stage of the sanction (i.e. initial decision, reconsideration, appeal).
- Large size, DMAS has 19,490,674 rows
- Unit of analysis: Stage in the sanction process (e.g. referral for sanction, appeal)
- To construct the history for a sanction you typically need to combine several rows

# Sanctions datasets - variables

- Claimant gender
- Claimant date of birth
- Disability indicator (self-reported)
- Threatening behaviour indicator (reported by caseworker)
- Reason for sanction referral (e.g. missed appointment)
- Outcome (whether the decision was adverse or not)
- Type of decision (initial decision, reconsideration, appeal etc)
- Date client was informed about the decision
- Date on which the decision was made
- Jobcentre district code
- Claimant postcode when referral for sanction was made
- Parliamentary constituency code
- Local authority code

# Sanctions datasets – things to note

- Requires extensive cleaning

# Real-Time information data on earnings

- Information on employment is submitted online by employers to Her Majesty's Revenue and Customs (HMRC)
- Unit of analysis: Individual payment. An employment spell has multiple payments typically

# Real-Time information data on earnings - variables

- Claimant gender
- Claimant date of birth
- Tax year
- Employment start date
- Employment end date
- Taxable pay
- Earnings not liable to tax
- Value of benefits in kind (e.g. car)
- Value of tax deducted
- Categorical variable indicating number of hours worked per week (not very reliable according to DWP)
- Pay frequency (length of the period the payment is for, weekly, monthly etc)
- Payment date
- On strike indicator (indicating whether earnings are reduced because employee was on strike, of unknown quality)

# Real-Time information data on earnings – things to note

- End dates of employment not always available
- End dates can be inferred by looking at frequency of payment and date of last payment
- In a few cases, earnings appear negative (we excluded those cases from the analysis)
- Self-employment not included (approx. 15% for those in the work programme)

# Work Programme Analytical Dataset

- Information on work programme claimants
- Unit of analysis: individual
- Relatively easy to use – limited data cleaning required

# Work Programme Analytical Dataset - variables

- Basic demographics
- Date referred to the work programme
- Date exited work programme
- Provider/contract name



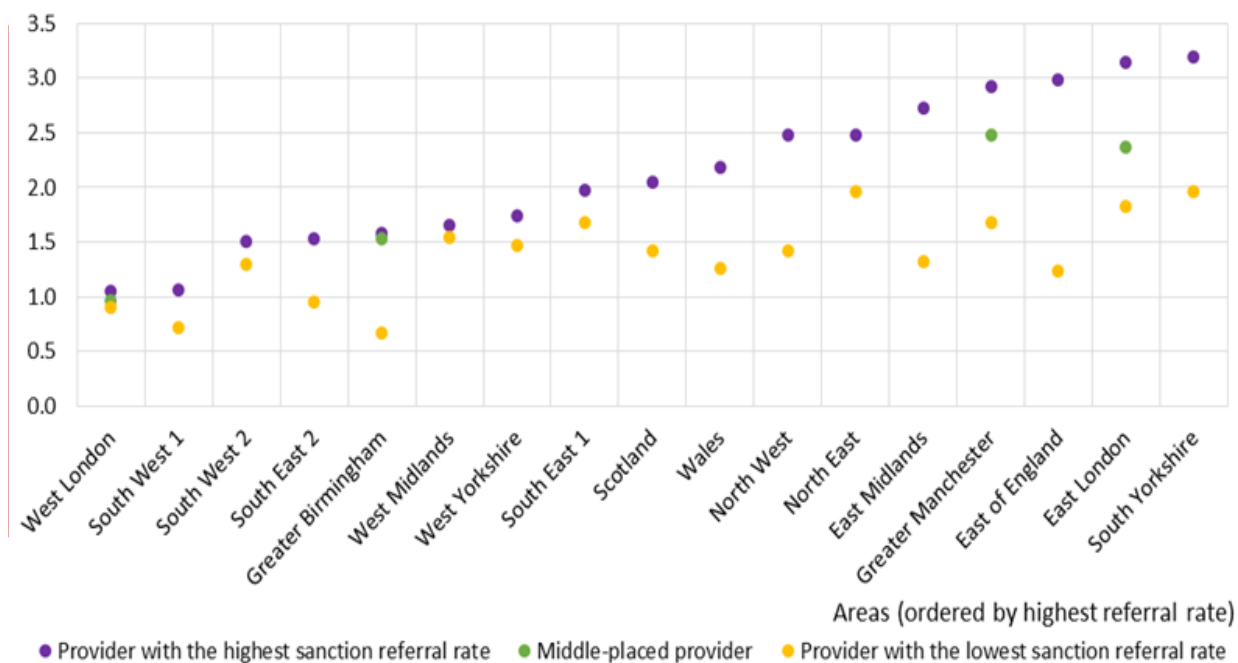
# Do sanctions achieve improve claimants employment prospects?

Limited evidence on UK's approach. Mainly international evidence, which finds:

- **Likelihood of employment: Increased.**
- **Quality of employment: Reduced.** Lower wages, earnings, hours and duration of employment (for sanctioned individuals)
- **Inactivity (neither work nor claim): Increased.**
- **Impact of deterrence: Similar.** People appear to react to the *possibility* of a sanction in a similar way to those who receive them.

# Methodology – instrumental variables

- Random assignment of claimants to providers within areas (U.K. divided in 18 contract package areas, 2-3 providers in each area)
- Sanction referral rates differ substantially across providers
- Use the sanction referral rates as an instrument to predict whether a person receives a sanction or not



# Specification First-stage

$$S_i = \delta Z_i + \alpha X_i + \varepsilon_i$$

- $X_i$  is a vector of covariates (e.g. age, sex, ethnicity, disability, “distance from the labour market”, average provider performance). Also includes area and provider fixed effects
- $Z_i$  a continuous instrument (average sanction referral rate for a provider in an area)
- $S_i$  is a dummy variable showing whether individual  $i$  has received a sanction ( $S_i = 1$ ) or not ( $S_i = 0$ )

# Specification Second-stage

$$Y_i = \beta X_i + \theta S_i + u_i$$

- $Y_i$  is the outcome variable of interest (for example,  $Y_i = 1$  denotes employment of individual  $i$  and  $Y_i = 0$  denotes non-employment)
- $S_i$  is the fitted probability that individual  $i$  receives a sanction
- $X_i$  is a vector of covariates (e.g. age, sex, ethnicity, disability, “distance from the labour market”, average provider performance). Also includes area and provider fixed effects

# How sanctions affect people's job prospects

## *Sanctions help some, but not others*

### NAO analysis: Impact of receiving a sanction on claimants' job prospects

Time spent:	JSA claimants	ESA
Claiming	Decrease ↓	Increase ↑
Working	Increase ↑	Decrease ↓
Part time work	No effect	Decrease ↓
Neither work nor claim	Increase ↑	Increase ↑
Earnings	Increase* ↑	Decrease ↓

\*earnings increased less than expected, given the increase in hours worked

NAO, *Benefit Sanctions* (2016)

### Sanctions increase work for some

- JSA enter work sooner if sanctioned. Possible 'wake up' call.

### The quality of that work is lower

- Periods of employment are shorter and less well paid, if sanctioned.

### Counter-productive for some

- ESA claimants more likely to continue claiming, if sanctioned.
- As many JSA claimants become inactive as find work.

NAO, *Benefit Sanctions* (2016)

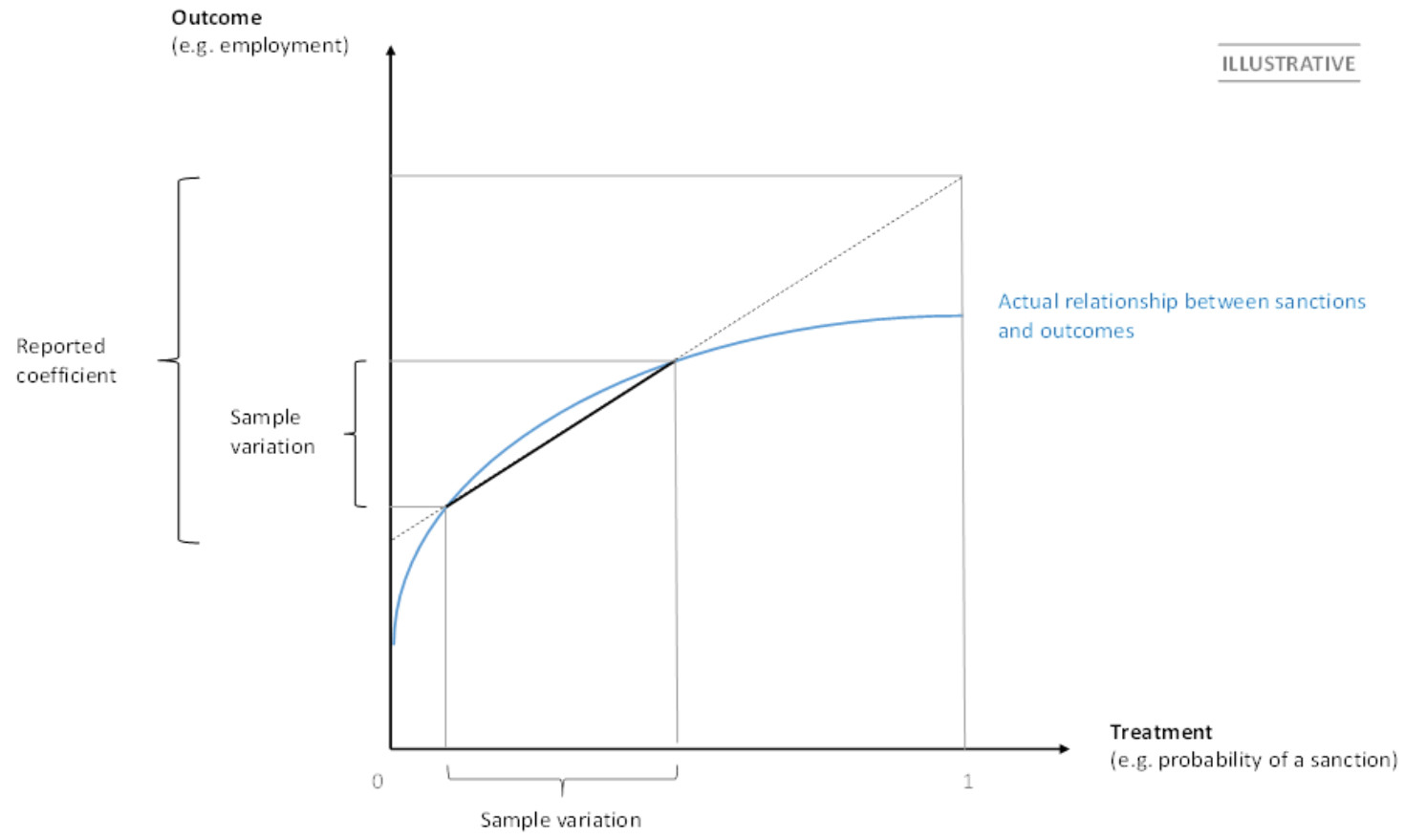
## DISCUSSION

- Personalised support: would it be more effective to reserve sanctions for people that respond well? Would it be fair?

# Limitations

- Results refer to people who received sanctions because they were assigned to stricter providers (external validity)
- Results do not measure deterrence effects but only direct effects (deterrence effect most likely works in the same direction as the direct effect)
- Coefficients may be overestimated due to the assumption that the effect of sanctions on employment is constant (our model assumes a linear relationship)

ILLUSTRATIVE



# Today's discussion

- The role of the NAO and the work we do
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# Looking forward

## *What next for employment support?*

### Future developments

- **Introducing the Work & Health programme** – participants with higher barriers to work
- **Expanding rollout of Universal Credit** – support and sanctions for people in low paid work
- **Changing services** – promoting tailored support in jobcentres, and stronger relationships with advisers

### Considerations for:

- **Designing approaches** – Can innovative and tailored support be consistent?
- **Managing operations** – Can we better anticipate administrative burden of some policy choices?
- **Increasing job prospects** – How can we use sanctions when they are most effective?

# Impact: “we accept more can be done, and should have been done”

## Department for Work & Pensions

- Disproved Department’s scepticism about feasibility of analysis
- Acknowledge the value of the analysis (both internally and in the PAC hearing)
- Requested suggestions for where to focus additional work (e.g. use duration models, look at first vs subsequent impact of sanctions, look at impact on different groups)

## Public Accounts Committee hearing (12 December)

- Promised to improve the quality of data available (linking datasets and using RTI data)
- Promised to conduct further analysis on the impact of sanctions

# Public Accounts Committee recommendations to DWP

- undertake a trial of warnings (rather than sanctions) for first sanctionable offences
- monitor variation in sanction referrals
- monitor the use and take-up of protections for vulnerable groups
- report back to us by the end of 2017 on its progress in improving data systems, including on linking earnings outcomes to sanctions data
- work with the rest of government to estimate the impacts of sanctions on claimants and their wider costs to government
- work to better understand the relationship between sanctions and the housing-related barriers to employment that some people face

# Any questions?

- Get in touch (@nao.gsi.gov.uk):
- Dimitris Pipinis
- Sarah Taylor
- Max Tse: Director, DWP value-for-money

# Extra slides

# Results for JSA claimants

**A sanction leads (within 3 months of its imposition) to:**

- **Increase** in probability of finding employment (+71%)
- **Increase** in days working (+24 days)
- **Increase** in days neither working nor claiming (+29 days)
- **Decrease** in days claiming (-54 days)
- **No change** in earnings (despite more days in employment)
- Results for 6 and 12 months are **similar** in direction of the effect

# Results for ESA claimants

**A sanction leads (within 3 months of its imposition) to:**

- **Decrease** in probability of finding employment (-36%)
- **Decrease** in days working (-4 days)
- **Increase** in days neither working nor claiming (+3 days)
- **Increase** in days claiming (+15 days)
- **Decrease** in days working and claiming (-14 days)
- **Decrease** in earnings (-£2,314)
- Results for 6 and 12 months are **similar** in direction of the effect