

COMMENTARY ON THE DWP DRAFT REPORT

The Impact of Benefit Sanctions on Employment Outcomes

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SUMMARY

This report was produced in response to a recommendation by the House of Commons Work and Pensions Committee in November 2018 and completed in August 2020. The government originally promised to publish it but then refused. Several Freedom of Information requests were also refused, prompting appeals to the Information Commissioner who ordered its publication, which finally took place on 6 April at <https://www.gov.uk/government/publications/the-impact-of-benefit-sanctions-on-employment-outcomes-draft-report>.

The report finds that :

- a sanction leads the average Universal Credit claimant to exit less quickly into a job (which is well proxied by PAYE earnings)
- and to earn £8 a week less
- earnings of claimants with children are affected similarly to the average
- those sanctioned for a second or third time earn £18 or £22 a week less respectively.

The findings have been criticised on the basis that unobserved variables might have made those sanctioned likely to fare worse even if they had not been sanctioned. But no convincing suggestions have been made as to what these variables might be. The findings on reduced earnings and on increased exits from benefit but not into a job are in line with the existing research evidence. The finding that sanctioned claimants are less likely to get a job may very well be compatible with the National Audit Office findings of 2016 in relation to the legacy system. The NAO found that sanctioned JSA claimants were more likely to get a job and sanctioned ESA claimants less likely, and UC (the subject of this study) covers people who would have been in both groups. To settle this point, DWP needs to publish statistical evidence on the health status of sanctioned UC claimants.

DWP argues that the ‘deterrent effect’ of sanctions, making non-sanctioned claimants more likely to comply with job finding conditions, should be balanced against the negative effects on those sanctioned. But there are a number of arguments against this, and in any case the ‘deterrent effect’ would need also to outweigh the well-evidenced wider negative impacts of sanctions, particularly on public services, which DWP has declined to investigate.

Origins of the report

1. The House of Commons Work and Pensions Committee report on Benefit Sanctions of November 2018 (House of Commons 2018) recommended (para. 24) ‘*that the Department*

urgently evaluate the effectiveness of reforms to welfare conditionality and sanctions introduced since 2012 in achieving their stated policy aims. The Department should commission an independent review of its methodology for this work’ and (para.31) ‘that the Department include in the evaluation we have recommended an assessment—to whatever extent is feasible—of the impact sanctions have on claimants’ financial and personal well-being, as well as on wider public services. It should take expert advice on how to achieve this and consider commissioning external research if necessary’.

2. In its response (House of Commons 2019, para. 10 and 11) the government partially accepted the latter recommendation: *‘10. The Government accepts the recommendation to evaluate the effectiveness of reforms to welfare conditionality and sanctions, and the Department currently supports elements of research on well-being through providing data to external research bodies. 11. The Department will focus its evaluation on whether the sanctions regime within Universal Credit (UC) is effective at supporting claimants to search for work. UC administrative data will be used to look at the impact a sanction has on an individual’s likelihood of entering work and on their earnings once they are in work. This evaluation will be completed internally, and the Department will liaise with external experts to quality assure the methodology used for this analysis. The Department would look to publish its results in late Spring 2019’.*

3. There has been no indication that DWP has conducted any comprehensive evaluation of the post-2012 conditionality and sanctions reforms. In relation to effects on the wellbeing of claimants, in 2019 DWP was in discussion with Glasgow University about providing data, but in the end refused to do so, as reported at <https://www.theguardian.com/society/2022/mar/02/dwp-blocks-data-for-study-of-whether-benefit-sanctions-linked-to-suicide>. DWP has never undertaken or sponsored any assessment of the impacts of conditionality on wider public services, such as health, social work or education, in spite of abundant evidence of serious adverse impacts.

Decision not to publish and FoI challenge

4. DWP’s evaluation work therefore appears to have been limited to its study of the impact of sanctions on entry to employment and on earnings. DWP repeated its promise to publish this on three further occasions (Secretary of State, Therese Coffey, to the Work and Pensions Committee, 16 October 2019; House of Commons parliamentary answer, 2 March 2020; Neil Couling, DWP Change Director General to the House of Lords Economic Affairs Committee, 2 June 2020). The report was completed in August 2020.¹ However, it did not then appear, and on 1 December 2021, replying to a written parliamentary question HL4139, Baroness Stedman-Scott stated ‘We do not plan to publish a report on the sanctions evaluation as we were unable to assess the deterrent effect and therefore this research doesn’t present a comprehensive picture of sanctions’. The ‘deterrent effect’ referred to is the effect of the existence of sanctions on claimants who are not themselves sanctioned.

5. The report was then requested under the Freedom of Information Act by at least three parties: myself, the *London Times* and a third party. In response to my request, DWP stated *‘(the report) is being withheld from release under the exemption at Section 36(2)(b) and 36(2)(c) of the FOI Act which states –*
“(2) Information to which this section applies is exempt information if, in the reasonable opinion of a qualified person [in this context, a Minister of the Crown], disclosure of the information under this Act

(b) would, or would be likely to, inhibit –
 (i) the free and frank provision of advice, or
 (ii) the free and frank exchange of views for the purposes of deliberation, or
 (c) would otherwise prejudice, or would be likely otherwise to prejudice, the effective conduct of public affairs.”

‘This exemption requires the public interest for and against disclosure to be assessed. We recognise that the publication of the information requested could provide a greater understanding of the effectiveness of benefit sanctions. However, we have to balance this against the fact that the withheld documentation includes details of a sensitive nature whose publication would be likely to inhibit candour and be likely to prejudice the effective conduct of public affairs. There is a strong public interest in the effectiveness of benefit sanctions. However, the ‘deterrent effect’ is an important element in representing the full picture of sanctions. Without this, the research is incomplete and does not reflect the complete picture of the effectiveness of benefit sanctions. On balance, we are satisfied that the public interest in maintaining the exemption outweighs the public interest in disclosure.’

6. I then requested a review of this decision, to which DWP responded:

‘On review we still find that this is the correct response and that the release of this information would otherwise prejudice the effective conduct of public affairs. The reason being is that this exemption protects the private space within which Ministers and officials can develop policies, undertake research and conduct Department business at its own pace and on its own schedule. This exemption protects the information in question and allows the Department to maintain this position.

‘As required by the use of a qualified exemption we have also undertaken a public interest test. As stated in the original response we do recognise that the publication of the information requested could provide a greater understanding of the effectiveness of benefit sanctions. However, we have to balance this against the fact that the withheld documentation includes details of a sensitive nature whose publication would be likely to inhibit candour and be likely to prejudice the effective conduct of public affairs. However, the ‘deterrent effect’ is an important element in representing the full picture of sanctions. Without this, the research is incomplete and does not reflect the complete picture of the effectiveness of benefit sanctions. On balance, we are satisfied that the public interest in maintaining the exemption outweighs the public interest in disclosure.’

Information Commissioner’s instruction to publish

7. The three challengers then appealed to the Information Commissioner. His formal Decision Notice was issued on 6 March 2023 at <https://ico.org.uk/media/action-weve-taken/decision-notice/2023/4024536/ic-162699-x6d9.pdf>. It revealed first of all that, without explanation, DWP was no longer claiming exemption under S.36(2)(b), but only under S.36(2)(c). In relation to S.36(2)(c) the Commissioner found that it did not apply because the Qualified Person did not specify the prejudice that would or would be likely to occur and therefore their opinion was not reasonable. He therefore ordered release of the report.

8. DWP could have appealed this decision to the courts, if it thought there were grounds. But on 29 March the new Secretary of State, Mel Stride, told the Work and Pensions Committee (Q.87) that DWP would not appeal. The report was then published on 6 April at <https://www.gov.uk/government/publications/the-impact-of-benefit-sanctions-on-employment-outcomes-draft-report> , together with a Context Note.

9. Being published just before the holiday weekend, the report has so far received only limited publicity. Among newspapers, only the *Guardian* <https://www.theguardian.com/society/2023/apr/06/benefit-sanctions-slow-peoples-progress-into-work-says-report-therese-coffey-suppressed> and *Times* (behind a paywall) appear so far to have reported it. But there have been substantial tweets at <https://twitter.com/nickbailey37> from Professor Nick Bailey of the University of Glasgow, who commented ‘this is a technically sophisticated piece of work using individual case-level data which puts it among the strongest evidence we have, certainly for the UK’; at <https://twitter.com/tonywilsonIES/status/1643983924526481408> from Tony Wilson of the Institute for Employment Studies, who commented ‘No wonder govt has suppressed this sanctions evaluation for so long; hard to think how it could be any worse’; and at <https://twitter.com/jdportes?lang=en> from Professor Jonathan Portes of King’s College, London, who commented ‘The DWP’s report on the impact of benefit sanctions finds that it’s bad for both job outcomes and earnings. Pretty damning.’

THE REPORT: KEY FINDINGS

10. The DWP study used something better than a sample: effectively the whole population of Universal Credit (UC) Full Service claimants between January 2016 and August 2018, a total of 0.6m individuals.² It drew data from records of UC Full Service and from the Registration and Population Income Dataset (RAPID), which combines DWP benefit information with HMRC earnings information. Data for the older UC Live Service system were not used.

11. The report uses data on PAYE earnings; for this group of people having PAYE earnings is a nearly perfect proxy for being employed at all. The report’s summary of its own findings (p.26) is: ‘**In summary, a sanction leads the average claimant to exit less quickly into PAYE earnings and to earn less upon exiting**’.

12. In relation to **duration on UC**, the key finding is that claimants who are sanctioned take longer to move into a PAYE job. Although they move off UC 8% more quickly, 86% of this effect is due to a move into other than a PAYE job. Such a move is most likely to be into economic inactivity.

13. In relation to **earnings**, sanctioned claimants who move into a PAYE job earn on average £34 per month (£8 per week) less than those not sanctioned, while sanctioned claimants aged under 26 (the largest age group among people who are sanctioned) earn £43 per month (£10 per week) less. Parents, whether lone or couple, are affected similarly to the average, indicating an adverse effect on child poverty. Among claimants who are sanctioned more than once (almost a quarter – 24% - of all claimants in the study), those sanctioned for a second time earn £79 per month (£18 per week) less and those sanctioned for a third time £94 per month (£22 per week) less. The adverse effects on earnings are as strong after twelve months as after six.

14. The DWP’s Context Note (para.1) describes the financial effects as ‘relatively small’. This suggests a remarkable unawareness of the lives of the poor (see e.g. Joseph Rowntree Foundation (2023)). It should be borne in mind that these effects are additional to the heavy financial impact of the sanctions themselves, currently on average about £660.

How reliable are these findings?

15. As noted, the study is based on a very large population, so it does not suffer from the problems that often arise for studies based on sample surveys. However, this does not dispose of all potential problems. The biggest potential issue, highlighted by DWP in its ‘Context Note’, is that claimants who are sanctioned may have been likely to take longer to find a job and to earn less even if they were not sanctioned. The DWP study addresses this by controlling for a number of relevant variables including age, gender, benefit history, parenthood and lone parenthood, health condition and prior earnings and employment. However, it admits (pp.16, 20 & 25-6) that it has not deployed one desirable statistical device which would have allowed the unobserved ‘heterogeneity’ to be modelled, and concedes that ‘To the extent that the method in this report does not fully account for systematic differences between sanctioned and non-sanctioned claimants, some bias in the estimate of the impact of the sanction may exist’. The question therefore is whether there are likely to be unrecorded variables which would have a significant effect on claimants’ likely speed of getting a job and level of earnings in it. Tom Waters of the Institute for Fiscal Studies has suggested (Waters 2023) that these variables may be so important that ‘we should not put much store by these results’. As examples of such variables, he suggests educational qualifications, caring or ‘other non-work-related priorities’. But caring is in fact included in the analysis and educational qualifications will be highly correlated with prior earnings and employment, which are also included. It is not clear what ‘non-work-related priorities’ means. It seems unlikely that unobserved variables not accounted for would significantly change the findings, and extremely unlikely that they would change them to their opposites. It is really up to critics of the study to propose such variables, which they have not convincingly done.

How plausible are the findings?

16. The up-to-date review of the international evidence by Pattaro et al. (2022) found that labour market studies consistently report that sanctions have negative impacts for job quality and stability in the longer term, along with increased transitions to non-employment or economic inactivity. The National Audit Office (NAO 2016) found the same specifically for the UK, and a newly published study (Codreanu & Waters 2023) specifically on the UK ‘lone parent obligation’ introduced between 2008 and 2012 found that ‘the reform reduced the number of single parents claiming welfare by a quarter, partly by discouraging eligible individuals from beginning a claim in the first place. However, only about half of the reduction in the number of claimants is explained by higher employment, and almost all of that is in part-time, low paid jobs – the median marginal job pays around the 13th percentile of the UK earnings distribution, so even those that get into work pay little in tax and receive significant (in-work) transfers. Most of the rest of the effect is accounted for by individuals substituting to – more generous – incapacity and disability benefits. As a result, the policy produces fiscal savings indistinguishable from zero. Furthermore, we find negative effects on the mental health of individuals who remained out-of-work, though positive effects for those pushed into work.’

17. The DWP study’s findings that sanctions reduce claimants’ earnings, and lead claimants to leave benefit more quickly but not into a job, are therefore fully in line with the existing, very strong, research evidence.

18. The finding that sanctioned claimants exit into paid work more slowly is less obviously consistent with the existing evidence. Pattaro et al. found that studies consistently report that

sanctions have positive impacts for employment. But the NAO study, which was on the ‘legacy’ benefits system and not UC, produced different findings for JSA and ESA. It found that sanctioned JSA claimants went more quickly into work, but sanctioned ESA (i.e. sick or disabled) claimants were made less likely to get employment at all. The DWP’s study is on UC, which includes people who under the ‘legacy’ regime would have been on both JSA and ESA. Furthermore, in a much-criticised feature, claimants of UC who are sick or disabled are not exempt from job search or preparation requirements until they have had their Work Capability Assessment, which is often long delayed (and was during the study period). Therefore the DWP sanctions study will very likely have been picking up the effect that the NAO identified, that sick or disabled people who are sanctioned are less likely to get a job. The DWP’s statistical reporting on UC has been so thin that it is impossible to tell how far this would explain the study’s findings. Nothing has been published on sickness or disability of sanctioned UC claimants. All we know is which conditionality group sanctioned claimants (irrespective of sickness/disability status) are in at the reporting date. It is important that DWP should publish statistical evidence on the health status of sanctioned UC claimants.

19. It is also obvious, and well reflected in anecdotal evidence, that being sanctioned pitches people into financial crisis, which undermines their ability to find a job by for instance diverting their energies to survival or undermining their mental health.

20. The DWP report itself (pp.18 & 19) points out that many of the international studies look at members of unemployment insurance schemes, who are likely to be less disadvantaged than UK claimants of the means-tested UC.³ It also highlights (p.26) the fact that the study period was one of relatively low unemployment, when again UC claimants would be likely to be particularly disadvantaged.

The ‘deterrent’ effect on claimants not sanctioned

21. The DWP report itself, the accompanying Context Note, and Waters (2023) suggest that the ‘deterrent’ effect on claimants not themselves sanctioned may have a positive effect on employment, which would counterbalance the negative effects on those actually sanctioned. But there are some crucial objections to this type of argument:

- (i) It self-evidently would not undo the damage to what is a separate group of people.
- (ii) There is no actual evidence for this claim. It is speculative.
- (iii) It does not show that a supportive approach would not be equally effective and there is in fact strong research evidence that merely monitoring claimant’s work-finding efforts is as effective as sanctions (e.g. McVicar 2010).
- (iv) It certainly does not suggest that anything like the harshness of the current UK regime is necessary to achieve the desired effects
- (v) In one important respect the mere existence of sanctions will have the same effect on claimants as an actual sanction, in that it will make the claimant accept a worse job than they would have done otherwise, or do their best to get off UC even when they do not have a job
- (vi) The existence of sanctions also has a wide range of other adverse effects on those not sanctioned, by worsening relations between claimant and job coach, creating anxiety, inhibiting the delivery of needed support etc.
- (vii) Even if the ‘deterrent effect’ exists, it would need to be big enough to outweigh not only the negative effects on sanctioned claimants, but also the wider impacts, particularly on public services, which DWP has declined to investigate.

22. The National Audit Office (2016, para. 3.4 and 3.13) concluded that ‘International studies suggest the deterrence effects of sanctions are similar to the direct effects’, and found that across employment service contractors, on average higher use of sanctions was associated with lower performance in terms of job outcomes.

Earlier DWP studies

23. The DWP’s Context Note (para.1) cites earlier studies indicating that sanctions stimulate work search and increase compliance with the Jobcentre’s requirements. But it is important to note that none of these provide any evidence on the matters dealt with in the new report, i.e. claimants’ employment experience and earnings. Various other points made in the Context Note are not of any significance.

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¹ The completion date of August 2020 is given in para.2 of the DWP's Context Note. The words 'Crown copyright 2018' on p.2 of the published report are certainly a mistake, since the report itself cites materials from 2019 and 2020.

² The report is not absolutely clear about the exact dates covered by the data but the dates given here are at least approximately correct.

³ In the UK relatively well-off unemployed people claim 'New Style JSA' rather than UC.