Work it out: barriers to employment for homeless people

Research conducted by nef (the new economics foundation) for Business Action on Homelessness (BAOH)

Summer 2008
Executive summary

Introduction
Many homeless people are keen to enter the world of work. Financial rewards are rarely the primary motivation for people wanting to move back into work, but they are frequently the deal breaker that stops someone taking a job. This research, commissioned by Business Action on Homelessness (BAOH) and carried out by nef (the new economics foundation), was designed to find out what prevents them from taking the job or staying in work, and what could encourage them otherwise.

It follows work commissioned by Business Action on Homelessness (BAOH) from Bain & Company in 2006 which showed that one of the biggest barriers to employment was benefits which trapped people rather than enabled them to take up work. In that same year, John Varley, Chief Executive of Barclays and Chair of BAOH raised the issue of the benefits trap with the then Chancellor of the Exchequer, Gordon Brown. The Chancellor challenged him to make specific recommendations about changes to the current welfare system to help facilitate a return to work for homeless people. This report was commissioned in response to this challenge.

The problem
The majority of homeless people want to work. A study by Off the Streets and Into Work in 2005 found that 77% or respondents were ready to work at the time of the research, with 97% wanting to work in future. Yet the experience at BAOH has shown that their journey to achieving this goal is frequently complex and non-linear. Furthermore, many BAOH clients report that they are often unable to take up or sustain employment as they will be worse off financially in work than on benefits.

The idea of making work pay has underpinned employment policy for many years and led to measures such as Working Tax Credits. The difficulty with the policy is that it assumes that rational financial decision-making plays a big role in whether or not people go ahead and look for work. Instead, this research suggests that that people are naturally loss averse – an idea taken from behavioural economics.

That means that they tend to weigh the prospect of losing something, such as benefits more heavily than being given the same amount, such as a salary. The implication of this is that even people who are hardly loss averse at all need more financial incentives before they think work is an attractive option.

Research approach

The hypothesis that this research was designed to cover was that ‘changing the taper to one or more identified benefit streams would create sufficient incentives for people who are currently homeless or at risk of homelessness to take up employment opportunities and at the same time deliver an overall net gain to government’. The research approach we chose to test the hypothesis meant looking at a range of costs and benefits that are not generally taken into account in standard cost-benefit analyses. We adopted the following research process:

- **Literature review:** we gathered up existing analysis of the costs and benefits of employment for homeless people and other vulnerable groups.

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1 Business Action on Homelessness (2006), *Agenda for Work*;
2 Off the Streets and Into Work (2005), *No Home, No Job: moving on from transitional spaces*
• **Stakeholder interviews:** we carried out a number of interviews with people with experience of homelessness who have tried to get into employment. We also conducted semi-structured interviews with those who work with homeless people and those at risk of homelessness including hostel staff, BAOH staff, employers and policy-makers. The results of these interviews were further substantiated at a workshop attended by a selection of the interviewees. The interviews, workshop and desk research helped us check some of the assumptions we were making about the economic model we were using.

• **Economic modelling:** both the research review and interviews helped us develop a robust economic model based on the theory of loss aversion, which meant we could compare the full costs and benefits in economic terms across Government departments. We also developed a number of scenarios which allowed us to use some of the insights of behavioural economic analysis to look at people’s behaviour in the real world.

• **Comparing costs and benefits:** our economic model allowed us to draw conclusions about the cost of homelessness to the government, and whether it made sense financially for them to increase the incentives to homeless people to help them stay in work.

**Summary of conclusions from the stakeholder engagement**

1. Clients are extremely motivated to work. Financial rewards from work are rarely the primary motivation, yet they are often the deal breaker.

2. People do not always feel better off in work.

3. Lack of financial planning undermines efforts to stay in work.

4. The voluntary nature of work placements has a powerful effect on clients.

5. Hostel rents and conditions are not always conducive to employment.

6. Clients, frontline workers and sector experts all find the tax and benefits system confusing and inaccessible.

7. Clients taking positive steps towards employment do not always get support and encouragement from the tax and benefits system.

8. Poor ‘benefits transitions’ can mean clients going further into debt, making them increasingly vulnerable to returning to homelessness. The system is poorly structured to meet people’s needs once they are in employment.

9. A poor experience of moving into work is likely to make people more nervous about trying again. It makes sense, financially and otherwise, to get it right first time.

10. Minimum wages and unreliable shift work are hard to manage within the benefits system, exposing clients to financial hardship and insecurity.

11. The first one to three months of employment are very difficult for many clients. Most support is designed to get people into work, but continued support is vital to help people settle into work so that clients can become resilient employees.
12. Clients are extremely isolated and lack social networks of support, and this gets worse when they get a job.

13. For clients to stay in employment, they need opportunities for future progression.

Conclusions from the economic modelling

14. Our sample of homeless people costs the state £2.1bn over four years, or an annual cost of £26,000 per person. Our figure is significantly lower than some studies partly because we have used conservative assumptions throughout, and partly because as people become job ready they are less likely to need state services than street homeless people.

15. People are not always better off in work. Many people are either not better off in work, or only marginally so. This is particularly acute for single people under 22.

16. When ‘loss aversion’ is factored in, the perceived financial risks are predominantly against taking up work. Without loss aversion factored in, two of the three cases we looked at showed a positive financial case for moving off benefits and into work. But when you realise that losses are valued more than gains, the balance of this calculation changes significantly.

17. It will cost government £190m in the first year to incentivise people with low levels of loss aversion, an average of £9,520 per person in the first year, falling to £816 per person in year 4. When you compare this with the annual costs of homelessness to the state, this still represents a total saving to government of £1,715m over the four-year period for our sample of 20,000 people. Within each category of loss aversion, there is a considerable return on investment: 5/1 at the lowest end, dropping to 1.8/1 at the highest end. The financial incentives needed to encourage our sample group into work range from £190m to £522m a year depending on how loss averse they are.
Recommendations

1. Making sure people have firm financial foundations
   - Government must introduce enough financial incentives to encourage people to move off benefits and into work.
   - Businesses and government must investigate with stakeholders how best to introduce this financial support package. The two key principles that such a mechanism should be based upon are *simplicity* and *comprehensiveness*.

2. Moving into work
   - The homelessness sector and back to work agencies must make sure financial planning and debt counselling are available to all clients thinking of taking work.
   - The homelessness sector should clarify the rent requirements for hostel users and provide short-term affordable ‘in-work’ accommodation for people who go back into work.
   - The homelessness sector and business need to make sure their clients are aware of existing benefits, particularly in-work benefits.
   - The government has to give more discretion and training to Job Centre staff to support clients when they take positive steps to improve their employability.
   - Government and businesses need to rethink benefits transitions to make sure people are not forced further into debt.
   - Employers should phase out short-term contracts and irregular working patterns.

3. Settling into work
   - Businesses should link up with back to work agencies to provide support packages to cover people’s transition and settling in phases at work.
   - The government should pilot a ‘settling into work’ category so that claimants can suspend their benefits claims rather than close them altogether.

4. Sustaining and progressing in work
   - Business should increase their provision of non-financial support in work.
   - Researchers need to identify characteristics of resilient employees based on current best practice.

In order test these recommendations we propose a pilot project is established which should incorporate:
   - Back to work and in-work support
   - Pre-work financial planning
   - In-work affordable accommodation
   - In-work financial incentives
   - ‘Settling in’ category which enables suspension not closure of benefits claim

This pilot should be rigorously evaluated, including a holistic return on investment calculation, to enable a thorough review before rolling out this approach.
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A graphic illustration of the route from homelessness to employment
1. Introduction

This report was commissioned by Business Action on Homelessness (BAOH) in 2008. It follows work they commissioned from Bain & Company in 2006, which identified benefits which trap people in the system, rather than enable people back to work, as a key barrier to employment. This research was followed by a meeting between the then Chancellor of the Exchequer, Gordon Brown, and John Varley, chief executive of Barclays Bank and chairman of BAOH. Varley raised concerns about the number of BAOH clients who complain about the so-called ‘benefits trap’, citing that as the main reason that they cannot enter or sustain employment. The Chancellor challenged him to make specific recommendations about changes to the current welfare system to help facilitate a return to work for homeless people.

This challenge led to this report. BAOH asked nef (the new economics foundation) to investigate the hypothesis that ‘changing the taper to one or more identified benefit streams would create sufficient incentives for people who are currently homeless or at risk of homelessness to take up employment opportunities and at the same time deliver an overall net gain to government’.

BAOH believes that sustainable work is the best way for most homeless people to achieve independent living and social inclusion. It aims to break the cycle of ‘no job, no home, no job’ by helping homeless people, or those at risk of homelessness, to find employment. BAOH also works closely with local support agencies to identify people who are ready for work. These people have usually been out of work for a long time, and lack the confidence and experience to find jobs by themselves. A registration form for potential BAOH clients is included as Appendix F.

Despite the success of the programme in supporting people to get jobs and keep them, a number of the companies that provide Ready for Work placements are frustrated that some clients feel unable to accept job offers, because they say they will be financially worse off, particularly in the short-term. Or, that having taken up employment, clients find they have to go back on benefits because they are worse off in work. This report looks at how nef investigated this issue further, and took advice with the various stakeholders involved in developing a solution.

Context
The report is also a response to the emergence, over the last ten years, of a consensus among government policy-makers that benefits need to focus on the objective of getting claimants back into work.

The foundations of this policy date back to shortly after the 1997 general election, when Gordon Brown asked Martin Taylor, then chief executive of Barclays Bank, to ‘examine the interaction of the tax and benefits systems so that they can be streamlined and modernised, so as to fulfill our objectives of promoting work incentives, reducing poverty and welfare dependency, and strengthening community and family life’.

His report argued that ‘the unemployment trap arises because an individual, on taking work, may lose so much through tax and reduced entitlement to benefit as to make the marginal financial value of employment very low’. He proposed a series of changes to the tax and benefits system, recognizing that there was ‘room to improve the structure of tapers’.

Ten years on, it is clear that the Labour Party’s approach to the tax and benefits system has been an era of ‘welfare to work’, characterised by a ‘rights and responsibilities regime’ for all people on benefits.

The concept of conditionality has become increasingly prominent in welfare policy in the UK and internationally. It is interpreted in UK policy terms as ‘the principle that aspects of state support, usually financial or practical, are dependent on citizens meeting certain conditions which are invariably behavioural. In simple terms: ‘something for something’. The structure and operation of conditionality policy is principally aimed at fostering positive outcomes for individuals and helping to prevent negative ones’.4

New UK policy
There has been a great deal of policy activity in this area over recent years. In 2007 David Freud was commissioned to produce an independent report for the Department of Work and Pensions (DWP). 5 He recognised the success of the welfare to work approach in targeting specific groups such as lone parents, older workers, ethnic minorities and disabled people. But he warned that a distinctive group, characterised by ‘multiple disadvantage’, does not receive the attention it deserves because of the government’s ‘client group’ approach.

Freud recommended that the current regime will need to move from a traditional approach based on client groups and specific symptoms to one based on individual needs, and – the more policy-makers have to tackle the hardest to reach – the more this will be necessary.

The Department for Work and Pensions (DWP) 2007 Green Paper Better off in work: Next Steps to Full Employment proclaimed the goal of ‘full employment in our generation’ with the welfare to work approach at its heart. The White Paper, Ready for Work in December 2007, set out a number of new initiatives within the intention of ‘ensuring that workless people have access to efficient, modern, personalised support, and moving people from being spectators on the margins – passive recipients of benefits – to become active participants – seeking work, improving their skills, and getting on’.6

The key mechanisms included to achieve this are:

- A stronger framework of rights and responsibilities to move benefits claimants from being passive recipients to being active job seekers.
- A personalised and responsive approach.
- Partnership – the public, private and third sectors working together.
- Targeting areas of high worklessness by devolving and empowering communities.
- Not just jobs, but jobs that pay and offer opportunities for progression.

The 2008 Green Paper in July 2008, No one Written Off: reforming welfare to reward responsibility is seen as an integral part of the ‘Ready for Work’ agenda. This proposes to simplify the benefits system and make sure there is ‘greater and more

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5 David Freud (2007) Reducing dependency, increasing opportunity: options for the future of welfare to work, DWP.
personalised support for people. It is also intended to be ‘in return for more responsibility’ from current and future claimants with a range of options to:

- Simplify the benefits system – moving towards a more streamlined system based on just two working age benefits: Employment and Support Allowance (ESA) for those who have a medical condition which prevents them from working and Jobseeker’s Allowance (JSA) for everyone who is fit to work.
- Making sure that benefits are only temporary for most people on benefits. There is not a right to a life on benefits.
- Require most people on benefits to contribute actively in return for their benefits.
- Provide more support for disabled people to get into work and keep their jobs and more control over the support they get.
- Provide a full disregard for child maintenance payments, so that payments will not be taken into account when calculating how much out of work benefits a parent should get.

The debate continues about how effective these ideas are likely to be in reaching the hard-to-reach groups.

**Practicalities**

_Took out bit about OSW and Thames Reach 10% initiative as it didn’t seem to fit well._

A number of government departments have commissioned reviews into how current incentives work. These include:

- An internal review currently reporting to ministers on work incentives, efficiency, fairness, and value for money of Housing Benefit, which will report to ministers towards the end of 2008.
- The DWP review of conditionality launched in July 2008. Professor Paul Gregg who leads this said that the aim ‘is to develop a challenging, appropriate and effective sanction regime tailored to the individual’s needs and that motivates people to do the right thing’. The review will include a look at how the latest behavioural economics can motivate individuals.

All these various approaches use aspects of sticks and carrots to incentivise homeless people into work. But there are concerns about how practical these are, and how effective they are being. What is urgently needed is a study into how incentives have worked in the past, and what opportunities there might be for making them work better, and that is what this current report aims to provide.

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7 Ibid
8 DWP (2008) _No one written off: reforming welfare to reward responsibility._
9 DWP (2008) _More support, higher expectations: the role of conditionality in improving employment outcomes._
2. The research approach

The hypotheses that the nef research was designed to test was that ‘changing the taper to one or more identified benefit streams would create sufficient incentives for people who are currently homeless or at risk of homelessness to take up employment opportunities and at the same time deliver an overall net gain to government’. The research approach we chose to do this included the following elements:

Reviewing research
We reviewed existing material, including publications and data representing or reinterpreting evidence. Our analysis began by gathering existing analysis of the costs and benefits of employment for homeless people and other vulnerable groups, but also by exploring gaps in knowledge. We used a whole systems approach to gather information on the full financial implications of current and proposed new models of working, understanding that only by looking at the problem in context would we be able to see it clearly. We developed this further with a series of semi-structured interviews with a variety of stakeholders.

Gathering experiences
We carried out a number of interviews with people who had experience of homelessness and who have tried to get into employment. We also conducted semi-structured interviews with those that work with this issue, including hostel staff, BAOH staff, employers and policy-makers. The interviews and desk research helped us check some of the assumptions we were making about the economic model we were using.

Economic modelling
Both the research review and interviews helped us develop a robust economic model, which meant we could compare the full costs and benefits in economic terms, across governmental departments. We also developed a number of scenarios which allowed us to use some of the insights of behavioural economics to look at people’s actual behaviour in the real world. The approach incorporated both immediate costs and benefits in particular areas, but it also included a broader approach to costs that fall beyond the annual budgetary cycles. We wanted to be able to capture the real costs to the state of homelessness and economic inactivity, as well as to individuals of going back to work.

Holding a stakeholder workshop
To develop a consensus for change, we convened a workshop with a broad range of stakeholders. This gave us the opportunity to share early findings and to test out our preliminary work. It also meant we could engage all the various stakeholders in shaping solutions that are practical.

Writing the report
The final product of the research is an accessible report which provides an overview of the work. More details about the research process, methodology, evidence collected and models used for calculations are included within the appendices of this report.
3. Overview of the stakeholder engagement

Our structured interviews were designed to find out how much financial considerations played a role when people with an experience of homelessness chose not to take up job opportunities, even though they had taken part in placement schemes. The interviews were also designed to find ideas and practical examples about how to remove barriers to employment.

Two separate topic guides were created for interviews with clients (people with an experience of homelessness) and staff. The client interviews were less structured than the staff interviews, and were designed to capture people’s stories as they progressed through the path to employment. We used prompts to find out what they needed in terms of support, benefits status, decision-making processes and their perceptions of the advantages and disadvantages of employment. The client topic guides were developed to take their current employment status into account. These are in Appendix E.

The interviews with BAOH and referral agency staff looked at their broader support needs, benefits trajectories, decision-making processes, advantages and disadvantages of employment. We developed two interactive exercises: one of which asked respondents to modify a flowchart representing diverse elements of the path to employment. In the other, we asked them to rank employment success factors. These are in Appendix D.

We interviewed a total of 14 clients and 12 staff. In one instance, three staff members from a referral organisation were interviewed jointly. We recruited staff via BAOH management and clients via BAOH staff. We made every effort to speak to the widest range of clients possible to reflect a variety of experiences of the path to employment. While the group interviewed did not give us a statistically robust sample, this primary research has been triangulated against other studies and statistical data to make sure the interpretation we have made reflects the broader experiences of homeless people who want to get jobs. The intention of the semi-structured interviews was to make sure that ‘real life’ experiences were reflected in the economic modelling work.

We also scheduled interviews with key individuals who were able to bring particular insights to the research. These included leaders and policy-makers from the homelessness sector, frontline staff with an experience of delivering innovative approaches and senior staff from the Jobcentre Plus.

We also felt it was important to set the path towards employment in context. This includes the personal characteristics of the client group and the institutional framework, all of which can throw up a number of barriers to employment. The path to employment is also affected by a number of confounding factors which, while not barriers themselves, do tend to add to the level of complexity involved.

Barriers to employment

In its 2007 study, the National Audit Office (NAO) identified a range of barriers to employment faced by workless people. Person-related barriers included low qualification levels, low motivation or aspiration, poor job search skills, lack of recent work experience, poor health or disability, poor social networks, cultural and language barriers and caring responsibilities.

Systemic barriers included living in concentrations of worklessness, living in social housing, poor local transport, limited local job opportunities, poor financial incentives and real or perceived financial barriers, and real or perceived discrimination by employers. A further issue is that employers are often unwilling to hire people with a criminal record.

Homeless people face all these barriers when they are looking for work. They also face barriers specifically related to having been homeless. This research identified a wide range of barriers to employment amongst BAOH clients, and most clients also face multiple barriers.

Our research method allowed us to get feedback from stakeholders as we went along, including a workshop event. Discussions with stakeholders at the workshop event confirmed that self-confidence was a major personal barrier for people and one which support programmes needed to address.

The personal characteristics and behaviour that we identified as forming barriers to employment include, in order of how often they were prioritised by stakeholders at the workshop:

- Low self-confidence
- Multiple needs
- Ongoing physical or mental health problems
- Not yet being ready for employment
- Patchy or non-existent employment records
- Age
- Behavioural problems and substance misuse
- Offending and criminal records
- Lack of practical necessities
- Low skill levels, lack of qualifications and learning disabilities
- Family obligations
- Fears about working

Systemic barriers cluster around a number of issues, again in order of how often they were prioritised by stakeholders:

- The benefits system
- Not being better off in employment
- Living in hostels
- Employer perceptions
- Barriers related to the job search itself
- Barriers related to qualifications
- Barriers related to the jobs on offer

All those involved in conversations on at the stakeholder workshop drew attention to the difficulties that people experienced with the tax and benefits system.

The specific barriers cited that relate to the tax and benefits system include difficulty getting information on benefits, misconceptions about the in-work benefits taper or extended benefit, in-work benefits not administered fully and being financially worse off in work.

The path to employment
Our desk research allowed us to build a model of the path to employment as it stands in current practice. This model consisted of the three main components illustrated in diagram 1 below.

**Diagram 1: The traditional path to employment**

Engagement → Pre-work support → In-work support

**Engagement:** There is a pre-engagement phase when key workers work with clients with high support needs to help them tackle the issues that contributed to their homelessness, for example needing treatment for addiction. This is a necessary precursor to the engagement phase. We did not look closely at the pre-engagement stage.

During the engagement phase, clients work on life skills, personal development and similar issues. This stage generally takes place before employment opportunities arise and, in many ways, shows that people are taking steps to tackle issues that otherwise make their lives particularly chaotic. At this stage, it is critical that clients are encouraged to engage with the idea of getting into work and what it might entail.

**Pre-work support:** During the pre-work support phase, programme support staff help clients get ready for work. This can take the form of job search training, volunteering, work placements, identifying opportunities, improving skills with training and so forth.

**In-work support:** When the pre-work support phase results in a job offer and individuals accept it, in-work support is provided by some agencies or employers in the form of job coaches and in-work training. Some people also stay in contact with support workers.

Research by the National Audit Office recently mapped the range and focus of programmes that are now supporting people into work.\(^{11}\) Their findings showed that the majority of programmes – including all of the six New Deal packages\(^ {12}\) - focus primarily on ‘initial work preparation’, ‘specific work preparation’ and ‘post-recruitment and transitional support’.\(^ {13}\) Only Pathways to Work pilots, Access to Work and Workstep\(^ {14}\) provide longer term in-work support.\(^ {15}\)

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\(^{11}\) ibid

\(^{12}\) Comment: Each New Deal programme has different elements, dependent on the target group, but they all provide access to a personal advisor who can help in looking for work and advice on overcoming barriers to work.

\(^{13}\) Comment: Lone parent support programmes include referrals to other sources of help such as debt help. Help with the costs of going back to work and in-work support are also available.

\(^{14}\) Comment: These programmes offer a package of measures to people with a disability and on incapacity benefit, including ongoing support from personal advisors, access to a wide range of specialist employment programmes and financial support when in work.

\(^{15}\) Comment: ‘Longer term in-work support’ is not clearly defined in the NAO report but is only available for ‘clients with more profound or fluctuating difficulties’.
The NAO report recognises the various stages that people move through. One recent analysis of activity to tackle worklessness in Glasgow found that funding and energy tend to be concentrated on looking for jobs and other work-preparation activities. Much less is spent on engagement and in-work support (see NAO diagram below).  

None of these programmes are designed to cope with the specific challenges faced by people with an experience of homelessness, and new proposals currently out for consultation by the government do not specify how the needs of this group will be met.

**A modified model**

Our research suggests that a modified model, illustrated in diagram 2 below, better reflects the reality of people’s journeys into employment. It highlights the need for intensive support during the first three months of employment, because this is when clients often struggle financially, emotionally and practically:

Diagram 2: The modified path to employment

The modified model also points to the need to focus on sustainable employment beyond three to six months, which is the period currently used to measure the success of most programmes.

The diagrams above show simple linear journeys towards employment. In fact, people’s journeys can be extremely complex, with a whole range of outcomes, which impact on their capacity to move forward. Both the steps they take and the time they spend in each phase varies for different people, and sometimes the route they take is outside their control.

The following cases, taken from the interviews conducted with people with an experience of homelessness, show just how many factors impact on people’s experience.

Seeking employment
The first two examples are of people who are not employed. Case 4 one includes the impact of health on the likelihood of working. Case 12 another looks at the impact of a criminal record on moving into employment.

Securing employment
Cases 1 and 2 look at how people who began work found the experience. In case 2, the client had to move back in with their family because of financial hardship. In case 1, their employment stopped at the end of their contract, resulting in them becoming unemployed again.

Sustaining employment
Cases 5 and 6 shows what happens to people who have stayed in employment for a period of time. Case 5 shows how financial hardship can be an enduring issue, despite over a year in work. Case 6 illustrates how the combination of financial difficulties and mental health problems have an impact on whether they can stay employed.
Case 4 (below) looks at how a number of personal factors such as personal debt and physical health problems combine to make people extremely fearful of progressing into work.

Meanwhile, Case 12 looks at how a criminal record can impact on someone’s progression, despite their willingness to work.
Case 2 (below) looks at how progression into work can lead to people facing new hardships. In this example, financial hardship forces them to move back into potentially insecure housing situation with relatives.
Case 1 (below) looks at how getting a job is not the whole journey. The diagram below illustrates the impact of contract working. In this example, although someone has managed to stay in work for the period of their contract, they have not necessarily gained the skills and resources to stay employed. The risk is that the confidence that comes with working is temporary, rather than part of a process of sustained change for the individual.
Case 5 below provides an example of sustaining work for 19 months. Despite continuing financial hardship they managed to get renewed access to their children.
Case 6 involves someone who has stayed in work for 12 months. They have a pre-existing mental health condition. After experiencing a prolonged period of financial hardship and debt while they were living independently, they have now had to move back in with their parents. They are currently appealing against their dismissal from work.
Non-linear journeys
Although the path to employment is modelled here as if it were a linear one, this is not always the case in real life. Some clients, especially those with low levels of support needs, do have a linear experience. Others can, and do, drop out of the process at any given point. They might, for example:

- Not enter the pre-work phase because they are not ready or are turned down.
- Drop out of the pre-work phase because of financial or other concerns.
- Refuse job offers for a variety of reasons.
- Be unable to find a job.
- Walk away from a job because they are not financially better off or are unable to cope.
- Be sacked for poor attendance or other reasons.
- Become unemployed again when a short-term contract ends and have difficulty finding a new job.

All this means that we have to change the model to make it reflect the way people experience the process in real life as seen in diagram 3.

Diagram 3: The real path to employment

What makes this model work better is that it makes clear that work programmes have to go beyond just finding job opportunities. They also need to provide support to settle into and sustain employment.
4. Findings from the stakeholder engagement

The stakeholder engagement phase led us to the following conclusions, which were used to inform the economic modelling phase.

1. Clients are extremely motivated to work, with financial rewards from work rarely being the primary motivation. Yet they are often the deal breaker.

Whatever their main motivation for finding work, clients needed the economics to be right before they would consider getting a job, and – more importantly – before they could hold it down. Getting beyond the financial tipping point is clearly a necessary but not a sufficient condition for successfully integrating homeless people into the world of work. As well as getting people beyond this point, the evidence shows that ongoing support is also crucial.

“As a human being, it’s a natural instinct for most unlazy people to go out and work. Whether where the job they are doing from cleaning to working as a processor to going into banks, any big high rising job, it’s about doing something in your life, you know, and I think that’s the main criteria.” (Case 6, client)

“I’d rather struggle as I am now, than struggle being on the dole.” (Case 14, client, British)

“I’m ashamed, I don’t like [being on benefits] … I can work, why go there and sign and take the money, stay home and take the money [every] two weeks? It’s not right.” (Case 13, client, asylum seeker)

“It was, I wouldn’t call it social status as such, but I had to work… the extra money that it would give me was a bonus. I did offer to do voluntary work in the past so, finances isn’t like the main thing for me.” (Case 1, client)

“Financial gains – I think from personal experience that comes last on the list. Because that really is not what is driving them. It’s really this sense of meaning.” (Case 24, staff)

2. People do not always feel better off in work.

The people that we interviewed spoke powerfully about the financial difficulties they experienced when making the transition into work. Many of them faced extra costs they never expected, which made a significant impact on how they experienced being in work. The loss of passported benefits, such as free travel in London, or the requirement to pay prescription charges had a heavy impact on their ability to get by. Then there were the new costs, such as buying clothes for work and ongoing in-work costs such as buying lunch or travel costs. The requirement to begin repayments on outstanding debts was also a significant financial burden.

People do not have existing funds or savings which they can draw on, which means that – at times of transition and financial hardship – they are very vulnerable to increasing existing debts or accessing doorstep lenders. An experience of being worse off in employment is likely to.

It was this evidence that particularly led us to draw conclusions about the kind of incentives people needed to get work and to stay employed, not so much to
encourage them somewhere they were unwilling to go, but to help with these unexpected extra costs of being employed.

“So I needed – either I went completely full time that would pay me properly, or I could just go part-time, 16 hours, kind of just staying in the working tax credit threshold. Because again with a low paid job. They don’t pay me that well and I cross that threshold…” (Case 10, client)

“I did a lot of work around what [his finances were] like before he started working over 16 hours… we did some calculations and I worked out that he was £4 better off by doing 21 hours a week with us. £4 better off to get up every day to become a motivator!” (Case 21, staff)

“I think if I did [consider the money beforehand] I probably wouldn’t have taken the job because I would have sat down and worked out the maths and thought well bugger this I am not getting in arrears.” (Case 9, client)

“He was worried about his script, because he had to have his methadone once a day, and that’s a prescription each day which is paid for… And if he comes off benefits then all of a sudden where is he going to get 6 pound a day.” (Case 17, staff)

“By the end of the week, by the time I got paid – tried to pay my rent, £65, gas, electric, water rates… council tax – it was all gone. And then you gotta think ‘well hang on a minute, where do my toiletries come in? Where does my food, my travel expenses?’ You know, things you need to keep you in work, do you know what I mean, you’ve got to have your travel expenses and you gotta be eating.” (Case 6, client)

3. Lack of financial planning undermines efforts to stay in work

‘Better off in work’ calculations using the Jobcentre Plus model do not take enough account of outstanding debts, or the loss of passported benefits. Debt is a common issue for people with experience of homelessness, as the interview sample illustrated, yet the usual calculation process does not usually take account of outstanding debts. Nor does it encourage people to talk about potential financial hardship, or help them budget better. In response to this, OSW has developed an IntoWork Calculator that looks at the costs of working as well as benefits, but it is just for single people and very much focuses on hostel tenants.17

People’s low self-confidence means they are unlikely to contact debt agencies to renegotiate repayment terms. During the settling in phase, once clients are earning, many of their debts become live again and have to be paid back. Often this alone can put their continued employment at risk. Failing in work is likely to make people more risk averse and less willing to try again. But there are measures that support agencies can take, if they encourage clients to plan ahead.

“I signed my contract without even asking what the salary was.” (Case 9, client)

“He loved the job and he maintained the job, but he had to pay that rent, so what happened he ended up going to live with friends. Now what has happened is, you go and live with your friends, there’s a problem, you fall out, you’re homeless again, no job.” (Case 22, staff)

“[They are] very, very badly aware [of what will happen financially when they start to work]. Not aware at all, and that’s because no one seems to be able to tell them.” (Case 20, staff)

“If we talk about that, and talk honestly about the benefits trap thing, you are in danger of not engaging anyone to get them onto the programme…” (Case 21, staff)

4. The voluntary nature of work placements has a powerful effect on clients

Experiencing the workplace is often powerful for BAOH clients who are on placements, mainly because they know they are there because they want to be. They also valued the fact that others were there for similar reasons. This compared very favourably to experiences that people had on courses where people were forced to attend.

The implication is that there may be disadvantages for the government if they force claimants onto work-related programmes in return for benefits, like the Flexible New Deal scheme.

“After two days of being with each other, we all had so much confidence, and you could see the change in so many people; it was quite remarkable.” (Case 4, client)

“It’s the actual two week placement motivates you. That you don’t want to be stepping back – coming back off of that plateau.” (Case 14, client)

“So I would say, self confidence and self esteem is definitely number one because for our clients that is the one thing that is so obvious when they have completed the program. They have just got a renewed sense of self esteem. They look different, they feel different and its like they see the world through new eyes.” (Case 19, staff)

“You really see them blossom because they’ve got so much pride in themselves and they’ve interacted with other people who aren’t in their peer group and aren’t always so negative, and they can see what they can actually do and they are better than they thought.” (Case 24, staff)

“So you’re there with people that are wanting to better themselves, and wanted to do stuff. It’s a good thing to be on.” (Case 14, client).

“The Business in the Community was probably better than doing a 13 -week course with the other place. Half of the people that were on that 13-week course weren’t interested. They were sent there, they had to go there, or they would have lost their money. Whereas this was purely voluntary. You came on it because you wanted to come on it and it’s more beneficial.” (Case 14, client)

5. Hostel rents and conditions are not always conducive to employment
Requiring hostel tenants to pay full rent and support costs as soon as they get a job tends to be a significant disincentive.\(^\text{18}\) This research also demonstrates that it often results in hostel staff having a negative perception of the benefit of work for clients. This can lead to an environment in which negative messages about employment are compounded. In contrast, there are successful schemes to provide a positive work environment\(^\text{19}\) within hostels and innovations such as workers wings\(^\text{20}\), with phased rent, to provide bridging support to tenants who have found work.

“So councils are willing to pay £200 a week to slum landlords masquerading as charities… and that’s from my experience with them and I have stayed in plenty of them.” (Case 9, client)

“It’s big business for somebody: ‘Why should I move this person out of my hostel when I’m getting X amount – 200 pound a week – for this crappy little bedroom?’” (Case 17, staff)

“I used to have a hard time to sleep in the [hostel] back in the days to be honest. When I used to do delivery I used to finish late in the night. I came around at 3am or half 3, came to the [hostel], tried to sleep, they all drunk, some people on heavy A Class like drugs and all that. Screaming, fighting and all this.” (Case 7, client)

“It is all about the type of agency you are with, the type of accommodation you are in. The level of support you are getting. You might be in the wrong kind of hostel. You might be in the kind of, you may not choose the kind of hostel you go into.” (Case 24, staff)

6. Clients, frontline workers and sector experts all find the tax and benefits system confusing and inaccessible

The tax and benefits system plays an ongoing role in the journey of anyone moving from homelessness into employment. There is an all-embracing lack of clarity about what is available and at what point to apply. The system is not perceived by people as a mechanism which supports their move into work, but as a bureaucratic function and one which is largely incomprehensible and inaccessible. This powerlessness and lack of understanding can result in several problems including the following:

- People do not claim everything that they are entitled to, particularly benefits relating to in-work benefits and existing tapers and benefit run-ons.\(^\text{21}\)
- People tend not to trust the benefits that they receive (see for example case 3 in appendix H). People are often very fearful that money will be reclaimed.
- There is a lack of awareness about points of recalculation. People particularly found the recalculation of Working Tax Credits after 12 months a financially

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\(^\text{18}\) Comment: The Transitional Spaces Project (TSP) run by Off the Streets and Into Work (OSW) supports residents in hostels or supported accommodation projects to get sustainable employment and then move into private rented sector housing. The project is being delivered in two UK regional centres, one in London and one in Tyneside. Both pilots run from January 2007 to December 2009.

\(^\text{19}\) CLG (2006) Places of Change; Tackling Homelessness through the Hostels Capital Improvement programme.

\(^\text{20}\) (2008) The Passage

\(^\text{21}\) Comment: In 2007 the DWP indicated that £1.8bn Council Tax Benefit was unclaimed annually. It was estimated that take up for working age people is 76-85%. It has not been possible to find data related to levels of other in-work benefits currently unclaimed.
difficult time. Those that were unaware of this recalculation time and had not planned for often became worse off after 12 months in work.

“I’m not thick but I don’t understand half the benefits they’re on. So when I’m asked about these things I dodge them because I – go see somebody else, I don’t want to get involved in this because it’s a minefield. Because, to get it wrong, you know…” (Case 17, staff)

“We can’t do it on our own. I don’t think really its particularly our area of responsibility. I mean you know I just don’t think its that accessible and I don’t think its, I just don’t think its clear. It’s confusing to me and I spend a lot of time trying to understand it and trying to. I spent a whole afternoon on the phone to try and get a very simple bit of advice from the Job Centre Plus and without success, and its very frustrating.” (Case 21, staff)

“I think there has to be a better link up between the Job Centre on one side of the street, and you got the council who give the housing benefit on the other side of the street are on two separate ends of the borough and they don’t work in tandem with one another. When you get employment you spend so much time running from one to the other, one Jobcentre tells you the council will do this and then you go to the council and they will tell you that they don’t do that. It is very, very frustrating and it … takes the incentive of getting a job away basically.” (Case 9, client)

“They send me the letters and they stopped my Housing Benefit, because they still study my case… they asked me to bring my pay slip and my bank statement and, yeah, everything from the work…” (Case 13, client)

“It’s when you start work is when they mess it all up because they want all of your wage slips and they want how much you are earning and then you have got to wait and then they finally work it out they have worked it out wrong and then it comes back and then it goes back again. I mean I have got to take my two last wage slips now to them and oh my god. If they have got to all work it out again either its going to go up or down and you sort it out again and then the rent people will be waiting and then you know. And that’s when it all gets cocked up.” (Case 3, client)

7. Clients taking positive steps towards employment do not always get support and encouragement from the tax and benefits system.

The research vividly demonstrated how current working practices can undermine people’s ability to do voluntary work placements, or stay employed, while they are still accessing the financial support they are entitled to. When they carry out voluntary work placements, clients have to be supported. Our interviews with experts agreed that agencies often lack the flexibility they need to do this. On the other hand, it has been suggested that the proposals in the recent DWP Green Paper No-one Written Off could provide the level of flexibility in future.22

There is another disincentive, particularly for hostel residents. Getting somewhere permanent to live usually means qualifying for a certain number of points which are

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22 Comment: For example, the DWP Green Paper No-one Written Off includes the aim to ‘support Jobcentre Plus in continuing to drive up its effectiveness still further, not least by giving its advisers greater flexibility to tailor their support to the individual needs of their customers’.
allocated according to their circumstances and problems (for example, ‘having children’, ‘having a disability’). Many hostel residents are part of the backlog of people waiting for social housing. Some local authorities allocate fewer points if you are employed than if you are unemployed. So if you are in a hostel and you get work, you might find yourself moving down the list for re-housing.23

Once they are in work, clients face a struggle to make sure their claims are correct. For example, opening hours for benefits offices are usually 8am to 6pm Monday to Friday and 9am to 1pm on Saturdays. These hours commonly match the working patterns of clients who have got jobs. Because of the paperwork requirements, employees find themselves having to take time off to be able to visit their benefits office. This puts extra pressure on them and certainly fails to support their positive steps into employment.

Our research also confirms research which shows there is poor awareness of the possibility of in-work benefits.24

“I still had to give up half a day of my job placement to travel half way across [town] just to sign on when I was perfectly happy to sign on a week late and get paid my dole a week late. So when you have got ten days in a firm to make an impression and you are actually buggering off for half a day it doesn’t make a really good impression.” (Case 9, client, now employed)

“The bête noire of work experience” (Homeless outreach team manager, Jobcentre Plus)

“And then the whole thing about the whole signing off was just such a nightmare. A simple thing like I was starting work on Monday and I wanted to sign off on the Friday and I also wanted to get paid up to date on the Friday for a simple thing is I had to buy work clothes and that. There was no understanding of that you know, we will send you gyro in the post but the gyro in the post was no good to me because I was never going to be able to cash it. I had to cash it at my local post office and I was working six miles from my local post office.” (Case 9, client)

8. Poor ‘benefits transitions’ result in clients incurring more debts, making them feel increasingly vulnerable to returning to homelessness. The system is poorly structured to meet people’s needs once they are working.

Homeless people are often in debt (see Finding 3). Our interviews showed just how much people rely on cashflow. None of our interviews gave an indication of existing savings or other sources of income. So when the flow of income, in this case benefits, is interrupted – whilst the demands for financial outgoings carry on or even increase – then people go into debt straight away. That is why the smooth management of transition phases between benefits, or during recalculation, is vitally important. Fear of debt in relation to housing is extremely real for this group.

Those with a previous experience of homelessness are vividly aware of the consequences of housing debts and extremely concerned about getting into debt again. This fearfulness is likely to translate into greater hesitancy, when an existing

23 (2008) The Transitional Spaces project run by OSW seeks to address this.
and to some extent trusted source of income (Housing Benefit) is threatened with withdrawal.

“The Housing Benefit was paying the hostel, it wasn’t going into my account it was going straight to the hostel, but when I moved into this house I had a bill saying I owed them £310…I haven’t paid it for ages because I’m struggling now right.” (Case 5, client)

“I did try. I went into debt with them in the end. And you know that’s chased me around for ages now so. Unfortunately still at this position I can’t pay half my debts off.” (Case 6, client)

“But the last 12 months or the first three months of the last 12 months were such a struggle. You are forced to get into arrears and then once you are in arrears you are forever chasing your arrears. You get into rent arrears and then you get into Council Tax arrears and robbing Peter to pay Paul.” (Case 9, client)

“What we are seeing time and time again happening is that in the process of getting themselves into work, getting this housing benefit sorted out, the months grace and all that kinda thing, they’re running up arrears” (Case 23, staff)

“It’s just the thought of losing everything, because if I lose my flat that’s it, I’m back on the streets again, and that’s not going to happen. I refuse for that to happen.” (Case 4, client)

9. A poor experience of moving into work is likely to make people more nervous about trying again

People are keen to move into work (see Finding 1). But some of our interviews showed that having a negative experience before made people more nervous about going back to work. They get more hesitant, which means that the job opportunity has to be even better to appeal to them. When the risk aversion calculations are incorporated to show the financial improvement that people need, it is even clearer how important it is to get it right first time if people are going to move from homelessness into employment.

“So I was taking the kids off to the childminder just before 7am, dropping her off. Dropping my son out at Borstal. Leaving the other two with the childminder, rushing back to work at 7.00am. And I discovered my council tax. I had to pay them. There was no more help, because I’ve gone over the threshold. It was classified almost as full-time. So I was left on my own. I had to pay the council bills, the water, everything. There was absolutely nothing. …. I’m not going to troop in to another one with the same problem. I need to look for employment that will have to work”. (Case 10, client)

“I think if I did [consider the money beforehand] I probably wouldn’t have taken the job because I would have sat down and worked out the maths and thought well bugger this I am not getting in arrears.” (Case 9, client)

“I didn’t like it so I became stressed and miserable. The people were horrible, the place was horrible, they didn’t treat the people very nice so I said I was leaving. So I walked out of that one myself. I didn’t walk out, I told them I was going actually. So I found myself unemployed for ages which suited me in a way because when you are
unemployed they pay the rent so I could get myself back on my feet while I was unemployed.” (Case 3, client)

10. Minimum wages and unreliable shift work are hard to manage within the benefits system, exposing clients to financial hardship and insecurity

Part-time work can be a critical first step for people moving into employment. It can also give people the opportunity to balance caring responsibilities with the desire to work. For businesses, using flexible shift patterns means they can respond effectively to periods when there is increased customer demand. But the current benefits system makes it financially difficult for people to take a flexible approach to the hours that they work.25

There are financial disincentives for people working over 16 hours per week, particularly when they are in hostel accommodation. People on minimum wage often find themselves having to choose between working 16 hours per week or 30 hours per week just to make benefits work. Yet employers who use shift employment patterns are often interested in greater levels of flexibility than these clear either/or options.

Short-term contracts also present huge difficulties for clients who have to go back into the benefits system once their contract ends. Getting contract work does not mean people are moving into sustainable employment (see case 1). Once people have moved off benefits and need to go back, they have to register again and open a new claim. This can take a long time and can mean going into debt. Experience of this difficult process, or awareness of similar difficulties faced by friends or family, can make people very hesitant about taking work.

“Short-term contracts are very difficult for our client groups to take on because anything over three months they lose their benefits, and starting a new claim often means that you don’t get any money for quite a long time.” (Case 23, staff)

“If you go into employment and you sign off today, when you end that contract it can take about 8 – 9 weeks before your benefits kick back in. And during that 8-10 weeks how are you eating, where are you living?” (Case 16, client)

“So I needed – either I went completely full time that would pay me properly, or I could just go part-time, 16 hours, kind of just staying in the working tax credit threshold. Because again with a low paid job. They don’t pay me that well and I cross that threshold ….” (Case 10, client)

“If they go and work down at Tesco or something and are getting £7 an hour and they can’t get enough hours … then they would struggle to pay the rent, they would struggle to pay their poll tax, the gas, the electric.” (Case 18, staff)

“So one of the difficulties is if you are working flexible hours you are not working the same amount of hours every week, what you can end up doing is over paying or under paying on certain things and causing yourself trouble forever down the line. There is no way to take that into account really when we do a Better Off calculation…” (Case 16, staff)

11. The first one to three months of employment are very difficult for many clients

Most support is designed to get people into work. Traditionally, this is the final objective for programmes and, once there is a job offer, the support often fades away. But our research shows that continued support is vital for people to settle into work so that clients can become resilient employees.

This is the stage where a number of changes happen for many of them. They are often asked to move accommodation. Even when they stay put, friends are less accessible – sometimes maybe less desirable – because of the new routine of working (see finding 12). These social changes are compounded by the financial hardship faced by many clients at this time of transition.

The risk is that many of those without decent financial foundations, and without strong social support networks, will leave the labour market at this point and go back into the benefits system. This ‘revolving door’ has financial implications for the government in the short-term. But the research also shows that there are considerable future costs involved, because clients are that much more nervous in the future. They are often also left with the direct consequences, like extra debts.

“Financially very difficult. Mentally difficult.” (Case 2, client)

“But I think at that point I had actually been referred to a mental health and everything, cause my brains were going. It was too much of a struggle on my own.” (Case 6, client)

“Being given so much help and yet as soon as you get the job the help stops.” (Case 22, staff)

“I was never worse off financially than I was after I became employed... There are no steps in place to carry somebody from your last gyro from when you sign off to your first payday... Because you are paying ahead of, it would be nice to be able to get a month ahead but the main grievance was basically having to live on the breadline for a whole month.” (Case 9, client)

“They’ve got someone looking after you - you’ve got someone for about six months, so no matter which way you go, which option you choose, there’s someone there to kind of guide you if you’re doing the right or wrong thing for yourself.” (Case 4, client)

“We then have the issue of the clients that have multiple issues and they have managed to pull everything together enough to get back into work. Once they then move into their own accommodation they then lose the support facility that they had from the housing association. So they then, just at the point when they really need it most, when they need help sorting their bills and all the other kind of stuff they have then got nothing which then means basically take them out of the melting pot and put them into the fire.” (Case 19, staff)

“We don’t see getting someone a flat as being the end of the story. We know they’ll lose the flat if we don’t help them to settle, stabilise, increase their income. Similarly getting the job, is only the first job. We have to look at our work with
people in terms of a career pathway…. our job is getting them to the next level.”
(Director, homeless sector agency)

12. Clients are extremely isolated and lack social networks of support, and this gets worse when they get a job

Clients need clear information about the financial benefits available at the various stages of their journey into work. But people also need non-financial support when they are settling into work so that they can establish themselves and create new social networks. This can take place inside and outside work. But the research demonstrates that this it is rarely as easy or natural as people anticipate. Support structures are particularly important for those with low self-confidence.

“They have been in hostels, they have left family, they have got no family so the social network is very very important.” (Case 19, staff)

“Because it all happened so quickly [getting the house right after the job] was quite scary at the time and I was like, “I don’t know if I can do this”, cause I was quite scared going out in a city, I don’t know people, and because it’s so far from here you know” (Case 5, client)

“It was a bad time and I started collapsing.” (Case 6, client)

“It would be very easy for me to be de-motivated, because I don’t know anybody in [my area].” (Case 1, client)

13. For clients to stay in employment, they need opportunities for future progression

A common mantra in the USA is the three-stage model known as ‘A, B, C’ (Any job, Better job, Career)26. This recognises how much people need different types of employability support at different times, to make sure that they can get jobs and then progress within work. This acknowledges the importance of entry levels jobs, particularly for those accessing employment following a long period of economic inactivity. But the model implies that continued support is also important to develop within a role, and develop aspirations for further employment. This is how people move away from the trap of low wage/low shifts and begin to embed themselves more permanently in work.

“I challenge myself, and I know is good, is right to start from the low level and… then to do the higher level. So that’s why I want to do the course, have my qualification.” (Case 13, client)

“Once I get the Class 2 [driving licence] and a bit more experience, then the money goes up anyway.” (Case 14, client)

The image on the following page is a graphic representation of the findings from the qualitative research, demonstrating the complexities experienced by those interviewed. The barriers and positive interventions that people experienced at each stage of the journey are included in the image as boulders (barriers) and banners and arrows (positive aspects). Further detail on the information behind this

26 Shared in conversation by Aaron Barbour, Research and Policy Manager Community Links.
illustration are contained within the full report on the findings from the stakeholder interviews, which can be found at in Appendix G.
5. Economic modelling approach

The qualitative research we carried out with stakeholders suggested that there are a number of essential pre-requisites for a successful transition to work, including pre- and post-employment support. It also found that, rather than making rational financial calculations about the benefits of employment, clients often failed to think about the financial implications at all, and only discovered that they were worse off once they had taken up work.

Having less disposable income contributed to the stress and difficulty of being in work for the first few weeks, and it made being in work seem less feasible to them. In other words, the conclusions seem paradoxical: most people are not primarily motivated by financial considerations - yet, if the incentives are not right, it can mean the difference between gaining and sustaining work, or not seeking work and staying on benefits. It is also important to get it right first time, because – when people have a bad experience of trying to go back to work – they will be more careful about doing it again.

The idea of the economic modelling phase of this research was to take these findings and turn them into an economic model. This was to:

- Calculate the financial incentive people need to make starting work seem attractive and feasible.
- Take account of the importance of getting this right first time.
- Compare this to the costs to the state of addressing the problems associated with being homeless, to see if there might be a case for the government – on purely financial grounds – for investing in this financial incentive in order to save money later.

We know that employment is a powerful way of helping people overcome the challenges of homelessness. Having a job makes it less likely that people will be dependent on the range of social services and other interventions, all of which generate significant costs to the state. So it follows that giving homeless people incentives to stay in work could reduce these costs.

To make this relate better to the way people behave in real life, we used the concept of 'loss aversion' to understand how people made decisions to work or not. This approach draws on cognitive psychology and the relatively new field of behavioural economics to show that people value what they lose more than what they gain. That means people give the prospect of losing something (like benefits) greater significance than the prospect of gaining something else (like pay), even when it is an identical amount.

This is important for policy-making, because it is not enough to make someone marginally better off when they are in work, compared to when they were on benefits. Loss aversion strongly affects the tipping point at which people decide to take up work. It also has implications for the mechanisms through which this process could be framed.
Loss aversion and behavioural economics

Behavioural economists have recently begun to attract the attention of central government strategists. The new review More Support, Higher Expectations\textsuperscript{27} describes behavioural economics like this:

“Behavioural economics shows us that rather than making decisions based on ‘rational’ factors, people are just as likely to make decisions based on what they have always done previously, what instinct or impulse tells them to do, or what they perceive their neighbours or friends generally do. People may also fail to get around to taking action on the things they know they should through inertia, or due to short-sightedness they may fail to see the value of things that are in their best interests over the long term. All of this means that in some instances, people make choices that are consciously opposed to their ‘objective’ self-interest.”

Early pioneers in what would become behavioural economics were Amos Tversky and Daniel Kahneman, whose groundbreaking article Judgement under Uncertainty: Heuristics and Biases appeared in a 1974 edition of Science. In 1979, a paper derived from this article was published in Econometrica and the difficulty that the authors had getting it published is a testament to the resistance within the economics profession to the challenges it threw up.

Tversky and Kahneman described laboratory experiments which showed that people’s actual behaviour is often not the rational, optimising behaviour that traditional economics assumes. People do not always act in ways that could be described as ‘utility maximising’, which is how economists describe people’s decisions in their own self-interest.

The behavioural economics approach replaces the traditional utility curve of economics diagrams, because research finds that this curve is steeper for losses than for gains. That is the basis of what they call ‘loss aversion’. 

\textbf{Figure 1:} The figure to the left illustrates the shape of this value curve, which is steeper for losses than for gains: losing £100 produces more pain than gaining £100 produces pleasure.

Estimates of the size of the \textit{loss aversion coefficient} – how much losses weigh more heavily than gains – vary in the literature. The lowest estimate is 1.43\textsuperscript{28} with the highest being 4.8.\textsuperscript{29} The average coefficient in the literature is 2.38. Wealth is one of the factors that increase loss aversion, whereas it goes down with higher levels of education. It is particularly important, therefore, when it comes to explaining the

\begin{itemize}
  \item \textsuperscript{27} DWP (2008) More support, higher expectations: the role of conditionality in improving employment outcomes
  \item \textsuperscript{28} Schmidt and Traub (2002).
  \item \textsuperscript{29} Fishburn and Kochenberger (1979).
\end{itemize}
attitudes and behaviour of homeless people and other excluded groups to work and benefits.

**Developing the model**

We designed the model to estimate what homelessness costs the state. To construct this, we had to work out how many people would be likely to take up work if the incentives and support were right. This meant that we had to define the typical BAOH client, and estimate how many people that were likely to fall into that category from the total homeless population.

It is difficult to get an accurate picture of how many homeless people there are in the UK, partly because so much homelessness goes unrecorded - the so-called 'hidden homeless' – but also because of the transient nature of the population, which makes them difficult to research. We have derived a total homeless figure of 118,670 in conjunction with BAOH, which we think is a reasonable estimate bearing in mind the challenges with finding reliable data. This figure is based on published DCLG statistics (see Appendix Q).

The sample group we worked with were likely to:

- Be ready for work and therefore have fewer barriers to employment than average homeless people, and have fewer severe mental health and substance problems.
- Be aged under 27, or between 40-55.
- Be single homeless.

After applying these filters, we have based our model on just sixteen per cent of the homeless population, or 20,000 people. This is compatible with BAOH’s experience of those likely to be in a position to be ready for work, but it is also a conservative assumption. In addition, the exact sample size is less relevant to the overall findings than it seems. The cost of paying incentives is based on the same number we used to calculate the cost savings to the state, so the return on investment (ROI) ratio stays the same whatever the sample size. The case for government is the same whether we assume 2,000, 20,000 or 100,000, though the importance of transaction costs will increase as the sample size falls.

While we do not have accurate information on how many BAOH clients are classified as statutory homeless, about 15 per cent do have care responsibilities. As people with children are given priority in accessing state services, we take this figure as a proxy for the proportion of statutory homeless.

Of course, not everyone who wants to get a job will succeed, but – because we have chosen such a small sample – we have based our cost estimates on 100 per cent of the sample.

Recent research by CLG finds that older statutory homeless people with children tend to be less vulnerable. Because they are likely to have different levels of need and associated costs, we split the sample into homeless people with children and the single homeless on that basis: 3,000 and 17,000 people respectively.

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30 Comment: Despite the fact that this sample group were in a better position than others in the homeless population, they still have higher vulnerabilities that the general population (many have been rough sleepers).

31 Ibid
Calculating socio-economic costs of homelessness

For the single homeless group costs, we looked at the costs relating to the following problems:

- Mental health
- Physical health
- Crime (victim and perpetrator)
- Substance abuse
- Social services
- Benefits
- Housing costs
- Lost economic output

We only included costs to the state, although there are clearly costs to the people concerned of being unemployed and homeless. In general, the total costs to the state have probably been underestimated because we have not included outcomes if the data is not available. The model also avoids including some outcomes where there was a chance that there would be double counting. See Appendices K and L for more details.

For homeless families, we estimated the cost of the same outcomes but based on different probabilities. For example, homeless families and single homeless groups are more likely to have mental health problems than the general population, and the two categories of homeless people run different risks as well. The costs of children having poorer than average mental and physical health have been included, as well as costs associated with an increased likelihood of being taken into care. This is plausible because a family's economic circumstances are often one of the contributing factors to children being taken into care.

While these issues are very likely to have effects on performance in school and the chances of becoming NEET (Not in Education, Employment or Training) later in life, these costs have not been included because we have no data about causality. That means that the real long-term costs to the state of allowing homelessness to continue will be considerably higher than the estimates suggest. See Chart 1 for how these costs break down across our sample.

Chart 1: The costs of homelessness across our sample

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32 Comment: See Appendix J, K and L for a detailed account of the sources used and the assumptions made that underpin our cost estimates.
Methodology
We used the probability of a negative outcome happening in our two categories of homeless people to arrive at a number for the amount of people likely to be incurring that cost. For example, in 2007/08, BAOH report that approximately 24 per cent of their clients were offenders or ex-offenders. We assumed that each offender would commit one crime per year if they carried on being homeless, which is the most conservative assumption that could be made. Clearly, the figure would be far higher for prolific offenders and considerably higher even for more occasional offenders but, as with our other assumptions, we have erred on the side of caution. The model uses an estimate of the costs per offence as of £5,463 (current CLG figures at time of publication).

Deadweight
For all of these outcomes, we have assumed that some of them would have happened anyway: some of the offenders would have stopped offending anyway so we should not attribute the saving solely to them getting jobs. To account for this, the model subtracts 20 per cent as a deadweight. For comparison, the benchmark group for this calculation is the prevalence of offending amongst low-income groups: we asked how likely it was for our sample group to be a perpetrator or victim of crime, compared to that for the total low-income population. That is how the model calculates individual and aggregate costs for each of the outcomes.

Probabilities and proxies
Probabilities have been based mostly on CLG and BAOH data where available. We ran into a number of gaps in the data: for example, data does not exist about how many BAOH clients have physical health problems. But in that case, we used the number that had been rough sleepers as a proxy, because there is a high probability that they will be using health services, including A&E.

Unit costs vs. marginal costs
Most economic analyses for public policy use unit costs, rather than marginal costs, partly because marginal costs are very difficult to work out. One Home Office study on criminal justice, for example, used the lowest available unit cost for prison places as a proxy for marginal costs. We therefore opted for the most conservative unit cost estimates in each instance.
Displacement
We also took account of displacement effects when it came to calculating lost economic output. Displacement describes the negative effects of a policy which can happen when the benefits claimed by an intervention are actually at the expense of other people outside the programme.

We collated the cost data from a range of reputable official and academic sources. More details of the costs and assumptions used are in appendices J to P.

Applying behavioural economics to the BAOH research
The research for BAOH assumes three possible scenarios and applies different loss aversion coefficients to each:

**Scenario 1** assumes that homeless people have very low levels of loss aversion when they are first offered a job. They have no previous experience of looking for jobs, perhaps for lack of pre-work or in-work support. Here the coefficient of loss aversion is assumed to be 1.5, which is at the bottom of the range. This is reflected in the experiences of cases 9, 13 and 14 (see appendix H).

**Scenario 2** is one where the client has experienced an unsuccessful attempt to start work, and is therefore much more aware the potential downside. As a result, a loss aversion of 2.38 is assumed (the average in the literature). This is reflected in the experiences of cases 1, 5, 6 and 16 (see appendix H).

**Scenario 3** increases this to 3.0 based on the same logic: if a client has made two unsuccessful attempts to hold down a job, they will be even more wary – and will require a greater incentive to try again – than if this were not the case. This is reflected in the experiences of cases 2, 3, 4 and 10 (see appendix H).

These assumptions from behavioural economics are supported by findings from the qualitative stage of the research, which stress the importance of getting things right first time and the added difficulty of getting someone successfully into work where there is a previous, negative experience.
Table 1: Share of costs and benefits

<table>
<thead>
<tr>
<th>Category</th>
<th>Annual cost (£’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mental health</td>
<td>6.9</td>
</tr>
<tr>
<td>Physical health</td>
<td>9.0</td>
</tr>
<tr>
<td>Crime</td>
<td>35.5</td>
</tr>
<tr>
<td>Drug</td>
<td>36.2</td>
</tr>
<tr>
<td>Alcohol</td>
<td>4.3</td>
</tr>
<tr>
<td>Social services</td>
<td>50.3</td>
</tr>
<tr>
<td>Accommodation</td>
<td>136.4</td>
</tr>
<tr>
<td>Lost economic output</td>
<td>35.0</td>
</tr>
<tr>
<td>Children</td>
<td>33.9</td>
</tr>
<tr>
<td>Tax and NI</td>
<td>27.1</td>
</tr>
<tr>
<td>Benefit</td>
<td>181.2</td>
</tr>
<tr>
<td>Support costs</td>
<td>40.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£555.8m</strong></td>
</tr>
</tbody>
</table>

Table 1 and chart 2 details the total annual costs to the state of dealing with the effects of homelessness, as well as a breakdown of the sources of these costs.

Chart 2: Total annual costs to state of homelessness

Giving an economic value to each of the social outcomes that are mainly associated with homeless people allowed us to break down these costs to different government departments. Chart 3 below illustrates this.

Comment: See Appendix J, K and L for details of the sources and assumptions that underpin these estimates.
The breakdown also shows how much different government departments would benefit from changes to the benefits system that encouraged homeless people to enter the job market. It therefore provides a basis for calculating how contributions might be raised from across government departments to finance this incentive.

**Calculating the financial incentives**

To calculate the financial incentives, we had to work out what people were earning in work and on benefits to make an initial cost/benefit comparison. The model assumes that a number of variables were common to the entire sample such as minimum wage on a 35-hour week and that they were all getting Working Tax Credits. We constructed a series of financial scenarios to account for different personal circumstances. The costs of making work pay for anybody would vary according to their particular circumstances. This made the modelling more complicated that we would have liked, so we limited the model to 14 scenarios to make the calculations manageable. These are set out in Appendices M, N and O.

The variables we took into account were:

- Costs of rent
- Hostel, or non-hostel accommodation
- Liability for council tax
- Age

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34 Comment: This differs slightly from estimates on DirectGov.org.uk. This is likely to be the result of the inclusion of different ‘passported benefits’ in our calculations, which are consistent with those produced by OSW.

35 Comment: The October 2007 changes to minimum wage have007 minimum wage levels. It would also be possible to base our estimates on the ‘living wage’ recommended by the Low Pay Commission.
For each scenario, we calculated the losses and gains for each individual when they began a job, and how much loss aversion that would need to be offset in low (1.5), medium (2.38) and high (3) categories. The model then estimated how many of the sample were likely to fall into each of the categories, and worked out how much it would cost to make up for the loss aversion for everyone in each scenario.

Table 2: Financial calculations including loss aversion (LA)

<table>
<thead>
<tr>
<th>Example scenarios</th>
<th>Working</th>
<th>Not working</th>
<th>Actual Difference</th>
<th>Difference with loss aversion (1.5)</th>
<th>Difference with LA (2.38)</th>
<th>Difference with LA (3.0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;22 no children; JSA; low rent</td>
<td>£7,184</td>
<td>£7,425</td>
<td>-£242</td>
<td>-£3,954</td>
<td>-£10,489</td>
<td>-£15,093</td>
</tr>
<tr>
<td>&gt;22 children; IB; high rent</td>
<td>£13,225</td>
<td>£12,838</td>
<td>£387</td>
<td>-£6,033</td>
<td>-£17,331</td>
<td>-£25,291</td>
</tr>
<tr>
<td>&gt;22; JSA; low rent; debts; childcare</td>
<td>£8,565</td>
<td>£8,595</td>
<td>-£30</td>
<td>-£4,328</td>
<td>-£11,892</td>
<td>-£17,221</td>
</tr>
</tbody>
</table>

Table 2 illustrates this process for three of the scenarios and for the three different levels of loss aversion. Without the loss aversion coefficient, one of the three cases show a positive financial case for moving off benefits and into work. But when you take into account the problem that losses are valued more than gains, it changes this calculation considerably. The examples above show the impact of assuming a coefficient for loss aversion of 1.5, 2.38 and 3.0.

Yet even assuming the lowest level of loss aversion, much higher financial incentives are going to be needed to make the transition to work look attractive, even first time round. Then, as people are more conscious of what they stand to lose – because of what they lost before – we increased this loss aversion coefficient to 2.38 and 3.0 respectively. The result, which is supported by the findings from the qualitative stage of the research, is that progressively more is needed to induce people to come off benefits and go into work. This is reflected in the greater financial support needed at each stage. Once again, it is important to get it right first time.

**Making the comparison**

To compare the total costs and benefits, the model assumes that the benefits would need to be paid over the medium term, given the importance of the in-work stage highlighted by the qualitative research. For that reason, we modelled the benefits over four years, using a net present value calculation and applied an annual taper of 25 per cent (see Appendix I).

We also assumed that the savings would accrue over just four years, though in practice they would clearly continue well beyond that. In fact, they are likely to
escalate over time as all benefit payments stop and positive impacts on children take effect.

Table 3: Costs and benefits of someone with low loss aversion entering full-time work

<table>
<thead>
<tr>
<th>Year</th>
<th>Costs of homelessness</th>
<th>Costs of providing financial incentive (FT 35hrs; LA = 1.5)</th>
<th>Average cost of support per person</th>
<th>Annual saving to govt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£555,857,283</td>
<td>£190,405,956</td>
<td>£9,520</td>
<td>£365,451,328</td>
</tr>
<tr>
<td>2</td>
<td>£539,667,265</td>
<td>£138,645,113</td>
<td>£6,932</td>
<td>£401,022,152</td>
</tr>
<tr>
<td>3</td>
<td>£523,948,801</td>
<td>£67,303,453</td>
<td>£3,365</td>
<td>£456,645,349</td>
</tr>
<tr>
<td>4</td>
<td>£508,688,156</td>
<td>£16,335,790</td>
<td>£816</td>
<td>£492,352,367</td>
</tr>
<tr>
<td>Total</td>
<td>£2,128,161,507</td>
<td>£412,690,311</td>
<td>na</td>
<td>£1,715,471,196</td>
</tr>
</tbody>
</table>

Table 3 above summarises this for the first iteration – for people’s first attempt to enter the world of work – with a low loss aversion coefficient of 1.5. As the table shows, the savings to government increase year on year, as the financial taper reduces outgoings, but annual savings from dealing with the effects of homelessness stay relatively stable.

Although the model assumes that the savings would only accrue over four years, in reality they would clearly continue well beyond that, and at an annual level above that seen in Year 4 in the table.

Even with this conservative assumption – as well as the others described above – the case for intervention was compelling within the timescale we considered. In each category, there was a considerable return on investment; 5/1 at the lowest end dropping to 1.8/1 at the highest end. That means that the cost of supporting homeless people financially as they get a job is five times less than the savings the state makes because the costs of dealing with homelessness are much lower.

As the level of loss aversion increases – and so the financial support needed to reach the ‘tipping point’ for the individual rises – then the savings to the state fall. In the third iteration, where the loss aversion coefficient is set at 3.0, the savings to the state are still positive, though considerably reduced at 1.6 times the investment they have to make. In other words, there is more than twice the return from getting it right the first time, because the case gets less economically compelling as people become more loss averse and need greater compensation.

These results assume that somebody is working full-time at 35 hours per week. Clearly, this may not be feasible in some cases, where the option of starting work part-time may be a more realistic way of starting. Table 4 below describes the costs and savings when people are working part-time for 16 hours per week.

Table 4: Costs and benefits of someone with low loss aversion entering part-time work

<table>
<thead>
<tr>
<th>Year</th>
<th>Costs of homelessness</th>
<th>Costs of providing financial incentive (PT 16hrs; LA = 1.5)</th>
<th>Average cost of support per person</th>
<th>Annual saving to govt</th>
</tr>
</thead>
</table>
As we can see, the necessary financial incentive costs much more than in the full-time case, reflecting the greater difference between income from part-time work and the benefits they get. But even taking this into account, the financial case that the government should fund this support is clearly positive, and the annual savings get more significant year-on-year. We have also developed intermediate scenarios between 16 and 35 hours, and these findings hold in both cases.

Table 5: Costs and benefits of someone with low loss aversion working 20 hours per week

<table>
<thead>
<tr>
<th>Year</th>
<th>Costs of homelessness</th>
<th>Costs of providing financial incentive (PT 20hrs; LA = 1.5)</th>
<th>Average cost of support per person</th>
<th>Annual saving to govt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£555,857,283</td>
<td>£276,390,136</td>
<td>£13,819.51</td>
<td>£279,467,147</td>
</tr>
<tr>
<td>2</td>
<td>£539,667,265</td>
<td>£201,254,954</td>
<td>£10,062.75</td>
<td>£338,412,311</td>
</tr>
<tr>
<td>3</td>
<td>£523,948,801</td>
<td>£97,696,579</td>
<td>£4,884.83</td>
<td>£426,252,222</td>
</tr>
<tr>
<td>4</td>
<td>£508,688,156</td>
<td>£23,712,762</td>
<td>£1,185.64</td>
<td>£484,975,394</td>
</tr>
<tr>
<td>Total</td>
<td>£2,128,161,507</td>
<td>£599,054,431</td>
<td>na</td>
<td>£1,529,107,076</td>
</tr>
</tbody>
</table>

Table 5 shows what happens when you assume 20 hours work per week, while table 6 shows the results based on 28 hours. As we can see, the costs of the government providing financial incentives to start work go up as the hours worked falls. Yet in each case, these are outweighed by the potential savings to the government from not having to address the problems associated with homelessness.

Table 6: Costs and benefits of someone with low loss aversion working 28 hours per week

<table>
<thead>
<tr>
<th>Year</th>
<th>Costs of homelessness</th>
<th>Costs of providing financial incentive (PT 28hrs; LA = 1.5)</th>
<th>Average cost of support per person</th>
<th>Annual saving to govt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£555,857,283</td>
<td>£230,542,873</td>
<td>£11,527</td>
<td>£325,314,410</td>
</tr>
<tr>
<td>2</td>
<td>£539,667,265</td>
<td>£167,871,024</td>
<td>£8,394</td>
<td>£371,796,241</td>
</tr>
<tr>
<td>3</td>
<td>£523,948,801</td>
<td>£81,490,788</td>
<td>£4,075</td>
<td>£442,458,013</td>
</tr>
<tr>
<td>4</td>
<td>£508,688,156</td>
<td>£19,779,318</td>
<td>£989</td>
<td>£488,908,838</td>
</tr>
<tr>
<td>Total</td>
<td>£2,128,161,507</td>
<td>£499,684,003</td>
<td>na</td>
<td>£1,628,477,504</td>
</tr>
</tbody>
</table>

Loss aversion increases the costs to the government of funding incentives more sharply as the number of hours worked falls. We have to conclude that, with part-time work, it is even more important that the total support package put in place works first time.
6. Findings from the economic modelling

The findings outlined here are based on our model that assumes full-time work at 35 hours per week. We also draw conclusions about the economic costs to the government of not getting the financial aspects of work right the first time around: people become increasingly loss averse, and greater incentives are required in future.

1. Our sample of homeless people costs the state £2.1bn over four years, or an annual cost of £26,000 per person.

Other studies have put the annual cost as high as £50,000. Ours is significantly lower partly because we have used conservative assumptions throughout, and partly because we assume that the typical BAOH client is less likely to need state services than other homeless people.

The greatest share of these costs – and potential benefits – falls to the Department of Work and Pensions, including benefit payments (31%). The next largest share falls to local authorities from a range of costs including hostel accommodation and care for children (23%). The remaining third of the costs are borne by the other government departments (Communities, Justice, Health and H.M. Revenue and Customs).

There is also a significant future cost. For example, if young people become NEET (Not in Education, Employment or Training) at 16, they are likely to be either in precarious jobs or out of work for the rest of their lives and there are significant social and economic costs to this. This has been corroborated by recent CLG research on statutory homelessness, which found homeless people under 18 were particularly vulnerable.

2. People are not always better off in work

Many people are either not better off in work, or only marginally so. This is particularly acute for single people under 22 as demonstrated in table 7 below.

<table>
<thead>
<tr>
<th>Example scenarios (35 hours, FT)</th>
<th>Working</th>
<th>Not working</th>
<th>Actual Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;22 no children; JSA; low rent</td>
<td>£7,184</td>
<td>£7,425</td>
<td>-£242</td>
</tr>
<tr>
<td>&gt;22 children; IB; high rent</td>
<td>£13,225</td>
<td>£12,838</td>
<td>£387</td>
</tr>
<tr>
<td>&gt;22; JSA; low rent; debts; childcare</td>
<td>£8,565</td>
<td>£8,595</td>
<td>-£30</td>
</tr>
</tbody>
</table>

Research conducted by OSW undertook 864 different benefit scenarios and found that, although the Exchequer is always better off when people are in work, this is not always the case for employees. Key factors that OSW identified as influencing someone being poorly off in employment correlate closely to the results of this

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36 CLG (2008)
37 Inclusion (2006) *The costs and benefits of formal work for homeless people*
research. These include working hours, pay rates, housing type, outstanding debts and the loss of passported benefits.

Table 8: Annual difference in income when working 28 hours per week

<table>
<thead>
<tr>
<th>Example scenarios (28 hours, PT)</th>
<th>Working</th>
<th>Not working</th>
<th>Actual Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;22 no children; JSA; low rent</td>
<td>£5,463</td>
<td>£7,425</td>
<td>-£1,962</td>
</tr>
<tr>
<td>&gt;22 children; IB; high rent</td>
<td>£10,396</td>
<td>£12,838</td>
<td>-£2,433</td>
</tr>
<tr>
<td>&gt;22; JSA; low rent; debts; childcare</td>
<td>£6,648</td>
<td>£8,595</td>
<td>-£1,947</td>
</tr>
</tbody>
</table>

Tables 8 and 9 show the annual difference in income when working less than 35 hours per week. The benefits of working compared with getting benefits fall as hours worked go down, even before loss aversion is taken into account.

Table 9: Annual difference in income when working 20 hours per week

<table>
<thead>
<tr>
<th>Example scenarios (20 hours, PT)</th>
<th>Working</th>
<th>Not working</th>
<th>Actual Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;22 no children; JSA; low rent</td>
<td>£3,611</td>
<td>£7,425</td>
<td>-£3,815</td>
</tr>
<tr>
<td>&gt;22 children; IB; high rent</td>
<td>£7,163</td>
<td>£12,838</td>
<td>-£5,676</td>
</tr>
<tr>
<td>&gt;22; JSA; low rent; debts; childcare</td>
<td>£4,464</td>
<td>£8,595</td>
<td>-£4,132</td>
</tr>
</tbody>
</table>

3. When 'loss aversion' is factored in, the perceived financial risks are predominantly against taking up work.

Without the loss aversion coefficient, two of the three cases in the full-time working scenario show a positive financial case for moving off benefits and into work. But when you realise that losses are valued more than gains, the balance of this calculation changes a great deal:

Table 10: Annual difference in income when working full-time and including low loss aversion

<table>
<thead>
<tr>
<th>Example scenarios (35 hours, FT)</th>
<th>Working</th>
<th>Not working</th>
<th>Actual Difference</th>
<th>Difference with loss aversion (1.5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;22 no children; JSA; low rent</td>
<td>£7,184</td>
<td>£7,425</td>
<td>-£242</td>
<td>-£3,954</td>
</tr>
<tr>
<td>&gt;22 children; IB; high rent</td>
<td>£13,225</td>
<td>£12,838</td>
<td>£387</td>
<td>-£6,033</td>
</tr>
<tr>
<td>&gt;22; JSA; low rent; debts; childcare</td>
<td>£8,565</td>
<td>£8,595</td>
<td>£30</td>
<td>-£4,328</td>
</tr>
</tbody>
</table>

The examples in table 10 only show loss aversion of 1.5, which is at the bottom of the range and the lowest general finding in the literature. Even assuming this low level of loss aversion, it is clear that a considerable extra financial incentives are needed to make the transition to work seem attractive. When the loss aversion coefficient is increased to 2.38 and 3.0 it becomes clear that considerably more is needed to induce people to come off benefits and go into work.
4. It will cost government £190m in the first year to incentivise people with low levels of loss aversion, an average of £9,520 per person in the first year, falling to £816 per person in year 4. When you compare this with the annual costs of homelessness to the state, this still represents a total saving to government of £1,715m over the four-year period.

Even with this conservative sample, the case for intervention is pretty compelling. Within each category of loss aversion there is a considerable return on investment; 5/1 at the lowest end, dropping to 1.8/1 at the highest end. The financial incentives needed to encourage our sample group into work range from £190m to £522m a year depending on how loss averse they are.

In Ireland, they use a combination of an earnings disregard and housing support taper to encourage people to get jobs, and benefits retention for people starting their own business. The option of part-time work makes it especially important to increase the earnings disregard.

There are clearly real economic gains possible in the UK from reforming the benefits system to encourage homeless people to take up employment. It also makes economic sense to provide the right combination of incentives and support from the start, because people get more loss averse each time they have a bad experience.

Using case number 5 from the stakeholder interviews, we have modelled the likely impact on this person’s finances, and those of Government, of paying an incentive. We have assumed that this person is working full time on the minimum wage, and have suggested paying the incentive through additional Working Tax Credit. The results of these calculations are shown overleaf.
Table 11: Estimated impact on individual and state finances of proposed intervention (Case 05)

<table>
<thead>
<tr>
<th>Individual</th>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incapacity benefit</td>
<td>-1</td>
<td>10239</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return to Work Credit</td>
<td></td>
<td>2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay</td>
<td></td>
<td>7184</td>
<td>7902.4</td>
<td>11533</td>
<td>12686.3</td>
</tr>
<tr>
<td>Additional WTC</td>
<td></td>
<td>6274</td>
<td>6206</td>
<td>3103</td>
<td>776</td>
</tr>
<tr>
<td>Child tax credit</td>
<td></td>
<td></td>
<td>2176</td>
<td>2176</td>
<td></td>
</tr>
<tr>
<td>Childcare</td>
<td></td>
<td></td>
<td>2821</td>
<td>2821</td>
<td></td>
</tr>
<tr>
<td>Total annual income</td>
<td></td>
<td>£10,239</td>
<td>£15,458</td>
<td>£14,108</td>
<td>£13,991</td>
</tr>
<tr>
<td>BAOH support</td>
<td></td>
<td>£2,000</td>
<td>£2,000</td>
<td>£2,000</td>
<td>£2,000</td>
</tr>
</tbody>
</table>

| Impact of intervention on costs to the state    |      |     |     |     |     |
| Alcohol                                         |      | 6033 | 4681 | 3121 | 1560 | 603 |
| Mental health                                   |      | 2340 | 1820 | 1300 | 780 | 260 |
| Hostel                                          |      | 12688 | 0 | 0 | 0 | 0 |
| Care costs                                      |      | 20422 | 20422 | 20422 | 0 | 0 |
| Lost output                                     |      | 6120 | 0 | 0 | 0 | 0 |
| IB payments                                     |      | 10239 | 2000 | 0 | 0 | 0 |
| Total costs to state                            |      | £57,842 | £28,923 | £24,843 | £2,340 | £863 |

| Total cost to state of benefit support          |      | 8274 | 8206 | 5103 | 2776 | 24358 |
| Saving to state from intervention               |      | 28919 | 33000 | 55502 | 56979 | 174400 |
| Net financial benefit to state                  |      | £20,645 | £24,794 | £50,399 | £54,203 | £150,042 |

The table above provides an illustrative example of the impact of the proposed intervention on the financial circumstances of one of our case studies. The person involved is in their early 20s. She became homeless after a relationship breakdown. By the time she came into contact with BAOH she was living in a hostel, had developed mental health problems and was abusing alcohol. She had one child who was taken into care and had built up significant debts.
As we see, before the intervention (year -1), she receives a total annual income of just over £10,000 on Incapacity Benefit (IB), and the cost of her hostel accommodation is also met. For the state, there are also the costs associated with her alcohol and mental health problems, as well as the care costs of her child. We can also estimate lost economic output and the associated foregone tax and National Insurance payments. We have deducted the same deadweight as earlier to all of these calculations.

Our case study begins work in year 1 (Y1) and receives £2,000 Return to Work Credit. Working full-time on the minimum wage (at the <22 years level) results in take home pay of £7,184 after tax and including working tax credit – she does not receive child tax credit as her child is not living with her.

In order to offset her loss aversion and provide an incentive to work we estimate an additional £8,274 is required, which falls to £6,274 after the tapered IB payment is taken into account. We assume that this is paid through additional Working Tax Credit. This takes her total annual income to just over £15,000, representing a significant improvement from the previous year.

As well as these direct additional payments, the state also needs to fund the £2,000 BAOH annual support costs, making a total cost of £8,274 in Y1. The direct support package falls subsequently by 25% per annum, becoming zero in year 5. These costs are more than offset, however, by the savings made from reduced alcohol and mental health problems, as well as that of providing emergency accommodation. We assume take-home pay increases by 10% per year, and also that in Y3 the higher minimum wage starts to apply. In the same year, her child is returned from care – we assume the child is of school-age at this point so that child-care costs relate to after-school clubs and school holidays.

As we can see from the last row of the table, the net financial benefit to the state increases year on year to more than £50,000 in Y4. While our case study ends the period with more net income than at the start, there is a drop in years 2, 3 and 4 from the peak in year 2 – this is an inevitable result of the taper, other things being equal, but the fact that this is spread over a four year period is positive.

We have assumed that the minimum wage is paid. If the BAOH support and in-work training process is successful in helping our case study to become a ‘resilient employee’, however, then this need not be the case. Internal (or external) career progression would alter her situation significantly with higher pay and rewarding work improving the quality of life of her and her child, and enabling her to make a real and positive contribution to our society.
7. Conclusions

We know that homeless people tend to be very keen to work. We also know that the financial rewards from work are rarely their primary motivation, but in practice they often act as the deal breaker. The majority of support programmes are focused on getting people into work, but this research emphasises how important it is to provide continuing support whilst people are settling into work as well.

Conclusions from the stakeholder engagement

1. Clients are extremely motivated to work. Financial rewards from work are rarely the primary motivation for working, yet they are often the deal breaker. Whatever their main motivation for finding work, clients needed the economics to be right before they could consider getting a job, and – more importantly – before they could hold it down. Getting beyond the financial tipping point is clearly a necessary but not a sufficient condition for successfully integrating homeless people into the world of work.

2. People do not always feel better off in work. The transition into paid work is fraught with financial difficulties, many of them unexpected. People do not have existing funds or savings which they can draw on, which means that – at times of transition and financial hardship – people are very vulnerable to increasing existing debts or accessing doorstep lenders. An experience of being worse off in employment is also likely to lead to people being more risk averse in future.

3. Lack of financial planning undermines efforts to stay in work. ‘Better off in work’ calculations using the Jobcentre Plus model do not take enough account of outstanding debts, or the loss of ‘passported’ benefits. The current calculation process does not usually include outstanding debts. Nor does it encourage people to talk about potential financial hardship, or help them budget better.

4. The voluntary nature of work placements has a powerful effect on clients. Experiencing the workplace is often powerful for homeless people who are on placements because they are there because they want to be. They also value the fact that others were there for similar reasons.

5. Hostel rents and conditions are not always conducive to employment. Requiring hostel tenants to pay full rent and support costs as soon as they get a job tends to be a significant disincentive, with many people not being able to cope financially with new rental arrangements. In addition, a lack of separate accommodation for people who are working means that it is often difficult to adjust to a new working routine.

6. Clients, frontline workers and sector experts all find the tax and benefits system confusing and inaccessible. There is an all-embracing lack of clarity about what is available and at what point to apply for benefits. The system is not perceived by people as a mechanism which supports their move into work, but more as a bureaucratic function and one which is largely incomprehensible and inaccessible.

7. Clients taking positive steps towards employment do not always receive support and encouragement from the tax and benefits system. The research vividly demonstrated how working practices can undermine people’s ability to do
voluntary work placements and stay employed while they are still accessing the financial support they are entitled to.

8. Poor ‘benefits transitions’ result in clients incurring more debts, making them feel increasingly vulnerable to returning to homelessness. The system is poorly structured to meet people’s needs once in employment. The smooth management of transition phases between benefits, or during recalculation, is vitally important. Fear of debt in relation to housing is extremely real for this group.

9. A poor experience of moving into work is likely to make people more nervous about trying again. Having a negative experience before made people more nervous about going back to work. They get more hesitant, which means that the job opportunity has to be even better to appeal to people. It makes sense, financially and otherwise, to get it right first time.

10. Minimum wages and unreliable shift work are hard to manage within the benefits system, exposing clients to financial hardship and insecurity. There are financial disincentives for people working over 16 hours per week, particularly when they are in hostel accommodation. People on minimum wage often find themselves having to choose between working 16 hours per week or 30 hours per week just to make benefits work. Yet employers who use shift employment patterns are often interested in greater levels of flexibility than these clear either/or options.

11. The first one to three months of employment are very difficult for many clients. Most support is designed to get people into work, but continued support is vital to settle into work so that clients can become resilient employees.

12. Clients are extremely isolated and lack social networks of support, and this gets worse when they get a job. People also need the non-financial support when they are settling into work so that they can establish themselves and create new social networks, and this is rarely as easy or natural as people anticipate.

13. For clients to stay in employment, they need opportunities for future progression. People need different types of support at different times, to make sure that they both get jobs and then progress in them.

Conclusions from the economic modelling

14. Our sample of homeless people costs the state £2.1bn over four years, or an annual cost of £26,000 per person. Our figure is significantly lower than some studies partly because we have used conservative assumptions throughout, and partly because we assume that the typical BAOH client is less likely to need state services than other homeless people.

15. People are not always better off in work. Many people are either not better off in work, or only marginally so. This is particularly acute for single people under 22:

16. When ‘loss aversion’ is factored in, the perceived financial risks are predominantly against taking up work. Without the loss aversion coefficient, two of the three cases in the full-time working scenario show a positive financial case for moving off benefits and into work. But when you realise that losses are valued more than gains, the balance of this calculation changes a great deal:
17. It will cost government £190m in the first year to incentivise people with low levels of loss aversion, an average of £9,520 per person in the first year, falling to £816 per person in year 4. When you compare this with the annual costs of homelessness to the state, this still represents a total saving to government of £1,715m over the four-year period. Within each category of loss aversion, there is a considerable return on investment; 5/1 at the lowest end, dropping to 1.8/1 at the highest end. The financial incentives needed to encourage our sample group into work range from £190m to £522m a year depending on how loss averse they are.
8. Recommendations

The report shows the progression that people make through various stages of the journey into employment. It concludes that there is a case for the government to fund incentives that can persuade homeless people to get jobs, but action is needed from a range of institutions to bring about the systemic changes we need.

For any policy to get homeless into work to succeed, both the financial incentives and the pre-and post-employment support packages need to be in place. Both are necessary but not sufficient conditions to make this sustainable transition into work happen. But even if the support packages were in place — as well as important features such as streamlining and simplifying the benefits system — we would still need the right financial incentive to increase the numbers into work.

Making sure people have firm financial foundations

1. The government must introduce enough financial incentives to encourage people to move off benefits and into work.

Aspects of behavioural economics increasingly feature within government policy, but they still do not recognise the impact of loss aversion on people’s behaviour. In each of the scenarios we modelled for homeless people moving into employment, the proposed financial incentive would pay for itself and generate net savings to the state. For full-time work, savings will range from £1.4bn to £676m over a four-year period, depending on how loss averse people are. Savings for part-time work are also significant, though less than full-time, reducing in proportion to the hours worked per week, but still strongly positive even at 16 hours per week.

Although we concentrated on the experiences and specific costs of people with an experience of homelessness, this approach also applies to a wide range of workless groups.

2. Businesses and government must investigate with stakeholders the how best to introduce this financial support package.

Because people are loss averse, it makes sense to limit these to the benefits rather than the pay side of the equation, because it is lost benefits that weigh most heavily. Given this, the options through which this additional financial support can be introduced are:

- *Earnings disregard*: increasing the earnings disregard is more relevant to part-time workers, and would be a valuable step in its own right.
- *Housing benefit*: while housing support is clearly important, it is currently less flexible than other support payments.
- *Income support/working tax credit*: the income support and tax credit system may be more suited to a tapered payment because it can be applied to all homeless people moving into work. People also tend to see the benefits system as more difficult to negotiate than the tax credit system.

It is important to focus on the principles rather than the exact mechanisms. The benefits system is constantly evolving, so identifying a particular mechanism today could easily become obsolete if it is reformed or abolished. The two key principles that such a mechanism should be based upon are:
• *Simplicity:* how easy it is to use for clients and agencies.
• *Comprehensiveness:* so that it is not specific to any one group of homeless people – such as those with children, for example - but can be applied in all categories.

The best mechanism would exemplify these two principles. The earnings disregard is included as an option here, not because it is appropriate for applying the taper to full-time employees, but because of its potential role in encouraging part-time employment so that people can phase their transition to full-time work. This option will probably be appropriate for a significant number of those attempting to make the transition to work, so it is important that this is facilitated rather than obstructed by the benefits system.

More research is needed with homeless people about their attitudes towards different types of payments, and a small-scale pilots incorporating this approach plus other vital aspects of holistic support into work would be very useful. This will need to be combined with close consultation with the government about the best way of channelling this financial support.

**Moving into work**

3. The homelessness sector and back to work agencies must make sure financial planning and debt counselling are available to all clients thinking of taking work.

Other research has shown how often people with an experience of homelessness also have debts. When they start work, payments become live, impacting directly on the how much they are better off in work. Although there are some improved calculations which incorporate these extra costs of working, there is still no programme that incorporates existing debts and supports clients to develop strategies to manage their repayments.

Improving working practice in this area means linking up employment support agencies with local agencies, so that they can deliver more systematic better-off-in-work calculations, debt counselling and financial management. Local hostels could provide access to financial advisors; home-owners could be signposted to Citizens Advice Bureaux by Jobcentres. Employers also have a role to play by directing employees towards financial planning advice, debt counselling and personal budgeting support, so that the transition into work is a little easier.

4. The homelessness sector should clarify the rent requirements for hostel users and provide for short-term ‘in-work’ accommodation for people who go back into work.

Some hostel providers have already developed their living accommodation and organisational approach to support those returning to work, for example through the provision of subsidised ‘in-work’ wings. These positive innovations should be evaluated so that examples of good practice can be rolled out across the sector. The homelessness sector needs to demonstrate the financial and social case for dedicated in-work accommodation.

Local authorities will need to make sure there is enough in-work accommodation in their area and look at the disincentives to taking employment in their points systems which qualify people for social housing.
5. The homelessness sector and business needs to make sure their clients are aware of existing benefits, particularly in-work benefits.

Our research confirms that there is little awareness of the possibility of in-work benefits. This is compounded by the fact that people have to actively apply for them, rather than be assumed to qualify. Benefits may also be provided by local authorities (Housing Benefit and Council Tax benefit), Job Centre Plus (Income Support) and the Inland Revenue (Working Tax Credits), which makes it even more confusing and lets people fall through the gaps.

The DWP has been trying to simplify specific benefits, but they now need to look at simplifying the relationship between benefits and across different agencies.

There also needs to be guidance, with information written in plain English, to show the range of benefits available in and out of work, the eligibility criteria for each and how the benefits interact. That requires more co-operation between local authorities, Job Centre Plus and the Inland Revenue. A one-stop shop approach might help simplify the experience for all concerned.

Understanding how benefits calculations are made will help customers feel more confident about the benefits to which they are entitled. This will also make staff more confident when it comes to helping clients access what they are entitled to.

Businesses could help staff by directing them towards sources of information about benefits that might be available. They could carry out benefits checks for employees at induction, and it might also help them keep staff. There is also an argument for flexible payment systems so that people can be paid weekly in their first few months in a job.

6. The government has to give more discretion and training to Jobcentre Plus advisors to support clients when they take positive steps to improve their employability.

There is more flexibility set out in No-one Written Off. Under this initiative, work placement agencies will have to get approval from Job Centre Plus for their clients to do voluntary work placement if they want to change their benefit claim appointment.

There needs to be better co-operation between agencies supporting people back to work, and rules of engagement to encourage people to take the steps they need to. But these placements should stay voluntary, because that aspect is valued by staff and clients.

7. Government and businesses need to rethink benefits transitions to make sure people are not forced further into debt.

The research demonstrates that people often have significant outstanding debts. Those with an experience of homelessness are also worried about arrears for housing payments. It is extremely important that changing their lives does not force people further into debt, yet they often are when they go back to work. Not only can this force people to stop working, but it makes them more loss averse in the future.
8. Employers should phase out short-term contracts and irregular working patterns.
Although part-time work is often a helpful step back into employment, short-term contracts and irregular working patterns can have significant implications on someone’s financial status. Frequently changing shift patterns result in ongoing recalculations of benefit entitlement and impacts on people’s ability to create and implement financial strategies, particularly when they are settling into work.

Campaigns such as the London Living Wage already exist and many businesses are already signed up, but they need to use their influence on other employers, particularly those employing large numbers of staff on a shift basis and at low wage rates. Businesses can also play make sure those who allocate shifts are sympathetic to the impact that hours worked has on benefits, as well as in promoting initiatives such as shift packages that enable employees fit in with current benefit system structures.

Yet employees and employers alike are looking for flexible shift patterns, and businesses need to bring their influence to bear on DWP to find alternatives to the constant recalculation of benefits when shift patterns change.

Settling into work

9. Businesses should link up with back to work agencies to provide support packages to cover people’s transition and ‘settling in’ phases at work.
Far from being an added extra, providing social support to clients during the settling in phase of a new job is critical to their chances of embedding in the world of work. Yet this aspect of people’s journey still gets little attention and even less structured and funded support. Agencies such as DWP must start to recognise this as part of an effective back to work support package. This may involve a focused evaluation of the impact on job retention figures of in-work support.

For frontline agencies such as BAOH, the challenge is to make sure that business partners are able to offer one-to-one support with mentoring schemes in work. This should be delivered partly by people who have themselves moved from homelessness into employment.

Businesses could be flexible enough to organise a gradual increase of hours to ease people into work. They also need to be more aware of some of the early symptoms of poor mental health, stress and financial pressure, so that they can support new employees better in the transition stage. Their sickness and staff absence regimes need to be able to intervene early to support employees who are settling in, and doing so would help keep them in work.

10. The government should pilot a ‘settling into work’ category so that claimants can suspend their benefits claims rather than close them altogether.
We recommend a pilot project which lets clients have their benefits claims suspended rather than closed when they get a job. This suspended status should be recognised as part of the settling-in phase. It would mean they could open their claims again quickly if they need to, and have the reassurance that this is possible if they do go into work.
Sustaining and progressing in work

11. Business should increase their provision of non-financial support in work.
People need support when they are settling into work, to create new social networks and to build the kind of habits that can embed them in the world of work. Providing that support will make other aspects of keeping people in work that much more effective. When programmes limit themselves to getting people into the workplace, they risk leaving them with vulnerabilities in an increasingly unstable workforce.

Businesses can also make their workplaces positive places for employees by developing social activities that include ex-homeless employees, and other mentors. It makes sense to include opportunities that are not alcohol related or require substantial financial costs for anyone taking part.

12. Identify characteristics of resilient employees based on current best practice
Getting someone a job is not enough to overcome the social isolation experienced by anyone with a history of homelessness. Support structures that fail to invest in supporting people through the settling-in phase risk contributing to a revolving door of people going in and out of employment because of their poor experiences. The economic model shows that this also costs money, because each poor experience is likely to increase someone’s risk aversion, and that means bigger incentives before they are willing to try again.

More research is needed to identify the characteristics of resilient employees, who have the skills to get work, stay in work and progress in it. All back to work programmes should aim to develop these characteristics if they are going to succeed. This means programmes will need greater emphasis on individual skills and confidence-building rather than simply getting job offers.

The revolving door also means major extra costs for the people concerned, and often means more debts (see recommendations 3 and 5). That is why it is vital that employment support programmes shift their focus from getting a job to sustaining employment. The success criteria for this will look different to the simplistic numbers in work measures currently used.