
HOW EFFECTIVE ARE BENEFIT SANCTIONS?

An investigation into the effectiveness of the post-2012 sanctions regime for Jobseeker's Allowance claimants

HOWARD REED

LANDMAN ECONOMICS

This report looks at the application of sanctions in the UK social security system in relation to their impact on employment levels. Sanctions are defined as the reduction or withdrawal of benefits from claimants on the grounds that they have failed to observe the conditions attached to their benefit claim. Whilst successive Governments have increased the use of sanctions in the system, with the intention to increase employment, since October 2012, the current Government has expanded conditionality criteria and increased the length of sanctions. This was to align non-compliance of conditionality more to changes under Universal Credit, and to make conditions for receipt of benefits clearer. The current Government retains the intention to increase employment. However, this report finds that there is no evidence that increased use of sanctions in Jobcentre Plus districts between October 2012 and June 2014 led to decreased unemployment or increased employment. It therefore seems that sanctions are not achieving the desired goal to increase employment for claimants.

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EXECUTIVE SUMMARY

This report looks at the use of sanctions in the UK social security system. A sanction is defined as the reduction or withdrawal of benefits from claimants on the grounds that they have failed to observe the conditions attached to their benefit claim. The particular focus is on the impact of recent changes to the sanctions regime that were introduced in October 2012, especially the expansion of conditionality criteria and increase in length of sanctions for people in receipt of Jobseekers Allowance (JSA – the main benefit for unemployed people of working age who are seeking work) and those claimants of Employment and Support Allowance (ESA – the main benefit for disabled people and those with long-term illnesses) who are assessed as capable of work-related activity.

There is clear evidence that the number of all JSA and ESA sanctions given out each month has increased relative to the number of JSA claimants since the October 2012 reforms (DWP, 2014a). Just before October 2012, the number of adverse sanctions for JSA (sanctions decisions which resulted in benefit being stopped or the JSA claim being closed) in the preceding year as a proportion of total monthly JSA claimants was around 4.5 per cent; in the months between July 2013 and 2014 the number of adverse sanctions per month was always at least 5 per cent of the total number of claimants, and sometimes 6 per cent or more. ESA sanctions per month as a proportion of the total number of claimants in the work-related activity group increased from around less than 0.2 per cent per month before October 2012 to more than 0.9 per cent per month by May 2014.

Successive Governments have justified sanctions on the grounds that sanctioned benefit claimants are not doing everything they can to get back into work, and the loss of benefits acts as an incentive for them to find work (DWP 2013a, Purnell 2008). Thus, if sanctions are working as intended there should be an increase in employment levels and a reduction in unemployment for individuals who have been sanctioned.

Individual-level data on labour market outcomes for sanctioned benefit claimants are not available from either survey or administrative datasets, so it is necessary to use aggregated data from the Office for National Statistics and the Department for Work and Pensions to test the hypothesis that sanctions help reduce unemployment. The approach used in this report is to look at changes in employment and unemployment rates across the 37 Jobcentre Plus districts in England, Scotland and Wales over the 20 months since the changes in October 2012. If sanctions are an effective instrument for reducing unemployment and increasing employment, we ought to see a clear negative relationship between unemployment and use of sanctions across Jobcentre Plus districts, and a clear positive relationship between employment and use of sanctions. In other words, this analysis tests whether Jobcentre Plus districts with higher levels of sanctions use experience a faster reduction in unemployment and a greater increase in employment than Jobcentre Plus districts with lower levels of sanctions.

The analysis also looks at the level of economic inactivity in each Jobcentre Plus district (with 'economic inactivity' being defined as individuals of working age who are neither in employment nor actively seeking work), to see whether tightening the sanctions regime has resulted in the unintended consequence of pushing JSA claimants into inactivity rather than into employment.

The results show no evidence that Jobcentre Plus districts with higher rates of sanctions between October 2012 and June 2014 experienced greater decreases in unemployment or increases in employment than districts where sanctions were used less often. There was also no strong relationship between the intensity of sanctions use and the change in the level of economic inactivity in each Jobcentre Plus district. When the measure of sanctions used was restricted to 'medium' (e.g. 13 weeks or 3 months) and 'high' level sanctions only (e.g. 26 weeks

or 6 months up to 3 years) (to check whether more severe sanctions had any impact), the results were very similar.

Overall, this report finds that sanctions are an ineffective tool for improving labour market performance. It finds no evidence that labour market outcomes are better in areas where Jobcentres are using more sanctions. The new regime means that sometimes people have no option but to turn to food banks due to a significant reduction or total loss of their income (Perry, Williams et al., 2014). It cannot claim to be responsible for improving employment outcomes.

Given that sanctions cause unnecessary hardship without delivering improved labour market performance, this report makes the following policy recommendations:

- The Government should undertake a broad and independent review of the operation and impact of social security sanctions, as well as the planned extension of sanctions to working and self-employed claimants and partners under Universal Credit. This should be a follow-up to the Oakley review, which looked only at operational factors. The review should encompass the effects of sanctions on labour market outcomes as well as poverty and hardship among families containing JSA and ESA claimants.
- Decision makers should have their right to arbitrarily suspend social security payments removed pending investigation.
- The implementation of policies (in terms of who is sanctioned, why, appeals, why they are successful) needs to be reviewed to ensure that practice is transparent, evenly applied and fair. The differences in sanctions rates between different Jobcentre Plus districts (and indeed different Jobcentres within districts) should be investigated. Decision makers who repeatedly incorrectly sanction claimants and whose sanctions are overturned on appeal should have their performance addressed.

1 INTRODUCTION

This report looks at the use of sanctions in the UK social security system – the reduction or withdrawal of benefits from claimants on the grounds that they have failed to observe the conditions attached to their benefit claim. The particular focus in this report is on the impact of recent changes to the sanctions regime introduced in October 2012 which have increased the length of sanctions for non-working people in receipt of JSA and those claimants of ESA who are assessed as capable of work-related activity. As discussed below, successive Governments have defended the increased use of sanctions in the benefit system on the grounds that sanctions encourage benefit claimants to find work. For example, Neil Couling, Director of Work Services at the DWP said in April 2014:

"My experience is that many benefit recipients welcome the jolt that a sanction can give them. Indeed, I have evidence...of some very positive outcomes from just those kinds of tough conversations. Some people no doubt react very badly to being sanctioned – we see some very strong reactions – but others recognise that it is the wake-up call that they needed, and it helps them get back into work."

But the current evidence on the effectiveness of sanctions for the UK is limited, while international evidence is mixed (see Chapter 3 below). This report provides new evidence by using data on the number of sanctions and the rates of employment, unemployment and inactivity in Jobcentre Plus districts across England, Scotland and Wales to test whether increased use of sanctions really do improve labour market performance.

The report is structured as follows. Chapter 2 describes the sanctions system for JSA in detail, looks at recent trends in the use and severity of sanctions and analyses the number of sanctions by age group, gender and ethnicity. The chapter also looks at recent trends in the number of sanctions for ESA. Chapter 3 looks at existing evidence on the effectiveness of sanctions in an international and a UK context. Chapter 4 explains the methodology used in this report to assess whether the recent changes to the sanctions regime are an effective tool for boosting employment and reducing unemployment. Chapter 5 presents the results of the empirical analysis, Chapter 6 suggests policy implications and Chapter 7 draws final conclusions.

2 THE SANCTIONS REGIME: THE OCTOBER 2012 CHANGES

Sanctions in the social security system are nothing new and have been a feature of benefits for unemployed people in the UK for several decades. Before 2012, claimants of Jobseekers Allowance were already subject to various work conditionality criteria – for example they were required to sign on fortnightly at the Jobcentre Plus office, to seek work actively, and to take up suitable employment when available. If they failed to meet these conditions, a *sanction* – reduction of benefit for a certain period of time – could be applied.

Though sanctions have operated in the UK's benefit system for several decades, the amount of conditionality being applied to jobseekers has increased in recent years. At the same time, the number of non-working benefit claimants subject to sanctions has increased, for two reasons. Firstly, since October 2010 non-working lone parents whose youngest child is aged at least five

now have to claim JSA (with the corresponding requirements for work-related activity) rather than Income Support (which has much less stringent work-related activity conditions). Secondly, the test for entitlement to ESA (the Work Capability Assessment) is stricter than the assessment for Incapacity Benefit (which was the predecessor of ESA) and this has resulted in a large number of people who would have claimed Incapacity Benefit under the previous system having to claim ESA instead. On top of this, approximately 40 per cent of ESA claimants are placed in the Work Related Activity Group. These claimants have to attend work-focused interviews and undertake work-related activities whereas the Support Group are not expected to take steps to prepare for work¹.

THE JSA SANCTIONS REGIME

From October 2012, new sanctions rules for JSA were introduced:

- three categories of sanction – 'lower', 'intermediate' and 'higher' – depending on the nature of the offence. Previously, there was only one category of sanction.
- different levels of sanction for first, second and third offences, with repeat offenders subject to longer periods of benefit withdrawal.
- sanctions had previously started from the beginning of the benefit week after the sanction was made. Now sanctions can begin instantaneously. If the claimant has not yet been paid JSA for the week in which the sanction takes place, then the JSA payment will be withheld for that week, meaning that the sanction begins a week earlier.

Appendix A gives details of the changes to the sanctions rules introduced since 2012. The overall impact is that the average sanction period has increased markedly. For example, prior to October 2012, 'higher-level failures' like leaving a job voluntarily without good reason; losing a job through misconduct; refusal or failure to apply for, or accept if offered, a suitable job without good reason, or failure to participate in mandatory work activity were subject to sanctions of between 1 and 26 weeks (depending on the discretion of the advisers working in Jobcentres.) Under the new regime, fixed-period sanctions are applied for these higher-level offenders as follows (see Appendix A for full details):

- first failure – 13 weeks;
- second failure – 26 weeks;
- third failure – 156 weeks.

There is clear evidence that the number of sanctions being given out every month has increased relative to the number of JSA claimants since the October 2012 reforms. Figure 1 shows the number of adverse sanctions² under Jobseekers Allowance each month as a proportion of the total JSA claimant count. Fluctuations in the number of sanctions from month to month mean that the figures are presented as a six-month moving average. In other words, the figure for any given month is the average number of adverse sanctions per month over the preceding six months as a proportion of the total JSA claimant count in that month.

Figure 1 shows that between 2001 and 2007, the moving average of the number of adverse³ sanctions each month as a proportion of total monthly JSA claimant count was stable at just over 2 per cent or around 20,000 sanctions per month. The proportion of sanctions then increased to around 3.5 per cent in 2007 following reforms to the benefit system under the

¹ Based on figures for Employment Support Allowance caseload in DWP tabulation tool (DWP 2014b), data for November 2013.

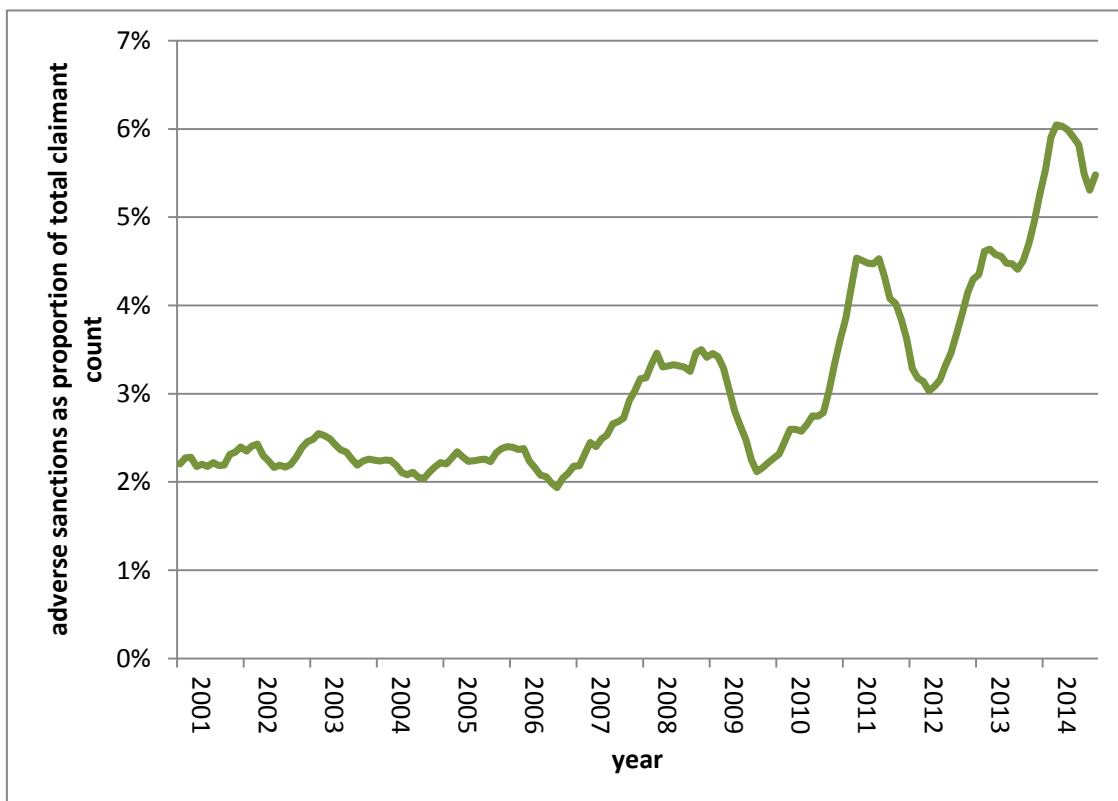
² Claimants are allowed to appeal against sanction decisions; an adverse sanction is one where the result of the appeal is that the sanction is upheld, or where the claimant makes no appeal against the decision, and therefore the sanction is carried out.

³ DWP (2014a) defines an adverse sanction as "a decision found against the claimant, i.e. where a sanction is applied or the JSA claim is closed (disallowance)."

Labour Government which increased conditionality for JSA claimants. It then fell back down to just over 2 per cent per cent of JSA claimants during 2008-09. From mid-2009 the number of sanctions being given out increased again to a new peak of around 4.5 per cent of JSA claimants by the beginning of 2011, then fell back to 3 per cent during 2011 before increasing again to 4.5 per cent just before the introduction of the new sanctions regime in October 2012.

After the new sanctions regime was introduced, the number of sanctions increased sharply. By late 2012 around 6 per cent of JSA claimants were being sanctioned each month. In total, 864,000 adverse sanctions were given out during 2013 which was more than a threefold increase since 2001 (the first year for which complete data are available). This is clear evidence that sanctions are being used much more extensively since October 2012, although there was already a clear upward trend (albeit with considerable fluctuations) from 2007 onwards.

Figure 1. JSA adverse sanctions in each month as proportion of total JSA claimant count, 2001-13: 6-month moving average



Source: Sanctions numbers from DWP (2014a). JSA claimant count from ONS (2014).

Accurate statistics on the proportion of sanctions which are successfully appealed by claimants cannot be calculated using present DWP statistics because the statistics do not include 'Mandatory Reconsiderations' which are a new part of the appeal system for sanctions introduced in 2013. However, Webster (2014) estimates that the proportion of successful appeals against sanctions has increased from around 10 percent to 20 percent of claimants over the period of the current Government.

Table 1 below shows the average number of JSA sanctions per month over the 20-month period October 2012 to June 2014 given to people of different characteristics as a proportion of the total JSA client group for people with those characteristics in May 2014. The number of sanctions is highest for the 18-24 year-old claimant group at around 8 percent of the group per month, with the proportion of sanctions decreasing for older groups. Men are significantly more likely to be sanctioned than women. Claimants of mixed ethnicity are more likely to receive a sanction than any other ethnic group, with white claimants being least likely to receive a sanction.

Table 1. Number of adverse JSA sanctions, 22nd October 2012-30th June 2014, as proportion of JSA caseload, May 2014: breakdown by characteristics

Client breakdown	Number of sanctions (Oct 2013-Jun 2014)	JSA caseload (May 2014)	Average sanction rate per month as % of May 2014 caseload
Age:			
<i>18-24</i>	361,752	226,920	8.0
<i>25-34</i>	224,061	256,450	4.4
<i>35-44</i>	120,234	197,270	3.0
<i>45-49</i>	46,949	103,270	2.3
<i>50-54</i>	31,744	91,060	1.7
<i>55-59</i>	18,569	70,320	1.3
<i>60-64</i>	5,256	27,080	1.0
Sex:			
<i>Male</i>	598,659	623,370	4.8
<i>Female</i>	211,687	350,290	3.0
Ethnicity:			
<i>White</i>	614,866	744,240	4.1
<i>Asian or Asian British</i>	43,901	57,270	3.8
<i>Black or Black British</i>	65,474	70,930	4.6
<i>Mixed</i>	22,262	20,550	5.4
<i>Chinese or other ethnic group</i>	15,653	25,220	3.1
TOTAL	810,364	973,660	4.2

Source: Sanctions numbers from DWP (2014a) Table 1.6. JSA claimant count data from DWP (2014b).

Table 2 shows the distribution of sanctions by severity between October 2012 and June 2014. The majority of sanctions (56 per cent) in this period were low-level sanctions. A breakdown of the reasons for sanctions in DWP (2014a) shows that the most common low level sanctions were for failure to participate in the Work Programme⁴ without good reason, and failure to attend or failure to participate in an adviser interview without good reason. Together, these made up approximately 56 per cent of low level sanctions while 36 per cent of sanctions were intermediate-level sanctions, most of which were for not actively seeking employment. Eight per cent of sanctions were high-level sanctions; the most common high level sanctions were for leaving employment voluntarily without good reason, or refusal or failure to apply for a job.

⁴ Since 2011 the Work Programme has been the main active labour market policy programme in the UK. The Work Programme employs subcontractor organisations (mainly from the private and voluntary sector) to provide work placements and training for JSA claimants who have been unemployed for more than 3 months, and selected ESA claimants. Failure to participate in Work Programme placements or activities can trigger a low-level sanction.

Table 2. Sanctions by severity, October 2012-June 2014

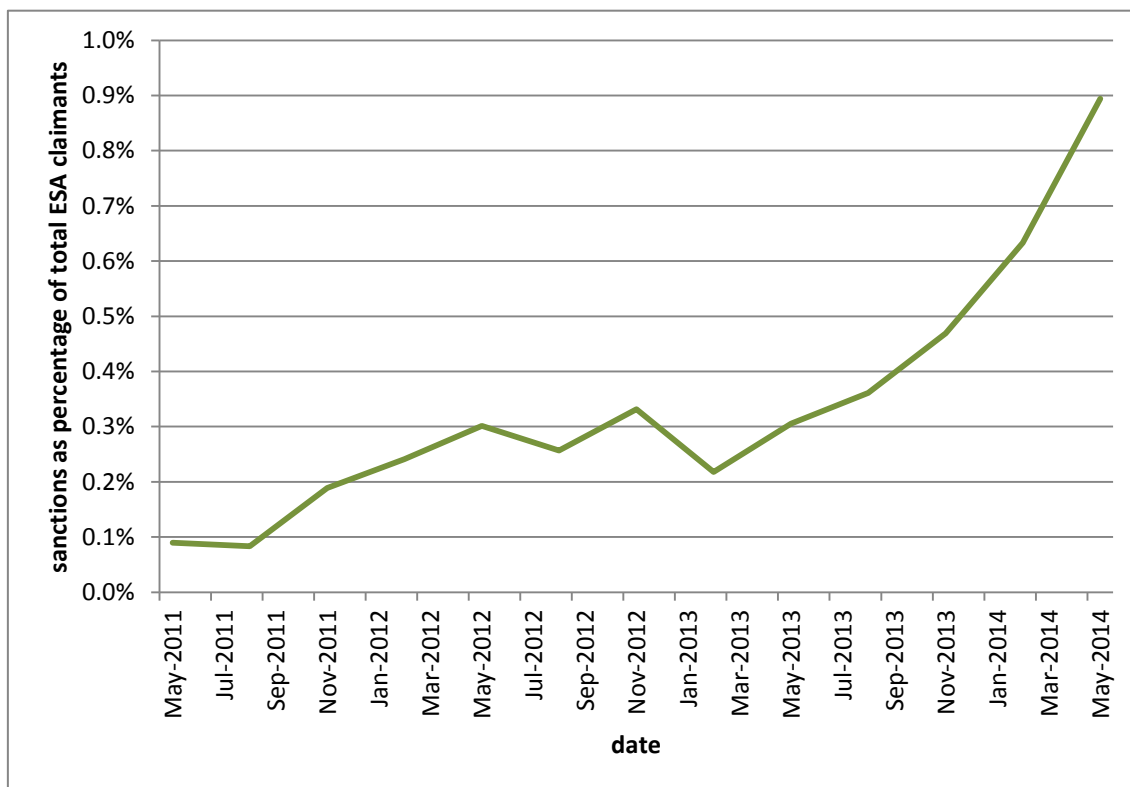
Level	Number of sanctions	As % of total sanctions
Low	810,364	56.1
Intermediate	511,884	35.5
High	121,105	8.4
Total	1,443,353	100.0

Source: DWP (2014a)

THE ESA SANCTIONS REGIME

As well as increased sanctions for claimants of Jobseekers Allowance, the sanctions regime for claimants of Employment and Support Allowance (ESA) in the Work Related Activity Group (WRAG) was also made harsher as part of the 2012 reforms. Figure 2 illustrates a time series of ESA sanctions in a given month as a proportion of the total number of ESA claimants in the Work Related Activity Group, on a quarterly basis. The time series is much shorter than for JSA claimants as ESA only started in October 2008 and was phased in, initially applying to new claimants only, while the existing caseload for Incapacity Benefit (the previous benefit for long-term sick and disabled people) was reassessed gradually from 2011 onwards. It is only from mid-2011 onwards that there is a large enough sample of ESA claimants in the WRAG to produce reliable statistics. Figure 2 shows a gradual increase in sanctions per month as a proportion of the ESA WRAG claimant count, from around 0.1 per cent in 2011 to around 0.9 per cent by May 2014. The number of sanctions for ESA is far lower as a proportion of the relevant claimant count than for JSA, but since the changes to the sanctions regime in October 2012 there has been a rapid rise in sanctioning under both benefits.

Figure 2. ESA adverse sanctions as proportion of ESA work-related activity group claimant count, 2011-14



Source: sanctions statistics from DWP (2014a). ESA claimant numbers from DWP (2014b)

3 EXISTING EVIDENCE ON THE EFFECTIVENESS AND IMPACT OF SANCTIONS

3.1 EXISTING EVIDENCE ON SANCTIONS AND LABOUR MARKET OUTCOMES

Successive Governments⁵ have justified increases in the severity of the sanctions regime on the grounds that sanctions improve labour market outcomes with the most recent official justification for the sanctions regime on the DWP website:

‘The new JSA sanctions regime, which was introduced in October 2012, encourages people to engage with the support being offered by Jobcentres by making it clearer to claimants what they are expected to do in return for their benefits – and that they risk losing them if they don't stick to the rules. Minister for Employment Esther McVey said: “This Government has always been clear that in return for claiming unemployment benefits jobseekers have a responsibility to do everything they can to get back into work. We are ending the something for nothing culture.”’ (DWP, 2013a)

Employment Minister, Esther McVey, expressed it as:

‘Sanctions are used as a deterrent. The vast, vast majority of people don't get sanctions. When you get jobseeker's allowance...you are paid that to make sure you are doing all you can do to get a job. We put things in place, you've got your adviser there working closely with you and it is for your best interests to get a job and we do all we can do. The people who get sanctions are wilfully rejecting support for no good reason’ (Guardian, 2013)

But how effective are sanctions at improving labour market outcomes for benefit claimants who are sanctioned – or those who face the threat of a sanction? There is a substantial body of research on the effectiveness of sanctions in an international context, although the current evidence base for the UK is rather limited. A recent review of the research evidence on the effectiveness of sanctions by Watts *et al* (2014) found that in the US where certain states have imposed severe sanctions, there have been substantial declines in welfare programme caseloads (see Mead 2011 for more details), but the evidence that tougher sanctions have increased entry rates into employment is far weaker. Also, tougher sanctions in the US are correlated with lower earnings for people entering work. European evidence on the short-term effects of sanctions imposed on unemployment benefit claimants demonstrates a consistent and substantial increase in employment entry rates and/or reduced unemployment durations, particularly when sanctions occur early in a claim (Müller and Steiner, 2008; Hoffmann, 2008). However, while data on the longer-term impacts of sanctions is limited, a study in Switzerland

⁵ For an example of the previous Labour Government's view on sanctions in the social security system see Purnell (2008).

which considered the effect of both the threat and imposition of sanctions found that they lowered the likelihood of sustainable employment and incomes over time (Arni *et al*, 2009).

Griggs and Evans (2010) review a range of studies looking at claimants' knowledge and understanding of sanctions. Evidence from both the UK and US indicates that, while benefit recipients are usually aware that penalties are part of the system, they often have little knowledge of when they could be imposed or how they could be avoided or reversed, implying that claimants are often "...effectively being punished for a lack of understanding rather than (deliberate) non-compliance" (Griggs and Evans, 2010, p6). The recent independent review of JSA sanctions by the economist Matthew Oakley raised similar concerns, in particular regarding the poor understanding of the sanctions system among the most vulnerable claimants (Oakley, 2014). It appears that very few claimants make an active choice not to meet the conditions of benefit receipt (Goodwin, 2008; Scottish Government, 2013).

Overall, UK-specific evidence on the effectiveness of sanctions in achieving their ultimate stated goal – getting claimants into sustainable employment – is limited, and the findings are mixed, with some studies finding positive impacts of sanctions on employment entry rates (e.g. ISER/DWP 2013, Peters and Joyce 2006), whereas other studies found negligible impacts on labour market behaviour (e.g. Goodwin 2008), or possible counter-productive effects through generating hostility towards services and/or more negative views about work (Dorsett, 2008; Joyce *et al*, 2005).

3.2 OTHER IMPACTS OF SANCTIONS

Sanctions also have other economic impacts outside of their direct impact (if any) on labour market outcomes. One of the most important impacts of sanctions is their impact on food poverty. In the UK, research by Oxfam, the Trussell Trust and Church Action on Poverty shows that the number of meals distributed by food banks operated by three of the main food aid providers increased by 54 percent from 2012/13 to 2013/14, with over 20 million meals distributed in 2013/14. Benefit sanctions were identified as one of the key drivers of increased use of food banks together with other reforms to the benefit system that have reduced entitlements for many working age families, rising housing and energy costs, and falling real wages (Cooper *et al.*, 2014). The recent report of the All Party Parliamentary Inquiry into Hunger in the UK, *Feeding Britain*, also identified sanctions as one of the causes of food poverty in the UK. In particular, the inquiry found that sanctions were sometimes applied unfairly, with claimants "unreasonably sanctioned through no fault of their own" (APPG into Hunger in the UK, 2014, p39). The inquiry concluded that "the mechanism by which Jobcentre Plus captures and relays information [on benefit claimants] does not always fit with the understanding and skills possessed by people in very difficult positions."

There is also substantial international evidence that sanctioned benefit claimants are more likely to experience material hardship, particularly if they have dependents and/or no other source of income (e.g. from savings or family/friend/partner support) (Griggs and Evans, 2010). While in the UK sanctioned claimants are able to apply for a reduced level 'hardship payment', these awards are discretionary and subject to stringent access rules, with only about one quarter of sanctioned JSA claimants actually receiving them (Webster, 2014). The Oakley review raised concerns that the most vulnerable claimants find it hardest to access hardship payments, partly because "only those claimants that asked about help in Jobcentre Plus were told about the hardship system" (Oakley, 2014, p38). The review recommended that clear information about this system be included in all sanction-related letters sent out to claimants. Depending on local access rules, sanctioned claimants facing hardship may also be able to access support through local welfare support schemes (which replaced the national Social Fund from April 2013), but central Government funding for these schemes will end in 2015 (DCLG, 2013).

Reforms to the benefit and tax credit systems, and benefit sanctions in particular, have been identified as key factors driving demand for food banks by low-income people across the UK

(Sosenko *et al* 2013; Lambie-Mumford, 2014). A recent survey of housing associations in Scotland reported significant levels of hardship amongst sanctioned tenants, including "where sanctions are leaving tenants destitute, with no money for rent, fuel or food" (SFHA 2014, p2). While no systematic research has been undertaken to establish the extent and severity of poverty caused by sanctions in the UK, the Joseph Rowntree Foundation have recently commissioned a study on *Destitution in the UK* (due to report in late 2015). Linked to these material impacts, sanctions and conditionality have also been associated with negative physical and mental health outcomes, increased stress and reduced emotional wellbeing (Dorsett, 2008; Goodwin, 2008; Peters and Joyce, 2006; Griggs and Evans, 2010).

Sanctions may also be having unintended impacts on public expenditure. There is some evidence from a recent review by the Scottish Parliament Welfare Reform Committee (2014) that the post-2012 sanctions regime is shunting costs from DWP onto other organisations rather than reducing overall Government expenditure on unemployment-related services. In oral evidence to the Scottish Parliament, Jim McCormick of the Joseph Rowntree Foundation said that "the DWP budget might make an efficiency gain in the narrow sense of driving down the JSA budget in the short term, but we know that there is a lot of cost shunting to devolved local budgets, some of which are significant stuff, such as accident and emergency budgets, addictions budgets, policing budgets and Scottish Prison Service budgets". The Committee concluded that "it does seem to be the case that the new benefit sanctions regime is resulting in significant increased costs for other organisations that deal with claimants."

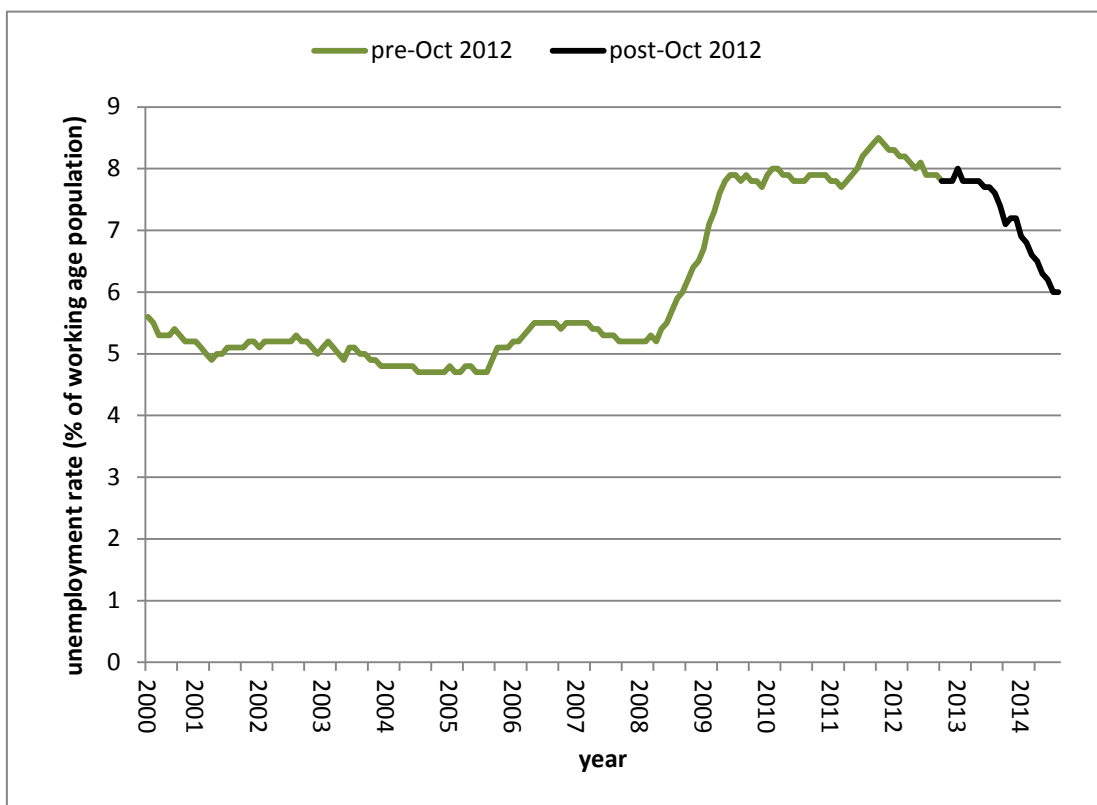
4 RESEARCH METHODOLOGY

The main aim of this report is to establish whether sanctions are an effective tool for reducing unemployment and increasing employment. To test whether sanctions are effectively reducing unemployment, it would be useful to assess if individuals who have been subject to JSA sanctions have improved employment prospects compared with JSA claimants who have not been subject to sanctions. However, none of the UK household-based survey datasets with data on labour market status and benefit receipt (such as the Labour Force Survey and Family Resources Survey) contain information on whether individuals in the survey have been subject to sanctions or not, so this approach cannot be undertaken in the UK using survey data. Hence, the only option is to use more aggregated data from administrative sources – the Office for National Statistics and the DWP.

One approach to examining the performance of sanctions as a tool for reducing unemployment would be to look at the trajectory of the unemployment rate from 2007 onwards as shown in Figure 3. The green line shows unemployment under the old sanctions regime and the black line shows unemployment under the new sanctions regime, using the internationally agreed ILO definition of unemployment. Between October 2012 and December 2013 the unemployment rate fell by around 0.6 percentage points. However, this rate of decrease was almost exactly the same as the rate of decrease between mid-2011 and autumn 2012 (also around 0.6 percentage points), before the new regime came into force. Thus, it seems that the new sanctions regime made no discernible difference to the rate of change of unemployment so far. Unemployment was already falling before October 2012, and continued to do so during 2013, at roughly the same pace in both time periods. During 2014, the unemployment rate fell more quickly – down by 0.9 percentage points in the time period between January and August 2014. However, it is likely that faster fall in unemployment this largely reflects a sustained period of faster overall growth in the UK economy⁶ rather than the impact of sanctions as there were no further major changes to the sanctions regime at the end of 2013.

⁶ See ONS (2014) for details of the acceleration in GDP growth during the period 2012 to 2014.

Figure 3. ILO unemployment rate before and after the October 2012 sanctions regime was introduced, April 2000 – August 2014



Source: ONS (2014)

However, measuring the impact of sanctions by looking at aggregate trends in the unemployment rate is not a very robust approach because there are so many other factors which can affect the path of unemployment in any given time period, particularly the general state of the economy and the pace of economic growth. To produce more robust results, the primary approach of this report is to look at variations in labour market performance across *place* – specifically, across JobCentre Plus districts. Jobcentre Plus offices in England, Scotland and Wales are organised into 37 districts, each with its own management structure. The analysis in this report uses variations in the use of sanctions in each of these JobCentre Plus districts to analyse the usefulness of sanctions as a tool to encourage employment.

The data used at JobCentre Plus district level come from the following official sources:

- sanctions information from official DWP statistics (DWP, 2014a).
- employment, unemployment and economic activity rates by Jobcentre Plus district level from the NOMIS information system (NOMIS, 2014);
- figures on the number of JSA claimants in each Jobcentre Plus district are not published by DWP,⁷ but have been made available as the result of a Freedom of Information Request in June 2013 (DWP 2013b).

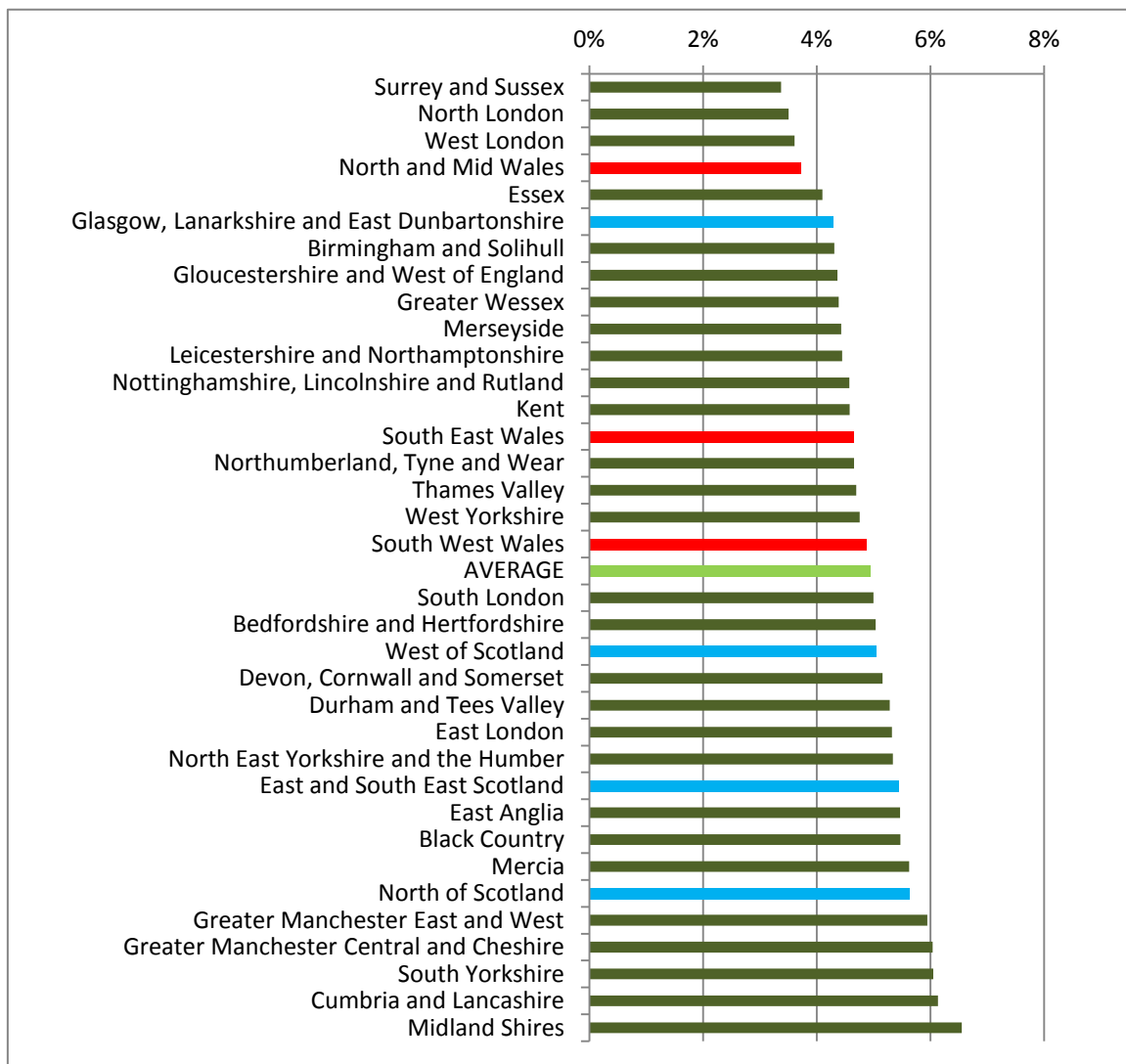
Figure 4 shows the variation across Jobcentre Plus districts in the number of adverse sanctions per month over the 20 months from October 2012 to June 2014 as a proportion of total JSA caseload in October 2012. The average for sanctions as a proportion of total caseload over this period was 4.9 per cent, but there was substantial variation. Four Jobcentre Plus districts (Surrey and Sussex, West London, North and Mid Wales and North London) had sanctions rates of less than 4 per cent per month, whereas three districts (Greater Manchester East and

⁷ The NOMIS system does provide a JSA claimant breakdown by Jobcentre Plus district, but as explained in DWP (2013), the Jobcentre Plus district boundaries used by NOMIS are not up-to-date, which makes it impossible to match the figures from the DWP sanctions data with the NOMIS JSA claimant count data.

West, Greater Manchester Central and Cheshire, Cumbria and Lancashire, Mercia and Midland Shires) had sanctions rates of more than 6 per cent. The highest annual rate was 6.55 per cent in Leicestershire and Northamptonshire, which is almost twice the rate of the lowest four districts. The rates for all districts are listed as an appendix to this paper.

It is clear that there was substantial variation in the number of sanctions across Jobcentre Plus districts over the period October 2012 to September 2013. Some of this is likely to have been driven by variations in client management approaches across districts, with some districts taking a more aggressive approach towards sanctioning than others. In addition, variation may have been driven by differences in the speed at which the Claimant Commitment, which accompanied the new sanctions regime, was rolled out in different Jobcentres⁸. This variation across districts is used in the next chapter to estimate the effectiveness of sanctions as a mechanism for increasing employment and reducing unemployment.

Figure 4. JSA adverse sanctions (Oct 2012-Sep 2013) as proportion of total JSA claimant count



Source: DWP (2014a).

Notes: English Jobcentre Plus districts in green, Welsh in red, Scottish in blue.

⁸ In DWP's own words, "The Claimant Commitment is a new form of the Jobseeker's Agreement which outlines what job seeking actions a claimant must carry out while receiving JSA. It emphasises claimants' responsibility to do all they can to look for work in return for the support they receive from the state" (DWP 2014d). The Claimant Commitment was rolled out across Jobcentres from autumn 2012 onwards, and was in place across most of the country by spring 2014. The new sanctions regime is separate from the Claimant Commitment - with the former being introduced simultaneously across the country in October 2012 rather than phased in. Nonetheless, the Claimant Commitment specifies more detailed conditions for job search for each JSA claimant and it is possible that these conditions could lead to more rigorous application of the sanctions regime in Jobcentres where the Claimant Commitment has been introduced. As explained in Chapter 5, the Claimant Commitment is a key part of the Universal Credit system which will gradually replace JSA from autumn 2014 onwards.

The approach used in this report is to look at changes in labour market status in Jobcentre Plus districts over the 20 months after the change to the sanctions regime was put in place. If sanctions are an effective instrument for encouraging reduced unemployment and increased employment, we ought to see a clear negative relationship between unemployment and use of sanctions across Jobcentre Plus districts, and a positive relationship between employment and use of sanctions. In other words, we are testing whether Jobcentre Plus districts with higher levels of sanctions use see a faster reduction in unemployment, and a greater increase in employment, than Jobcentre Plus districts with lower levels of sanctions.

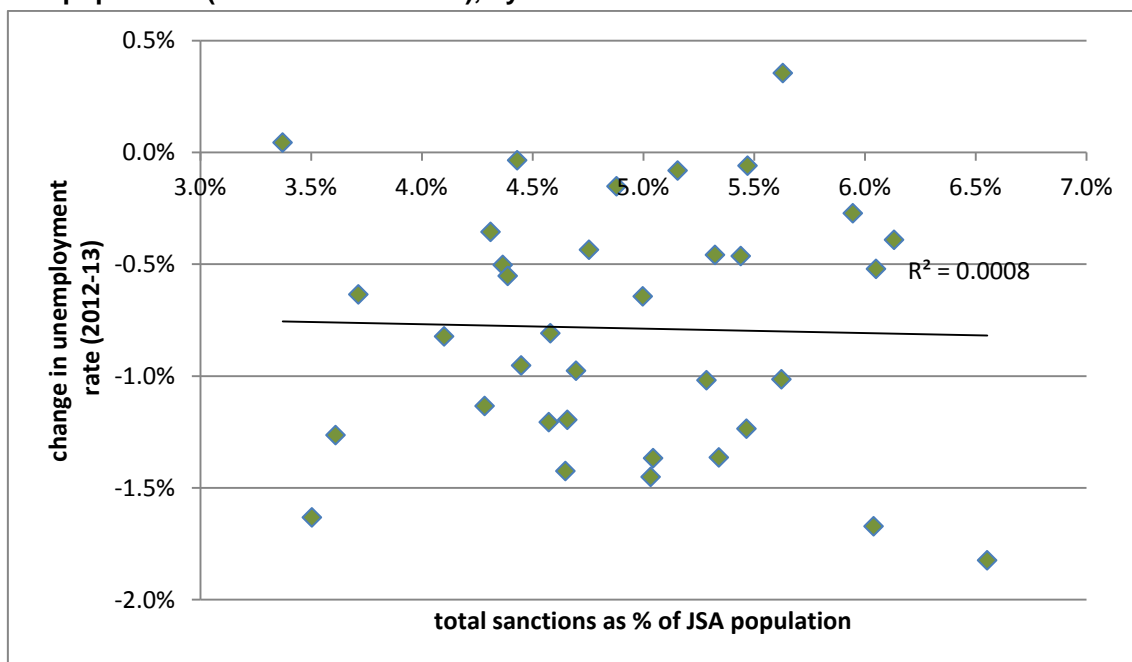
Economic inactivity (that is individuals of working age who are neither in employment nor actively seeking work) in each Jobcentre Plus district, is also important. There is evidence from the mid-1990s that previous tightening of the eligibility conditions for out-of-work benefits (when Unemployment Benefit was replaced with Jobseekers Allowance) had the unintended consequence that the number of people leaving JSA but becoming economically inactive increased, while there was little or no increase in employment (Manning, 2009).

5 RESULTS

5.1 RELATIONSHIP BETWEEN SANCTIONS AND LABOUR MARKET OUTCOMES

Figure 5 shows a scatterplot of total sanctions as the percentage of the JSA population between October 2012 and September 2013 against the change in the unemployment rate from 2012 to 2013,

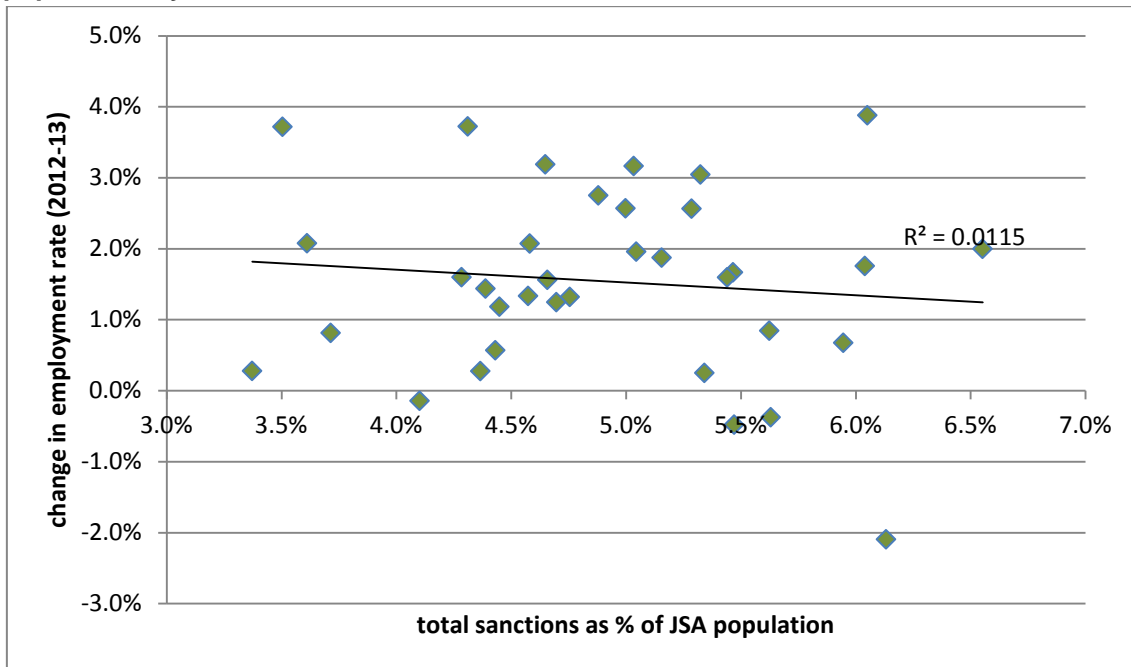
Figure 5. Change in unemployment rate (2012-13) vs total sanctions as percentage of JSA population (Oct 2012-June 2014), by Jobcentre Plus District



If sanctions were an effective tool for getting JSA claimants back into work, we would expect to see lower unemployment in Jobcentre Plus districts where sanctions are more likely to be used. But instead, Figure 5 shows no relationship at all between the change in unemployment rate in each Jobcentre Plus district and the number of adverse sanctions issued as a percentage of the JSA population (as shown by the trend line in the Figure). The the 'R-squared' for the relationship between unemployment rates and sanctions is 0.0008, which means that less than one-tenth of one percent of the variation in the change in unemployment rate between districts can be accounted for by variations in the number of sanctions. The obvious conclusion to draw is that there is no evidence that sanctions are an effective tool for reducing unemployment.

Figure 6 shows a scatterplot for the change in the employment rate for each Jobcentre Plus district against number of sanctions as a percentage of the JSA population, using the same time periods as for Figure 4. This enables us to assess whether sanctions are effective for increasing employment. If they are effective, the relationship between use of sanctions and change in employment rate should be positive, that is, a greater use of sanctions is associated with a faster increase in employment.

Figure 6. Change in employment rate (2012-13) vs total sanctions as % of JSA population, by Jobcentre Plus District



In fact, Figure 6 shows a (very slight) *negative* relationship between sanctions and increases in employment. Jobcentre Plus districts where sanctions were used more heavily saw slower increases in employment (and in some cases falls in the employment rate) compared to districts where fewer sanctions were used. As with the relationship between changes in unemployment and sanctions use in Figure 5 above, the relationship between changes in employment and sanctions use is extremely weak. Only just over 1 per cent of the variation across districts in employment growth can be accounted for by intensity of sanctions use. In short, there is no evidence that sanctions are an effective tool for increasing employment.

Finally, Figure 7 shows the relationship between use of sanctions in each Jobcentre Plus district and changes in the rate of economic inactivity. This graph helps verify whether increased use of sanctions is resulting in sanctioned JSA claimants dropping out of the labour market entirely rather than moving into work.

Figure 7. Change in working age inactivity rate (2012-13) vs. total sanctions as % of JSA population, by Jobcentre Plus District

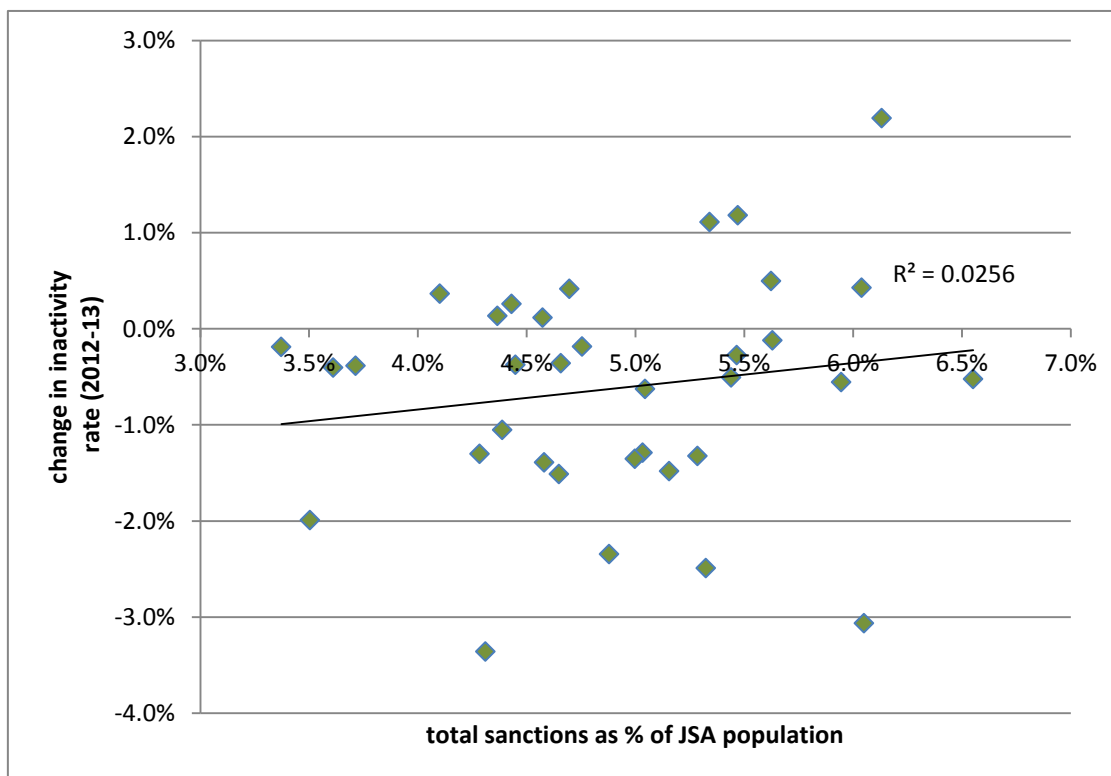


Figure 7 shows that there is very little relationship between the change in the level of economic inactivity in each Jobcentre Plus district and the intensity of sanctions use. If anything there is a slight positive relationship as shown by the trend line in the figure, but variations in sanctions intensity only account for around 2.5 per cent of variation in the inactivity rate, so the safest conclusion to draw is that there is no relationship at all between sanctions and the inactivity rate.

5.2 MORE SEVERE SANCTIONS AND LABOUR MARKET OUTCOMES

The previous section has shown that there is no relationship between greater use of sanctions and better labour market outcomes. This section looks at the more severe sanctions – 'medium' or 'high' level sanctions – to assess whether the use of more severe sanctions in particular has any association with better labour market outcomes.⁹

Figures 8, 9 and 10 below show the relationship between medium and high-level sanctions and labour market status (unemployment, employment and inactivity respectively.) Once again, for there to be clear evidence that sanctions had a positive impact on labour market outcomes there would need to be one or more of the following:

- a negative relationship between unemployment and sanctions;
- a positive relationship between employment and sanctions;
- a negative relationship between inactivity and sanctions.

⁹ It was decided to use medium and high-level sanctions taken together, rather than high-level sanctions in isolation, for this analysis because high-level sanctions are only a very small proportion of total sanctions (less than 10 per cent) and it seems unlikely that such a small subset of sanctions could have a measurable impact on labour market outcomes using the methodology in this report to measure impact, even if sanctions were effective. As a check, the author performed the analysis for change in labour market status against just high-level sanctions as a proportion of JSA claimant count in each Jobcentre Plus district. The results were very similar to those presented in this subsection for the wider set of sanctions – i.e. no evidence that sanctions improve labour market outcomes.

In fact, the observed relationships between labour market outcomes and the intensity of sanctions use are very similar to those observed for the sanctions data as a whole. There is essentially no relationship at all between use of medium and high-level sanctions and any particular measure of labour market performance.

Figure 8. Change in unemployment rate (2012-13) vs. medium and high-level sanctions as % of JSA population, by Jobcentre Plus District

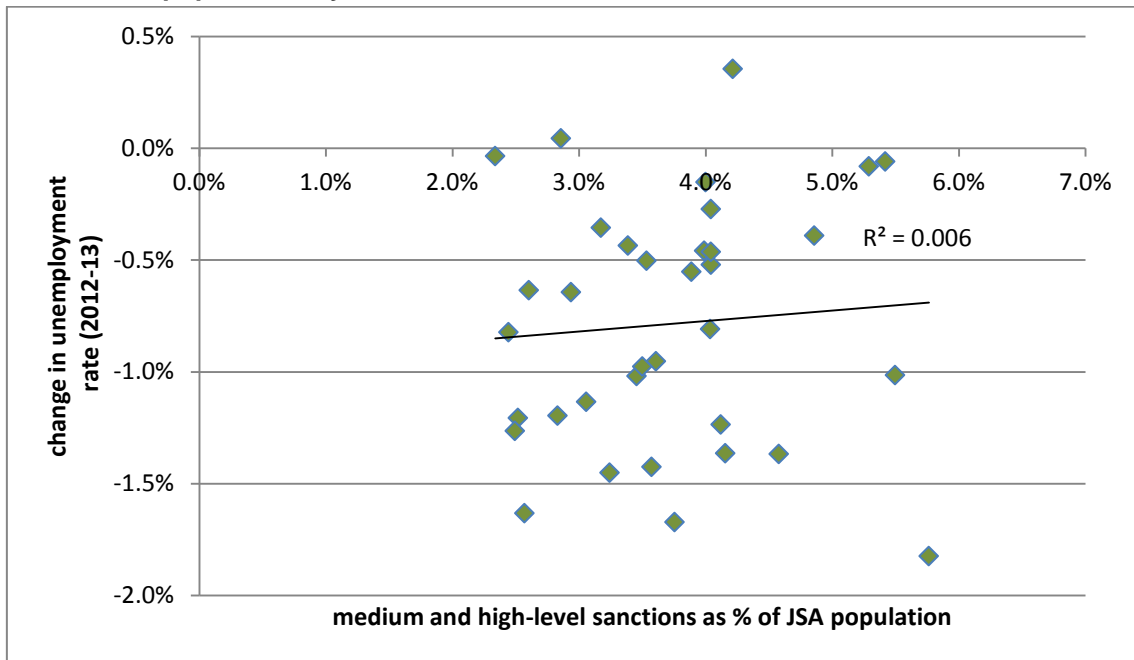


Figure 9. Change in employment rate (2012-13) vs. medium and high-level sanctions as % of JSA population, by Jobcentre Plus District

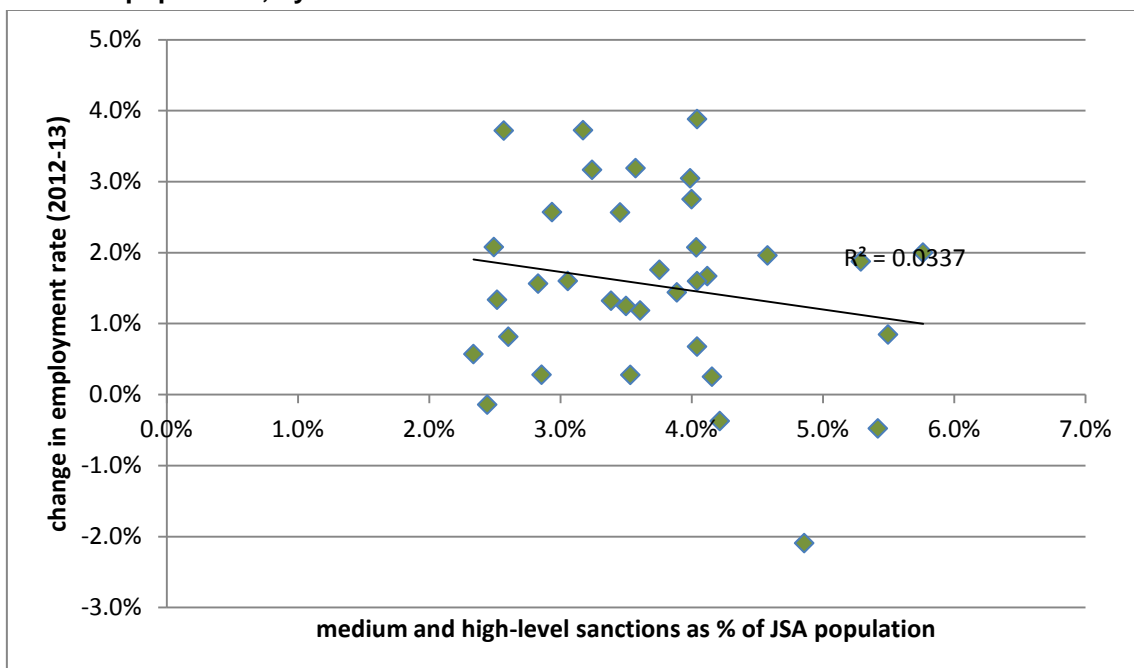
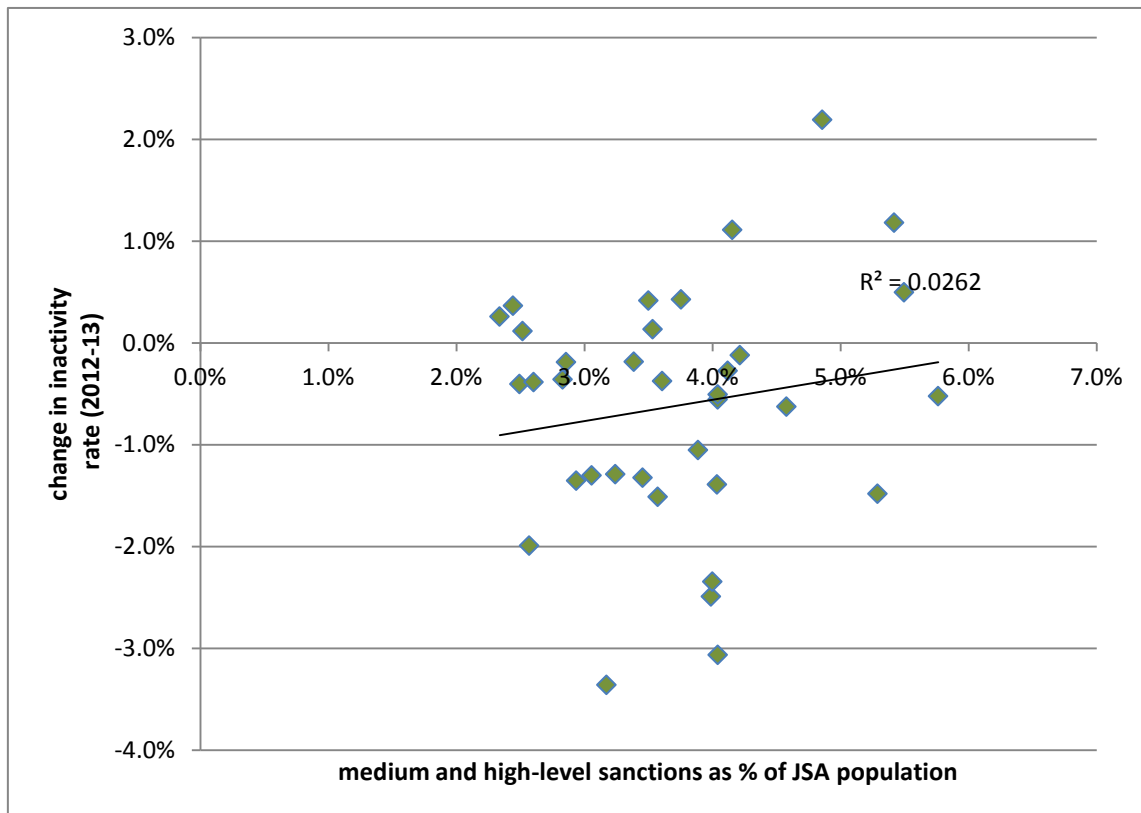


Figure 10. Change in working age inactivity rate (2012-13) vs. medium and high-level sanctions as % of JSA population, by Jobcentre Plus District



5.3 SUMMARY OF RESULTS

In summary, the results in this chapter suggest that there is no evidence whatsoever that greater use of sanctions at the Jobcentre Plus district level is associated with improved labour market outcomes. Those districts that use sanctions more readily do not experience faster falls in unemployment or labour market inactivity, or a faster increase in employment.

6 DISCUSSION

While this report has failed to find any evidence that more intensive use of sanctions improves labour market outcomes, there is plenty of evidence that sanctions have adverse impacts on other dimensions of wellbeing, as discussed in Chapter 3 above (for example, leading to greater use of food banks, and increased stress for sanctioned claimants). The effect of sanctions on hardship is exacerbated by the substantial real-terms cuts to social security benefits for working age adults and families with children¹⁰, and the abolition of the Social Fund, which has prevented thousands of households (including those with sanctioned claimants) from being able to access crisis loans. While the Social Fund has been replaced by hardship schemes administered by local authorities,

¹⁰ See Reed and Portes (2014) for details of the distributional effects of cuts to benefits and tax credits over the 2010-15 Parliament.

these are in general less well funded, less likely to help sanctioned claimants, and may disappear after 2015 when ring-fenced funding for hardship schemes is removed.¹¹

Successive Governments have presented increasingly tough sanctions regimes for claimants of work-related benefits as an essential prerequisite for increasing employment. But if the analysis in this report is correct, the tougher sanctions regime introduced in October 2012 has not improved employment. The increase in the number of successful appeals against sanctions (Webster (2014) finds that the proportion of successful appeals has risen from around 10% to 20% since the new regime was introduced in October 2012) suggests that in some cases the sanctions are being erroneously applied. The Government points to the falling JSA claimant count as evidence that its labour market policies are working, and indeed the claimant count has been falling for the last three years. However, it is unclear to what extent the fall in JSA claims reflects a genuine labour market improvement, and to what extent it is due to changes in the sanctions regime. The recent, Government commissioned, independent review of sanctions (Oakley, 2014) provided useful recommendations on the communication of sanctions and additional hardship support. DWP's commitment to accept and implement these recommendations in full is welcome, as these steps will improve understanding and potentially increase people's awareness of other forms of funding through better access to hardship funds. However, it is important to note that the Oakley review was narrowly framed and in particular it did not address the issue of whether increased use of sanctions in the JSA and ESA systems was actually improving labour market performance.

There are two additional reasons to be very concerned about the future of sanctions in the UK. Firstly, under the ongoing reassessment of the current Incapacity Benefit (IB) caseload, current plans mean that at some point in the 2015-20 Parliament, all existing IB claimants will have been moved over to ESA.¹² This process involves a Work Capability Assessment which, (based on statistics on reassessments already undertaken¹³) is likely to result in a substantial proportion of IB claimants being found fit for work and moved onto JSA, or being placed into the Work Related Activity Group for ESA (both of which are subject to sanctions). This means that the sanctions regimes for JSA and ESA will be extended to a wider range of benefit claimants. The problems with the sanctions system identified by the evidence reviewed in Chapter 3 of this report (sanctions leading to increased hardship and 'cost-shunting' to other organisations) are likely to be exacerbated by this development.

Secondly, from autumn 2014, Universal Credit will gradually replace income-based JSA and ESA¹⁴, as well as tax credits for families with children and working households on low incomes. Most of the features of Universal Credit for unemployed people who are currently entitled to income-based JSA or ESA are similar to the post-October 2012 JSA and ESA regimes, and indeed the Claimant Commitment recently introduced for JSA claimants is modelled on the Universal Credit Claimant Commitment. However, Universal Credit extends work conditionality and sanctions to several groups of claimants who are not currently subject to sanctions, including:

¹¹ Under the Welfare Reform Act 2012, funds were devolved to local authorities in England and to the Welsh government to run their own social security hardship schemes, but these suffer from several disadvantages compared to the Social Fund. Firstly, the money available for the schemes is often insufficient – and the government now plans to scrap ring-fenced funds for hardship schemes altogether from 2015 (DLGG, 2013). Secondly, many local authorities have imposed strict criteria on who can apply for the hardship funds, and some schemes do not accept people who have been sanctioned by the Jobcentre.

¹² The Government had originally planned for the entire IB caseload to be reassessed for ESA by March 2014, but the reassessment is proceeding slower than intended, partly due to the cancellation of the DWP's contract with ATOS to provide reassessments and the appointment of Maximus to handle reassessments (DWP 2014f).

¹³ See DWP reassessment info at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/274090/esa-wca-outcomes-jan-14.pdf

¹⁴ There are two types of JSA and ESA: contributions-based (where entitlement is based on past National Insurance contributions) and income-based (for people who do not have sufficient NI contributions to be entitled to contributions-based JSA/ESA, or who have exhausted their entitlement after a prolonged period of benefit receipt). Universal Credit replaces income-based JSA and ESA but not contribution-based JSA and ESA.

- adults in work but working fewer than 35 hours a week (if they are not the primary carer in a family whose youngest child is under 13);
- self-employed adults whose monthly income is less than the equivalent of 35 hours per week at minimum wage;
- non-working partners in a couple where one person is in work but where the family is still claiming Universal Credit due to low income¹⁵.

The extension of conditionality to these Universal Credit claimants means that sanctions will potentially be applied much more widely under Universal Credit than under the existing benefit and tax credit systems. As a result, the consequences of the sanctions regime are likely to be spread much more widely across the claimant population under Universal Credit. There is a need to ensure the system works fairly for everyone, particularly those most vulnerable.

7 CONCLUSION

The main conclusion of this research report is that sanctions are an ineffective tool for improving labour market performance. Indeed we find some evidence that labour market outcomes are actually getting *worse* in areas where sanctions are being used more heavily. The new sanctions regime may be driving down benefit expenditure (although there is some evidence that this is resulting in increased expenditure on other Government budgets), it also seems to be causing increased hardship. From evidence in this report, it cannot be said that the sanctions regime is responsible for increasing employment.

Given that sanctions cause hardship without delivering increased employment, this report makes the following policy recommendations:

- The Government should undertake a broad and independent review of the operation and impact of social security sanctions, as well as the planned extension of sanctions to working and self-employed claimants and partners under Universal Credit, as a follow-up to the Oakley review, which looked only at operational factors. This review should encompass the effects of sanctions on labour market outcomes as well as poverty and hardship among families containing JSA and ESA claimants.
- The DWP should conduct an investigation into the effectiveness of sanctions using its own administrative data sources (this would enable a much more fine-grained analysis than this report has been able to provide using data at the district level). Decision makers should have their right to arbitrarily suspend social security payments removed pending investigation.
- The implementation of policies (in terms of who is sanctioned, why, appeals, why they are successful) needs to be reviewed to ensure that practice is transparent, evenly applied and fair. The differences in sanctions rates between different Jobcentre Plus districts (and indeed different Jobcentres within districts) should be investigated. Decision makers who repeatedly incorrectly sanction claimants and whose sanctions are overturned on appeal should have their performance addressed.

¹⁵ Note that there are some exclusions, for example people who are not capable of work due to disability.

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APPENDIX A: DETAILS OF SANCTIONS REGIME

Post-October 2012 regime

Severity	Lower level sanction	Intermediate level sanction	Higher level sanction
<i>Description of activity leading to sanction</i>	Fixed period sanction for: <ul style="list-style-type: none"> • refusal/failure to attend an adviser interview • refusal/failure to participate in an employment programme or training scheme • refusal/failure to comply with a Jobseeker direction • refusal/failure to attend, or losing through misconduct, a place on an employment programme or training scheme 	Only applied following a period of disallowance for: <ul style="list-style-type: none"> • not being available for work • not actively seeking work 	Fixed period sanction for: <ul style="list-style-type: none"> • leaving a job voluntarily without good reason • losing a job through misconduct • refusal/failure to apply for, or accept if offered, a suitable job without good reason • refusal/failure to participate in mandatory work activity without good reason
<i>Period of disqualification: First failure</i>	4 weeks	4 weeks	13 weeks
<i>Second failure</i>	13 weeks	13 weeks	26 weeks
<i>Third failure</i>	13 weeks	13 weeks	156 weeks

Pre-October 2012 regime

Severity	Lower level failures	Intermediate level failures	Higher level failures
<i>Period of disqualification</i>	1, 2, 4 or 26 weeks	Disallowance for the period the claimant was not available/activity seeking work, but no sanction	variable: 1 to 26 weeks (except refusal/failure to participate in mandatory work activity – automatic 13 week sanction)

Source: DWP (2013) 'Jobseeker's Allowance: overview of revised sanctions regime', https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/238839/jsa-overview-of-revised-sanctions-regime.pdf

APPENDIX B: SANCTIONS RATES BY JOBCENTRE PLUS DISTRICT

Jobcentre Plus District	Average number of JSA sanctions per month (October 2012-June 2014) as % of number of JSA claimants in District (October 2012)
<i>Birmingham and Solihull</i>	4.31%
<i>Black Country</i>	5.47%
<i>East Anglia</i>	5.47%
<i>Leicestershire and Northamptonshire</i>	4.45%
<i>Mercia</i>	5.62%
<i>Midland Shires</i>	6.55%
<i>Nottinghamshire, Lincolnshire and Rutland</i>	4.57%
<i>Bedfordshire and Hertfordshire</i>	5.03%
<i>East London</i>	5.32%
<i>Essex</i>	4.10%
<i>Kent</i>	4.58%
<i>North London</i>	3.50%
<i>South London</i>	5.00%
<i>West London</i>	3.61%
<i>Durham and Tees Valley</i>	5.29%
<i>North East Yorkshire and the Humber</i>	5.34%
<i>Northumberland, Tyne and Wear</i>	4.66%
<i>South Yorkshire</i>	6.05%
<i>West Yorkshire</i>	4.76%
<i>Cumbria and Lancashire</i>	6.13%
<i>Greater Manchester Central and Cheshire</i>	6.04%
<i>Greater Manchester East and West</i>	5.95%
<i>Merseyside</i>	4.43%
<i>Devon, Cornwall and Somerset</i>	5.16%
<i>Gloucestershire and West of England</i>	4.37%
<i>Greater Wessex</i>	4.39%
<i>Surrey and Sussex</i>	3.37%
<i>Thames Valley</i>	4.70%
<i>North and Mid Wales</i>	3.71%

<i>South East Wales</i>	<i>4.65%</i>
<i>South West Wales</i>	<i>4.88%</i>
<i>East and South East Scotland</i>	<i>5.44%</i>
<i>Glasgow, Lanarkshire and East Dunbartonshire</i>	<i>4.28%</i>
<i>North of Scotland</i>	<i>5.63%</i>
<i>West of Scotland</i>	<i>5.04%</i>
<i>AVERAGE</i>	<i>4.94%</i>

Source: Number of sanctions by Jobcentre Plus district from DWP (2014a). Number of JSA claimants by Jobcentre Plus district from DWP (2013b).

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Howard Reed is the director of Landman Economics, an economic research consultancy which he founded in 2008 to provide high-quality economic research, analysis and policy advice for a wide range of clients. Howard's research specialities include labour market analysis, the tax and benefit system, health economics and progressive political economy. Recent clients for Landman Economic research include the Equality and Human Rights Commission, the National Institute for Economic and Social Research, UNISON, the TUC, Action on Smoking and Health (ASH), Save the Children, the Welsh Government and the Royal Society of Arts.

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