



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Work & Pensions

Benefit sanctions

Key information

1 Conditional benefit system

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

Four benefits with conditions:

- 1 Jobseeker's Allowance;
- 2 Employment and Support Allowance;
- 3 Universal Credit; and
- 4 Income Support.



3.5m

people in 2015 claimed out-of-work benefits.

1.4m

of these people are expected to look or prepare for work.

2 Setting and monitoring conditions

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

11,000

work coaches in 700 jobcentres in 2015.

16

Work Programme providers in 2015.



People should be made aware of their responsibilities and the consequences of not meeting them.

People should discuss how they can meet conditions with their work coach and agree reasonable steps that are tailored to their circumstances.

3 Sanction referrals

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

0.8m

estimated referrals for a sanction decision in 2015 across four benefits.

Jobcentres make sanction decisions in straightforward cases.



People have a chance to explain why they did not comply.

Jobcentres discuss reasons with claimants and send evidence with the referral.

The Department contacts Work Programme participants to ask for evidence.

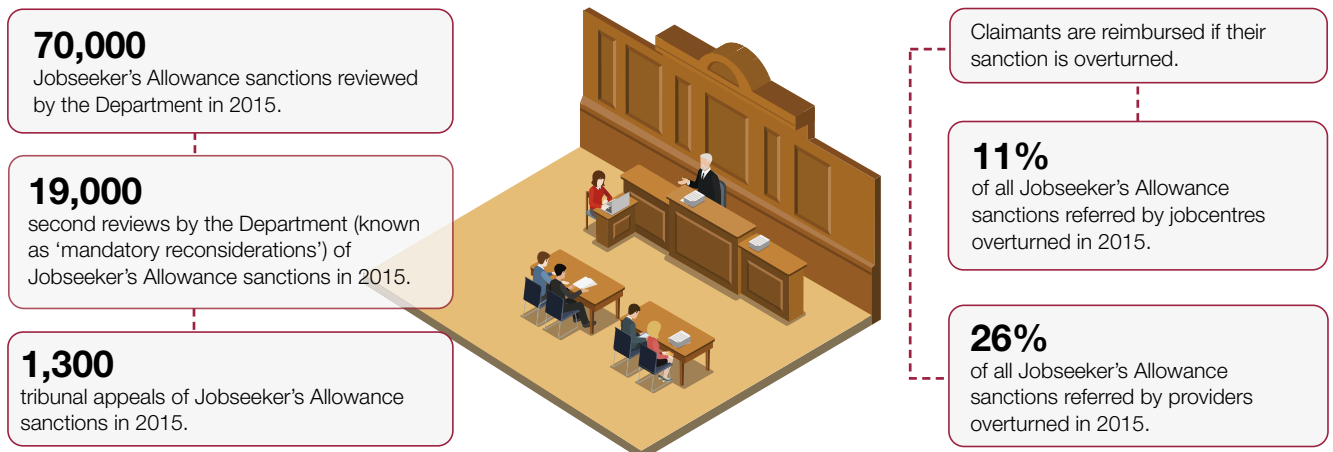
4 Sanction decisions

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.



Summary

1 Over 3.5 million people rely on out-of-work benefits including Jobseeker's Allowance, Employment and Support Allowance, Universal Credit and Income Support. Many of these people also receive support from the Department for Work and Pensions (the Department) to help them prepare or look for work.

2 To receive out-of-work benefits, over one million of these claimants have to show they are complying with conditions. For example legislation requires Jobseeker's Allowance claimants to actively seek work. The Department interprets and administers these conditions. It can require people to attend jobcentre appointments or participate in externally-run employment schemes such as the Work Programme. The Department believes that setting conditions helps encourage some claimants to find work, and there is some evidence that lone parents were more likely to enter work after conditions were introduced.

3 Claimants who do not meet conditions without good reason can receive sanctions. A sanction is a decrease or loss of benefit payments for people who are already on low incomes. A four-week Jobseeker's Allowance sanction means a single claimant aged over 25 loses around £300 of benefits. The Department considers that the possibility of a sanction encourages more people to comply with its conditions. It also uses them to penalise claimants for not meeting their responsibilities.

4 The Department imposed 400,000 sanctions in 2015. Sanctions can be fixed in length up to three years. They can also continue indefinitely until a claimant meets conditions for claiming benefit. The length of a sanction depends on why someone is claiming benefits, the type of non-compliance and any previous sanctions. Sanctions reduce support to people, sometimes leading to hardship, hunger and depression. The Department has safeguards intended to protect vulnerable groups and hardship payments are available on application.

5 Sanctions are not uncommon or new. They have been used in their current form since Jobseeker's Allowance started in 1996. Successive governments have changed and extended their use. Many countries use sanctions to enforce conditions placed on people receiving benefits.

6 However, the fact that sanctions are widespread does not mean they are well designed, fairly administered or effective. The need to enforce conditions may mean sanctions cannot be eliminated altogether, and we do not consider what the correct level of sanctions should be. Nevertheless the Department has a responsibility to constantly evaluate sanction rules, and balance their effectiveness in encouraging employment against the impacts on claimants and any wider costs for public spending.

7 In particular the Department should monitor the impacts of sanctions on those who receive them. While most people may be encouraged to comply just by the possibility of a sanction, sanctions are not rare. A quarter of Jobseeker's Allowance claimants receive them at some point. The Department needs to administer sanctions quickly, accurately and consistently, minimising unnecessary anxiety for those in difficult circumstances.

8 In this report we consider whether the Department is achieving value for money in its administration of sanctions. To demonstrate value for money the Department must show it has:

- set clear aims for its use of sanctions, made design choices based on evidence, and considered risks for consistency and outcomes (Part One);
- used sanctions in a way that ensures its decisions are consistent, accurate and timely (Part Two); and
- evaluated outcomes for claimants and public spending to help inform the future design and administration of sanctions (Part Three).

9 The Department is expanding Universal Credit over the next five years and has decisions to take about contracted employment support under the Work and Health Programme. The Department has an opportunity to improve its understanding of sanctions and how it uses them in these programmes.

Key findings

Designing sanctions

10 How people respond to sanctions is uncertain. The Department expects most claimants will not be sanctioned and that the deterrence effect of sanctions will encourage them to comply with conditions. However, the Department has limited evidence on how people respond to the possibility of receiving a sanction, or how large this deterrent effect is in practice. Direct effects on people who receive sanctions will also be important; we found 24% of Jobseeker's Allowance claimants receive a sanction at some point (paragraphs 1.8 to 1.10 and Figures 4 and 5).

11 The previous government increased the scope and severity of sanctions. The 2012 reforms expanded the range of claimants subject to conditions and increased the maximum length of Jobseeker's Allowance sanctions from 26 to 156 weeks. When it made the changes the Department recognised that they would affect claimants' behaviour in ways that were difficult to predict (paragraphs 1.11 to 1.13 and Figure 6).

12 The Department's changes to employment support have introduced risks for its use of sanctions. The Department has changed its employment support and approach to sanctions in response to identified problems. For example it has put more emphasis on one-to-one relationships between staff and claimants to encourage more appropriate conditions. Changes introduce new risks. While greater flexibility for jobcentre staff to tailor conditions can make them more appropriate, it also increases the risk of inconsistency in how sanctions are used (paragraphs 1.14 to 1.18 and Figure 7).

Using sanctions

13 The rate at which people are referred for a sanction decision has varied over time. Jobcentres' monthly sanction referral rate for Jobseeker's Allowance claimants rose to 10.7% in March 2011 then fell to 3.1% in December 2015. There are many possible reasons for the rise and fall in referrals but they cannot be explained fully by changes in claimant compliance. It is likely that management focus and local work coach discretion have had a substantial influence on changing referral rates (paragraphs 2.4 to 2.6, Figure 10, and Appendix Three).

14 Use of sanctions varies substantially between jobcentres and between providers. Until it knows the causes of variation between jobcentres the Department cannot tell if it is within acceptable limits. We found that some Work Programme providers make more than twice as many sanction referrals as other providers supporting similar people in the same area (paragraphs 2.7, 2.12 and Figures 11 and 12).

15 The Department has taken steps to reduce wasteful activity. Decision makers cancel referrals that cannot be processed due to errors. In 2012, 40% of Work Programme referrals contained information about claimants that did not match the Department's. By March 2016, the Department had reduced errors to 22% by improving communication with providers (paragraphs 2.16, 2.17 and Figure 14).

16 The process for administering sanctions means many are overturned. Sanctioned claimants can ask the Department to review its decision. In 2015, 26% of all sanctioned Work Programme participants had their decision overturned, compared to 11% of jobcentre sanctions. The Department overturns more Work Programme sanctions because its evidence gathering process is weaker than for claimants referred by jobcentres. It has not considered why many Work Programme participants do not provide evidence, but is exploring ways to gather information from all claimants earlier in the process (paragraphs 2.20 to 2.24 and Figure 16).

17 The Department is meeting its target timescales for most sanction decisions but is missing its Universal Credit targets. In August 2016, 42% of decisions about Universal Credit sanctions took longer than 28 working days. The backlog of referrals awaiting decisions has grown during 2016. Decision-makers for other benefits decide on 90% of referrals within five working days (paragraphs 2.25 to 2.27 and Figures 18 and 19).

Outcomes for claimants

18 International evidence suggests that sanctions increase movement from benefits into employment. Studies show people who receive sanctions are more likely to get work, but the effect can be short-lived, lead to lower wages and increase the number of people moving off benefits into inactivity. Evidence on deterrence effects of sanctions is more limited but has similar findings (paragraphs 3.2 to 3.4 and Figure 21).

19 The Department has not used its own data to evaluate the impact of sanctions in the UK. It has administrative data on individual benefit histories, sanctions and employment, and data on local sanction rates and performance. The Department could use this data to evaluate the impacts of sanctions. We undertook new preliminary analysis looking at how Work Programme participants responded to sanctions, and the relative sizes of employment effects and negative outcomes such as inactivity and lower earnings. Our results need further investigation but they show the Department should do more to understand these sanctions outcomes (paragraphs 3.9 to 3.11).

20 The Department has not supported wider work to improve understanding of sanction outcomes. Although the Department has commissioned independent reviews about aspects of sanctions and taken steps to improve processes, it has rejected calls for a wider review (paragraphs 3.7 and 3.8).

21 The Department does not track the costs and benefits of sanctions. Potential benefits include increased and faster entry into employment leading to lower benefit spending and higher tax revenues. Possible wider costs include the direct impact on people who get sanctioned, such as financial hardship or depression. Supporting them may lead to higher public spending in areas such as local authority funded welfare support. The Department does not know these wider costs and benefits (paragraphs 3.14 to 3.20 and Figure 23).

Conclusion on value for money

22 The Department has not used sanctions consistently. Referral rates vary substantially across jobcentres and providers, and have risen and fallen over time in ways that cannot be explained by changes in claimant compliance. While the Department is correcting errors earlier, it needs to do more to show that the quality of referrals and sanction decisions has improved. Our review of the available evidence suggests the Department's use of sanctions is linked as much to management priorities and local staff discretion as it is to claimants' behaviour.

23 It is encouraging the Department has taken steps to improve its approach to sanctions in response to identified problems like high error rates. But it needs to do more than react to problems. Sanctions have costs, for people who receive them and for the government. With little evidence for its design choices the Department must use its data to assure itself that sanctions work as it intends. It cannot simply rely on international evidence suggesting that broadly some form of sanction has an effect. Until the Department can show greater consistency in its use of sanctions and demonstrate that their effectiveness is proportionate to their costs we cannot conclude that the Department is achieving value for money.

Recommendations

24 As the Department introduces further changes to labour market support, we recommend it carries out a wide-ranging review of sanctions. In particular:

- a** **The Department should support better understanding of the impact of sanctions.** It should use its data – including real time information on earnings – to track the direct and indirect impact of sanctions on the likelihood, duration and quality of employment, including for those with barriers to work. It should adopt an open and collaborative approach to working with academic researchers and third-party organisations.
- b** **The Department should assess the wider cost of sanctions to central and local government.** It should track how sanctions affect demand for publicly funded services.
- c** **The Department should use information to continuously improve its approach to sanctions.** The Department has mechanisms for learning and improvement. It should expand its use of feedback from each stage of the sanctions process to fix recurring problems that lead to unnecessary referrals and overturned decisions.
- d** **The Department should improve both internal management information and published statistics about sanction processes, variation and trends.** It should demonstrate that it has satisfied the UK Statistics Authority that it has met all recommendations on its published statistics.
- e** **The Department should model future demand for Universal Credit decisions.** A large decision backlog already exists. The Department needs to understand likely growth in demand and decision-makers' capacity to meet it.
- f** **The Department should explore ways to reduce variation in referrals from providers.** The Department needs to better manage variation as it develops new programmes such as the Work and Health Programme.