What impact does the social security system have on under 25s who are claiming Universal Credit?

An economic analysis
prepared for Centrepoint

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Executive summary

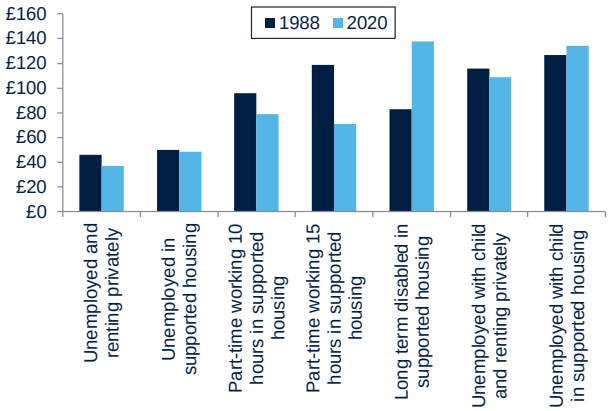
Centrepoint is conducting a research project looking at how homeless young people access the social security system and their experience of it. This will be submitted to the UK government's Comprehensive Spending Review.

As part of this research project, Oxera provides a backward-looking assessment of the impact that the social security system has had on young people under the age of 25 (under 25s) between 1988 and 2020. In light of this context, we then undertake a forward-looking cost–benefit analysis (CBA) to analyse the impact of six different policy recommendations provided by Centrepoint regarding the social security system in the UK.

There have been significant changes in social security policies in the UK over the past few decades that have affected young people under 25. While the weekly income of beneficiaries increased in nominal terms between 1988 and 2020, taking account of the impact of inflation provides a more mixed picture regarding the change in the real value of social security entitlements for under 25s.

In our analysis we consider seven different stylised households. These households have been chosen in collaboration with Centrepoint to be representative of the different types of young people receiving benefit entitlements. We also consider three different locations (Barnsley, Greenwich and Manchester) to consider the varying cost pressure across the UK.

Figure 1 Weekly income after rent, Manchester (real value £)

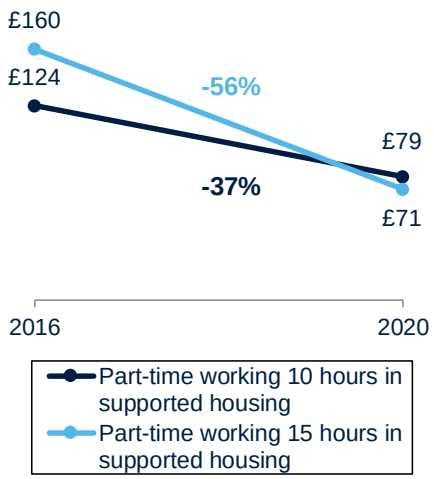


As seen in Figure 1, our analysis shows that five of the seven households considered are worse off in real terms in 2020 compared to 1988, with a substantial decline in real incomes for those working part-time (Households 3 and 4). In contrast, there has been marked improvement in real incomes for those with disabilities (Household 5)[1] and a slight improvement for single unemployed claimants with a child living in supported housing (Household 7). This applies to households across the UK; although, for households renting privately, those in areas with higher rental costs are worse off than those in areas of low rental costs, as they must top up their entitlements with a higher proportion of their income in order to pay rent.

The £20 COVID-19 uplift, introduced in March 2020, went some way to improving the incomes of those claiming social security entitlements. For some households (Households 1, 2 and 6), the uplift made the difference between them being better off in 2020 than in 1988 in real terms. This uplift was removed as of 6 October 2020.

[1] However, not all claimants with disabilities will be entitled to all benefits included for this household, as eligibility depends on individual situations and circumstances.

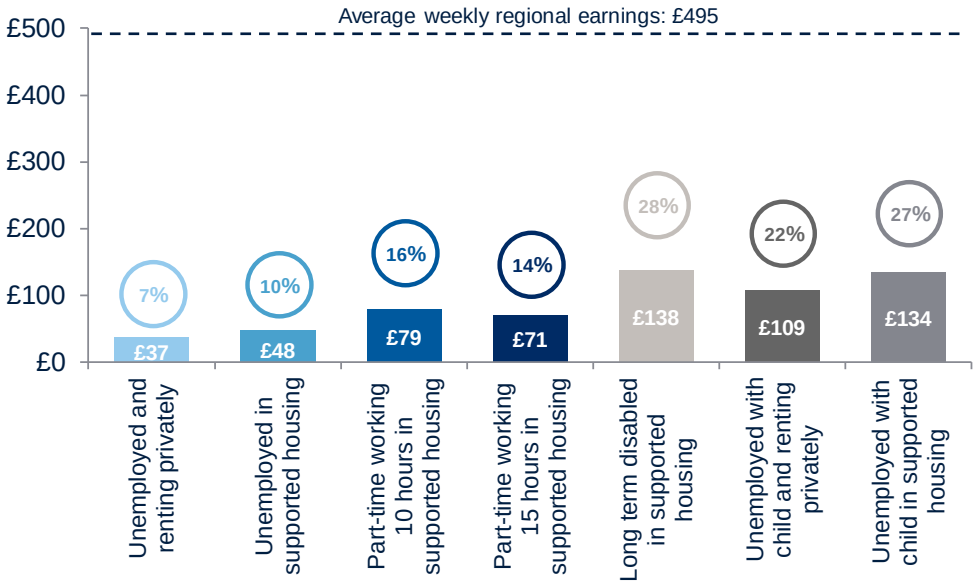
Figure 2 Weekly income after rent, Manchester (real value £)



Universal Credit was announced in 2010 and gradually rolled out throughout the UK. Universal Credit replaced many of the existing entitlements, combining them so that recipients instead receive one single payment. As seen in Figure 2, young people working part-time (Households 3 and 4) have been particularly negatively affected by the introduction of Universal Credit (introduced in Manchester in 2017). Whereas those working fewer than 16 hours per week were previously able to claim the full unemployment benefit allowance, their earnings started to be tapered with the introduction of Universal Credit. For every £1 earned, their entitlement reduces by 63p, which has a large impact on their weekly incomes after rent.

Comparing incomes after rent as a proportion of average regional earnings allows us to assess whether beneficiaries are better off over time than the average person in their local area. As seen in Figure 3, households' income after rent in Manchester ranges in 2020 from being just 7% of average regional weekly earnings (for a single unemployed person under 25 renting privately) to at most 28% (for a claimant with a disability).[2]

Figure 3 Weekly income after rent as a proportion of weekly average regional earnings, Manchester (2020)



The analysis of the changes in social security entitlements for under 25s over the past 30 years provides useful context for considering potential changes to the social security system going forward. Centrepoint provided us with six

[2] However, it should be noted that not all claimants with disabilities will be entitled to all benefits included for this household, as eligibility will depend on individual situations and circumstances.

policy recommendations regarding changes to social security system, as set out below.

Table 1 Overview of Centrepoint's policy recommendations

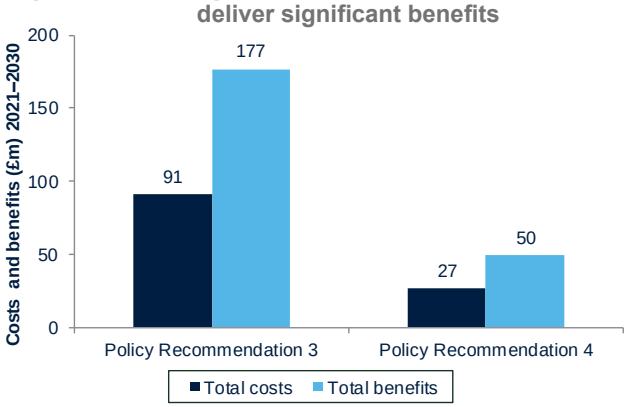
Policy recommendation	Description
1	Under 25s living independently receive an increase of £67 in the monthly standard allowance payment to bring this in line with the rate paid to over 25s (£325 per month), reflecting that these young people face the same living costs as any other adult
2	The advance loan is provided to under 25s living in supported accommodation as a non-repayable advance
3	A work allowance (of £293) is introduced for under 25s living in supported accommodation to support this group to access work and ease the transition from benefits to paid employment
4	The applicable amount within the Housing Benefit is increased (from £64 to £94) for under 25s living in supported accommodation so that they do not face steep cliff edges when moving into work, and are not disadvantaged compared to those not living in supported accommodation
5	Affordability assessments are conducted by the Department of Work & Pensions (DWP) before applying benefit sanctions, to ensure that the assessments do not push vulnerable young people into severe hardship or put them at risk of homelessness
6	The government's Kickstart Scheme, which provides funding to employers to create jobs for 16–24-year olds on Universal Credit, is extended to December 2022

To help Centrepoint understand the impact of the policy recommendations, we have assessed the costs and benefits of each recommendation between 2021 and 2030.[3] Comparing the total costs and benefits for each policy recommendation indicates whether it is expected to generate an overall benefit (i.e. whether the benefits outweigh the costs). There are also some benefits that we have not been able to quantify in monetary terms. These have been assessed qualitatively, and should be taken into account when considering the overall impact of the policy recommendations.

We find that **four out of the six policy recommendations are expected to generate net benefits**, with the monetary benefits outweighing the costs, even before any non-quantified benefits are taken into account.

Policy Recommendations 3 and 4, which aim to improve the incentives for Universal Credit recipients to enter employment, are among the recommendations generating net benefits. In particular, we estimate that the quantified benefits will be approximately twice as large as the costs of these policy changes (before accounting for any non-quantified benefits). This is driven by improvements in recipients' quality of

Figure 4 Improving the incentives to take on work could deliver significant benefits



[3] The exception to this is Policy Recommendation 6, which we analyse between 2022 and 2024.

life as a result of moving out of unemployment into work, and the associated social security and tax benefits this delivers to the Treasury.

Policy Recommendation 6, which would extend the Kickstart Scheme to the end of December 2022, would also improve employment prospects for Universal Credit claimants by expanding the number of available jobs. This policy would deliver benefits similar to those from Policy Recommendations 3 and 4. In particular, we estimate the total benefits (£995m) could be over twice as large as the estimated costs of the policy (£390m).[4]

Policy Recommendation 5 could help avoid situations where Universal Credit recipients are pushed into further financial hardship by introducing affordability assessments before sanctions are imposed. We estimate that introducing such assessments would be relatively inexpensive (around £6m) compared to the benefits (£24m).

For Policy Recommendation 2, we find that the monetised benefits (£6m) are around one-third of the estimated costs (£17m). However, the absolute difference is relatively modest (£11m). This difference is likely to decline if non-monetised benefits are taken into account. Compared to the other policy recommendations, this policy could be relatively inexpensive to implement.

The costs of implementing Policy Recommendation 1 are significant as it provides a large number of Universal Credit claimants (under 25s living independently) an annual increase of £810 in the standard allowance they receive. While this is expected to generate significant benefits (£81m), these are outweighed by the costs (£2.6bn). However, the primary motivation for the recommendation is to equalise the standard allowance payment between under and over 25-year old claimants of Universal Credit. In particular, the standard allowance is intended to cover recipients' living costs, such as food, utility bills, clothes and basic hygiene products. These costs are likely to be similar for those aged under and over 25.

Overall, we find that the majority of policy recommendations put forward by Centrepoint are expected to individually generate a net-positive impact. Importantly, this is based only on the benefits we have been able to quantify, and does not factor in non-quantified benefits, such as reduced hunger and foodbank use and reducing inequality in society, or any wider motivations for the proposed policy changes. In assessing the overall impact of the policy recommendations, the cost–benefit analysis results need to be considered alongside these factors.

[4] Owing to data limitations, we have not quantified the additional administrative costs that would be required to continue operating the Kickstart Scheme throughout 2022–23; however, these would have to be significant (over £600m) to outweigh the estimated benefits.

1 Introduction

This report sets out economic analysis of the impact of the social security system in the UK on people under the age of 25 ('under 25s') who are claiming Universal Credit. It forms part of a wider research project being undertaken by Centrepoint looking at how homeless young people access the social security system and their experience of it. This wider project will then feed into the UK government's Comprehensive Spending Review.

Centrepoint is the UK's leading charity for homeless young people. It supports nearly 14,000 homeless 16–25-year olds, with the aim of getting them into a home and a job every year.

Centrepoint works directly in London, Manchester, Yorkshire and the North East of England, and partners with other organisations across the UK. It also influences government policy with the overall aim of ending homelessness among young people.

The report, which demonstrates the impact of the social security system on young people in different ways, is divided into two parts.

- The first part (section 2) is backward-looking. It presents economic analysis of the change in the real value of social security entitlements for under 25s between 1988 and 2020. The analysis considers a sample of seven households that are representative of the types of household that access Centrepoint's services. Also, to take account of different cost pressures across the UK, we examine the results from households in three different locations: Barnsley, Greenwich and Manchester.

- In light of an understanding of how the social security system has affected young people over the past three decades, the second part (section 3) then looks forward. It considers six policy recommendations put forward by Centrepoint for changes to the social security system. Based on information provided by Centrepoint and a review of the available literature, we identify the costs and benefits that would be associated with implementing these policies for the individual claimants, and for society as a whole. We use the Treasury's Green Book approach to policy appraisal and identify the net present social value (NPSV) and the benefit–cost ratio (BCR) associated with each of the six policy recommendations.

While we quantify a number of the benefits that could arise from the implementation of the policy recommendations, the available literature and the complexity in quantifying some effects mean that we have not been able to quantify all of the identified benefits. Therefore, we also provide a qualitative assessment of those benefits that we have not been able to quantify, which should be considered in conjunction with the quantitative analysis.

We note that all social BCR analysis is based on a set of assumptions, and the ones that we have made in this report are conservative. More detail about our analysis, the assumptions made and the sensitivity analysis can be found in the Technical Appendices.

2 Value of social security entitlements for individuals under 25 years of age

2.1 Introduction

The landscape of social security policies in the UK has changed considerably over the past few decades; the most notable change being the introduction of Universal Credit in 2010. In this section we assess how the policy changes have affected the real value of social security entitlements for individuals under the age of 25 over time. We do this through the lens of seven households specifically chosen in collaboration with Centrepoint to be representative of the different types of young people receiving benefit entitlements. The analysis focuses on social security entitlements between 1988 and 2020. We focus on entitlements since 1988. Starting from this year makes sense both theoretically, as it was a year in which many new major entitlements and policies were introduced (such as Housing Benefit and the National Minimum Wage), and practically, as there is less (good quality) data available on social security benefits before that year.

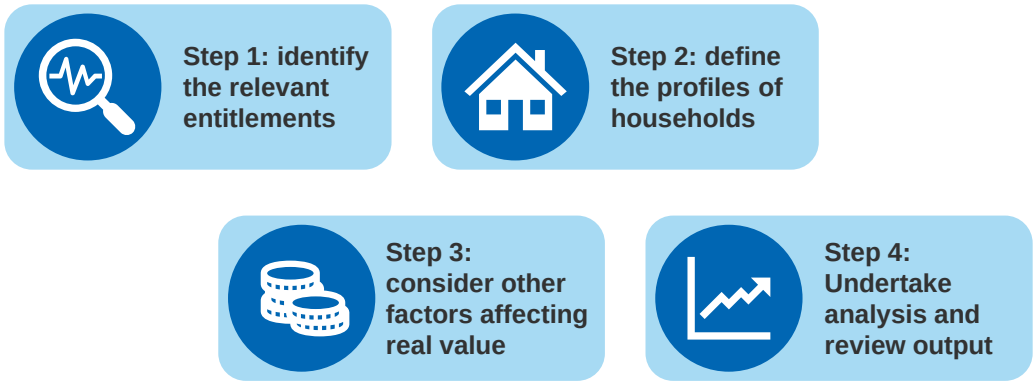
In the following sections we present the analytical framework for our assessment, the underlying assumptions, and the results for each household.

Appendix A2 contains further detail regarding our approach.

2.2 Analytical framework

To assess the change in the real value of social security entitlements, we use a four-step approach.

Figure 2.1 Four-step approach



Source: Oxera.

Each step is explained in more detail below.

2.2.1 Social security entitlements for under 25s from 1988 to 2020

The first step in the analysis is to identify the relevant social security entitlements for under 25s. The main categories of social security entitlements for under 25s are: support for unemployment or low income; housing; childcare; and disability.

The most recent significant policy change to social security in the UK since 1988 was the shift to Universal Credit. This was announced in 2010 but gradually rolled out starting from 2013. Universal Credit replaced many separate entitlements (unemployment or low income, housing, childcare, and

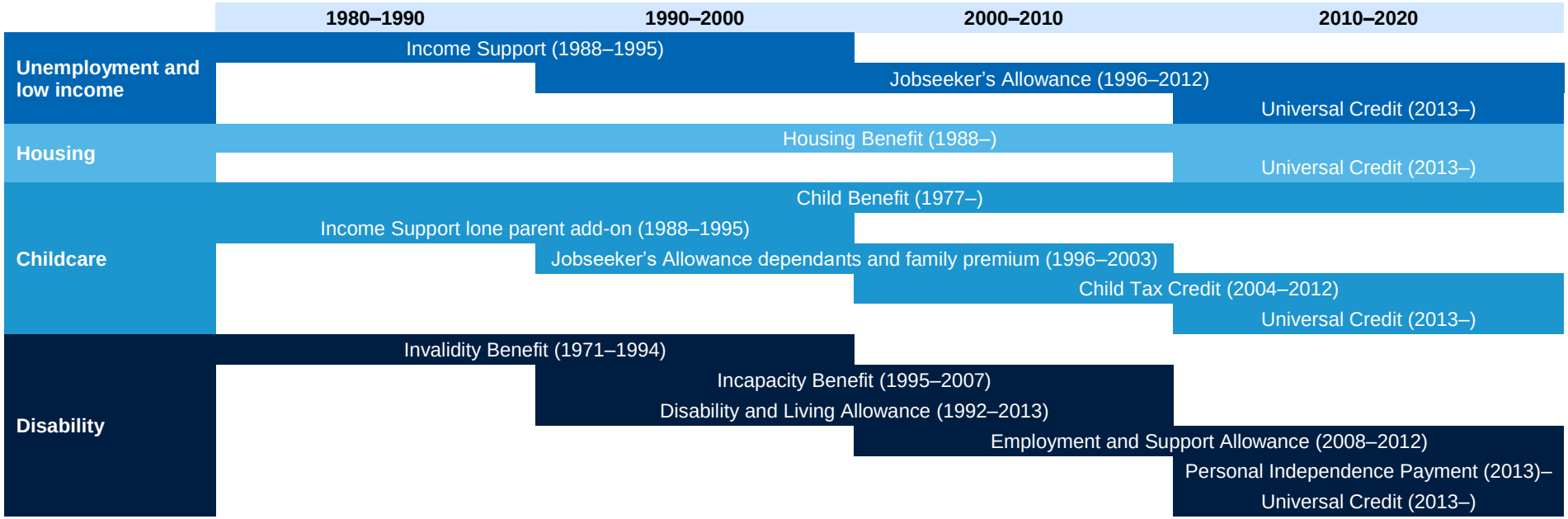
disability) and combined them so that recipients instead receive one single payment.[5]

The eligibility of a young person for entitlements, including those encapsulated within Universal Credit, depends on the composition of the household in which they live, and the specific circumstances of their life and work. For instance, a household with a child may be eligible for childcare benefits, whereas a claimant living in a household with no dependants would not be eligible for this benefit.

Figure 2.2 below illustrates how the various categories of social security entitlements for under 25s have changed since 1988. Many of the entitlements depicted in the figure overlap. In some cases this is due to phased rollouts. For example, in terms of unemployment benefits, it was announced that Jobseeker's Allowance (JSA) would be replaced with Universal Credit in 2013. However, due to a phased rollout of Universal Credit on a regional basis, many recipients would have received JSA rather than Universal Credit for a few years after 2013. In other cases there may be an overlap if new benefit entitlements did not replace existing entitlements but instead could be claimed alongside benefits already in place. For example, a Universal Credit claimant with a child might be eligible to claim both Child Benefit and the Universal Credit child add-on.

[5] There are other entitlements that are not included as part of Universal Credit and hence recipients may claim some entitlements alongside Universal Credit, such as Child Benefit.

Figure 2.2 Timeline of social security entitlements for under 25s: 1988–2020



Note: Other entitlements over the years for which under 25s might have been eligible are not included in this figure. The benefits shown have been identified as the 'main' benefits (relevant to the most people) and/or are the most relevant to our selected households. For example, we have not included benefits such as Working Families Tax Credit, as none of the households that we consider would be eligible for these. Our analysis focuses on monetary entitlements and does not account for 'benefits in kind', such as free childcare vouchers.

Source: Oxera.

Data on eligibility and payouts for each entitlement has been collected from publicly available sources (e.g. the Department for Work & Pensions and the English Housing Survey). Where data was not available or reporting practices have changed over time, assumptions were made to ensure that yearly payouts were comparable on a like-for-like basis. For further details see Appendix A2.

2.2.2 Overview of the households

The next step in the analysis involves defining the specific household profiles of the beneficiaries. As noted above, entitlements (and therefore payouts) vary across beneficiaries depending on factors such as their employment situation, whether they have a child, and/or whether they suffer from a particular disability. We have defined the households based on four parameters.

1. **Household composition**: entitlements depend on the composition of the household—for example, whether the recipient is single or whether there are one or more children in the household.
2. **Living situation**: entitlements depend on whether the household are renting privately or living in supported housing.[6]
3. **Employment status**: entitlements depend on the employment status of the recipients—for example, whether they are working, seeking work, or unable to work due to a health condition or disability.
4. **Weekly hours worked**: entitlements that are means-tested depend on the household's level of income which, in turn, is determined by the number of hours worked by the household.

The representative households considered are included in Table 2.1 below. The households were selected to illustrate a range of household compositions while also being representative of households that might access Centrepoint's services.

[6] Supported housing is any housing scheme where housing, support and sometimes care services are provided to help people to live as independently as possible in the community. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/572454/rr927-supported-accommodation-review.pdf, accessed 28 September 2021.

Table 2.1 Representative under 25s recipient households

No	Household composition	Living situation	Employment status	Weekly hours worked	Approx. weekly income (2020)
1	Single and unemployed	Private renting	Unemployed	0	£0
2	Single and unemployed	Supported housing	Unemployed	0	£0
3	Single part-time worker	Supported housing	Working part time	10	£82
4	Single part-time worker	Supported housing	Working part time	15	£123
5	Single with disability or long-term health condition such that they are unable to work	Supported housing	Unemployed	0	£0
6	Single with child under 11 and unemployed	Private renting	Unemployed	0	£0
7	Single with child under 11 and unemployed	Supported housing	Unemployed	0	£0

Note: In each case the beneficiary household member is assumed to be under 25. Those in private renting are assumed to be renting from private landlords, i.e. not living in social housing or in housing associations. Approximate weekly income is shown for 2020 and is estimated by multiplying the hourly National Minimum Wage in 2020 for 21-year olds (£8.20) by number of hours worked. As there are different National Minimum Wage levels for under 25s depending on age, we have chosen to consider the minimum wage for young people aged 21. We assume that each household has less than £6,000 in savings such that these savings do not affect their eligibility and entitlement payments.

Source: Oxera.

By examining the real value of social security payments over time through the lens of a range of households, we can determine whether the real value of entitlements has evolved in different ways for those in different circumstances. Any changes in entitlements are also likely to be linked to the fact that the aims of social security policies have changed over time. Universal Credit, for instance, is built around the objective of 'making work pay', and introduced a tapering mechanism that reduces entitlements as the beneficiary earns more from work. As such, it is more likely to affect employed beneficiaries than unemployed beneficiaries.

2.2.3 Description of the analysis

In our analysis we consider changes in entitlements over time across the households presented in the previous section. To do so, we look at three measures:

1. *income remaining after rent in nominal terms*—the sum of all the benefits received and wages earned by a household on a weekly basis.[7] We subtract any costs relating to rent (i.e. tapers on benefits),[8] service charges

[7] We calculate wages earned by the households in our sample as the product of the weekly hours worked multiplied by the minimum wage of a 21-year old.
[8] Universal Credit is tapered for households that earn income. The amount of Universal Credit unemployment benefit that is tapered corresponds to 63% of the household wage. The *residual Universal Credit benefit* is calculated by subtracting the tapered Universal Credit from the entitlement standard amount. It is equal to zero whenever the taper exceeds the benefit amount—i.e. once the recipient earns enough that their Universal Credit allowance has tapered off entirely. For those in supported housing, under their Housing Benefit, the rent is paid in full as long as the young person is receiving some amount of Universal Credit. For those who earn enough to be tapered off Universal Credit entirely (Household 4, for example), they must

(for those in supported accommodation) or rent top-ups (for those renting privately);

2. *income remaining after rent adjusted for inflation* (CPI), presented in 2020 prices; and

3. *income remaining after rent as a proportion of average regional earnings*.

These measures are useful as they give an indication of beneficiaries' disposable income—i.e. how much money is left in a young person's pocket each week to spend on essentials.

We also use income after rent to allow for a better comparison between beneficiaries in supported accommodation and beneficiaries in general accommodation. The rent of beneficiaries in supported accommodation is paid directly to the social housing centre and the beneficiaries receive only the non-housing-related part of their benefits. Beneficiaries in private accommodation, on the other hand, receive a housing benefit (the housing element of the Universal Credit) which is intended to cover their rent. As such, the total payout to the latter group may seem higher than that of the former, even though it is intended to cover a wider set of expenses.

It is noteworthy that the housing benefit is location-specific and is currently largely determined by rents in the local area. As a result, the real value of social security entitlements for each household will depend on where they live. To account for this in our analysis, we assess the real value for each household in three different locations: a high-rent location represented by Greenwich, a medium-rent location represented by Manchester, and a low-rent location represented by Barnsley.[9]

We also consider income remaining after rent in real terms—i.e. adjusting for inflation. In this way we are able to capture the real impact of the policy changes on the purchasing power of under 25s receiving social security entitlements. For example, one may observe an increase in the nominal value of the payouts, but if this increase is below the inflation rate, the situation of beneficiaries will have worsened as they can buy fewer goods and services despite the increase in the entitlement.

In our analysis we use CPI as the relevant inflation measure, consistent with all public sector analysis since 2011. Both RPI and CPI use a basket of goods and services to measure average prices in the economy, but the baskets are constructed differently. Unlike CPI, RPI includes housing components and mortgage interest payments. These components can lead to RPI fluctuating more in the short term than CPI, which tends to be a more stable and lower overall measure of inflation. The Office for National Statistics (ONS) also

then contribute towards rent in the form of a Housing Benefit taper. Their total Housing Benefit entitlement is tapered by an amount equal to 65% of the difference between the household's wages and their 'applicable amount.' The Housing Benefit applicable amount is set yearly and depends on household composition. For example, see https://www.lbhf.gov.uk/benefits/question-about-claims/applicable-amounts-housing-benefit-and-council-tax-reduction

[9] These locations were chosen in collaboration with Centrepoint as they represent areas where there is a high take-up of its services and to provide a range of regions with different rent costs. For example, the LHA for a shared room in 2020 (which is designed to have regional variation in line with market rates) was £118.87 in Greenwich, £75.70 in Manchester and £61.50 in Barnsley.

considers that the choice of formulas in the RPI (in particular, the 'Carli' formula) leads to an overestimate of inflation.[10]

The third metric—total income after rent as a proportion of average earnings in the region—is used as an alternative measure that seeks to capture regional differences in purchasing power that cannot be adjusted for using a national measure of inflation. It also captures whether the households are better or worse off over time than the average person in their local area.

We calculated the annual benefits received for all relevant households to ensure that these did not exceed the benefits cap. All the households which are subject to the cap did not exceed it.[11]

2.3 Results

This section presents the results of our analysis. We first summarise the results across the households, and then present the results for the three metrics set out above for each of the three locations for each household.

2.3.1 Summary of findings

Our review of the value of social security entitlements over the period from 1988 to 2020 highlighted some trends regarding the impact of policy changes on under 25 claimants' benefits. In particular, most of the households we reviewed were negatively affected by the introduction of Universal Credit. Our other key findings are set out below.

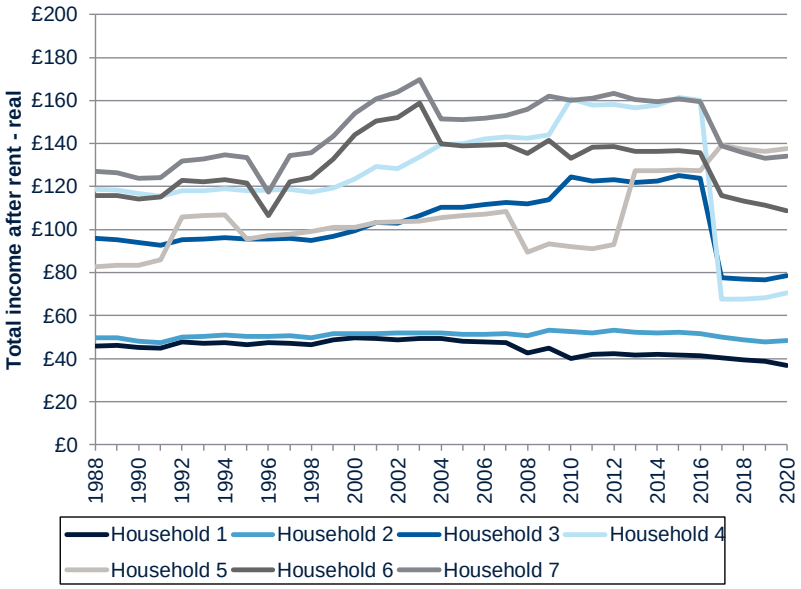
- Income after rent in real terms has been flat or decreasing over the analysed period for many households (with a couple of exceptions, such as Households 5 and 7).
- Households in privately rented houses have been more affected by the policy changes. This is mainly driven by their exposure to the volatility of the rental market. This group of households were particularly affected by the freeze on benefits in 2015 as their Housing Benefit was frozen while rents in the private market were increasing. As a consequence, the amount they had to pay to top up their Housing Benefit increased, leading to a reduction in their disposable income. In contrast, households in supported accommodation had more stable income.
- The introduction of Universal Credit has considerably reduced the income of claimants working part-time. This is a direct consequence of the tapering mechanism (a 63p taper rate to their Universal Credit entitlement for every £1 earned) introduced as part of the Universal Credit regime.
- Claimants with a disability have become better off over time, owing to the combination of the legacy regime and new add-on benefits under Universal Credit. However, eligibility for each entitlement is very dependent on an individual's circumstances, and therefore this may not be the case for all claimants with a disability.

[10] For further detail see https://www.ons.gov.uk/economy/inflationandpriceindices/articles/shortcomingsoftheretailpricesindexasameasureofinflation/2018-03-08, accessed 24 September 2021.
[11] Not all households are subject to the benefits cap, for example those with a disability or health condition that stops them from working. This would exclude Household 5.
For further detail, see https://www.gov.uk/benefit-cap/when-youre-not-affected

- When considering weekly income after rent as a proportion of regional earnings, many households are about as well off, or worse off, in 2020 as they were in 1988. The impact on the households living in Greenwich and Barnsley has been more pronounced than that on those living in Manchester (who experienced slower wage growth).
- Disparities across regions are mainly driven by differences in rental costs and regional earnings. Households living in areas with high average income and high rental costs (which must be topped up out of pocket), such as Greenwich, have seen their disposable incomes decline over time.

Figure 2.3 illustrates the real value of social security entitlements for under 25s in Manchester across all seven households.

Figure 2.3 The real value of social security entitlements for under 25s for seven representative households, 1998–2020 (estimated weekly income after rent, Manchester)

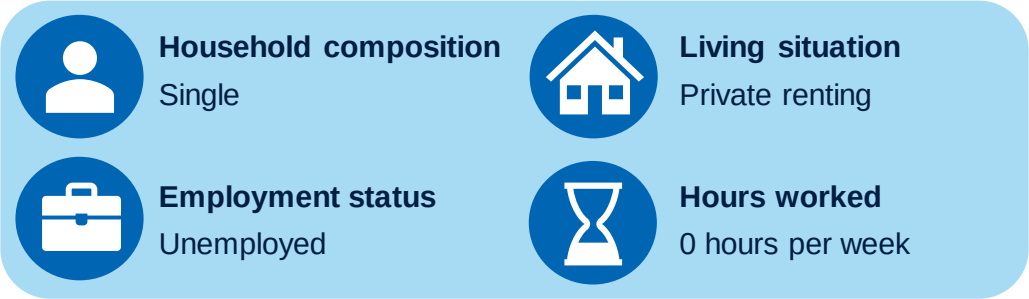


Source: Oxera analysis of Centrepoint data and publicly available data. See Appendix A2 for source details.

Appendix A1 contains a sensitivity analysis that includes the £20 per week uplift in the Universal Credit standard allowance, announced in March 2020. We do not include this in the analysis in this section given that the allowance has now been removed. However, the sensitivity analysis in Appendix A1 shows that three of the seven households were better off with the £20 uplift in 2020 than they were in 1988 (in real terms), but were not without the uplift. For households where the individuals are working part-time, the beneficiaries are worse off in 2020 than they were in 1988. The £20 uplift does not change this outcome, but goes some way to raising incomes that decreased significantly upon the introduction of Universal Credit.

Further detail on the results for each household is set out below.

2.3.2 Household 1



The income and entitlements included in our analysis for Household 1 are:

- **unemployment/low income**: Income Support (1998 to 1995), JSA (1996 to 2017/18), Universal Credit (2017/2018 to 2020);[12]
- **housing**: Housing Benefit (rent allowance) (1988 to 2017/18), Universal Credit housing element (2017/18 to 2020).[13]

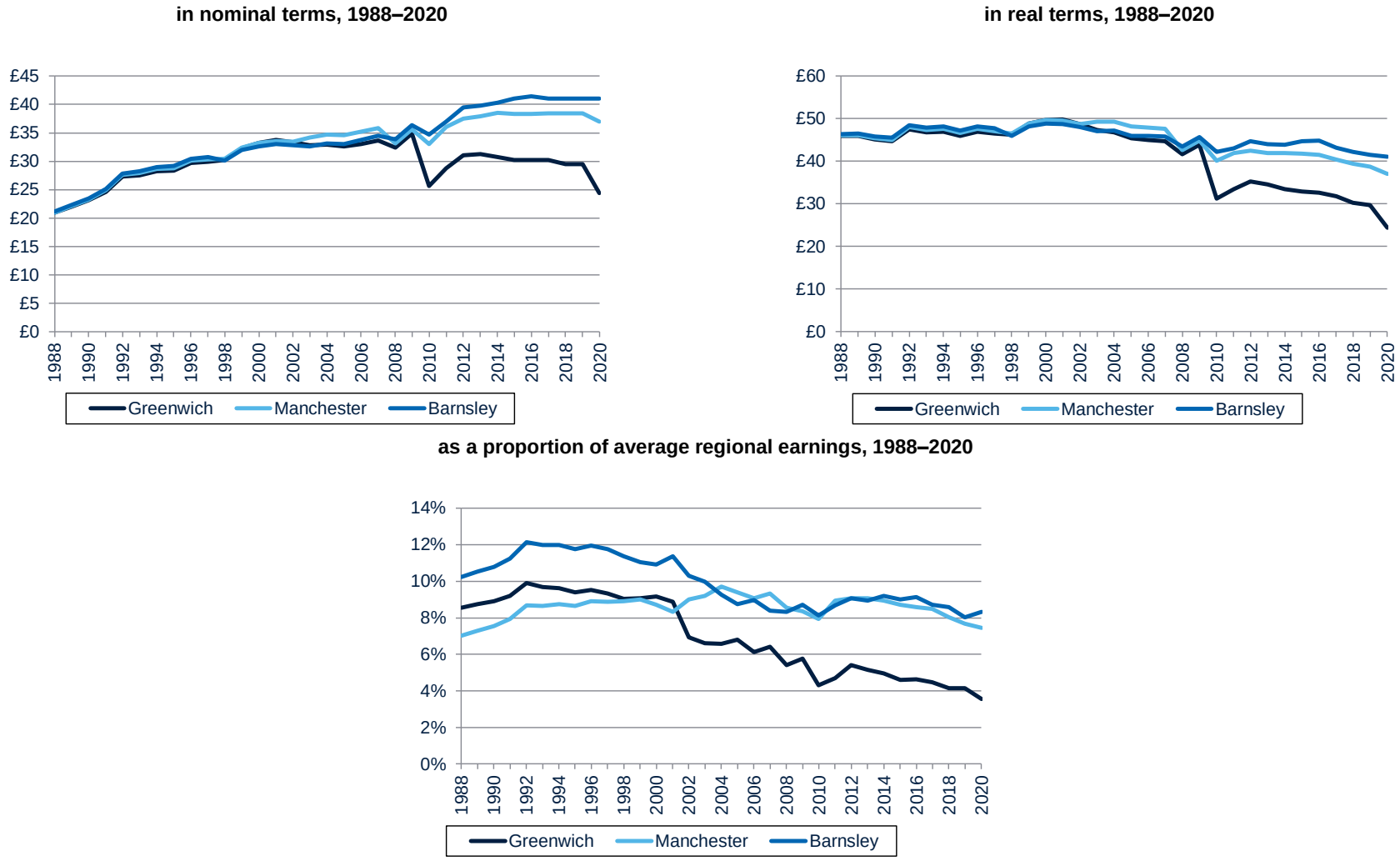
The relevant out-of-pocket costs[14] for Household 1 are:

- **rent top-up**: the difference between how much the household receives in Housing Benefit and how much it pays in rent in the private rental market as the Housing Benefit is insufficient to cover the total rental cost.

The three figures below show how this household's weekly income after rent has changed over time in nominal and real terms, and as a percentage of regional earnings.

[12] As Universal Credit was rolled out gradually, starting in 2013, the year it was introduced depends on the household's location. It came into full effect in Manchester and Barnsley in 2017 and Greenwich in 2018.
[13] The Universal Credit housing allowance for private renters is determined by the LHA and is location-specific. For more detail, see Appendix A2.
[14] Costs associated with housing (such as rental costs) but not covered by the young person's benefit entitlements such that they have to pay them out of pocket.

Figure 2.4 Household 1 (Unemployed and renting privately): Weekly income after rent



Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A2 for source details.

As can be seen in Figure 2.4, weekly income after rent for Household 1 increased slightly in nominal terms over the period, from approximately £20 per week in 1988 to between £25 and £40 per week in 2020, with some variation by region. However, as can be seen in Figure 2.4, after adjusting the figures for inflation, claimants are relatively worse off in recent years than in the earlier period—i.e. they are able to buy fewer goods and services than they were previously. This effect is most pronounced in Greenwich, where the real value has almost halved since 1988. It can be explained in large part by Housing Benefit allowances for private renters and how much claimants need to top up their Housing Benefit to meet rent. When Local Housing Allowance (LHA) was introduced in 2008, claimants received a weekly allowance equivalent to the 50th percentile of rents in their local area. This was reduced in 2011 to be equivalent to the 30th percentile and the allowance was frozen in 2015 for four years in line with a wider freeze on benefits. The allowance freeze in 2015 can partly explain why the household's real income value decreases over time.[15]

Furthermore, survey data from private renters under the age of 60 on Housing Benefit suggests that, on average, renters top up their Housing Benefit allowance by almost 30% in order to be able to pay rent.[16] As a result of increasing rent costs and the benefits freeze, households were increasingly having to top up their Housing Benefit allowance with income out of their own pocket in order to cover their rent, contributing to the fall in real weekly income after rent.

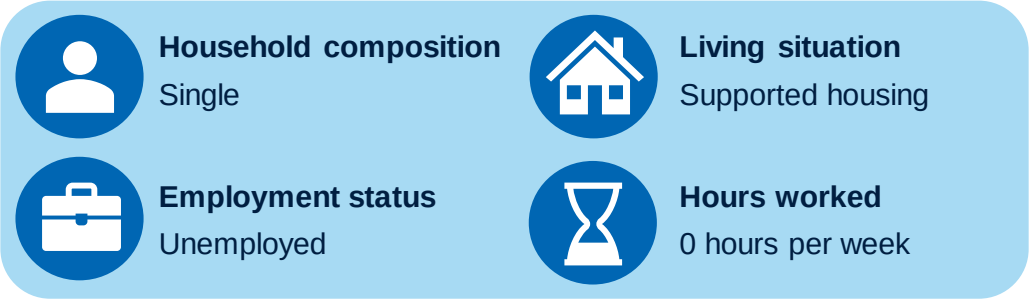
Weekly allowances for unemployed under 25s were relatively similar under the JSA (starting 1995) and Universal Credit (rolled out in 2017 in Manchester and Barnsley, and 2018 in Greenwich). The observed disparities across the regions following the benefits freeze are therefore explained by different rental costs, which are highest in Greenwich and lowest in Barnsley.

When considering weekly income after rent as a proportion of average regional earnings (see Figure 2.4), Household 1's weekly income in Greenwich and Barnsley has declined for the last two decades—from about 8% to 4% and from 10% to 8% of average earnings in 2020 respectively. Manchester, on the other hand, has remained largely flat over the period, at around 8%, owing to slower average wage growth in the region.

[15] Our model assumes that, following the reduction in LHA in 2011 from the 50th percentile to the 30th percentile of rents, claimants would move to a lower-rental cost apartment, such that they would not be worse off when considering weekly income after rent. However, qualitatively, recipients would be worse off after the change as claimants would be likely to see a reduction in the quality of their housing (given that previously their entitlement would cover the cheaper half of local rents, reducing to the cheapest third of market rents).

[16] For example, in 2019, the survey found that average Housing Benefit for private renters was £113 per week, and that private renters aged under 60 paid £34 a week on rent after Housing Benefit, equating to 30% (34/113)—29% is the average of all the available years of data (2008–19). As data for under 25s specifically was unavailable, the figures for under 60s were used. Source: English Housing Survey data on social and private renters, FA3243.

2.3.3 Household 2



The relevant income and entitlements included in our analysis for Household 2 are:

- **unemployment/low income**: Income Support (1998 to 1995), JSA (1996 to 2017/18), Universal Credit (2017/18 to 2020);[17]
- **housing**: Housing Benefit for those in supported housing (1988 to 2020).[18]

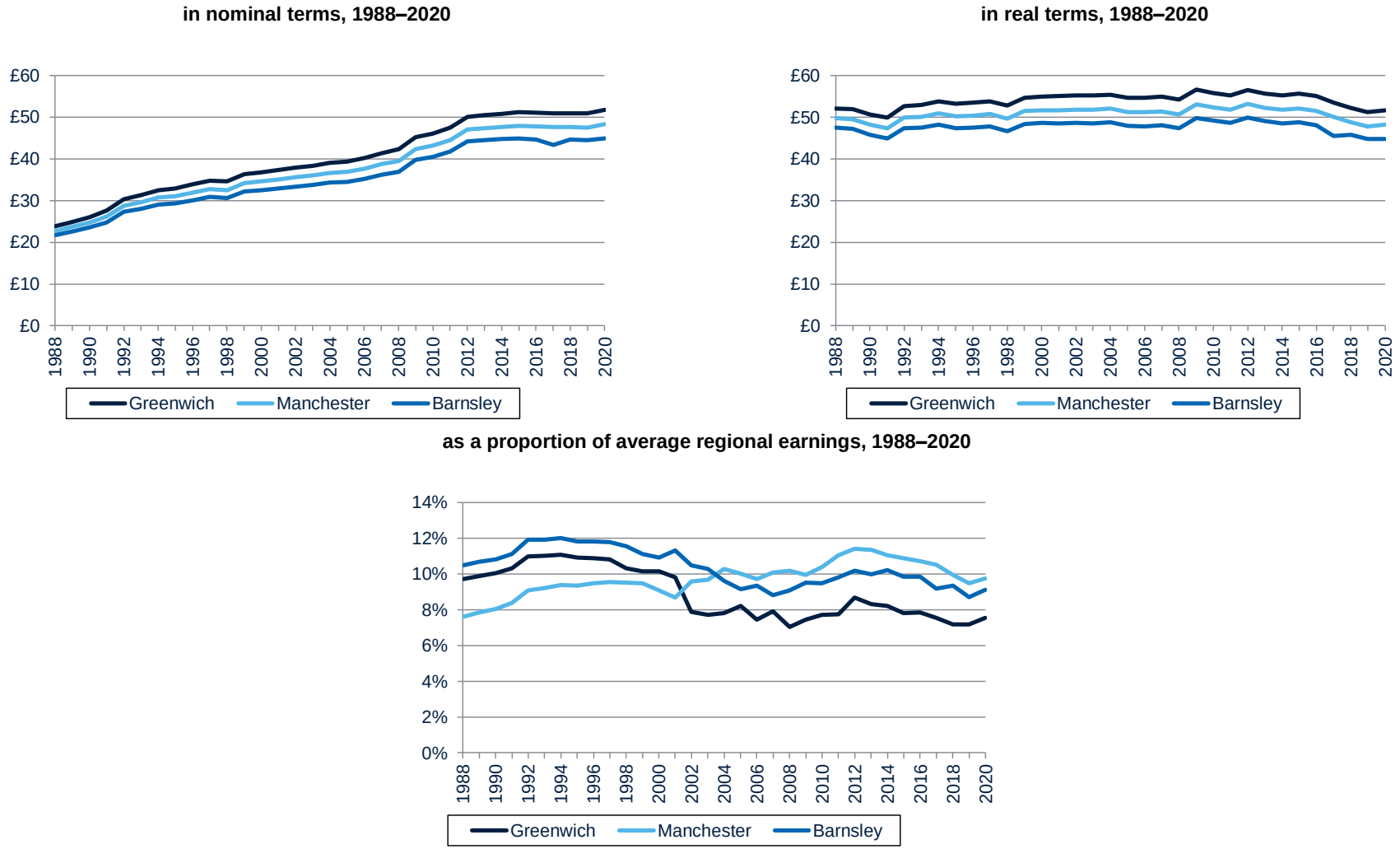
The relevant out-of-pocket costs for Household 2 are:

- **supported housing service charges**: tenants in supported housing need to pay service charges that are not covered by the Housing Benefit scheme. This could include payments for services such as energy and water.[19]

The results for Household 2 are set out below.

[17] See earlier footnote on the relevance of the year when Universal Credit became fully effective.
[18] Rent costs for those in supported housing (who are also beneficiaries of unemployment or low income support) are assumed to be covered in full by Housing Benefit, which is paid directly to the supported housing service.
[19] For more information, see https://england.shelter.org.uk/professional_resources/legal/benefits/housing_benefit/service_charges_covered_by_housing_benefit, accessed 24 September 2021.

Figure 2.5 Household 2 (Unemployed in supported housing): Weekly income after rent



Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A2 for source details.

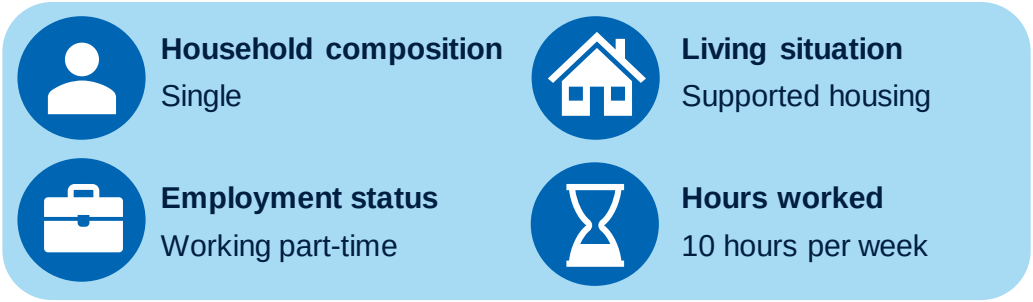
Similar to Household 1, weekly income after rent increased considerably in nominal terms for Household 2 across regions between 1988 to 2020, rising from just over £20 a week to about £50 a week. However, weekly income in real terms has remained constant over the same period, with a slight decrease from 2017 onwards due to the introduction of Universal Credit. This was part of the benefits freeze that lasted until 2020.

Household 2's weekly income after rent is much less volatile than that of Household 1. This can be explained by the fact that Household 2 is living in supported housing and therefore all their rental costs are paid for (except for a modest weekly service charge). Household 1, on the other hand, is exposed to the volatility of the private renting market.

The small differences between the regions can be explained by differences in weekly service charges. These charges can range considerably depending on the location of the accommodation and the service provided. Supported accommodation with a lift, for example, will have higher service charges than those without a lift (all else equal), as tenants must contribute towards its maintenance. Our estimates of service charges range from £7.24 to £14.04 per week for households in supported housing, depending on location.

While the income of Household 2 remained largely stable in real terms over the period, the results for income as a percentage of regional earnings are more mixed. For Greenwich and Barnsley, households in 2020 are worse off than equivalent households in 1988, dropping approximately two percentage points. This occurs as wage growth in the region has increased at a faster rate than unemployment benefits. Those in Manchester, however, have become better off by approximately 2% over the period, as average wages have increased at a lower rate compared to the other regions.

2.3.4 Household 3



The relevant income and entitlements included in our analysis for Household 3 are:

- **wage income**: weekly income equal to ten hours at the National Minimum Wage. Ten hours was selected to illustrate the case of an individual who is still entitled to their full supported Housing Benefit under Universal Credit;
- **unemployment/low income**: Income Support (1988 to 1995), JSA (1996 to 2017/18), Universal Credit tapered in line with wage income (2017/8 to 2020);[20]

[20] See earlier footnote on the relevance of the year when Universal Credit became fully effective.

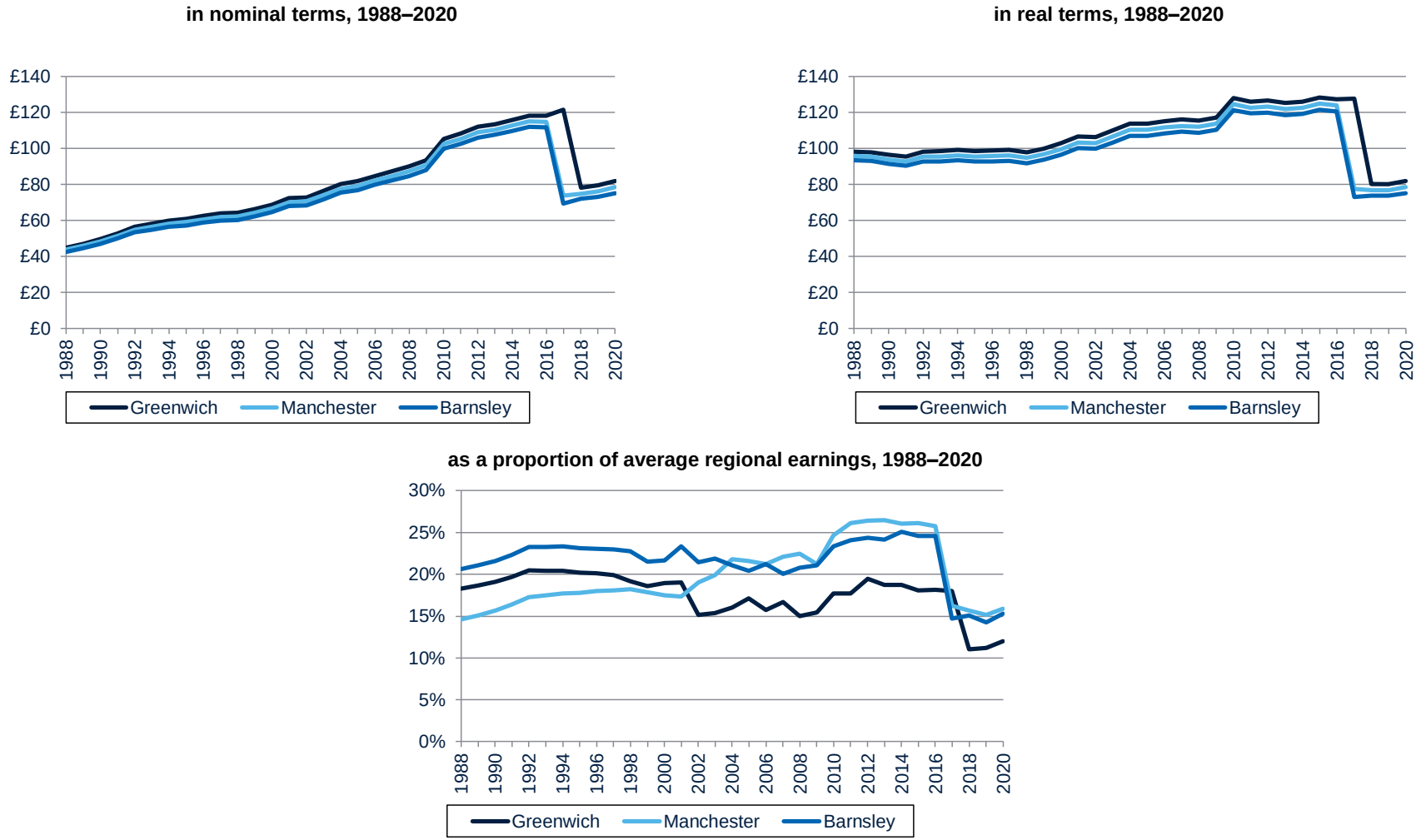
- **housing**: Housing Benefit for those in supported housing (1988 to 2020).[21]

The relevant out-of-pocket costs for Household 3 are:

- **supported housing service charges**: tenants in supported housing are required to pay service charges that are not covered by the Housing Benefit scheme. This could include payments for services such as energy and water.[22]

[21] Rent costs for those in supported housing (who are also beneficiaries of unemployment or low income support) are assumed to be covered in full by Housing Benefit, which is paid directly to the supported housing service.
[22] For more information, see https://england.shelter.org.uk/professional_resources/legal/benefits/housing_benefit/service_charges_covered_by_housing_benefit, accessed 24 September 2021.

Figure 2.6 Household 3 (Part-time working 10 hours in supported housing): Weekly income after rent



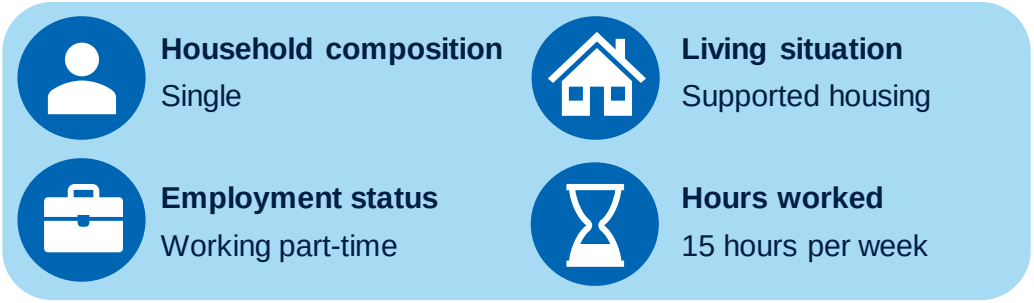
Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A2 for source details.

Similar to the other households, despite considerable increases in weekly income in nominal terms at the start of the period (a rise of almost £80 between 1988 and the introduction of Universal Credit), real weekly income after rent increased only marginally over the same period (a rise of about £20 in real terms between 1988 and 2017/8). The small jump seen in Figure 2.6 from 2009 to 2010 can be explained by a relatively large increase in the National Minimum Wage from £4.83 to £5.93 per hour. For Household 3, which is assumed to work part-time (10 hours a week), this equates to a wage increase of £11 per week.

Most notable in Figure 2.6 is the substantial decrease in nominal and real incomes in 2017/18 after the introduction of Universal Credit. While Household 3 was eligible for JSA in full as they were working fewer than the designated 16 hours per week, their entitlement under Universal Credit is tapered depending on their wage income. In particular, for every £1 earned, their Universal Credit allowance is reduced by 63p.

As illustrated in Figure 2.6, the introduction of Universal Credit has meant that the household's total income (after rent) dropped by approximately ten percentage points when considering their total income after rent as a proportion of average earnings. Following the introduction of Universal Credit in Manchester and Barnsley, this household's income after rent falls from approximately 25% of average regional earnings to about 15%. Greenwich also suffers a 10% reduction, falling to just 10% of regional earnings.

2.3.5 Household 4



The relevant income and entitlements included in our analysis for Household 4 are:

- **wage income**: weekly income equal to 15 hours at the National Minimum Wage. The 15 hours per week was chosen to highlight the scenario where the household earns just enough to be tapered off Universal Credit and loses their entitlement to full supported Housing Benefit under the Universal Credit regime;[23]

[23] Historically, this household would have also been eligible to claim JSA as it works fewer than 16 hours per week.

- **housing**: Housing Benefit paid in full for those in supported housing (1988 to 2017/18);[24] Housing Benefit paid in part for those in supported housing (2017/18 to 2020).[25]

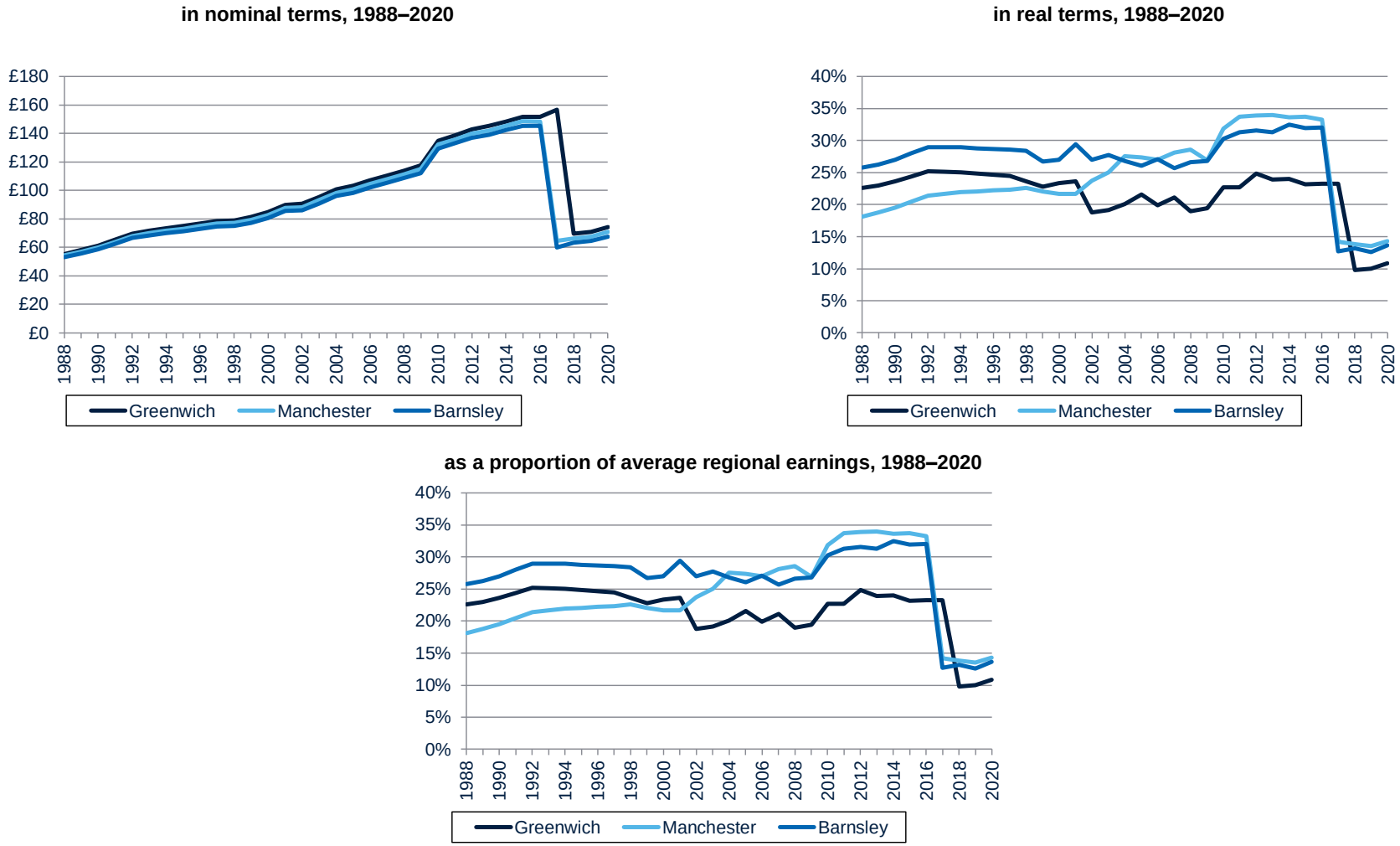
The relevant out-of-pocket costs for Household 4 are:

- **supported housing service charges**: tenants in supported housing are required to pay service charges that are not covered by the Housing Benefit scheme. This could include payments for services such as energy and water.[26]

The results for Household 4 are set out below.

[24] Rent costs for those in supported housing (who are also beneficiaries of unemployment or low income support) are assumed to be covered in full by Housing Benefit, which is paid directly to the supported housing service.
[25] As this household earns enough to be tapered off Universal Credit, it is no longer eligible for their supported housing costs to be paid in full. In these years the beneficiary's Housing Benefit is tapered in accordance with their income and applicable amount.
[26] For more information, see https://england.shelter.org.uk/professional_resources/legal/benefits/housing_benefit/service_charges_covered_by_housing_benefit, accessed 24 September 2021.

Figure 2.7 Household 4 (Part-time working 15 hours in supported housing): Weekly income after rent



Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A2 for source details.

Household 4 has characteristics similar to Household 3, except that the beneficiary works five more hours per week, at 15 hours in total. As with Household 3, the nominal and real income of Household 4 rose between 1988 and the introduction of Universal Credit, by approximately £90 (nominal) and £40 (real). However, the consequences of the introduction of Universal Credit for those in supported housing are more significant for this household.

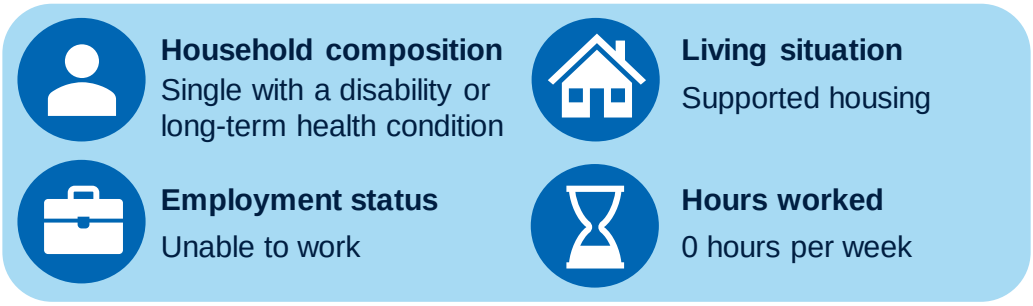
Household 4 works 15 hours per week, earning minimum wage. At this number of hours, Household 4 works just enough for their Universal Credit allowance to taper off, meaning that they no longer receive any Universal Credit entitlement.[27] As the household no longer receives Universal Credit, it is also no longer eligible to have its entire supported housing rental costs covered, and instead is required to cover part of their rent. In particular, under the Universal Credit regime, Household 4's Housing Benefit is tapered according to their income.[28]

As a result of the switch from JSA to Universal Credit, Household 4 loses their entire unemployment/low income entitlement and must now also contribute a substantial portion of their earnings towards their supported housing costs. In this case we estimate their contributions towards supported housing to be approximately £30 to £40 per week, or roughly 30% of their earnings.

Consequently, as can be seen in Figure 2.7, the weekly income of Household 4 after rent drops sharply upon the introduction of Universal Credit, and the household is also worse off than they would be if they worked only 10 hours per week (as demonstrated by Household 3) given the tapering of the Universal Credit.

We find similar conclusions when considering total entitlements as a proportion of average earnings in the region. As shown in Figure 2.7, despite working 15 hours a week, once Universal Credit is introduced, the household's weekly income equates to only 10–15% of average regional earnings, down from approximately 20–30% prior to the introduction of Universal Credit. As before, this is even more pronounced in Greenwich, given the higher earnings on average in the region.

2.3.6 Household 5



The relevant income and entitlements included in our analysis for Household 5 are:

[27] For example, in 2020 15 hours at the minimum wage for 21-year olds (£8.20) equates to a weekly income of £123. Applying the 63% Universal Credit taper, it is £77.49. This is higher than the Universal Credit weekly standard allowance (approximately £58.93) and hence the household no longer receive any Universal Credit.
[28] The maximum Housing Benefit allowance is reduced by 65% of the difference between the recipient's income and their 'personal allowance'.

- **unemployment/low income**: Universal Credit (2017/18 to 2020);[29]
- **housing**: Housing Benefit for those in supported housing (1988 to 2020);[30]
- **disability**: Invalidity Benefit (1988 to 1994), Incapacity Benefit (1995 to 2007), Disability and Living Allowance (1992 to 2013), Employment and Support Allowance (ESA) (2008 to 2017/18), Universal Credit disability top-up (2017/18 to 2020), Personal Independence Payment (daily living) (2013 to 2020).

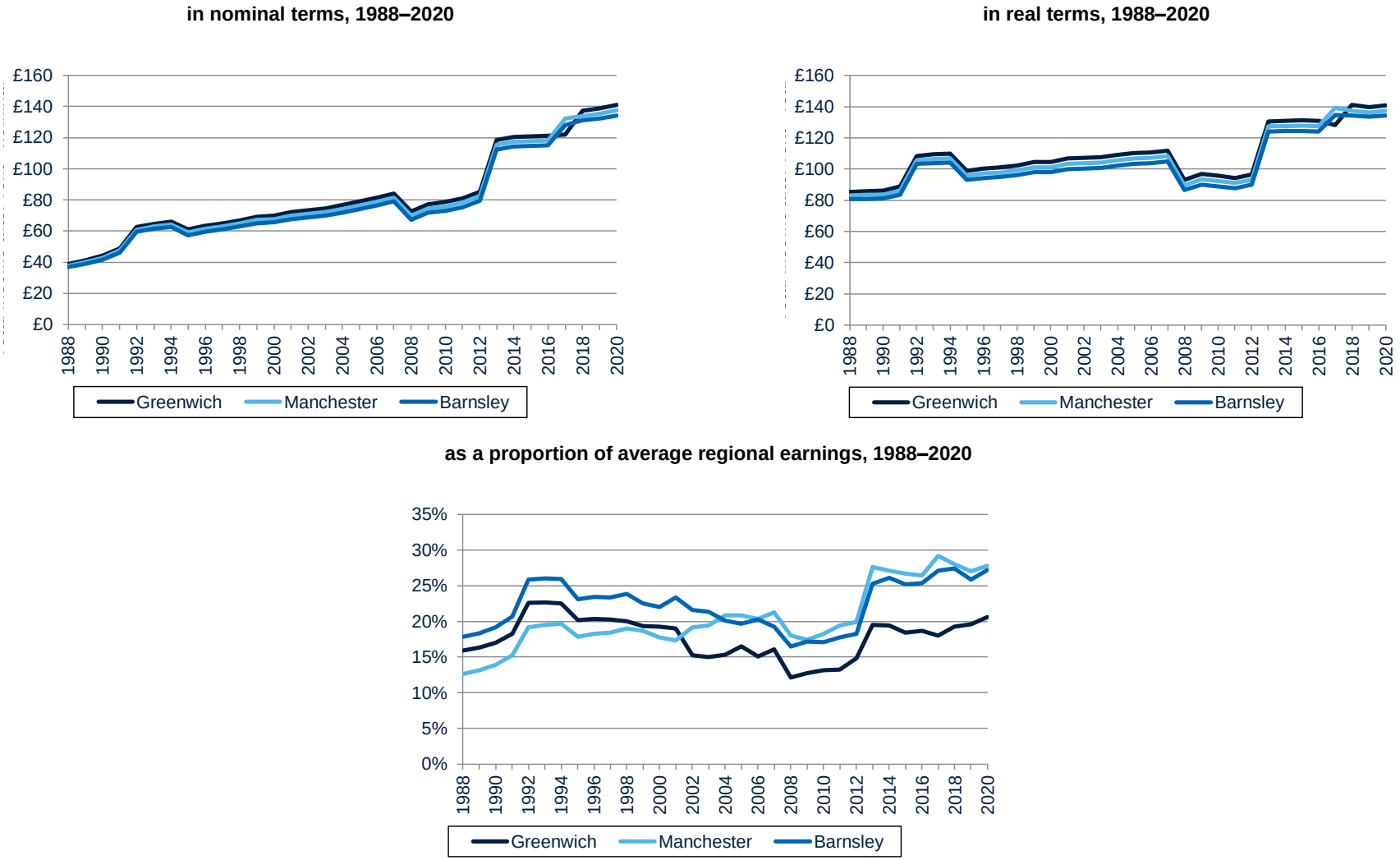
The relevant out-of-pocket costs for Household 5 are:

- **supported housing service charges**: tenants in supported housing are required to pay service charges that are not covered by the Housing Benefit scheme. This could include payments for services such as energy and water.[31]

The results for Household 5 are set out below.

[29] See earlier footnote on the relevance of the year when Universal Credit became fully effective.
[30] Rental costs for those in supported housing (who are also beneficiaries of unemployment or low income support) are assumed to be covered in full by housing benefit, which is paid directly to the supported housing service.
[31] For more information, see https://england.shelter.org.uk/professional_resources/legal/benefits/housing_benefit/service_charges_covered_by_housing_benefit, accessed 24 September 2021.

Figure 2.8 Household 5 (Long term disabled in supported housing): Weekly income after rent

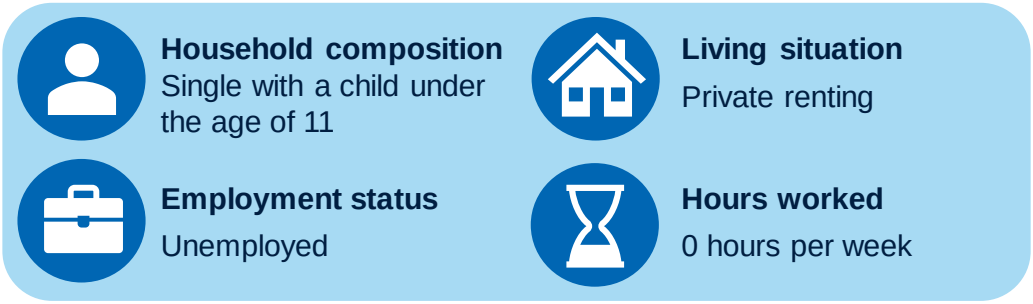


Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A2 for source details.

Household 5 represents a claimant with a disability who is unable to work and living in supported housing. As illustrated in Figure 2.2, there have been many changes to disability entitlements since 1988. In many cases new entitlements have been added alongside existing entitlements so households may be eligible for multiple entitlements at once. As such, we observe large increases in the payouts in 2012 and 2017/18. The first increase in 2012 depicts the introduction of the Personal Independence Payment (PIP), while the second smaller increase in 2017/18 accounts for disability allowances under Universal Credit.[32]

As can be seen in Figure 2.8, income as a proportion of regional earnings increases approximately 5–7% with the introduction of PIP in 2012. Of all the regions, this jump is least pronounced in Greenwich, with income as a proportion of regional average earnings in 2020 at just 20% compared to approximately 27% in Manchester and Barnsley, given that workers in Greenwich earn more on average.

2.3.7 Household 6



The relevant income and entitlements included in our analysis for Household 6 are:

- **unemployment/low income**: Income Support (1998 to 1995), JSA (1996 to 2017/18), Universal Credit (2017/18 to 2020);[33]
- **housing**: Housing Benefit (rent allowance) (1988 to 2017/18), Universal Credit housing element (2017/18 to 2020);[34]
- **childcare**: Child Benefit (1988 to 2020), Income Support add-on for lone parents (1988–1995), JSA lone parent premium and dependant under 11 allowance (1995–2003), Child Tax Credits (2004–2017/18), Universal Credit child top-up (2017/18 to 2020).

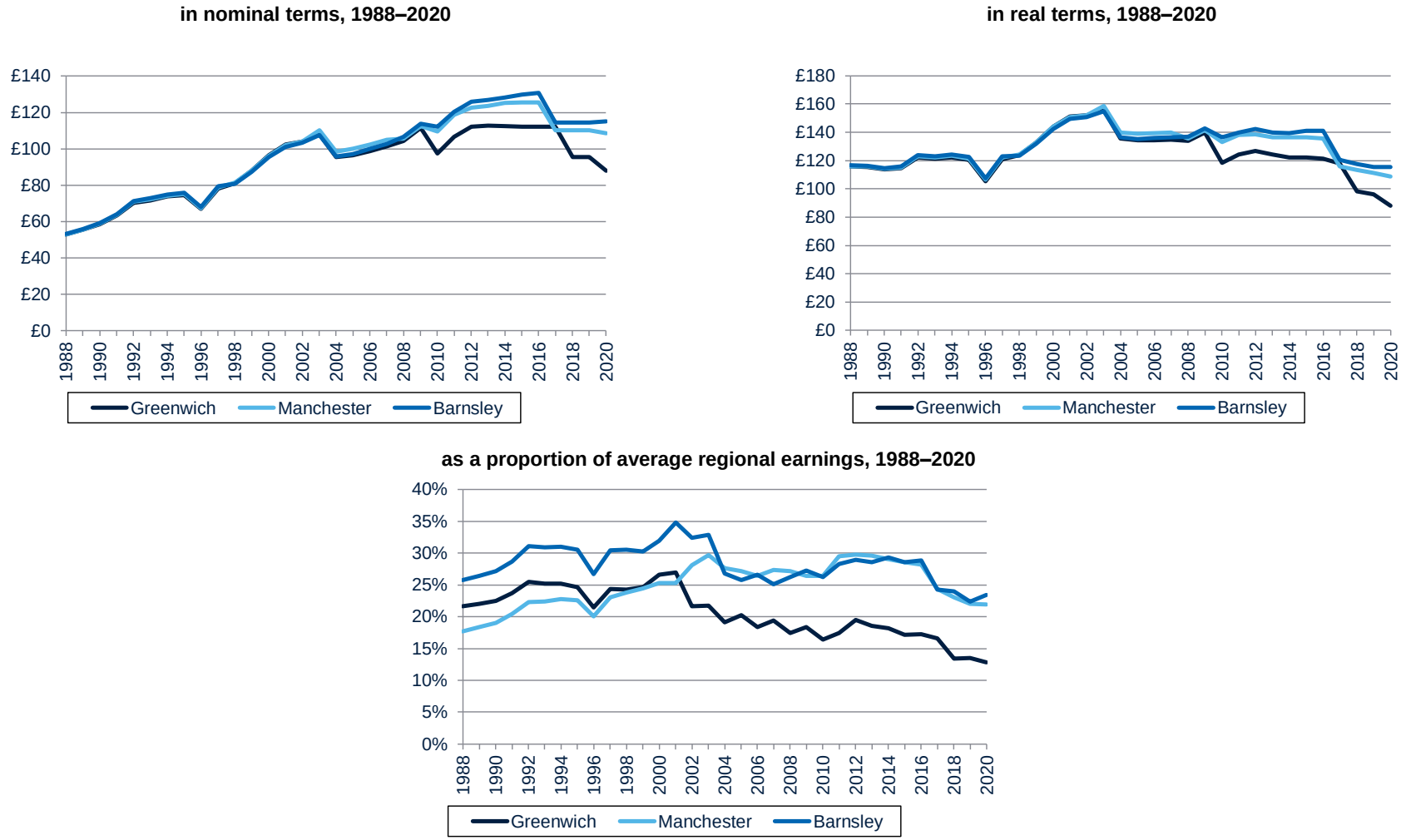
The relevant out-of-pocket costs for Household 6 are:

- **rent top-up**: the difference between how much the household receive in Housing Benefit and how much they pay in rent in the private rental market.

The results for Household 6 are set out below.

[32] We assume that Household 5 would qualify to claim some of the entitlements additively—e.g. they are eligible to claim PIP and the Universal Credit disability allowance at the same time. Eligibility criteria for disability entitlements can be very subjective and payments may differ substantially depending on individual circumstances. We do not have a view as to whether this assumption is representative of the majority of claimants with disabilities or whether this would be considered to be a special case.
[33] See earlier footnote on the relevance of the year when Universal Credit became fully effective.
[34] The Universal Credit housing allowance for private renters is determined by the LHA and is location-specific. For more detail, see Appendix A2.

Figure 2.9 Household 6 (Unemployed with child and renting privately): Weekly income after rent



Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A2 for source details.

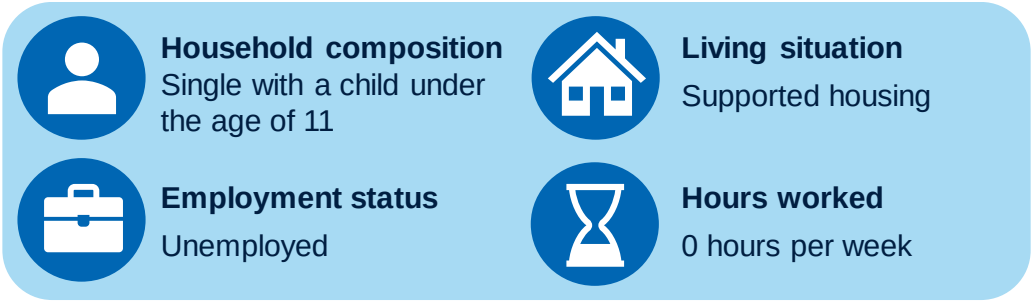
In nominal terms this household's income increased by as much as £60 between 1988 and 2020. However, over the same period, weekly income in real terms was largely flat, meaning that the household are no better or worse off in the case of Greenwich, where there was a decrease in real income after rent.

Household 6 shares some features with Household 1. As such, some trends observed when discussing Household 1 apply to Household 6 as well. For example, the slight fall in income in real terms seen in Figure 2.9 from 2008 onwards can be attributed to the introduction of the LHA which was then frozen in 2015. Similarly, the regional disparity (Figure 2.9) can be explained by differences in the cost of living. For instance, in high-rent areas such as Greenwich, claimants pay out more to top up their Housing Benefit in order to meet high rental costs, particularly after the benefits freeze.[35]

There are, however, also trends that are specific to Household 6. In particular, the increase after 1996 can be attributed to the introduction of the JSA, which included a higher base rate for those under 25 with children, as well as premium add-ons for those with children. In 2004, this was replaced for new claimants by Child Tax Credits that remained in place until Universal Credit was rolled out (in 2017/18 in the regions considered in our analysis). Over this period the child-related benefits remained relatively flat in real terms. The introduction of Universal Credit led to the replacement of Child Tax Credits with a Universal Credit childcare add-on. With the introduction of this new benefit the weekly payout dropped by approximately £15, and explains the fall in nominal and real income in 2017/18.

There was a slight decrease in real income after rent (see Figure 2.9) for Manchester and Barnsley, with a bigger decline in Greenwich. However, when considering income as a proportion of average regional earnings (see Figure 2.9), with the exception of Manchester, the payouts remained largely flat or declined slightly until the introduction of Universal Credit. After this point it decreased further, dropping to about 22% in Manchester and Barnsley and 13% in Greenwich. By 2020 claimants in Greenwich were approximately 10 percentage points worse off than other regions. This is partly due to higher rent costs, meaning that claimants have higher rent top-up costs, but also because those in Greenwich earn more on average.

2.3.8 Household 7



The relevant income and entitlements included in our analysis for Household 7 are:

[35] Rent top-up was estimated to equate to 48% of Housing Benefit entitlements for lone parents with children. For more detail, see Appendix A2.

- **unemployment/low income**: Income Support (1998 to 1995), JSA (1996 to 2017/18), Universal Credit (2017/18 to 2020);[36]
- **childcare**: Child Benefit (1988 to 2020), Income Support add-on for lone parents (1988–1995), JSA lone parent premium and dependant under 11 allowance (1995–2003), Child Tax Credits (2004–2017/18), Universal Credit child top-up (2017/18 to 2020);
- **housing**: Housing Benefit for those in supported housing (1988 to 2020).[37]

The relevant out-of-pocket costs for Household 7 are:

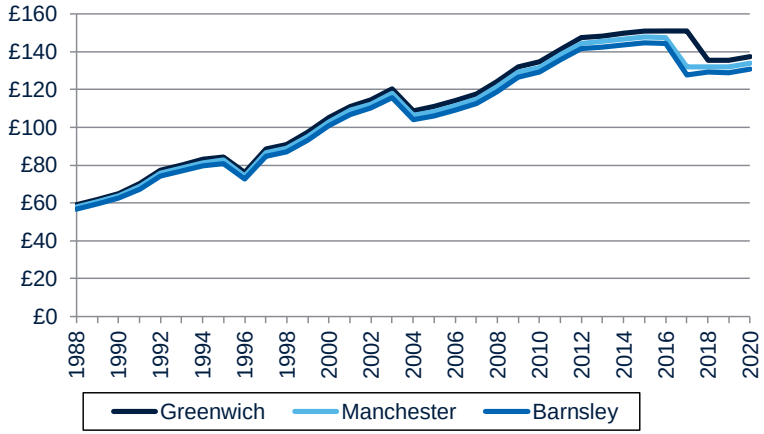
- **supported housing service charges**: tenants in supported housing are liable to pay service charges that are not covered by the housing benefit scheme. This could include payments for services such as energy and water.[38]

The results for Household 7 are set out below.

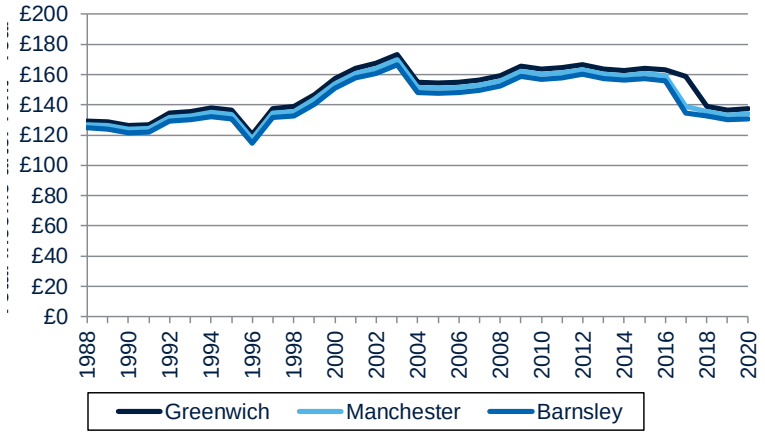
[36] See earlier footnote on the relevance of the year when Universal Credit became fully effective.
[37] Rent costs for those in supported housing (who are also beneficiaries of unemployment or low income support) are assumed to be covered in full by Housing Benefit, which is paid directly to the supported housing service.
[38] For more information, see https://england.shelter.org.uk/professional_resources/legal/benefits/housing_benefit/service_charges_covered_by_housing_benefit, accessed 24 September 2021.

Figure 2.10 Household 7 (Unemployed with child in supported housing): Weekly income after rent

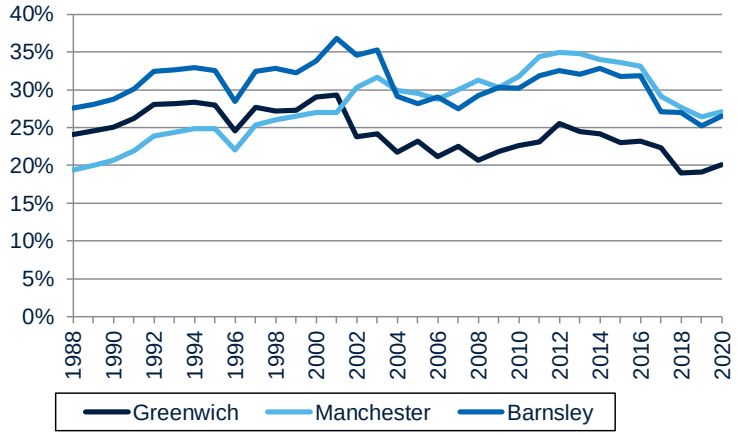
in nominal terms, 1988–2020



in real terms, 1988–2020



as a proportion of average regional earnings, 1988–2020



Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A2 for source details.

Like many of the households, the £80 nominal increase in the income of Household 7 from 1988 to 2020 translates into a much smaller £10 increase in real terms, meaning that the household are only marginally better off over the period.

Household 7 is similar to Household 6, except that the family lives in supported housing rather than renting in the private market. Like Household 6, we observe a drop in the payouts around 2017/18 attributable to the introduction of the Universal Credit childcare add-on that replaced Child Tax Credits. However, Household 7 benefits from the lack of exposure to the volatility associated with private renting. This results in a weekly income that is largely flat in real terms up to the introduction of Universal Credit.

As such, with the exception of Manchester, Household 7's income as a proportion of average earnings declines slightly from 1988 until the introduction of Universal Credit, at which point it declines further, by approximately 5%. As before, Manchester appears higher as a proportion of average earnings due to slower wage growth in the region. Those in Greenwich are worse off due to higher average earnings in the region.

3 Cost–benefit analysis of Centrepoint's recommended changes to social security entitlements

3.1 Introduction

In this section we give an overview of our analysis of the costs and benefits of Centrepoint's recommended changes to social security entitlements.

- We first set out Centrepoint's six policy recommendations for the social security system (section 3.2).
- We then explain the methodology and analytical framework used to quantify the net benefit of the policy recommendations (section 3.3), before outlining the relevant population for each policy recommendation (section 3.4).
- We give an overview of the estimation of the costs (section 3.5) and monetised benefits (section 3.6) of each policy recommendation.
- We then provide the key results from our cost–benefit analysis (CBA), including the net impacts of each policy recommendation (section 3.7).
- Finally, we qualitatively assess the additional benefits we have not been able to quantify in monetary terms (section 3.8). Section 3.9 concludes.

3.2 Overview of policy recommendations

Centrepoint has provided us with six policy recommendations with respect to the social security system. These policies are targeted at different aspects of the social security system and different groups of social security recipients. Table 3.1 outlines the policy recommendations we have analysed.

Table 3.1 Overview of policy recommendations

Policy recommendation	Description
1	Under 25s living independently receive an increase of £67 in the monthly standard allowance payment to bring this in line with the rate paid to over 25s (£325 per month), reflecting that these young people face the same living costs as any other adult
2	The advance loan is provided to under 25s living in supported accommodation as a non-repayable advance
3	A work allowance (of £293) is introduced for under 25s living in supported accommodation to support this group to access work and ease the transition from benefits to paid employment
4	The applicable amount within the Housing Benefit is increased (from £64 to £94) for under 25s living in supported accommodation so that they do not face steep cliff edges when moving into work, and are not disadvantaged compared to those not living in supported accommodation
5	Affordability assessments are conducted by the Department of Work & Pensions (DWP) before applying benefit sanctions, to ensure that the assessments do not push vulnerable young people into severe hardship or put them at risk of homelessness
6	The government's Kickstart Scheme, which provides funding to employers to create jobs for 16–24-year olds on Universal Credit, is extended to December 2022

Source: Oxera based on Centrepoint's recommendations.

We set out in what follows the framework used to analyse the impact of these policy recommendations.

3.3 Analytical framework

3.3.1 Baseline and policy scenarios

The analysis of the net benefit of the policy recommendations involves comparing the likely outcome for the average beneficiary under the 'policy' scenario against a 'baseline' scenario. In the **policy scenario**, we capture the change in the situation of the claimants after the implementation of the policy recommendation. In the **baseline scenario** we assume that the current policy regime remains in place.

The policy recommendations target different aspects of the social security regime. We assess the impact of each one in isolation, and do not consider the combined impact of the policy recommendations. As such, we do not have a policy or a baseline scenario that is relevant across the analysis of all policy recommendations. Instead, we define different (policy and baseline) scenarios for each policy recommendation—see Table 3.2.

Table 3.2 Baseline and policy scenarios for the policy recommendations

Policy recommendation	Baseline scenario	Policy scenario	Main impacts
1	Current standard allowance for under 25s: £257.33/month[1]	Universal Credit standard allowance for over 25s: £324.84/month[1]	An increase in standard allowance by ~£16/week
2	Repayable advance loans (based on the standard allowance for under 25s)	Non-repayable advance loans (based on the standard allowance for under 25s)	Annual payment is increased by an amount equal to the amount of the advance loan ~£257
3	No work allowance (tapering from the first £1 of income earned)	Work allowance of £293 (tapering from income above this amount)	Lower amount of Universal Credit tapered for the same level of income; improved work incentives
4	Applicable amount of £63.9 per week	Applicable amount of £94.3 per week	Lower amount of Housing Benefit tapered for the same level of income; improved work incentives
5	No affordability assessment before sanctions	Affordability assessment before sanctions	Fewer/lower sanctions applied following the assessment
6	Kickstart scheme ends on 31 March 2022[2]	Kickstart scheme is extended to 31 December 2022	Increase in the jobs created through the scheme

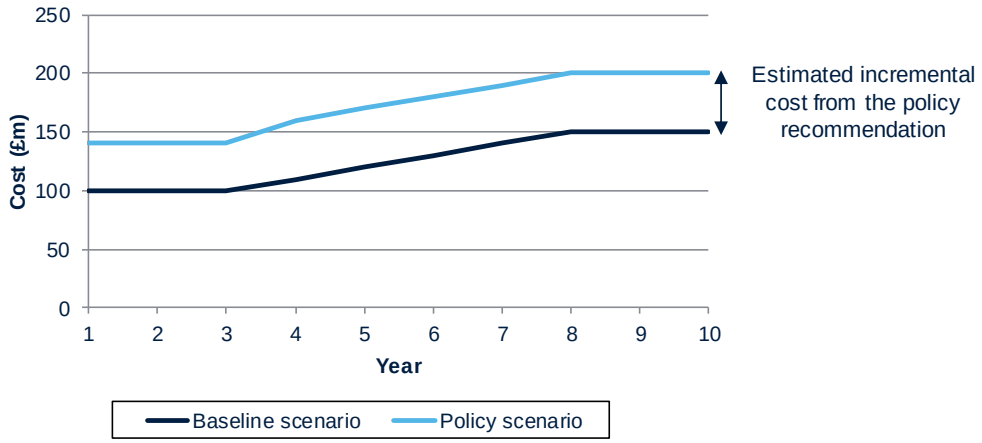
Note: [1] Standard allowance exclusive of the temporary COVID-19 uplift provided to claimants between March 2020 and October 2021; rate for single recipients. [2] Reflects the latest government plan to extend the Kickstart scheme to March 2022. See UK government (2021), '£500 million Plan for Jobs Extension', 4 October, https://www.gov.uk/government/news/500-million-plan-for-jobs-expansion, accessed 13 October 2021.

Source: Oxera based on Centrepoint's recommendations.

3.3.2 Framework for estimating the costs and benefits

Figure 3.1 provides a stylised example of how we estimate the incremental costs associated with each policy recommendation. We estimate the cost of the policy, over time, in both the baseline scenario and policy scenario. The cost of the policy is then given by the difference between the two scenarios.

Figure 3.1 Stylised example: estimating the policy costs



Source: Oxera.

We apply the same analytical framework when quantifying the benefits. However, for most benefits, rather than calculating the benefits in both the policy scenario and the baseline scenario, we directly calculate the marginal effects (effects over and above the baseline) from the policy change in terms of the increase in money available or additional number of people in work.

The costs and benefits will accrue over the lifetime of the policy. Given that most of the policy recommendations do not have a defined time horizon, we use a time horizon of ten years, in line with the recommendation of the HM Treasury Green Book.[39] Therefore, the costs and benefits are calculated between 2021 and 2030. The only exception is Policy Recommendation 6, for which we consider a shorter time horizon (2022–24) due to the temporary nature of the recommendation and the lack of data on the accrued benefits over a longer period of time.

We add together the expected incremental costs and benefits associated with each policy recommendation in each year, to give the total costs and benefits for each policy. Given that most of the costs and benefits arise in the future (between 2022 and 2030), we apply a discount rate in line with the Green Book. For all costs, and most benefits, we apply the Green Book's Social Time Preference Rate (STPR), which is equal to 3.5%.[40] For benefits that are based on Quality Adjusted Life Years (QALYs), we use the Green Book's health rate of 1.5%.[41] This gives the present value of costs and benefits (in 2021 terms).

We then calculate the net benefit of each policy. This provides an indication of whether the policy recommendation is expected to have an overall positive impact, accounting for costs, in monetised terms. As discussed in section 3.7,

[39] HM Treasury (2020), 'The Green Book – Central government Guidance on Appraisal and Evaluation', 3 December, p. 42.
[40] Ibid., p. 46.
[41] Ibid., p. 87.

we express the overall impact each policy recommendation in terms of the NPSV and the BCR. Importantly, these measures include monetised benefits only, and therefore exclude the costs and benefits we have not been able to quantify.

3.4 Relevant population for each policy recommendation

Centrepoint's six policy recommendations are targeted at different groups of Universal Credit recipients. This section explains the scope of each policy recommendation—i.e. the beneficiaries to which each recommendation applies. Our estimates mainly rely on data from the DWP.

Below we identify the number of individuals we estimate would benefit from each of the policy recommendations in 2021.

- **Policy Recommendation 1** covers individuals under 25 claiming Universal Credit who live independently, i.e. receive either Housing Benefit or housing element of Universal Credit. This population totals around 285,000 claimants in 2021.[42]

- **Policy Recommendation 2** refers to the estimated number of new Universal Credit claimants in supported housing in each year.[43] Research produced for the DWP estimated that this totalled 21,500 people at the end of 2015.[44] Due to a lack of more recent data, we use this figure throughout our analysis as the estimated population of 16–25-year olds in supported housing in 2021. For this policy recommendation we then estimate the number of claimants who are new in any given year (62.4%) and the proportion of people that typically request an advance (41%).[45] Thus the total relevant population for this policy recommendation in 2021 is estimated to be 5,500, rising to 8,600 by 2030.

- **Policy recommendations 3 and 4** apply to all under 25s in supported housing, which we estimate at 21,500 in 2021. However, the effect of these policies varies depending on the employment status of the claimant; in particular, whether they are currently employed. In 2021, we estimate that there are approximately 3,500 employed claimants who are under 25 and in supported housing (approximately 17% of the relevant population).[46] The remaining population, made up of claimants in supported housing who are unemployed, numbering around 17,500, is relevant for the discussion of the benefits of these policy recommendations, presented in section 3.6.

- **Policy Recommendation 5** focuses on under 25 Universal Credit claimants who are sanctioned. In 2021, we estimate that 3.1% of the total

[42] Based on data for May 2021. Source: Department for Work & Pensions (2021), 'FOI2021/65763', 9 September.
[43] New claimants are people who have started claiming Universal Credit in that calendar year. If they previously claimed Universal Credit but then left the system and then start claiming again, they would now be counted as a new claimant. This figure is also applied to a number of other policies when calculating the incremental benefits of a policy that apply to new claimants only. There is potential for this proportion to currently be biased upwards by a new influx of claimants due to the COVID-19 pandemic, but this proportion of new claimants is broadly consistent with the proportion seen in 2019 and previous years.
[44] Department for Work & Pensions and Department for Communities & Local government (2016), 'Supported accommodation review', November, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/572454/rr927-supported-accommodation-review.pdf, accessed 13 October 2021.
[45] Child Poverty Action Group (2021), 'Budget 2021: Delivering on Debt Deductions?', 9 March, https://cpag.org.uk/news-blogs/news-listings/budget-2021-delivering-debt-deductions
[46] Centrepoint (2021), 'Service User Data', August, unpublished.

number of under 25 Universal Credit claimants, approximately 29,500, would be sanctioned, based on pre-COVID-19 data.[47] To calculate the costs and benefits, we focus on claimants who are sanctioned at a low level, comprising the majority of sanctioned claimants. We estimate that around 23,000 people faced low-level sanctions in 2021.[48]

- **Policy Recommendation 6** covers the under 25 Universal Credit claimants who are estimated to take up Kickstart roles. We use actual data on the number of individuals who took up Kickstart roles between August and September 2021.[49] We assume that the actual rate of Kickstart vacancies being filled (around 15,600 per month) would continue until December 2022. We therefore estimate that the number of people joining the scheme as a result of a nine-month extension (i.e. from the government's March 2022 end date to Centrepoint's recommendation extension to December 2022) will amount to around 140,000 people, of which around 60,000 will be above the government's initial 250,000 target.

For policy recommendations 1–5, the impact is calculated over a ten-year horizon. Therefore, we also need to consider the relevant number of claimants in the following nine years.[50] To do so, we apply growth rates to the relevant populations for 2021. More specifically:

- **for 2022–26** we calculate the growth rate based on DWP's forecasts of the total population of Universal Credit claimants for the period 2021 to 2026;[51]
- **for 2027–30** we calculate the growth rate of the wider UK population of 16–25-year olds based on ONS population forecasts,[52] and apply this to the relevant populations in each policy recommendation (as DWP data is not available).

3.5 Policy recommendations: estimated costs

This section presents the costs associated with each policy recommendation. By cost, we refer to the incremental costs associated with the policy recommendation compared to the baseline scenario. There are three key steps in the analysis:

1. estimate the cost associated with a continuation of the current social security regime (i.e. the baseline);
2. estimate the cost associated with the policy recommendation (i.e. the policy scenario);
3. calculate the incremental cost as the estimated policy recommendation costs minus the baseline costs.

[47] Department for Work & Pensions (2021), 'Stat-Xplore: UC Sanction Rates'.
[48] Department for Work & Pensions (2021), 'Stat-Xplore: UC Live Service Sanction Decisions – all decisions made'.
[49] Between August and September 2021, 3,600 young people started on the scheme each week. See UK Parliament (2021): Kickstart scheme: Question for Department of Work and Pensions, 21 September. https://questions-statements.parliament.uk/written-questions/detail/2021-09-21/52625, accessed 12 October 2021.
[50] The time horizon for our analysis is ten years for all policies other than Policy Recommendation 6.
[51] Department for Work & Pensions (2021), 'Spring Budget 2021: Expenditure and Caseload forecasts' 19 March, https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2021.
[52] Office for National Statistics (2019), 'Projected populations at mid-years by age last birthday in five year age groups', 21 October.

These costs are presented in constant 2021 prices (i.e. in real terms), in line with the Green Book.[53] Future values are also discounted using the 3.5% STPR discount rate to provide a present value.[54]

3.5.1 Policy Recommendation 1

Policy Recommendation 1 involves increasing the amount of Universal Credit awarded to a claimant under the age of 25. Currently the amount of Universal Credit awarded as part of a claimant's standard allowance (before any additional benefits such as housing and child benefit are added) is differentiated by age. Single claimants under 25 years of age receive a monthly standard allowance of £257.33 and those over 25 receive a monthly standard allowance of £324.84, even if they are otherwise in the same circumstances.

Centrepoint's policy recommendation is to equalise these amounts so that both groups receive £324.84 as a standard allowance every month. From a cost perspective, this would involve granting an additional £67.51 a month to claimants under 25, resulting in a total annual increase of £810.12 in Universal Credit payments for each relevant claimant.

The group affected by this policy recommendation would be all people under the age of 25 who are living independently, i.e. those claiming the housing element of Universal Credit and those on Housing Benefit. This group is the largest of any of the policy recommendations considered. As noted above, as of May 2021 the population of claimants was 285,000,[55] and we assume that this population will grow in line with the DWP and ONS forecasts to reach 446,000 by 2030.

The total incremental cost of the policy recommendation in each year is the per-person increase in the standard allowance amount (£67.51) multiplied by the number of under 25s living independently. Summing this across the relevant time horizon gives the total costs of the policy recommendation. We estimate the cost to be equal to £3.1 billion in real terms, an average of £306m per year. When discounted according to the Treasury Green Book methodology outlined above, this figure is estimated to be £2.6bn (around £260m per year).

3.5.2 Policy Recommendation 2

Centrepoint's second policy recommendation seeks to alleviate issues around the repayment of the advance loan for Universal Credit, including the different elements contained within that payment (such as the housing element). In particular, Centrepoint proposes that this repayment mechanism be removed such that the claimant's entitlements in future months are not reduced to cover the cost of the advance loan. This policy recommendation thus lowers the amount that would usually be recouped by DWP from a claimant through reduced entitlements. Reductions in repayments would constitute costs for the government.

When recipients are granted an advance, they typically receive the equivalent of up to one month of their expected entitlement. We use the standard

[53] HM Treasury (2020), 'The Green Book – Central government Guidance on Appraisal and Evaluation', 3 December, p. 42.
[54] Ibid., p. 46.
[55] See Department for Work & Pensions (2021), 'FOI2021/65763', 9 September.

allowance rate for single under 25s (£257.33) as the estimate for the advance loan amount per person.[56]

The group of people for whom we have assessed this policy are those in supported housing who are likely to request an advance loan. Data from the Child Poverty Action Group indicates that 41% of new Universal Credit claimants request advance loans.[57] Applying this proportion across the estimated number of new claimants in each year who are living in supported housing indicates that 5,500 individuals may request this loan in 2021 and 8,600 in 2030.

The total cost of this policy recommendation is £18.8m in 2021 prices (an average of £1.9m per year) over the relevant time horizon. When discounted, the total cost of the policy recommendation is £17.4m (an average of £1.7m per year).

3.5.3 Policy Recommendation 3

Centrepoint's third policy recommendation looks at introducing a work allowance for people on Universal Credit. Currently when people receiving Universal Credit take on paid work, 63% of the value of their wages is deducted from their Universal Credit payments. This deduction, or 'tapering', occurs from the first £1 they earn until all of their Universal Credit entitlements have been tapered and they no longer receive Universal Credit.

The work allowance is a monetary amount that allows a claimant to earn a certain amount before their Universal Credit entitlements start to taper. The level of the work allowance proposed by Centrepoint and used in our analysis is £293 a month, meaning that a claimant could earn up to £293 before any of their Universal Credit entitlements are tapered.[58] This figure is in line with the work allowance currently applied by DWP for people who have responsibility for a child or limited capability for work, if their Universal Credit includes housing support.[59]

Given the existing tapering mechanism, the cost of the policy recommendation corresponds to the increased Universal Credit payout to a claimant as a result of the introduction of the work allowance. As such, the total cost of the policy depends on how many hours the claimants work as a result of the introduction of the work allowance, and therefore the increased payments to claimants.

Due to the lack of data on the distribution of Universal Credit claimants by hours worked, we make the (conservative) assumption that people in employment will continue to work the same number of hours in the policy scenario and the baseline scenario, as there will be no additional incentive for this group to work more hours if they were already earning above the work allowance.[60] As such, we estimate that the per-person cost of the policy is

[56] This is because we focus on under 25s in supported housing who would not receive the housing element of Universal Credit, and consider that the relevant population may be less likely to receive other elements of Universal Credit than the wider population.
[57] Child Poverty Action Group (2021), 'Budget 2021: Delivering on Debt Deductions?', 9 March, https://cpag.org.uk/news-blogs/news-listings/budget-2021-delivering-debt-deductions
[58] Department for Work & Pensions (2021), 'Universal Credit work allowances', 12 April, https://www.gov.uk/government/publications/universal-credit-work-allowances/universal-credit-work-allowances, accessed 13 October 2021.
[59] Department for Work & Pensions (2021), 'Universal Credit work allowances', 12 April.
[60] Based on DWP's data, we estimate the average number of hours worked across Universal Credit claimants to be 11 hours. Source: Department for Work & Pensions (2021), 'Stat-Xplore: Housing Benefit – data from April 2018'.

equal to the difference between the Universal Credit received by someone in employment in the baseline and that in the policy scenario with the recommended work allowance in place. This amounts to £2,215 annually.[61]

For the purposes of calculating the costs of this policy, we focus only on employed individuals living in supported housing. This is approximately 3,700 people in 2021. The cost associated with these claimants, in 2021 prices, is estimated to be £107m over the ten-year period (an average of £11m per year). When discounted, the total cost is £91 million (an average of £9.1m per year).

While there will also be social security costs associated with those who are unemployed under the baseline and move into work in response to the policy, we account for these people by calculating the net social security cost savings as benefits. This is because, in general, the social security costs associated with those people moving into work in the policy scenario is expected to be lower than in the baseline, leading to an overall saving in social security costs.

3.5.4 Policy Recommendation 4

Policy Recommendation 4 entails increasing the applicable amount for individuals claiming Housing Benefit to £94.26 from the current £64.20.[62] The applicable amount is equivalent in principle to the work allowance proposed in the previous policy, but applied in the context of the tapering of Housing Benefit. It works in a similar way to the work allowance as it is an amount that can be earned before Housing Benefit is tapered.

We therefore use a method similar to that used for Policy Recommendation 3 to compute the total costs, relying on the same conservative assumption that the policy has no impact on the incentives of those already in work to take on more hours. Additionally, we assume that a claimant's income affects Housing Benefit only, so as to isolate the impact of the change in the applicable amount on their take-home pay and benefits.[63] Finally, due to the lack of data on the distribution of Universal Credit claimants by hours worked, we consider all claimants in employment. This means that the population includes people who may be working less hours than needed for their Universal Credit to taper off, and their Housing Benefit to start tapering. We estimate that this policy has an annual per person cost of £660.64.

The total cost across the people affected by the policy (the same people affected by Policy Recommendation 3) in 2021 prices is estimated to be £32m over the ten-year period (an average of £3.2m per year). When discounted, the total cost over the ten years is £27m (an average of £2.7m per year).

As with Policy Recommendation 3, there will be social security costs associated with those who move into work in response to the policy. We account for these people by calculating the net social security cost savings as benefits.

[61] This is based on our estimate of the average hours and wages earned by an individual on Universal Credit in supported housing: 11 hours of work per week and an hourly wage of £7.59 (the weighted average minimum wages, based on information on the age distribution of under 25s on Universal Credit).
[62] Both of these figures refer to the applicable amounts inclusive of the £5 earnings disregard.
[63] That is, we do not explicitly model the interaction between the Universal Credit and Housing Benefit tapering.

3.5.5 Policy Recommendation 5

Policy Recommendation 5 involves undertaking an affordability assessment in every instance where someone is sanctioned. The primary aim is to prevent unaffordable sanctions being applied to people facing financial hardship, which risks pushing these people into further financial difficulty and debt.

To estimate the costs of this policy, we focus on the administrative costs of running such an assessment, and in particular we consider the labour cost to DWP. We understand from Centrepoint that running the affordability assessment may require 1 to 2 hours of work from a DWP work coach (we assume 1.5 hours on average).[64] We combine this with an estimate of the average yearly salary for a DWP work coach,[65] which suggests that each affordability assessment would cost £21.49.

To quantify the costs and benefits, we focus on the under 25s whom we estimate to be on the 'low'-level sanctions. Therefore, we multiply the affordability assessment costs by the number of sanctions applied at the 'low' level in each year. This may involve the same people being assessed twice if they were sanctioned at a low level more than once.

The total cost across under 25s receiving a 'low'-level sanction in 2021 prices is estimated to be £6.5m over the ten-year period (an average of £0.7m per year). When discounted, the total cost over the ten years is £5.5m (an average of £0.6m per year).

In addition to the administrative costs of implementing the affordability assessments, the government's social security costs could be higher in the policy scenario than in the baseline scenario. This is because reducing the sanction amount for people who fail the affordability assessment would increase value of Universal Credit paid to these people. However, we do not consider it appropriate to capture cost savings generated from unaffordable sanctions imposed on vulnerable recipients. We therefore do not include these costs in our assessment.

3.5.6 Policy Recommendation 6

Centrepoint's final policy recommendation is to extend the Kickstart Scheme, which was introduced by the government in September 2020 with a budget of £2 billion, and which was due to end in December 2021. The scheme was targeted at getting under 25s on Universal Credit into work. As part of the scheme, employers could apply for funding to cover: 100% of the National Minimum Wage or National Living Wage (depending on the participant's age) for 25 hours per week for a total of six months; associated employer national insurance contributions; and minimum automatic pension contributions.[66] This scheme aimed to create 250,000 Kickstart roles.[67]

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[64] Based on Centrepoint's experience of providing financial advice sessions to its clients who are in the welfare system and receive social security.
[65] We use an estimated annual salary based of around £27,500. Source: Department for Work & Pensions 'Working for DWP Rewards and Benefits', https://dwpjobs-workcoach-microsite.co.uk/benefits. We divide this by the estimated annual hours of a work coach to give the average hourly rate. See Department for Work & Pensions, 'Frequently Asked Questions', https://dwpjobs-workcoach-microsite.co.uk/faq#:~:text=The%20full%20time%20working%20week,5%3A00%20pm%20on%20Saturday.
[66] UK Government (2020), 'Kickstart Scheme', 5 October. https://www.gov.uk/government/collections/kickstart-scheme, accessed 13 October 2021.
[67] House of Commons Library (2021), 'Coronavirus: Getting people back into work', 12 August, https://commonslibrary.parliament.uk/research-briefings/cbp-8965/

Recently the UK government has announced an extension to this scheme to March 2022.[68] Employers will need to have applied for the Kickstart scheme grant, or add jobs to an existing grant, by 17 December 2021. However, the start dates of the jobs can be spread until 31 March 2022.[69]

To calculate the costs associated with Centrepoint's proposed extension of the scheme to December 2022, we focus on calculating the jobs created above the initial 250,000 target. As of September 2021, 76,900 young people had started Kickstart jobs, significantly lower than the target.[70]

We assume the average take-up rate of 15,600 per month continues throughout the extension period.[71] Based on this, the original 250,000 jobs, which we estimate to be budgeted for within the government's original £2bn budget, would not be reached until September 2022. Therefore, we consider that all jobs created up to this point are covered by the existing budget.

By the end of 2022, we estimate that 310,900 Kickstart roles will have been taken up, roughly 60,900 above the budgeted 250,000. We calculate the costs associated with additional jobs in the extension period that we assume are beyond the original £2bn budget. The cost of these additional jobs, assuming that a participant stays in the role for six months, is equal to their total wages plus a grant to the business and a gateway company, which supports the business to create the job. The gateway and business grants are £300 and £1,500 respectively per job. Additionally, the total wages for a participant on minimum wage would be £4,930.87 on average. Thus, we estimate the cost per job as the sum of these three costs, totalling £6,730.87 per job.

In total, we expect that the 60,900 jobs that could be filled as a result of the extension to cost around £410m in 2021 prices. When discounted, we estimate the total cost of these jobs to be £390m. These costs are incurred between September 2022 and May 2023.

Our estimated costs for Policy Recommendation 6 do not include the additional administrative costs that would be required to continue operating the Kickstart Scheme throughout 2022–23. We have not used the implied administrative costs from the original £2bn budget to estimate administrative costs since this may include a large volume of fixed costs associated with designing and implementing the scheme. We estimate that these costs would need to be significant to outweigh the expected benefits from the policy recommendation.

3.5.7 Summary of the costs by policy recommendation

In Table 3.3 below, we set out the total costs of each policy, summarising the discussion above.

[68] UK Government (2020), '£500 million Plan for Jobs Expansion', 4 October.
[69] Notably, the number of jobs made available by the Kickstart Scheme is significantly higher than the total number of jobs started. See UK Parliament (2021), 'Kickstart scheme: Question for Department of Work and Pensions', 21 September, https://questions-statements.parliament.uk/written-questions/detail/2021-09-21/52625, accessed 12 October 2021.
[70] UK Parliament (2021), 'Kickstart scheme: Question for Department of Work and Pensions', 21 September. https://questions-statements.parliament.uk/written-questions/detail/2021-09-21/52625, accessed 12 October 2021.
[71] Ibid.

Table 3.3 Total costs of the policy recommendations

Policy recommendation	Total costs: nominal	Total costs: 2021 (real) prices	Total costs: present value	Average annual present value cost
1	£3.4bn	£3.1bn	£2.6bn	£260m
2	£20.7m	£18.8m	£17.4m	£1.7m
3	£118.3m	£107.4m	£91.1m	£9.1m
4	£35.3m	£32.0m	£27.2m	£2.7m
5	£7.2m	£6.5m	£5.5m	£0.6m
6	£421.0m	£409.9m	£390.3m	£195.1m

Source: Oxera.

3.6 Policy recommendations: monetised benefits

3.6.1 Overview of monetised benefits

This section gives an overview of the approach used to quantify the benefits in monetary terms, where this has been possible. Table 3.4 indicates the benefits that we have been able to monetise for each policy recommendation, and these are discussed in more detail below.

Table 3.4 Monetisable benefits by policy recommendation

	Policy recommendation					
	1	2	3	4	5	6
Increased tax receipts			✓	✓		
Social security costs savings			✓	✓		✓
Mental health—avoided treatment costs	✓	✓	✓	✓	✓	✓
Mental health—improved quality of life	✓	✓			✓	
Mental and physical health—improved quality of life			✓	✓		✓
Avoided cost of crime	✓	✓	✓	✓	✓	
Productivity gains from alleviating debt		✓			✓	

Source: Oxera.

Our analysis considers only the direct impact of the policy recommendation on each category of benefit—for example, the impact of providing more money on mental health. In practice, there are likely to be secondary, indirect impacts of the policy recommendations. For example, improved mental health resulting from higher social security payments could in turn lead to greater employment prospects for these individuals.[72] This could significantly increase the scale of monetary benefits associated with these policy recommendations (for example, policy recommendations 3, 4 and 6 are expected to generate strong social security cost savings and tax receipts). However, owing to the complexity, and potential for double-counting, we do not quantitatively assess the indirect effects of the policy recommendations. Our estimates are therefore likely to be conservative in that respect.

[72] The relationship between mental health and employment is bi-directional. However, there is a clear link between mental health and employment status—those who are unemployed or economically inactive have higher rates of common mental health problems than those who are employed. See McManus, S., Bebbington, P., Jenkins, R. and Brugha, T. (eds) (2016), 'Mental health and wellbeing in England: Adult Psychiatric Morbidity Survey 2014'. Available at: https://digital.nhs.uk/data-and-information/publications/statistical/adult-psychiatric-morbidity-survey/adult-psychiatric-morbidity-survey-survey-of-mental-health-and-wellbeing-england-2014 (accessed 15/10/2021).

Increased tax receipts and savings in social security

The first category of benefits we consider are the increased tax receipts and savings in social security costs. Policy Recommendations 3, 4 and 6 are targeting improved employment rates among recipients: Policy Recommendations 3 and 4 through strengthening recipients' incentives to take on work, and 6 by boosting the demand side of the labour market. Moving individuals into work can generate two key benefits to the Treasury.

First, it can help generate social security cost savings. As Universal Credit recipients start working, their welfare payments decrease (taper off). Therefore, moving individuals into work will provide short-term savings in terms of lower social security payments. As these individuals progress in their careers and earnings increase, their welfare payments will continue to reduce. In the longer term, some individuals' earnings might be sufficiently high that their Universal Credit has been fully tapered and they exit the welfare system, in terms of unemployment-related welfare.

Second, this can generate higher tax receipts. If individuals who are encouraged into work earn income above the tax threshold levels, they will start to contribute tax revenues.[73] For some this may be immediate, while for others they may start to pay tax over time (e.g. as they get more experience and earnings increase).

Mental and physical health

Next, we consider covers the benefits associated with improved mental and physical health. All policy recommendations are expected to contribute to improvements in physical and mental health.

In particular, Policy Recommendations 1, 2 and 5 increase the amount of money in recipients' pockets through higher welfare payments, which is likely to contribute to better mental health. A recent survey of young people receiving Universal Credit and/or other welfare benefits conducted by Centrepoint found that just under 80% of respondents felt stressed or worried about money while receiving benefits (40% said this happened all the time), and 75% said a lack of money negatively affected their mental health while receiving benefits.[74] Moreover, Centrepoint found that mental health issues were reported in 54% of homeless young people.[75] This is significantly higher than the 18.9% of the general population who suffer with common mental health disorders.[76]

The relationship between financial resources and mental health is complex. In particular, there are bi-directional effects between income and mental health—poor mental health can potentially be a cause of low income, while low income levels can contribute to poor mental health. Public Health England (PHE) finds that poverty can be both a causal factor and a consequence of poor mental

[73] In particular, national insurance contributions are made when earnings exceed the threshold amount of £9,564 and income tax contributions are made when earnings exceed the threshold amount of £12,570. See HM Revenue & Customs (2021), 'Rates and allowances: National Insurance contributions', 6 April, https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions/rates-and-allowances-national-insurance-contributions, UK Government (2021), 'Income Tax Rates and Personal Allowances', https://www.gov.uk/income-tax-rates, both accessed 14 October 2021.
[74] Centrepoint (2021), 'Benefits to Society: Homeless Young Peoples' Experience of the Social Security System—London', October (forthcoming).
[75] Centrepoint (2021), 'The mental health needs of homeless young people', p. 4, https://centrepoint.org.uk/media/4650/prevalence-of-mental-health-need-report.pdf, accessed 14 October 2021.
[76] McManus et al. (2016), op. cit.

health.[77] It highlights that in the UK, both men and women in the poorest fifth of the population are twice as likely to be at risk of developing mental health problems as those on an average income.[78] MIND has identified a number of reasons why money problems can affect mental health including anxiety and panic from situations such as attending benefits assessments, losing sleep due to worrying about money, and being unable to afford necessities and engage in social life (leading to loneliness).[79]

There is a range of academic literature considering the link between welfare payments and mental health. There is evidence of socioeconomic gradient in mental health—for example, people of a lower socioeconomic status are more vulnerable to developing and experiencing mental health problems.[80] There is some evidence that contractionary welfare measures can have a negative impact on mental health. For example, Reeves et al. (2016) find that following cuts to the Local Housing Allowance in the UK, the prevalence of depression rose by around 10%.[81] This impact was more pronounced in more expensive 'high-impact areas' such as inner London.[82] Similarly, Reeves et al. (2020) find that the prevalence or anxiety among those at risk of being affected by the lowering of the benefit cap was 2.8 percentage points higher than those at a low risk of being capped.[83] There is also evidence on the link between expansionary welfare policies and mental health. For example, Evans and Garthwaite (2014) analysed the impact of a change to the Earned Income Tax Credit which led to families with two children or more receiving substantially more in payments compared to families with one child. The paper estimates this led to a 7.5% reduction in the number of bad mental health days experienced by women with two or more children relative to women with one child.[84]

Policy Recommendations 3, 4 and 6 improve employment prospects for unemployed claimants. Helping individuals into employment is expected to have positive impacts in terms of mental and physical health, driven by both monetary and non-monetary factors. Burton and Waddell (2006) highlight numerous physical and mental health benefits associated with work. For example, work meets important psychological needs in societies where work is the norm; work is central to people's identity; and employment is generally the most important means of obtaining adequate economic resources, which are

[77] Public Health England (2019), 'Mental health and wellbeing: JSNA toolkit', 25 October, https://www.gov.uk/government/publications/better-mental-health-jsna-toolkit/2-understanding-place, accessed 28 September 2021.
[78] Ibid.
[79] MIND (2021), 'Money and mental health', p. 3, https://www.mind.org.uk/media/9054/money-and-mental-health-2021-pdf-version.pdf, accessed 14 October 2021.
[80] For example, see World Health Organisation and Calouste Gulbenkian Foundation (2014), 'Social Determinants of Mental Health'. Available at: https://apps.who.int/iris/bitstream/handle/10665/112828/9789241506809_eng.pdf (accessed 15/10/2021).; Marmot, M., Allen, J., Goldblatt, P., Boyce, T., McNeish, D., Grady, M. and Geddes, I. (2010), 'Fair society, healthy lives: Strategic review of health inequalities in England post 2010'. Available at: https://www.instituteofhealthequity.org/resources-reports/fair-society-healthy-lives-the-marmot-review (accessed 15/10/2021).
[81] Reeves, A., Clair, A., McKee, M. and Stuckler, D. (2016), 'Reductions in the United Kingdom's Government Housing Benefit and Symptoms of Depression in Low-Income Households', *American Journal of Epidemiology*, **18**:6, pp. 421–429.
[82] Ibid.
[83] Reeves, A., Fransham, M., Stewart, K. and Patrick, R. (2020), 'Did the introduction of the benefit cap in Britain harm mental health? A natural experiment approach', November, *CASEpapers discussion paper series*.
[84] Evans, W. and Garthwaite, C. (2014), 'Giving Mom a Break: The Impact of Higher EITC Payments on Maternal Health', *American Economic Journal: Economic Policy*, **6**:2, pp. 258–290.

essential for wellbeing and participation in society.[85] Moreover, Burton and Waddell (2006) highlight a range of evidence linking unemployment and poor physical health outcomes in terms of general health and mortality rates, and find evidence that being without a job can negatively affect psychological health.[86] As discussed in more detail below, PHE has published a tool to quantitatively estimate the physical and mental health benefits associated with employment.[87]

Avoided costs of crime

All policy recommendations, whether they directly increase the amount of money in people's pockets through higher welfare payments or indirectly through encouraging employment, may be expected to lead to reduced crime rates. In particular, certain types of crime that may be used to subsidise income (referred to as 'acquisitive crime', including theft and burglary) may be more likely to be reduced by increasing the income and/or employment prospects of benefit recipients.

A range of literature has considered the link between income, welfare support and crime rates. For example, d'Este and Harvey (2020) find that the introduction of Universal Credit has led to a 1.4% increase in acquisitive crimes.[88] They find evidence that the worsening of poorer recipients' financial conditions is likely to be behind Universal Credit's criminogenic impacts. Machin and Marie (2006) find a link between more stringent welfare schemes and crime through an analysis of the impact of the introduction of the JSA.[89] They find that areas most affected by JSA experience a larger increase in crime.

Hansen and Machin (2002) exploit the introduction of the minimum wage to the UK labour market in 1999 to assess the relationship between income and crime.[90] They find a statistically significant link between changes in crime and the extent of low pay in a given area before the minimum wage was introduced. This supports the notion that altering wage incentives can affect crime and that there is a link between crime and low wages. Moreover, Foley (2011) explores the impact of the timing of the Food Stamp Programme in the USA, and finds that crime rates increase over the course of monthly welfare payment cycles.[91] This reflects increases in crimes that are likely to have direct financial motivation (such as burglary and motor vehicle theft).

Productivity gains from alleviating debt

Individuals facing financial difficulty, and in particular debt, can suffer from stress and mental health problems. There is evidence that debt and the

[85] Waddell, G. and Burton, K. (2006), *Is work good for your health and well-being?*, The Stationary Office, pp. 9–10.
[86] Ibid.
[87] Public Health England (2017), 'Movement Into Employment: Return on Investment Tool', October, https://www.gov.uk/government/publications/movement-into-employment-return-on-investment-tool, accessed 28 September 2021.
[88] d'Este, R. and Harvey, A. (2020), 'Universal Credit and Crime', 14 October, https://ssrn.com/abstract=3642502, accessed 21 September 2021.
[89] Machin, S. and Marie, O. (2006), 'Crime and benefit sanctions', *Portuguese Economic Journal*, **5**:2, pp.149–165.
[90] Hansen, K. and Machin, S. (2002), 'Spatial Crime Patterns and the Introduction of the UK Minimum Wage', *Oxford Bulletin of Economics & Statistics*, February, **64**:1, pp. 677–697.
[91] Foley, C.F. (2011), 'Welfare payments and crime', *The Review of Economics and Statistics*, **93**:1, pp. 97–112.

associated financial stress can have a negative impact on mental health.[92] For those at work, debt can have an impact on their productivity through absenteeism (being off work) and/or presenteeism (being at work but being unproductive). Alleviating debt could therefore be expected to have a positive impact on the productivity of employees by reducing financial stress and mental health problems. A 2018 study commissioned by the Money Advice Service finds that providing debt advice, which can help reduce financial stress and associated mental health problems, can increase productivity by lowering absenteeism and presenteeism among employees.[93]

In the following sections, we give an overview of our approach to monetising these benefits across the different policy recommendations.

3.6.2 Social security cost savings and increased tax receipts

Policy recommendations 3 and 4

Policy Recommendations 3 and 4 improve the incentives to work and are therefore expected to lead to an increase in the number of people in employment relative to the baseline. Increasing employment among Universal Credit recipients could generate two important sources of financial benefit:

- **social security cost savings**: in the short term, Universal Credit payments could be lower to those taking on work as a result of tapering; in the longer term, as individuals progress in their careers and earnings increase, their Universal Credit payments could continue to fall and they could potentially leave the welfare system (in terms of unemployment-related welfare);
- **increase tax receipts**: as recipients progress in their careers and increase their earnings, some will start to pay tax.

To quantify these benefits, we have estimated the impact on employment rates resulting from the improved incentives to take up work. To measure the improvement in work incentives facing those who are unemployed, we estimate the impact of each policy recommendation on the marginal effective tax rate (METR).[94] We find that both Policy Recommendations 3 and 4 would reduce the METR for these individuals, meaning that they would take home a higher income for a given amount of work relative to the baseline.

We combine this with the results from an OECD study that finds a positive relationship between changes in the METR and the level of unemployment.[95] Using the OECD-estimated impact of a change in METR on employment rates, we find that Policy Recommendation 3 would incentivise 18% of those who are currently unemployed to take up work, while Policy Recommendation 4 would incentivise 5% of those who are currently unemployed to take up work.

We assume that, in the short run, all recipients encouraged into work take on a part-time role. However, in the longer term, a proportion of these individuals are assumed to take up full-time work. This is informed by OECD data which

[92] For an overview, see Europe Economics (2018), 'The Economic Impact of Debt Advice – A Report for the Money Advice Service', January.
[93] Ibid.
[94] This is calculated by comparing the METR for an individual working 11 hours per week at the National Minimum Wage (the estimate average hours and earnings for an individual living in supported accommodation) with and without each policy recommendation in place.
[95] OECD (2005), 'Increasing Financial Incentives to Work: The Role of In-work Benefits', Chapter 3, *OECD Employment Outlook*, OECD, https://www.oecd.org/els/emp/36780865.pdf.

shows the different proportions of full- and part-time workers below and above the age of 25.[96] We assume that the share of individuals moving into full-time work increases in line with the difference in the proportion of full-time workers aged above and below 25.[97]

To estimate the employment levels in the baseline for those who move into work with the policy change, we make two main assumptions. First, in order to reflect the stronger work incentives created by the policy change, we assume that only a proportion of those who take on employment as a result of the policy change would have also taken up employment in the baseline. We assume this is 17%, which is based on data from Centrepoint on the share of its residents who are in employment.[98] Second, we assume that individuals take on work a year earlier with the policy recommendation relative to the baseline. This is informed by ONS data on the duration of unemployment across the UK population aged between 18 and 25, which suggests that this age group is typically unemployed for around a year.[99]

In addition to identifying how many people would move into work compared to the baseline, we need to estimate the impact on social security costs and tax receipts for those who become employed. We estimate that the average person in supported accommodation is earning around £83 per week. However, as individuals progress in their careers, and potentially move into full-time work, their wages will increase. We use data from the Annual Survey of Hours and Earnings (ASHE) to estimate the profile of earnings over time.[100] In particular, we use a comparator job to calculate the wage growth rate, for both part- and full-time work, and apply this to the £83 weekly wage.[101]

Having estimated the wage profile, we calculate the per-person social security costs and tax receipts in each year with the policy recommendations and in the baseline.[102] We then combine this with the relevant number of people in employment to estimate the total social security costs with the policy recommendation and in the baseline. The estimated impact is given by the difference in social security costs and tax receipts.

Policy Recommendation 6

Policy Recommendation 6 is also expected to lead to an increase in the number of individuals in employment. However, the mechanism is different as the increase in employment is driven mainly by the incentives of employers to

[96] OECD (2021), 'Employment: share of employed in part-time employment, by sex and age group', https://stats.oecd.org/index.aspx?queryid=54746, accessed 13 October 2021.
[97] More specifically, we estimate that the average claimant under 25 is 21 years old. We conservatively assume that all individuals who take up work remain in part-time work for four years. After four years (i.e. when the average worker is 25), we assume that a share of individuals move into full-time work and that this share is in proportion of full-time workers over the age of 25.
[98] We use data based on Centrepoint's residents since we are focused on the population of under 25s living in supported accommodation for these policy recommendations (source: Centrepoint (2021), 'Service User Data', August, unpublished).
[99] Office for National Statistics (2021), 'A01: Summary of labour market statistics', 14 September, https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/summaryoflabourmarketstatistics, accessed 28 September 2021.
[100] Office for National Statistics (2020), 'Earnings and hours worked, age group by occupation by two-digit SOC: ASHE Table 20', 22 December, https://www.ons.gov.uk/datasets/ashe-tables-20/editions/time-series/versions/2, accessed 28 September 2021.
[101] We consider the 'Elementary occupations' category to estimate the wage growth rate. This category was the most comparable occupation to estimate the wages of people in supported housing, with part-time workers between the ages of 18 and 21 in this category earning around £105 per week.
[102] We use the same wage profiles in the policy scenario and in the baseline.

offer jobs to claimants and the propensity of the scheme beneficiaries to stay in employment after the six-month period.

To quantify the benefits, we estimate the additional Kickstarter vacancies that would be filled between April 2022 (the month after the government's March 2022 extension date) and December 2022 (the end date of the extension recommended by Centrepoint). We assume that the actual rate of Kickstart vacancies being filled (around 15,600 per month) would continue until December 2022.[103] We assume that all vacancies would be filled for the entire six-month duration of each Kickstart role.

The propensity of the people on Kickstart to remain in employment after the end of their six-month scheme is estimated using data from the Centre for Economic and Social Inclusion. In 2011, the centre published a study evaluating the impact of a similar scheme that was introduced in 2009: the Future Jobs Fund.[104] The study finds a 43% job outcome rate (i.e. the proportion of programme leavers who secured employment) from the Future Jobs Fund.[105] However, the study does not specify whether the participants work in full- or part-time jobs. We take a conservative approach and consider that all jobs are part-time (11 hours per week) at the National Minimum Wage.[106]

The evaluation of the Future Jobs Fund does not provide information on the longer-term employment prospects. For individuals estimated to be in a job after the Kickstart scheme, we take the conservative approach of quantifying the benefits arising over only one year's worth of employment after finishing the Kickstart scheme. Therefore, the quantified benefits, in terms of welfare payment savings, occur between 2022 and 2024. In practice, there will be individuals who continue in employment for more than one year after the Kickstart scheme and, in the longer term, experience an increase in their earnings. This would further increase the benefits associated with this policy recommendation. However, given the uncertainty in terms of the Kickstart scheme's longer-term success, we do not quantify these benefits.

Table 3.5 below presents the total estimated benefits from the reduced welfare payments and the increased tax receipts under Policy Recommendations 3, 4 and 6.

[103] Between August and September 2021, 3,600 young people started on the scheme each week. See UK Parliament (2021), 'Kickstart scheme: Question for Department of Work and Pensions', 21 September. https://questions-statements.parliament.uk/written-questions/detail/2021-09-21/52625, accessed 12 October 2021.
[104] Centre for Economic and Social Inclusion (2011), 'Future Jobs Fund – An independent national evaluation', July.
[105] Ibid., p. 31.
[106] This is based on the estimated average earnings of individuals living in supported accommodation.

Table 3.5 Avoided social security costs and increased tax receipts

Policy Recommendation	Present value of social security cost savings (£m)	Present value of tax receipts (£m)	Present benefit to the Treasury (social security cost savings plus tax receipts, £m)
3	32	4	36
4	6	2	8
6	464	0	464

Note: For Policy Recommendations 3 and 4, we quantify the value from 2021 to 2030; for Policy Recommendation 6, we quantify the value from 2022 to 2024.The future values are discounted by the STPR of 3.5% to give the net present value. Figures may not sum due to rounding.

Source: Oxera analysis.

3.6.3 Improved mental and physical health

Treatment costs associated with poor mental health are avoided by all policy recommendations. However, benefits in terms of the improvement in quality of life differ between the policy recommendations that provide more money directly to recipients in terms of higher Universal Credit payments (Policy Recommendations 1, 2 and 5), and those that are focused on increasing employment (Policy Recommendations 3, 4 and 6). This is because the available data allows us to estimate improved quality of life from both the physical and mental health benefits of employment. However, when considering the recommendations that directly provide more money to recipients with no effect on employment, the data is limited to the effects of improved quality of life resulting only from mental health improvements.

Mental health—avoided treatment costs

Improving individuals' mental health can help avoid treatment costs that would have otherwise been incurred. This benefit accrues to the public sector in terms of lower public spending—for example, reduced GP and medication costs.

To estimate the benefits of improved mental health of young people, we need to estimate the likely reduction in the incidence of mental health problems across the relevant population as a result of implementing the policy recommendations. We conservatively assume that the proportion of relevant recipients (i.e. those covered by each policy recommendation) affected by mental health problems is in line with the general population. An estimated 18.9% of the population suffer from common mental health disorders.[107] However, this is likely to be an underestimate of the prevalence of mental health problems among the recipients we consider. As explained in more detail above, there is evidence to suggest a relationship between socioeconomic status and mental health. For example, in the UK, people in the poorest fifth of the population are twice as likely to be at risk of developing mental health problems as those on an average income.[108]

The expected reduction in quality of mental health depends on whether the mental health issues are primarily the result of a money-focused

[107] McManus et al. (2016), op. cit.
[108] Public Health England (2019), 'Mental health and wellbeing: JSNA toolkit', 25 October, https://www.gov.uk/government/publications/better-mental-health-jsna-toolkit/2-understanding-place accessed 28 September 2021.

recommendation (Policy Recommendations 1, 2 and 5) or the result of an employment-focused recommendation (Policy Recommendations 3, 4 and 6).[109]

For Policy Recommendations 3, 4 and 6, we use information from the PHE tool for estimating the benefits of moving an individual from unemployment into sustainable employment.[110] Section 3.6.2 provides a detailed description of our approach to estimating the share of recipients who would move into employment both in response to the policy recommendation and in the baseline. We then assume that 18.9% of individuals moving into employment recipients are affected by common mental health problems. In line with the PHE model, we consider the policy will improve the mental health of 46.6% of this group of individuals as a result of moving into work.

For Policy Recommendations 1, 2 and 5 (and those already in employment under Policy Recommendations 3 and 4), we again assume that 18.9% of the relevant recipients would be affected by common mental health problems. We then assess the effect of the policy by relying on academic literature on the effects of changes in the amount of benefits on mental health. In particular, Reeves et al. (2016) assess the impact of reforms to Housing Benefit on the prevalence of depressive symptoms.[111] The paper finds that the reduction in Housing Benefit (£1,220 on average) increased the prevalence of self-reported poor mental health by 1.8 percentage points—a 10% increase. We use the 10% increase as the basis for estimating the impact of each policy recommendation on the prevalence of mental health issues. In this way we assume that the scale of the impact resulting from an increase in benefits would be the same as an equivalent decrease. As the 10% increase estimated in this paper was based on a £1,220 reduction in benefits, we adjust the 10% impact in line with the scale of the monetary impact of Recommended Policies 1, 2 and 5.[112] We conservatively assume a maximum impact of 10% to avoid the risk of potentially overstating the scale of mental health improvements resulting from policy impacts with an annual effect of more than £1,220.[113]

To estimate the reduced treatment costs associated with improved mental health of young claimants, we use data from the PHE tool which estimates an annual weighted unit cost of £1,246 across depression and other common mental health disorders.[114] This includes costs due to medication, residential care, GP, psychiatric inpatient, system and services delivery, other NHS (non-inpatient), and non-psychiatric inpatient.

[109] For recipients already in employment in Policy Recommendations 3 and 4, we use the same approach as for Policy Recommendations 1, 2 and 5. These individuals already benefit from being in employment, so are not affected in the same way as those moving out of unemployment. However, they do see an increase in the amount of money they receive under each recommendation.
[110] Public Health England (2017), 'Movement Into Employment: Return on Investment Tool', October, https://www.gov.uk/government/publications/movement-into-employment-return-on-investment-tool, accessed 28 September 2021.
[111] Reeves et al. (2016), op. cit.
[112] In particular, we estimate a percentage impact per £1 by dividing the 10% by the £1,229 reduction in housing benefit. We then multiply the percentage impact per £1 by the scale of the monetary impact in each policy recommendation. We also calculate the effect from Policy Recommendations 3 and 4 for those already in work, based on the estimated increase in their income level.
[113] For example, if a policy change led to a £2,440 increase in the money paid to recipients (double that from Reeves et al., 2016, the impact on the prevalence of mental health issues is unlikely to twice as large (i.e. a 20% reduction).
[114] This weighted average cost is based on the annual unit cost of treating depression (£1,575) and anxiety (£632), where the cost of anxiety is applied to all conditions except depression and to mixed depression and anxiety. See Public Health England (2019), 'Mental health and wellbeing: JSNA toolkit', 25 October. We convert these 2016/17 prices to 2021 prices using CPI.

Combining the improvements in mental health with the treatment costs, we estimate the avoided treatment costs resulting from each policy recommendation. Table 3.6 presents the total estimated present value of avoided treatment costs for each policy recommendation.

Table 3.6 Avoided mental health treatment costs

	Present value of avoided treatment costs (£m)
Policy Recommendation 1	53
Policy Recommendation 2	0.3
Policy Recommendation 3	5
Policy Recommendation 4	1
Policy Recommendation 5	0.3
Policy Recommendation 6	14

Note: For Policy Recommendations 1–5, we quantify the value from 2021 to 2030; for Policy Recommendation 6, we quantify the value from 2022 to 2024. The future values are discounted by the STPR of 3.5% to give the net present value.

Source: Oxera analysis.

Mental health—improved quality of life

Improved mental health can also lead to an improvement in quality of life for the affected individuals. We quantify these benefits for Policy Recommendations 1, 2 and 5 (and those already in employment under Policy Recommendations 3 and 4).

Utility scores can be used to measure the quality of life of an individual for different health states.[115] Kolovos et al. (2017) find that the utility score is 0.62 for minor depression, 0.57 for mild depression, and 0.52 for moderate depression.[116] We use the average utility score across these three health states (0.57) as the utility score associated with poor mental health.[117] For someone in remission, Kolovos et al. (2017) find a utility score of 0.70.[118] We estimate that the increase in utility from alleviating mental health problems is 0.13.

To proxy the value of a day in perfect health, we use the value of a QALY. We use the recommended QALY value from the Green Book of £60,000.[119] We then calculate the value of a day in perfect health by dividing this value by 365 days. Combining the value of a day in perfect health with the estimated health improvement allows us to estimate the value of alleviating mental health issues

[115] The utility scores used are based on the EuroQol-5 Dimension (EQ-5D) tariff, which measures quality of life in terms of mobility, ability to self-care, ability to carry out usual activities, pain/discomfort and anxiety/depression. The Green Book notes that the most widely used measure of quality of life in the UK is the EQ-5D. See HM Treasury (2020), 'The Green Book: Central government Guidance on Appraisal and Evaluation', p. 86.

[116] Kolovos, S., Bosmans, J., van Dongen, J., van Esveld, B., Magai, D., van Straten, A., van der Feltz-Cornelis, C., van Steenbergen-Weijenburg, K., Huijbregts, K., van Marwijk, H., Riper, H. and van Tulder, M. (2017), 'Utility scores for different health states related to depression: individual participant data analysis', *Quality of Life Research*, **26**:10, pp. 1649–1658.

[117] Using changes in utility based on alleviating depression could potentially overstate the improvement for those with other common mental health disorders. To mitigate this risk, we have considered several different health states associated with depressive symptoms (including minor depression) and have excluded the utility score associated with severe depression (0.32) from our calculation.

[118] Kolovos et al (2017), op. cit.

[119] HM Treasury (2020), 'The Green Book: Central government Guidance on Appraisal and Evaluation', p. 87.

(assuming a linear relationship between health utility and monetary value). We estimate that the value of a day in remission is £21.37.[120]

To estimate the improvement in the number of days with symptoms, we use a paper by Evans and Garthwaite (2014), which explores the impact of changes to tax credit payments to low-income families in the USA.[121] The paper finds that the average number of 'bad mental health days' in the past month among low-income mothers is 4.52 days (54.2 days per year). The same paper finds that a $200 increase in the Earned Income Tax Credit is associated with a 7.5% reduction in the number of bad mental health days. As with the avoided treatment costs, we scale this proportion in line with the change in the monetary amount for each policy recommendation, and conservatively cap the effect at 7.5%.[122]

We combine the impact of the number of bad mental health days with the value of each day in remission to estimate the total benefit from improved quality of life. Table 3.7 below presents the total estimated present value of these benefits for each policy recommendation.

Table 3.7 Improvement in quality of life from improved mental health

	Present value of improved quality of life (£m)
Policy Recommendation 1	4
Policy Recommendation 2	>0.1
Policy Recommendation 3	>0.1
Policy Recommendation 4	>0.1
Policy Recommendation 5	>0.1
Policy Recommendation 6	n.a..

Note: For Policy Recommendations 1–5, we quantify the value from 2021 to 2030. The values for Policy Recommendations 3 and 4 only capture the benefits across those already in employment. The future values are discounted by the health rate of 1.5%, in line with the Green Book guidance on discounting QALYs.

Source: Oxera analysis.

While these values are relatively small compared to the avoided treatment costs and health improvements from employment (see below), we note that we have been conservative in the estimated reduction in the number of poor mental health days. In particular, if we did not cap the effect at 7.5%, the impact could be significantly higher due to the policy recommendations providing individuals with more money than considered in Evans and Garthwaite (2014).

Physical and mental health—improved quality of life

Policy Recommendations 3, 4 and 6 increase the incentives to take up work for those who are unemployed. We estimate that this will encourage a share of unemployed individuals into work (see section 3.6.2 for more detail on how we estimate the number of recipients moving into employment in response to each of these policy recommendations), and in turn lead to improvements in physical and mental health.

[120] This is equal to the utility score improvement, multiplied by the estimated daily value of a QALY.
[121] Evans, W. and Garthwaite, C. (2014), op. cit.
[122] Since the monetary impacts for Policy Recommendations 1–4 are larger than the average $200 impact considered in the paper, we conservatively estimate the same reduction in poor mental health days (7.5%) across these policies; in practice, this impact would likely be larger for these policies.

To quantify the physical and mental health benefits of employment, we focus on the number of people who are in employment each year as a result of the policy recommendation, compared to the baseline. As discussed in more detail in section 3.6.2, we assume that in the baseline only a proportion of these individuals would have found employment without the policy change, and that this would be at a later date. In the years where an individual is predicted to be in employment both in the baseline and with the policy recommendation, no physical or mental health benefits are generated by the policy.

To estimate this benefit, we use information from the PHE tool which quantifies the impact of returning to employment.[123] The model estimates that employment results in an improvement in mental and physical health, measured by an increase in the SF-36 score of around 0.07.[124] Multiplying this by the QALY value gives an estimated gain of £4,050 per person in employment per year. To generate the total benefit in terms of QALY gains, we multiply the value of QALY gains per person by the additional number in people in employment in each year as a result of the implementation of the policy recommendation. Table 3.8 below presents the total estimated present value of the QALY gains across individuals moving from unemployment to employment.

Table 3.8 Improvement in quality of life from improved physical and mental health

	Present value of improved quality of life (£m)
Policy Recommendation 1	n.a.
Policy Recommendation 2	n.a.
Policy Recommendation 3	136
Policy Recommendation 4	40
Policy Recommendation 5	n.a.
Policy Recommendation 6	516

Note: For Policy Recommendations 3 and 4, we quantify the value from 2021 to 2030; for Policy Recommendation 6, we quantify the value from 2022 to 2024. The future values are discounted by the health rate of 1.5%, in line with the Green Book guidance on discounting QALYs.

Source: Oxera analysis.

3.6.4 Avoided cost of crime

The impact of the policy recommendations on the costs of crime is calculated by determining the extent to which increases in claimants' income reduce their propensity to commit crimes. We estimate the avoided cost of crime for Policy Recommendations 1–5.[125]

Given that we are primarily interested in crimes that result from individuals being on low incomes, we focus on acquisitive crimes. This includes domestic burglary, theft of vehicle, theft from vehicle, and theft from person. This assumption is fairly conservative as there could be a positive impact of the policies on non-acquisitive crimes. For example, increasing employment amongst recipients could potentially lead to reductions in other types of crime,

[123] Public Health England (2017), 'Movement Into Employment: Return on Investment Tool', October.
[124] The PHE tool uses changes to SF-36 scores following reemployment. SF-36 is a 36-item questionnaire which measures quality of life across eight physically and emotionally based domains. The improvements in terms of physical and mental health are: physical functioning, role physical, bodily pain, general health, vitality, social functioning, role emotion, and mental health.
[125] We do not estimate the avoided costs of crime for Policy Recommendation 6 owing to the complexity of the evolving volume of affected recipients and the temporary nature of the Kickstart scheme.

such as anti-social behaviour. The costs from these types of crime that could be avoided as a result of the policy recommendations are not captured by our analysis.

To assess the impact of the policy recommendations on crime, we undertake three main steps.

First, we estimate the number of crimes avoided as a result of the policy recommendation. Data from the Ministry of Justice (MoJ), DWP and HMRC from 2012 considers the links between offending, employment and benefits.[126] This data shows that, across the benefits that are relevant to Universal Credit,[127] the proportion of claimants who are offenders is 20%. The Home Office also shows that acquisitive crimes account for an estimated 15% of total crimes.[128] The combination of the three components (number of people affected by the policy, proportion of offenders, and proportion of acquisitive crimes) allows us to estimate the number of acquisitive offenses in each year in the baseline.[129]

Second, we estimate the impact of the policy recommendation on crime rates. A study by d'Este and Harvey (2020) finds that the rollout of Universal Credit has led to an estimated increase in acquisitive crimes of 1.4%.[130] As with the mental health effects, we adjust this impact to reflect the different monetary impacts of each policy recommendation.[131] Brewer et al. (2019) estimate that those with incomes in the bottom 10% of the population lose the most from Universal Credit compared to the legacy benefits, equivalent to £150 per year per adult.[132] Combining the results from d'Este and Harvey (2020) and Brewer et al. (2019), we estimate that crime rates would decline by 0.009% for each extra £1 a claimant receives.[133] Multiplying this by the total monetary impact for each policy recommendation gives the predicted reduction in crime resulting from each policy change.

Finally, we assess the long-term effect of the crime reduction on future years considering the probability of re-offending.[134] Data from the MoJ shows that around 26% of offenders re-offend within one year, and around 56% re-offend

[126] Ministry of Justice and Department for Work & Pensions (2011), 'Offending, employment and benefits – emerging findings from the data linkage project', 24 November.
[127] Of the benefits included in the study, we focus on Jobseekers Allowance, Income Support, Incapacity Benefit, Disability Living Allowance, and Employment and Support Allowance.
[128] Heekes, M., Reed, S., Tafsiri, M. and Prince, S. (2018), 'The economic and social costs of crime: Second edition, July. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/732110/the-economic-and-social-costs-of-crime-horr99.pdf (accessed 15/10/2021).
[129] We make the conservative assumption that each offender commits an average of one crime per year.
[130] d'Este, R. and Harvey, A. (2020), op. cit. The acquisitive crimes considered in d'Este and Harvey (2020) include burglary, vehicle theft, bicycle theft, other theft, shoplifting, and theft from persons.
[131] In contrast to the mental and physical health calculations in section 3.6.2, we do not cap the maximum estimated impact in line with the paper. Since we are focusing on income-driven, acquisitive crimes, the impact is likely to scale with the increase in income. In contrast, the relationship between income and mental health is significantly more complex, which is why we adopt a conservative approach for these benefits.
[132] Brewer, M., Joyce, R., Waters, T. and Woods, J. (2019), 'Universal credit and its impact on household incomes: the long and the short of it', 24 April. Available at: https://ifs.org.uk/publications/14083 (accessed 15/10/2021).
[133] This is given by dividing the 1.4% reduction in crime by the £150 reduction in income for adults moving to Universal Credit from the legacy benefits.
[134] For individuals who gain employment as a result of Policy Recommendations 3 and 4 (see section 3.6.2 for more detail), we conservatively assume that there is no probability of re-offending. This is because, in the baseline, a proportion of these individuals are assumed to find a job. However, in the baseline, there will be some individuals who remain unemployed and may therefore be more likely to commit crimes in the future. Moreover, the income received with the policy recommendations in place will be greater than in the baseline, again reducing the probability of committing future crimes.

within nine years.[135] We use these figures to estimate the share of individuals who commit their 'first' crime in the period of our analysis (2021–30) and who would go on to re-offend in the subsequent years. Given the degree of uncertainty, we conservatively assume that individuals who re-offend would commit only one further crime. In practice, the MoJ found that 'offenders continue to commit substantial number of reoffences after the first year, although the number of re-offences per year does decline over time.'[136] Therefore, our estimated impact in terms of reoffending is likely to understate the benefits generated by the policy recommendations.

The benefits are measured by the avoided costs associated with crime. The Home Office provides data on the unit cost of different types of crime.[137] This captures the anticipation costs of crime (e.g. burglar alarms), the consequence costs of crime (e.g. the cost of stolen property and the physical and mental impact on victims), and response costs to crime (e.g. costs to the police and the criminal justice system). The data indicates that the weighted average unit cost (i.e. cost per offence) of acquisitive crime is £3,314.[138]

To calculate the avoided cost of first offences, we multiply the unit cost of crime by the estimated number of crimes that are avoided due to the policy recommendation. To reflect the cost of reoffending in subsequent years, we use a probability-weighted unit cost of crime. This is calculated as the unit cost of crime multiplied by the incremental probability of re-offences being committed in a given year. This is then multiplied by the total number of estimated crimes that are avoided as a result of the policy recommendation.

Table 3.9 presents the total estimated present value of the avoided crime costs for the policy recommendations for which we have quantified this benefit.

Table 3.9 Avoided costs of crime

	Present value of avoided crime costs (£m)
Policy Recommendation 1	24
Policy Recommendation 2	0.2
Policy Recommendation 3	0.4
Policy Recommendation 4	>0.1
Policy Recommendation 5	0.2
Policy Recommendation 6	n.a.

Note: For Policy Recommendations 1–5, we quantify the value from 2021 to 2030. We do not quantify this benefit for Policy Recommendation 6. The future values are discounted by the STPR of 3.5% to give the net present value.

3.6.5 Productivity gains from alleviating debt

Policy Recommendations 2 and 5 seek to address situations where individuals in vulnerable positions facing severe financial hardship can avoid issues created by taking on debt. In particular, taking on debt is associated with financial stress, which can have knock-on effects on people's productivity at work. Policy Recommendation 2 could help mitigate debt issues and the

[135] Ministry of Justice (2012), '2012 Compendium of re-offending statistics and analysis', July.
[136] Ibid., p. 38.
[137] Heekes et al. (2018), op. cit.
[138] We include the following crimes: domestic burglary, theft of a vehicle, theft from a vehicle, theft from a person. This seeks to focus on the crimes most aligned with the definition of acquisitive crimes in d'Este and Harvey (2020), op. cit.

associated financial stress by removing the repayable element of the advance loan for those in financial difficulty. Similarly for Policy Recommendation 5, conducting affordability assessments and adjusting sanctions could help avoid debt and the associated stress.

A 2018 report found that providing debt advice leads to productivity gains and helps reduce financial stress among employed UK individuals.[139] We use the productivity gains from providing debt advice to proxy the effects of Policy Recommendations 2 and 5 on alleviating debt issues, which could be expected to have an impact on productivity that is similar to (or potentially stronger than) providing debt advice.

The study finds that the productivity gains following debt advice are due to avoiding absenteeism and presenteeism problems at work. It estimates the avoided costs as £564 per full-time employee per year.[140] However, this estimate is likely to overstate the productivity gains across Universal Credit claimants as they work fewer hours than the average worker.[141] Therefore, we adjust the study's estimate to focus on part-time workers, giving £259 per part-time employee per year.[142]

Multiplying the estimated productivity gains by the estimated number of employed recipients affected by each policy provides an estimate of the total productivity gains from alleviating debt and the associated financial stress.[143] Table 3.10 below presents the total estimated present value of the productivity gains.

Table 3.10 Productivity gains from debt advice

	Present value of productivity gains (£m)
Policy Recommendation 1	n.a.
Policy Recommendation 2	6
Policy Recommendation 3	n.a.
Policy Recommendation 4	n.a.
Policy Recommendation 5	23
Policy Recommendation 6	n.a.

Note: We quantify the value from 2021to 2030. The future values are discounted by the STPR of 3.5% to give the net present value.

While we focused the quantification of productivity gains on Policy Recommendations 2 and 5 given the primary objectives of these policies, the other policy recommendations may also generate similar benefits. For example, Policy Recommendations 1, 3 and 4 could alleviate financial stress and generate productivity gains by increasing the total income of those in employment, lowering the probability that they take out debt and experience associated issues, such as stress.

[139] Europe Economics (2018), 'The Economic Impact of Debt Advice – A Report for the Money Advice Service', January.
[140] Ibid., 42.
[141] We estimate that, on average, under 25s on Universal Credit work an average of 11 hours per week.
[142] The study identifies that the number of days lost to presenteeism is 54% lower for part-time workers (Europe Economics, 2018, op. cit.). We assume that the avoided cost for the population we consider is 54% lower.
[143] We assume this is in line with the average share of 16–24 year olds on Universal Credit in employment between January 2021 and June 2021, which was around 35%.

3.7 Policy recommendations: monetised net benefits

This section sets out the monetary value of the net benefits for each policy recommendation, using two metrics:

- **NPSV**: this provides an indication of whether the net effect of the (quantified) costs and benefits is positive. If positive, the (monetised) benefits outweigh the (monetised) costs.
- **BCR**: this provides a measure of the benefits relative to the costs. If the BCR is below 1, the (monetised) costs outweigh the (monetised) benefits, while a BCR above 1 indicates that the benefits outweigh the costs (at a BCR of 1, the costs and benefits are equal).

Table 3.11 summarises the key findings from the CBA. Based on these results, we find that **four of the six policy recommendations deliver a net positive impact when focusing on the monetised benefits**.

Table 3.11 Net impact of the policy recommendations

Policy Recommendation	Total costs (£m)	Total benefits (£m)	NPSV (£m)	BCR
1	2,595	81	-2,514	0.03
2	17	6	-11	0.35
3	91	177	86	1.94
4	27	50	22	1.83
5	6	24	18	4.29
6	390	995	605	2.55

Note: For Policy Recommendations 1–5, we quantify the value from 2021 to 2030; for Policy Recommendation 6, we quantify the value from 2022 to 2024.

3.8 Additional benefits not quantified

In addition to the benefits set out above, there are some benefits that we have not been able to quantify because: they are intangible, there is a risk of double-counting with the quantified benefits set out above, and/or there is not sufficient data. We note that to the extent that the policy recommendations generate any of the benefits set out below, the NPSV and BCRs would be higher than those set out above. We consider that the following benefits would also be accrued across the policy recommendations.

Reduce hunger and foodbank reliance

Hunger and food poverty in the UK are typically driven by people not having enough money to pay for the essentials. Food poverty can manifest itself in terms of skipping meals and going hungry, eating low-quality foods and using food banks. A recent survey, conducted by Centrepoint, of young people receiving Universal Credit and/or other welfare benefits found that 66% of respondents reported going to bed hungry due to a lack of money, with 32% saying this happened all the time, and that more than half (52%) reported having to use a food bank or emergency food support.[144] Moreover, the Trussell Trust finds that 12 months after the rollout of Universal Credit,

[144] Centrepoint (2021), 'Benefits to Society: Homeless Young Peoples' Experience of the Social Security System—London', October (forthcoming).

foodbanks saw a 52% increase in demand compared to 13% in areas with Universal Credit for three months or less.[145]

All policy recommendations will increase the amount of money received by recipients, either directly or indirectly. This increase in income could help alleviate, either partially or fully, hunger, food poverty and foodbank reliance for these recipients. This would lead to improvements in physical health, in terms of reduced risk of diet-related health conditions, and in mental health, for example by reducing the stress associated with food insecurity.[146]

Reduce drug and alcohol abuse

As with many other benefits identified, the link between substance abuse and financial hardship and unemployment is complex. In particular, there can be bi-directional effects, with poverty and unemployment contributing to problem drug and alcohol use, and vice versa. While deprivation does not necessarily cause substance abuse, it can weaken the protective factors and strengthen risk factors, which affect the probability of misusing.[147] Important determinants that influence the probability of misuse include low material and social resource, prolonged experiences of homelessness or poverty, and poor mental health.[148]

Therefore, the policy recommendations could help reduce the probability of problem substance abuse among recipients by increasing financial resource. This could generate a number of benefits, including, for example, avoiding the treatment costs associated with substance abuse, improving health outcomes and the quality of life, and increasing the probability of finding employment.

Improve life expectancy

As noted above, reducing hunger, food poverty and problem substance abuse will improve the health and life quality of individuals. More generally, by improving the financial resources received by recipients and their employment prospects, the policy recommendations could improve the life expectancy of affected individuals. For example, ONS data comparing life expectancy across deprivation deciles finds that the gap in life expectancy at birth between the least and most deprived areas is around eight years.[149]

Reduce debt issues

While we focused the quantification of productivity gains from alleviating debt on Policy Recommendations 2 and 5 given the primary objectives of these policies, the other policy recommendations may also generate similar benefits. For example, Policy Recommendations 1, 3 and 4 could alleviate financial

[145] The Trussell Trust (2018), 'The next stage of Universal Credit: moving onto the new benefit system and foodbank use', https://www.trusselltrust.org/wp-content/uploads/sites/2/2018/10/The-next-stage-of-Universal-Credit-Report-Final.pdf, accessed 14 October 2021.
[146] The Association of UK Dieticians (2020), 'Policy Statement: Food Poverty', March, https://www.bda.uk.com/resource/food-poverty.html, accessed 14 October 2021.
[147] Scottish Drugs Forum (2007), 'Drugs and poverty: A literature review', March, https://www.sdf.org.uk/wp-content/uploads/2017/03/Drugs__Poverty_Literature_Review_2007.pdf, accessed 15 October 2021.
[148] Advisory Council on the Misuse of Drugs (2018), 'What are the risk factors that make people susceptible to substance use problems and harm?', 4 December, p. 17, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/761123/Vulnerability_and_Drug_Use_Report_04_Dec_.pdf, accessed 15 October 2021.
[149] The gap in healthy life expectancy (i.e. the average life in good health) is even wider at around 19 years. See ONS (2019), 'Health state life expectancies by national deprivation deciles, England and Wales: 2015 to 2017', 27 March, https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthinequalities/bulletins/healthstatelifeexpectanciesbyindexofmultipledeprivationimd/2015to2017, accessed 15 October 2021.

stress and generate productivity gains by increasing the total income of those in employment, lowering the probability that they take out debt and experience associated issues, such as stress.

Long-term benefits from the Kickstart Scheme

For Policy Recommendations 3 and 4, we quantified the expected longer-term benefits of being in employment in terms of increased wages and potentially moving into full-time work. Given the uncertainty of the efficacy of the Kickstart Scheme in terms of long-term employment outcomes, we restricted the quantification of benefits for the relevant recipients to a window of one year after finishing the Kickstart Scheme. However, for recipients who transfer into work after completion of the scheme, the benefits could accrue over a longer time horizon, through the same sources as Policy Recommendations 3 and 4 (i.e. improved quality of life and benefits to the Treasury).

Moreover, even for recipients who do not immediately secure work following the completion of the Kickstart role, their future employment prospects are likely to be improved as a result of their participation in the scheme. The Kickstart Scheme may allow individuals to develop new skills and build experience in work, and may also help to fill CV gaps, which could in turn increase the probability of being successful in gaining a future role. Therefore, the benefits are likely to accrue beyond time in the Kickstart role.

Societal benefits from reducing inequality

Increasing the income provided to those on low incomes and improving their employment prospects could help reduce inequality in the UK. There is evidence to suggest that social cohesion, including levels of trust, are lower in more unequal societies. Reducing inequality could, therefore, help improve a range of outcomes benefit society. For example, reducing inequality could lead to reduced violent and property crime.[150] Moreover, reducing well-being could help improve societal-level wellbeing. For example, Hajdu and Hajdu (2013), finds that people are affected by income inequality and that reducing income inequality has a positive effect on wellbeing.[151]

Productivity benefits from filling unfilled vacancies

Recommended Policies 3 and 4 strengthen the incentives to gain employment. To the extent that recipients of Universal Credit fill vacancies that would otherwise go unfilled, this could help delivery productivity boosts to the economy. This could be particularly as the UK recovers from the pandemic, with the CBI warning that labour supply problems could last for up to two years.[152]

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[150] See Rufrancos, H., Power, M., Pickett., K., and Wilkinson, R. (2013), 'Income inequality and Crime: A Review and Explanation of Time-series Evidence', *Sociology and Crimonology—Open Access*. Available at: https://equalitytrust.org.uk/sites/default/files/Income%20Inequality%20and%20Crime%20-%20A%20Review%20and%20Explanation%20of%20the%20Time%20series%20evidence_0.pdf (accessed 18/10/2021).

[151] Hajdu, T., and Hajdu, G. (2013), 'Are more qual socities happier? Subjective well-being, income inequality, and redistribution., *CERS-IE Working Papers 1320, Institute of Economics, Centre for Economic and Regional Studies*.

[152] CBI (2021), 'Labour shortages will continue in face of Government inaction, delaying UK economic recovery – Director-General', 6 September. Available at: https://www.cbi.org.uk/media-centre/articles/labour-shortages-will-continue-in-face-of-government-inaction-delaying-uk-economic-recovery-director-general/ (accessed 18/10/2021).

3.9 Conclusion

We find that four of the six policy recommendations from Centrepoint are expected to generate net benefits, with the monetary benefits outweighing the costs, even before any non-quantified benefits are taken into account.

The costs of implementing Policy Recommendation 1 are significant as it provides a large number of Universal Credit claimants (under 25s living independently) an £810 annual increase in the standard allowance they receive. While this is expected to generate significant benefits (£81m), these are outweighed by the costs (£2.6bn). However, the primary motivation for the recommendation is to equalise the standard allowance payment between Universal Credit claimants under and over 25 years old. In particular, the standard allowance is intended to cover recipients' living costs, such as food, utility bills, clothes and basic hygiene products. These costs are likely to be similar for those under and over 25.

For Policy Recommendation 2, we find that the monetised benefits (£6m) are around one-third of the estimated costs (£17m). However, the absolute difference is relatively modest (£11m). This difference is also likely to decline if non-monetised benefits are taken into account. Compared to the other policy recommendations, this policy could be relatively inexpensive to implement.

Policy Recommendations 3 and 4, which aim to improve the incentives for Universal Credit recipients to enter employment, are expected to generate net benefits. In particular, we estimate that the quantified benefits will be approximately twice as large as the costs of these policy changes. This is driven by improvements in recipients' quality of life as a result of moving out of unemployment into work, and the associated social security and tax benefits that this delivers to the Treasury.

Policy Recommendation 5 could help to avoid situations where Universal Credit recipients are pushed into further financial hardship, by introducing affordability assessments before sanctions are imposed. We estimate that introducing affordability assessments would be relatively inexpensive (around £6m) compared to the benefits (£24m).

Policy Recommendation 6, which would extend the Kickstart Scheme to the end of December 2022, would also improve employment prospects for Universal Credit claimants by expanding the number of available jobs. This policy would deliver benefits similar to those from Policy Recommendations 3 and 4. In particular, we estimate the total benefits (£995m) could be more than twice as large as the estimated costs of the policy (£390m). We note that, owing to data limitations, we have not quantified the additional administrative costs that would be required to continue operating the Kickstart Scheme from 2022 to 2023. However, these would have to be significant (over £600m) to outweigh the estimated benefits.

A1 Value of social security entitlements with COVID-19 Universal Credit uplift: sensitivity analysis

This section sets out the sensitivity analysis to the results presented in section 2 by including the £20 per week uplift in the Universal Credit standard allowance, announced in March 2020. This uplift was designed to 'strengthen the safety net' during the COVID-19 pandemic, but it has recently been removed.[153] The results presented in section 2 represent the figures for 2020 excluding the uplift.

For each of the households, including the uplift in the analysis leads to a large jump in weekly income after rent in both nominal and real terms for 2020. This increase is especially pronounced for Household 4 who, without the £20 uplift, would earn just enough to be tapered off Universal Credit entirely and therefore would also have to contribute towards their supported housing costs. Instead, with the £20 uplift, the household no longer earn enough to be tapered off Universal Credit entirely, leaving £1.39 per weekly entitlement for Universal Credit. While the £1.39 in Universal Credit is not that consequential in itself, it does mean that the household are no longer required to contribute towards their supported housing costs, which saves the household £41.67 per week.

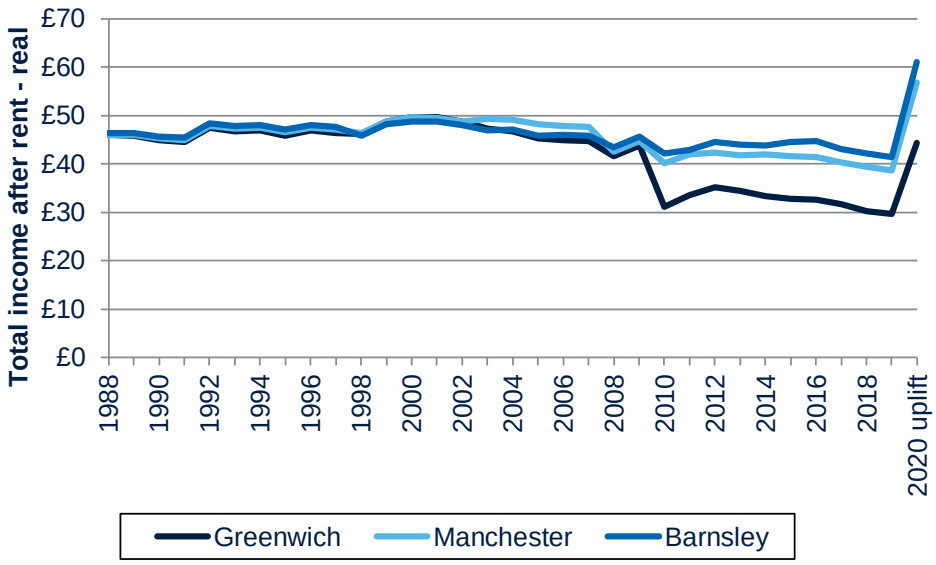
When looking at the effect on real incomes, in the cases of Household 1, Household 2 and Household 6, the result (in most regions) is that the household are better off in real terms in 2020 than they were in 1988, whereas they were not without the £20 uplift.

In the case of households that are working part-time (Households 3 and 4), the uplift goes some way to raising incomes, which significantly declined after the introduction of Universal Credit. However, the households are still worse off than they were under the old system where their entitlements were not tapered according to how many hours they worked.

Households 5 and 7 were better off in 2020 than in 1988 even without the uplift. However, the uplift widens this gap in real terms.

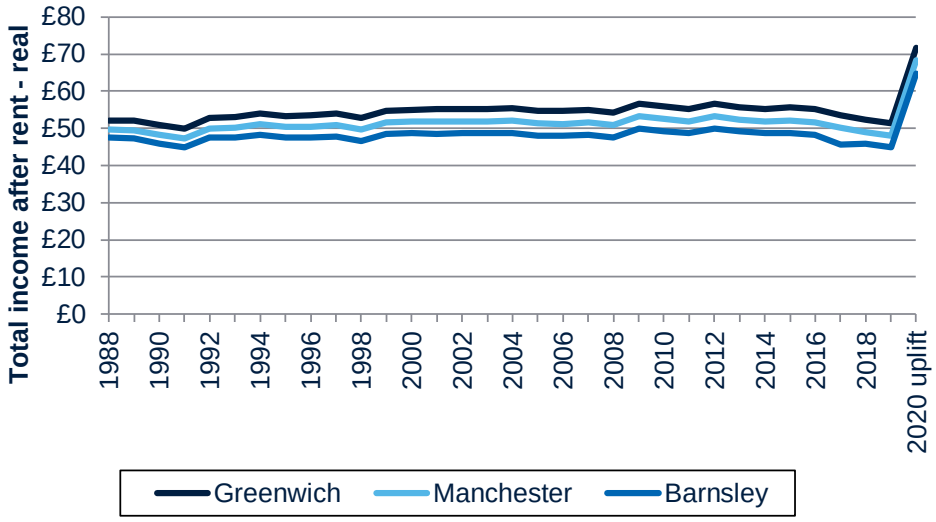
[153] For more information, see https://lordslibrary.parliament.uk/universal-credit-an-end-to-the-uplift/, accessed 29 September 2021.

Figure A1.1 Household 1 weekly income after rent in real terms with 2020 uplift, 1988–2020



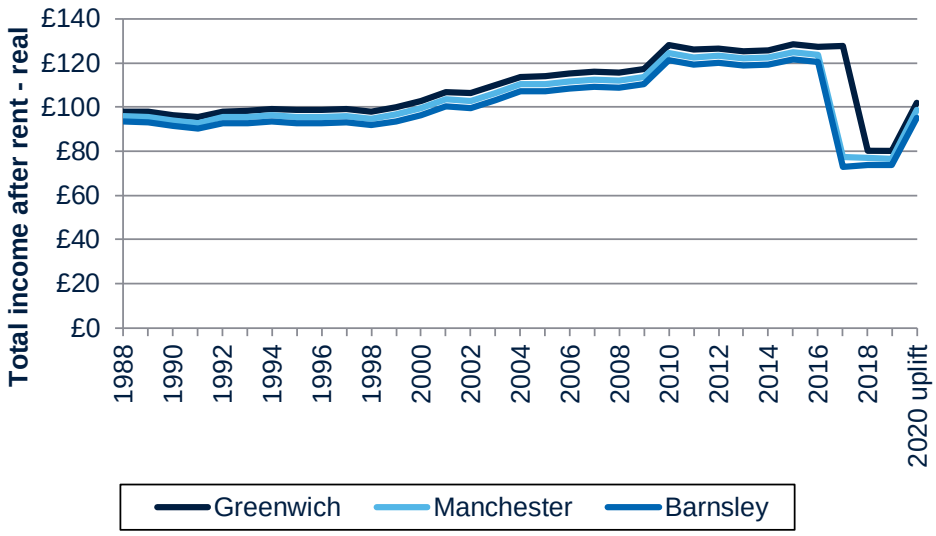
Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A4 for source details.

Figure A1.2 Household 2 weekly income after rent in real terms with 2020 uplift, 1988–2020



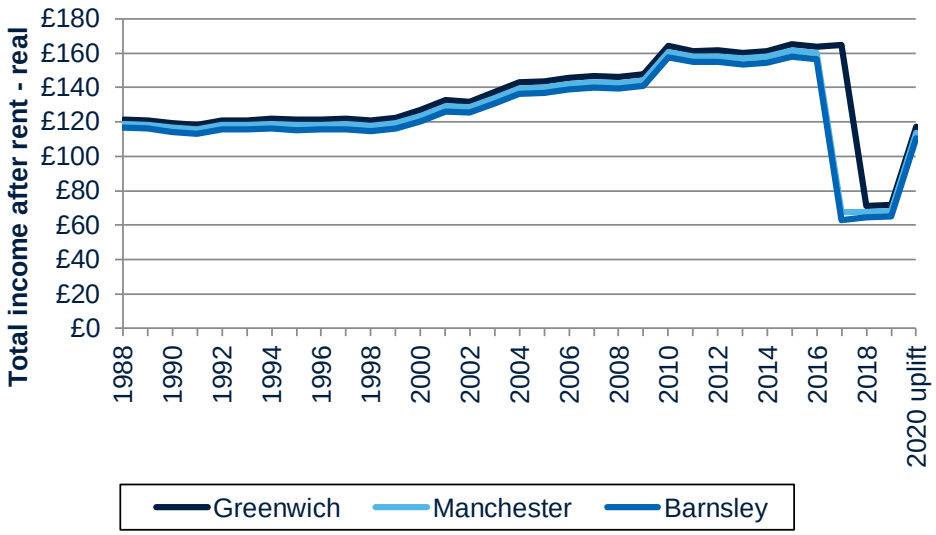
Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A4 for source details.

Figure A1.3 Household 3 weekly income after rent in real terms with 2020 uplift, 1988–2020



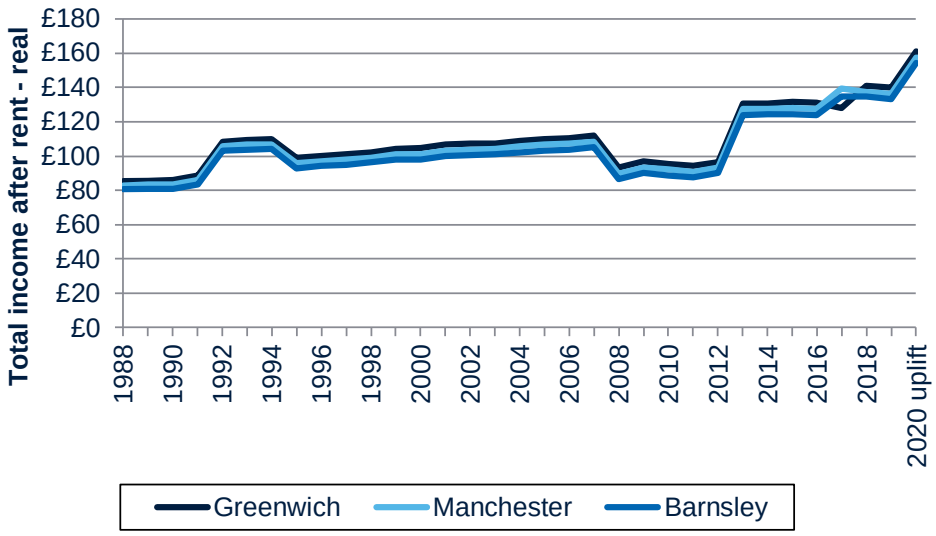
Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A4 for source details.

Figure A1.4 Household 4 weekly income after rent in real terms with 2020 uplift, 1988–2020



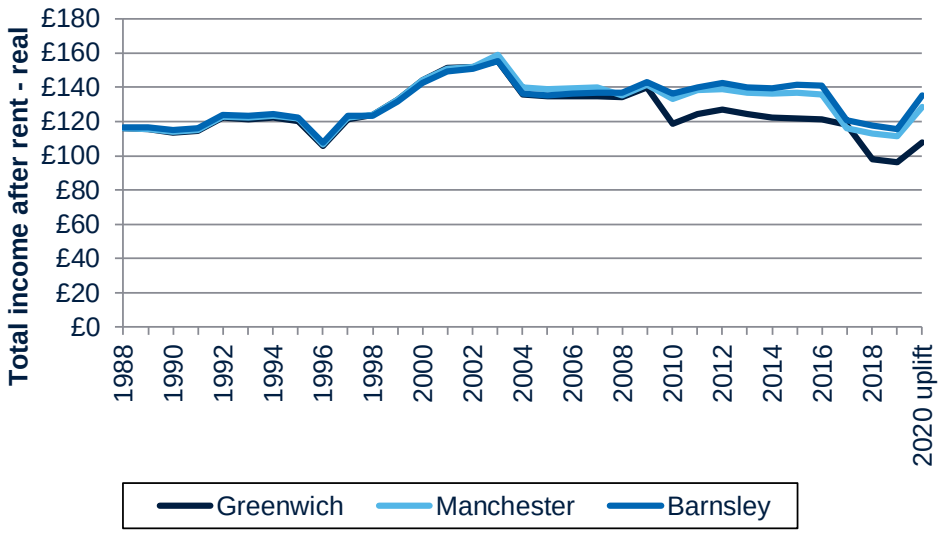
Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A4 for source details.

Figure A1.5 Household 5 weekly income after rent in real terms with 2020 uplift, 1988–2020



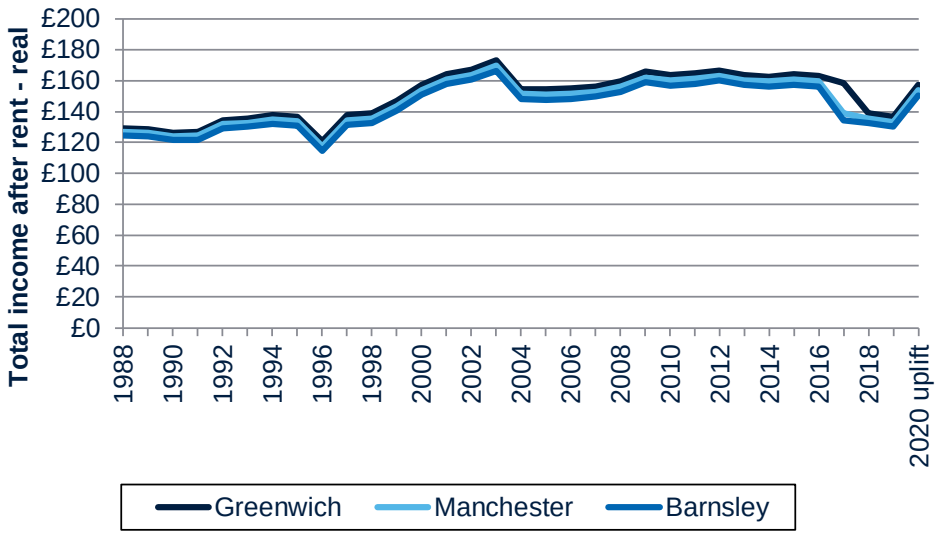
Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A4 for source details.

Figure A1.6 Household 6 weekly income after rent in real terms with 2020 uplift, 1988–2020



Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A4 for source details.

Figure A1.7 Household 7 weekly income after rent in real terms with 2020 uplift, 1988–2020



Source: Oxera analysis of Centrepoint and publicly available data, see Appendix A4 for source details.

A2 Data for the assessment of social security entitlements for under 25s over time

A2.1 Introduction

This appendix describes the data used in the analysis carried out in section 2. It also sets out detail on the methodology used to quantify total income after rent for the seven households.

A2.2 Inputs to the analysis

The analysis presented in section 2 uses data on the social security entitlements for which under 25s were eligible between 1988 and 2020. The social security entitlements we consider in our analysis can be categorised into: *housing, disability, unemployment and childcare.*

A2.2.1 Housing

For the purposes of our analysis, we focus on two types of household situations over the period 1988 to 2020: those *renting privately* and those that live in *supported housing*.

Private renting

Housing Benefit for individuals that are renting privately depends on local market rents in 'Broad Rental Market Areas' (BRMAs).[154] The three local rent areas selected for the analysis (Greenwich, Manchester and Barnsley) correspond respectively to *Inner South East London, Central Greater Manchester* and *Barnsley* BRMAs. Private renting benefit in the UK took the form of 'Housing Benefit' from 1980 to 2007 and LHA starting from 2008. The Universal Credit scheme was announced in 2013, but not rolled out in Manchester and Barnsley until 2017, and 2018 in Greenwich. The Universal Credit housing element also uses LHAs. The households we analyse in this report are assumed to be eligible for the 'Shared Accommodation' rate or the 'CAT A' rate; namely, a dwelling where the tenant has exclusive use of only one bedroom with shared use of other facilities. The data used in our analysis on private renting is described in Table A2.1.

Table A2.1 Data available for private renting households' housing entitlements, by source, 1992–2021

Benefit name	Time period	Description	Notes
Housing Benefit[1]	1992–97	Average weekly housing benefit (private tenants)	Data available on annual basis and does not separate between the kind of accommodation nor the BRMA
Housing Benefit[2]	1998 and 2000–07	Average weekly Housing Benefit-eligible rents by client group	Data available by BRMA as of May or November of each year. As uprates of eligible rents usually occur in April each year, we rely on data released in May of each year. Data does not distinguish by kind of accommodation

[154] BRMAs are defined as an area 'within which a person could reasonably be expected to live having regard to facilities and services for the purposes of health, education, recreation, personal banking and shopping, taking account of the distance of travel, by public and private transport, to and from those facilities and services.' A BRMA may contain many local authorities. See, for example: https://lha-direct.voa.gov.uk/Secure/DownloadHelper.aspx?file=%2FDocsTemp%2FRATS%2FRAT~136~York~2009-09-01.pdf

Benefit name	Time period	Description	Notes
Local Housing Allowance[3]	2008 and 2009	Average weekly Housing Benefit award by tenure	Data available for 2008 (November and December only) and 2009. We used November for 2008 and April for 2009 as uprates of eligible rents usually occur in April each year
Local Housing Allowance and Universal Credit[4]	2010–21	Average weekly Housing Benefit award by tenure and BRMA	This is the most granular data available for those renting privately on Housing Benefit, as it includes average weekly LHA rates split by accommodation category and BRMA

Sources: [1] Housing Benefit and Council Tax Benefit Summary Statistics, Department of Social Security, https://www.ukhousingreview.org.uk/1999–2003pdfs/pub23339.pdf (p. 225).
[2] Department for Work and Pensions, National Archives, https://webarchive.nationalarchives.gov.uk/ukgwa/20100330161506/http:/campaigns.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_arc.asp.
[3] Department for Work and Pensions, National Archives, https://webarchive.nationalarchives.gov.uk/ukgwa/20100330161506/http:/campaigns.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_arc.asp.
[4] Valuation Office Agency, National Archives, https://webarchive.nationalarchives.gov.uk/ukgwa/20141002132330/http://www.voa.gov.uk/corporate/RentOfficers/LHARates/index.html (2010–14); https://www.gov.uk/government/publications/local-housing-allowance-lha-rates-applicable-from-april–2021-to-march–2022 (2015–21).

Where data from 1992 to 2009 is not BRMA- and/or CAT A-specific, we have adjusted the entitlements using two scaling factors: an area-specific weight and a CAT A-specific weight. The *area-specific weight* is the average weekly LHA in 2021 in a given area (e.g. Greenwich) relative to the 2021 national average weekly LHA. This was applied when the data was not separated between BRMAs. The *CAT A-specific weight* is the proportion of CAT A rates relative to the average of all property types for a specific BRMA. This was applied when the data did not distinguish by property type.

The data missing for the period 1988 to 1991 is estimated based on rental values in subsequent periods (i.e. we take the average annual growth rates from 1993 to 2021 and use these for the period 1988 to 1991). The missing data for 1999 has been calculated as the average between weekly rents in 1998 and 2000.

We used data from the English Housing Survey 2008 to 2019 to estimate how much those privately renting paid out in rent.[155] This survey collected data on the mean rent after Housing Benefit. This allowed us to estimate how much households would have to top up their Housing Benefit in order to pay rent.[156]

[155] Mean housing benefit from private renters: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000293/FA3241_households_saying_that_they_receive_housing_benefit_and_average_rent_after_benefit_.ods
mean rent after benefit by household composition: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000295/FA3243_households_receiving_housing_benefit_and_average_rent_after_benefit__by_household_composition_.ods

[156] 'Rent top-up' was estimated to equate to 29% of Housing Benefit entitlements for lone people under 60, or 48% for single parents with children. This 29%/48% was then applied to the estimated year-specific Housing Benefit entitlements for each of the regions. To calculate the 29%/48%, the average 'rent after benefit' was calculated as a proportion of mean Housing Benefit in the given year. An average was then taken over all years for which data was available. For example, in 2019, the survey found that average Housing Benefit for private renters was £113 per week, and that private renters under the age of 60 paid £34 a week on rent after Housing Benefit, equating to 30% (34/113). 29%/48% is the average of all available years of data (2008–19). Data for under 25s specifically was unavailable so the figures for under 60s were used.

Supported housing

Centrepoint provided Oxera with data on supported housing rents and service charges, but it is available only for Greenwich (only for 2020 and 2021) and for Barnsley (only from 2017 to 2021). Therefore, we do not have data covering Greenwich (from 1988 to 2019), Barnsley (from 1988 to 2016) and Manchester over the entire period (1988 to 2021).

We have estimated the supported housing rents for the missing years between 1988 and 2020 for Greenwich and Barnsley according to the growth of the Rent Retail Price Index (RPI).[157] Missing service charges are estimated by using the average proportion of service charge to rent for the years for which we have data and applying it to the rent estimates in each area. Given that Manchester represents a medium-rent location, we rely on the assumption that both housing rents and service charges for these areas are in between the values for Greenwich (high-rent location) and Barnsley (low-rent location). As a consequence, the missing data for supported housing rents and service charges in Manchester is computed as the average of supported housing rents and service charges in Greenwich and Barnsley.

A2.2.2 Disability

The relevant disability entitlements for which under 25s have been eligible since 1988 are described in Table A2.2. This table also includes the sources we have used to construct our dataset and the assumptions we rely on to perform our analysis.

Table A2.2 Disability benefits data and assumptions, 1988–2020

Benefit name	Description	Source	Assumption
Invalidity Benefit (1988–94)[1]	Rate of Invalidity Benefit, single person	Department for Work and Pensions	
Incapacity Benefit (1995–2007)[1]	Rate of Incapacity Benefit, short-term higher rate, single person (weekly)	Department for Work and Pensions	Households in our sample are eligible for the higher rate of the Incapacity Benefit as they are aged under 35
Disability and Living Allowance (1992–2013)[2]	Disability Living Allowance rates, care component—lowest rate (weekly)	Department of Social Security (various years); Social Security Statistics	The households in our sample are assumed to be eligible for the lowest rate of the DLA
Employment and Support Allowance (2008–Universal Credit)[1]	Rate of ESA, single person (weekly)	Department for Work and Pensions	
Universal Credit, disability top-up (2017/18–2021)[3]	Limited capability for work (monthly)	Department for Work & Pensions	Since Universal Credit introduced, the households are no longer eligible for ESA
Personal Independence Payment (2013–20)[4]	PIP, daily living component—standard (weekly)	PIP, benefits and financial support if you have a disability or have a health condition: UK government website (various years)	The PIP was introduced gradually from 2013 to 2015, but we assume it was introduced in 2013

[157] See https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/dobp/mm23.

Note: Universal Credit disability top-up data is available on a monthly basis. We have converted it into weekly data. The ESA can be claimed alongside the Universal Credit disability top-up, but it has additional eligibility requirements that we reasonably assume do not apply to our sample.

Sources: [1] Abstract of DWP benefit rate statistics 2020, Department for Work and Pensions, https://www.gov.uk/government/collections/abstract-of-statistics-for-benefits-national-insurance-contributions-and-indices-of-prices-and-earnings.
[2] Department of Social Security (various years), Social Security Statistics, London: government Statistical Service; Department for Work & Pensions (various years), Work & Pensions Statistics, London: government Statistical Service; Child Poverty Action Group, Welfare Benefits Handbook (various years), London: CPAG, https://www.ifs.org.uk/ff/aa.xls;
[3] Department for Work and Pensions, https://www.gov.uk/government/publications/benefit-and-pension-rates–2019-to–2020/proposed-benefit-and-pension-rates–2019-to–2020#universal-credit and https://www.gov.uk/government/publications/benefit-and-pension-rates–2021-to–2022/benefit-and-pension-rates–2021-to–2022#universal-credit.
[4] UK government website. Latest rates https://www.gov.uk/pip/what-youll-get. Previous releases: https://web.archive.org/web/20131216071145/https://www.gov.uk/pip/what-youll-get (2013); https://web.archive.org/web/20140710200453/https://www.gov.uk/pip/what-youll-get (2014); https://web.archive.org/web/20150123003351/https://www.gov.uk/pip/what-youll-get (2015); https://web.archive.org/web/20160312153559/https://www.gov.uk/pip/what-youll-get (2016); https://web.archive.org/web/20170527204507/https://www.gov.uk/pip/what-youll-get (2017); https://web.archive.org/web/20180618173804/https://www.gov.uk/pip/what-youll-get (2018); https://web.archive.org/web/20190726032450/https://www.gov.uk/pip/what-youll-get (2019); https://web.archive.org/web/20200727000626/https://www.gov.uk/pip/what-youll-get (2020).

In addition to the above assumptions, we assume that households that are entitled for disability benefits are not 'jobseekers'—i.e. they are not actively seeking a job.

A2.2.3 Unemployment

The unemployment benefits for which under 25s were eligible between 1988 and 2020 are listed in Table A2.3, along with the sources we have used for the data in our analysis.

Table A2.3 Unemployment benefits: data and sources, 1988 to 2021

Benefit name	Description	Source
Income Support (1988–95)[1]	Single person aged 18–24; single parent with 1 child under 11 (weekly)	Department for Work and Pensions
Job-Seekers Allowance (1996–Universal Credit)[2]	Income-based JSA, single person aged 18–24, lone parent allowance, dependant children under 11 allowance (weekly)	Department of Social Security (various years), Social Security Statistics
Universal Credit, standard allowance (2017/2018–2021)[3]	Universal Credit, single person aged under 25 (monthly)	Universal Credit, What you'll get, UK government website

Note: Income Support was updated twice in 1991 (April and October). Therefore, the 1991 value of Income Support is the average Income Support weighted by the number of months in which a given rate was applied.

Sources: [1] Abstract of DWP benefit rate statistics 2020, Department for Work and Pensions, https://www.gov.uk/government/collections/abstract-of-statistics-for-benefits-national-insurance-contributions-and-indices-of-prices-and-earnings.
[2] Department for Work & Pensions (various years), Work & Pensions Statistics, London: government Statistical Service; Child Poverty Action Group, Welfare Benefits Handbook (various years), London: CPAG, https://ifs.org.uk/ff/jsa.xls.
[3] UK government website. Latest release: https://www.gov.uk/universal-credit/what-youll-get. Previous releases: https://web.archive.org/web/20200724065931/https://www.gov.uk/universal-credit/what-youll-get (2020); https://web.archive.org/web/20190512181904/https://www.gov.uk/universal-credit/what-youll-get (2019); https://web.archive.org/web/20190512181904/https://www.gov.uk/universal-credit/what-youll-get

(2018); https://web.archive.org/web/20170405203904/https://www.gov.uk/universal-credit/what-youll-get (2017); https://web.archive.org/web/20160817075441/https://www.gov.uk/universal-credit/what-youll-get (2016).

A2.2.4 Childcare

The childcare benefits for which under 25s were eligible between 1988 and 2020 are listed in Table A2.4, along with the sources we have used.

Table A2.4 Childcare benefits: data and sources

Benefit name	Description	Source
Child benefit (1988–2020)[1]	Child Benefit, one child family	Department for Work and Pensions
Child tax credits (2004–Universal Credit)[2]	Child Tax Credit—family element and child element (annual rate £)	Department for Work and Pensions
Universal Credit, child add-on (2017/2018–2021)[3]	Extra monthly amount for first child (born before 6 April 2017)	Universal Credit, What you'll get, UK government website

Notes: Child tax credits are available as an annual amount which we have converted into a weekly amount. Universal Credit, child add-on is available on a monthly basis. We have converted it into a weekly amount.

Sources: [1]Abstract of DWP benefit rate statistics 2020, Department for Work and Pensions, https://www.gov.uk/government/collections/abstract-of-statistics-for-benefits-national-insurance-contributions-and-indices-of-prices-and-earnings.
[2] HM Revenue and Customs, Child and Working Tax Credit Statistics, UK, https://www.ifs.org.uk/ff/taxcredits.xls; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/634333/Main_tables__1415-final_.pdf ; https://revenuebenefits.org.uk/pdf/WTC2–2015.pdf; https://www.parliament.uk/globalassets/documents/impact-assessments/IA15-006C.pdf.
[3] UK government website, https://www.gov.uk/universal-credit/what-youll-get. Previous releases: https://web.archive.org/web/20200724065931/https://www.gov.uk/universal-credit/what-youll-get (2020); https://web.archive.org/web/20190512181904/https://www.gov.uk/universal-credit/what-youll-get (2019); https://web.archive.org/web/20190512181904/https://www.gov.uk/universal-credit/what-youll-get (2018); https://web.archive.org/web/20170405203904/https://www.gov.uk/universal-credit/what-youll-get (2017); https://web.archive.org/web/20160817075441/https://www.gov.uk/universal-credit/what-youll-get (2016).

A2.2.5 Other data

To perform the analysis described in section 2, we used additional data on CPI, average regional earnings, minimum wage and benefit caps. The sources used for various elements are set out in Table A2.5.

Table A2.5 Other data and sources

Variable name	Description	Source
CPI[1]	Consumer Price Index	Office for National Statistics, Consumer price inflation time series
Average Regional Earnings[2]	Average regional earnings in the UK 1992–2020[(i)]	Office for National Statistics, Annual Surveys of Hours and Earnings
Minimum Wage[3]	National minimum wage[(ii)]	UK government website
Benefits cap[4]	Maximum amount of social security entitlements that	Department for Work and Pensions

households can receive in a given year (2013–21)

Notes: (i) Data on average regional earnings covering the period 1988–96 is missing and has been backcast using the average growth rate calculated over the period 1998–2020. (ii) The minimum wage was introduced in 1999; as such, to estimate wages for the years 1988 to 1998, wages have been backcast using the year-on-year CPI growth rate.

Sources: [1] Office for National Statistics, Consumer price inflation time series, https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt/mm23.
[2] Office for National Statistics, Annual Surveys of Hours and Earnings, https://webarchive.nationalarchives.gov.uk/ukgwa/20160119132025/http:/www.ons.gov.uk/ons/publications/all-releases.html?newquery=*&newoffset=0&pageSize=25&definition=77-21502 (1992–2001) and https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/placeofresidencebylocalauthorityashetable8 (2002–20).
[3] UK government website, https://www.nibusinessinfo.co.uk/content/national-minimum-wage-previous-rates.
[4] Department for Work and Pensions, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/906855/benefit-cap-statistics-february–2020-revised-august–2020.pdf.

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