



National Audit Office

Benefit sanctions

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Social Research Association evening seminar

March 2017

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?

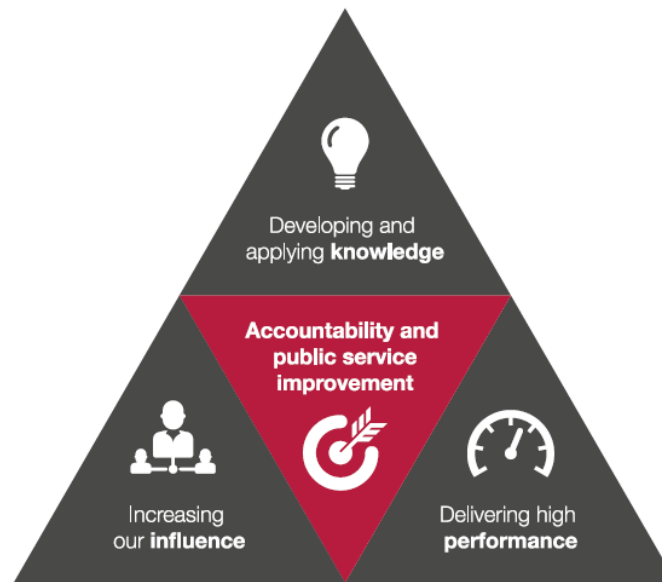
National Audit Office – who we are

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



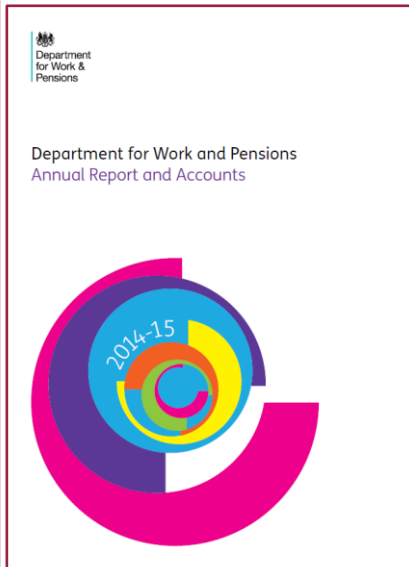
Note

- 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



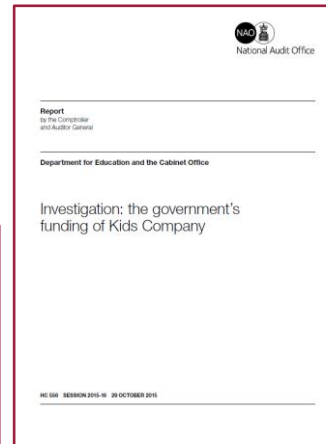
Value for money

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.



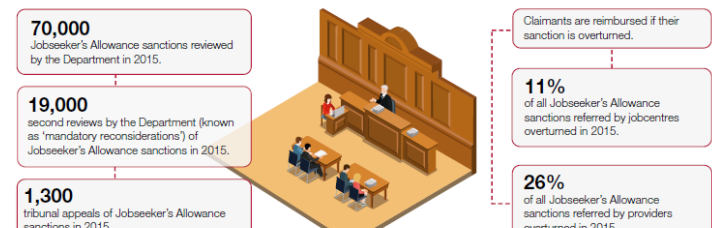
4 Sanction decisions

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.



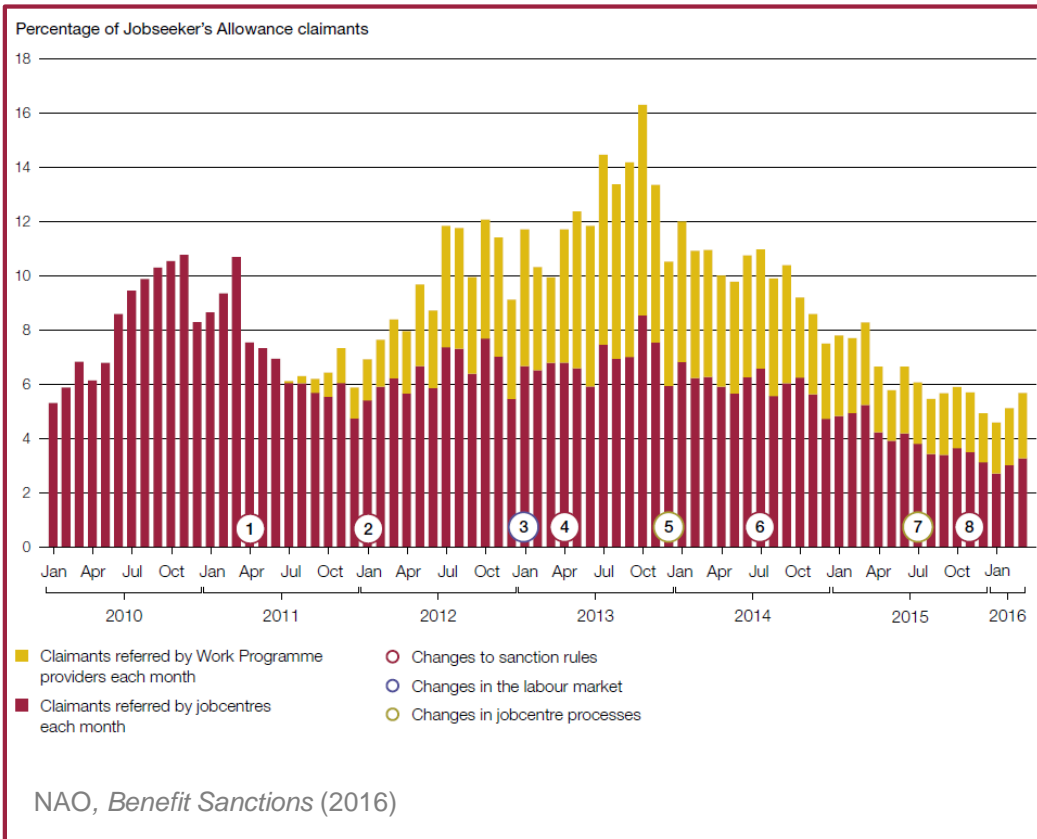
6 Costs of the system

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

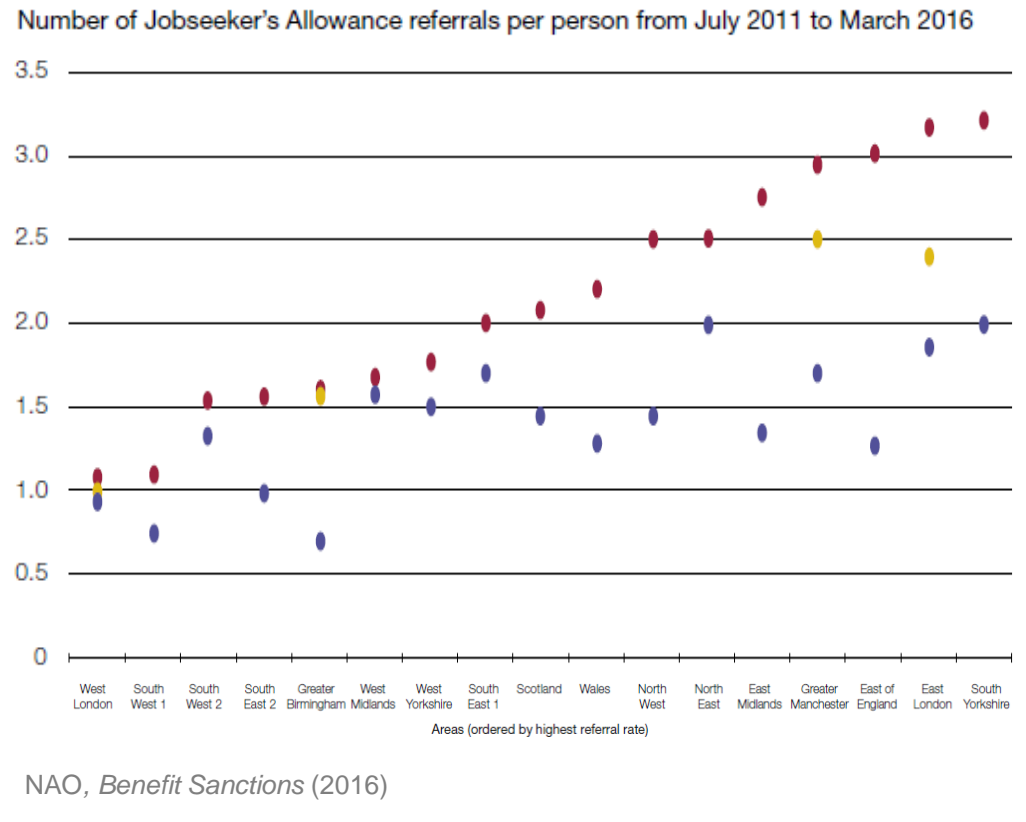
NAO, *Benefit Sanctions* (2016)

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



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.

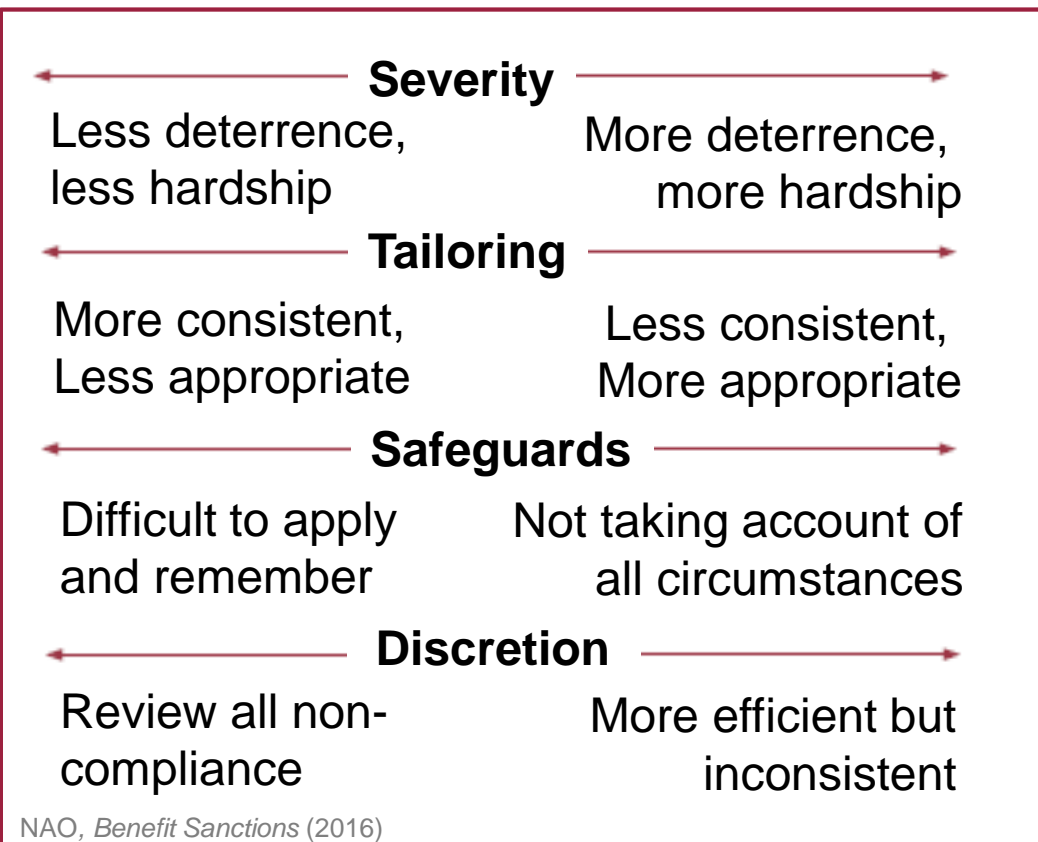
NAO, *Benefit Sanctions* (2016)

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

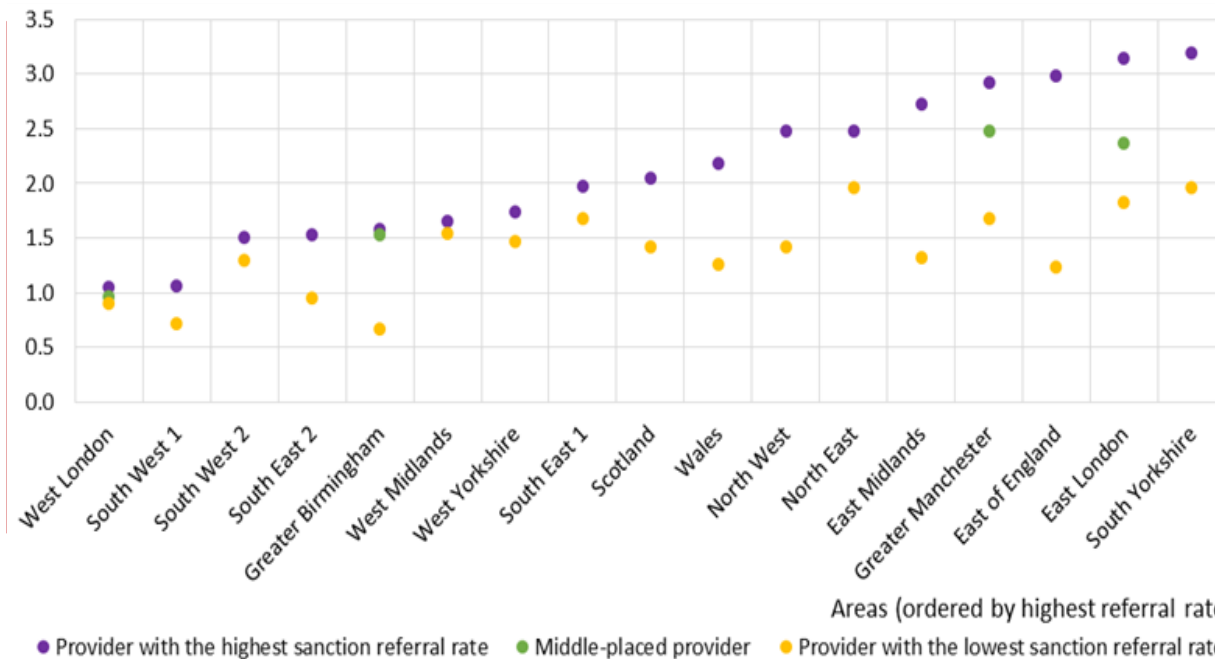
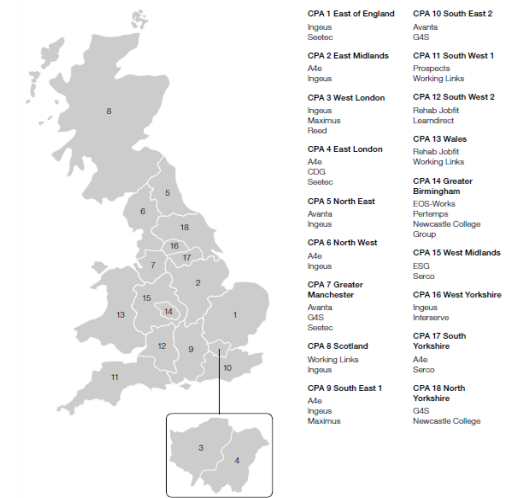


Figure 4
Contracts by geographical area
18 prime contractors manage 40 contracts over 18 areas¹



Notes
 1 Each geographical area is known as a Contract Package Area (CPA).
 2 Since June 2011, there has been a number of takeovers and mergers. For example, Intervise Working Futures took over Best, Learn Direct took over JRI, and CDG and the Driver Trust merged.
 3 In March 2014, the Department issued a notice of termination to the Newcastle College Group for its contract in Contract Package Area 18 under the voluntary break clause. The contract terminates in March 2015.
 Source: National Audit Office summary of Department for Work & Pensions' contracts

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)

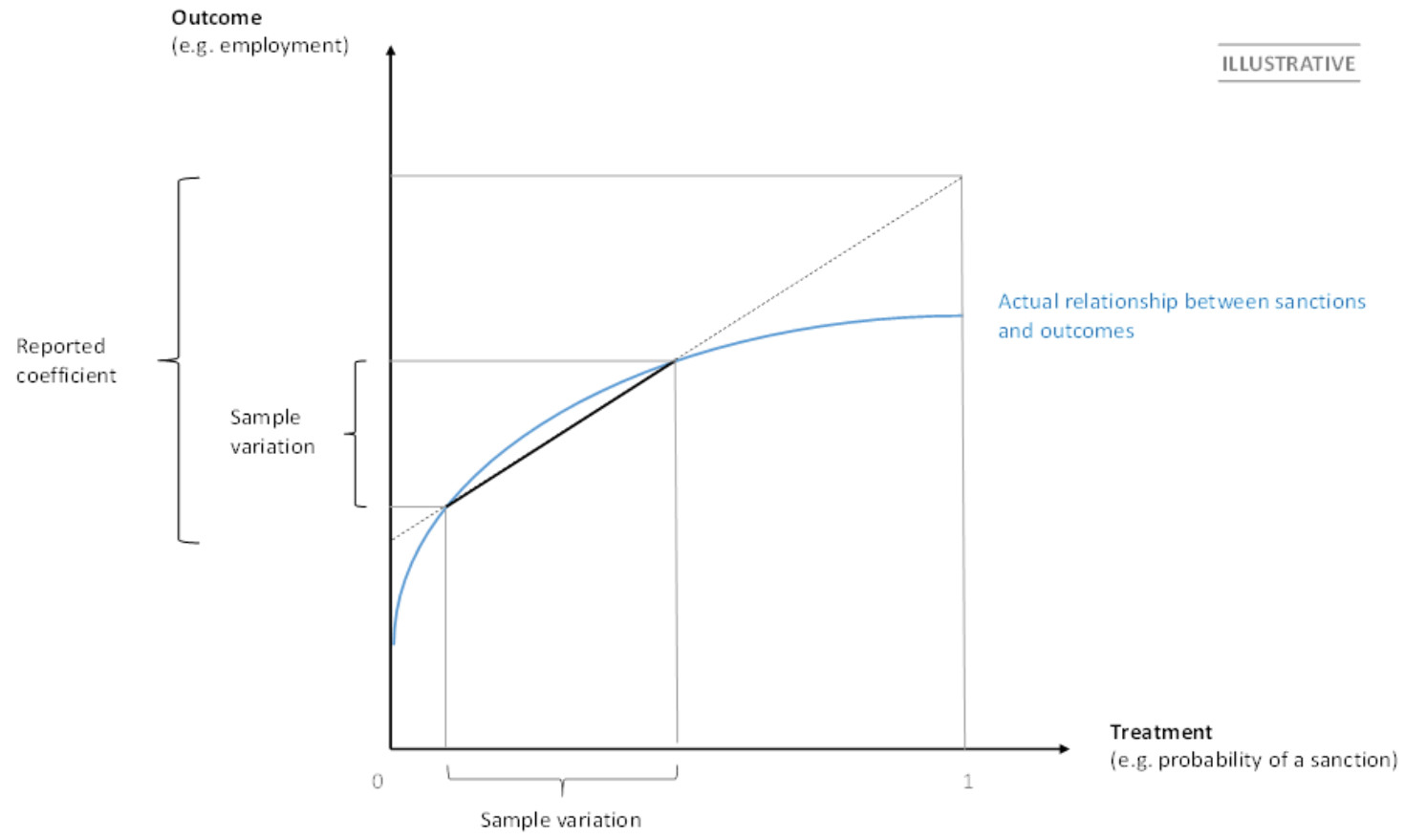
DISCUSSION

- 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



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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