

The First Step campaign: Support the first step into work for people on benefits: a £50 earnings disregard

Part of the Need NOT Greed campaign: helping people make the transition off benefits and into secure work (www.neednotgreed.org.uk)



Summary

People on Jobseekers Allowance (JSA) face a £5 cap (or 'earnings disregard') on the amount they can keep each week when they get any kind of paid work. Above this amount, benefits are deducted at the same rate as earnings, which means claimants who take on part time or occasional work are often little better off. Our grassroots experience shows that this low cap on earnings often removes the incentive to take the first step back into work and can push people into illegal cash-in-hand jobs. The £5 cap should be raised immediately to £50 a week, to support people to get back into work and off benefits.

More about the earnings disregard

The earnings disregard varies considerably depending on the type of benefit received, but is at its lowest for people on Jobseekers Allowance.

The current level of £5 for a single adult was set in 1988 and has not been raised since. It is now worth less than one hour's work at the minimum wage.

Removing the incentive to take the first step into work

Short-term, temporary, or low-hour jobs can be a vital first step back into work, particularly for those who have been unemployed for a long time. These types of jobs allow people to reacquaint themselves with the employment market, try out childcare or travel arrangements, and gain valuable experience on their way to a better-paid or more permanent job.

Often the only work available to those moving back into work is temporary, part time and occasional - over a third of all Jobcentre vacancies are for less than 16 hours a week. Moving into this kind of insecure job for no financial gain presents a big risk for people on benefits, yet it is often the only work available as the first step back into the job market.

Nike's story

Nike has had 46 interviews and written hundreds of applications for full-time jobs in the last few months, but the low earnings disregard means she can't afford to take up the part-time work available.

She lives in East Ham with her two daughters aged 14 and 18. After many years working as an administrator she took 2 years out to care for her sick daughter, followed by a year's Diploma in Business Studies, which she finished in June. Since then, Nikki has been on Jobseekers Allowance.

Nikki is applying for jobs over 16 hours a week, because she knows that anything less than that would leave her worse off. After 3 months of looking she volunteered herself for the New Deal programme (usually accessed after 6 months) because she was getting more and more desperate for a job.

She knows that a part-time or temporary job would be a good route back into full-time work, but she can't afford the uncertainty, or the fact that most of her wages would be deducted from her benefits. As a single mum she would be entitled to a £20 earnings disregard, but even this isn't enough. Raising the disregard to £50 would make this part time work a realistic option.

Family situation	Earnings disregard for JSA
Single person	£5
Couple	£10
Single parent	£20
ESA	£93 (from April '10)

Forcing people into illegal cash-in-hand work

Many people struggle to get by on the benefits they receive, and are keen to take up paid employment. Often they lack formal experience or skills, lead complex lives or have family responsibilities, meaning the only jobs available are short-term and temporary – a few hours cleaning, for example.

However, knowing that declaring the job would lead to the equivalent drop in benefits; many people do not inform the Jobcentre. Now they are defrauding the system, liable for large fines and even imprisonment. Furthermore they cannot declare the work on their CV for fear of being discovered, hampering their chances of getting more formal employment.

More people affected by the low earnings disregard.

Changes to the benefits system are increasing the number of benefit claimants affected by the low earnings disregard. People on Incapacity Benefit, currently 2.6m, have a more generous earnings disregard of £93, but are being moved in huge numbers onto Jobseekers Allowance and the £5 earnings cap. Government is moving people off Incapacity Benefit to encourage them to find work, but saddling them with the £5 earnings disregard is likely to have precisely the opposite effect.

Moreover, the number of people receiving JSA has increased greatly overall as unemployment has risen over the past year. It currently stands at 1.63 million (November 2009).

A contradiction in government policy

For some benefits, government recognises the vital role that a generous earnings disregard has to play in helping people into work – for example the newly created Employment and Support Allowance (to replace Incapacity Benefit) has an earnings disregard of up to £93. Yet government refuses to recognise this in relation to Jobseekers Allowance.

Raise the earnings disregard to £50

For people on the minimum wage, £50 equates to 8.5 hours work – about 2 half days of work per week.

Example: Working for 50p an hour

Richard is single, aged over 25, and has been out of work for over a year. He is currently receiving Jobseekers Allowance.

He gets offered a temporary job as a gardener, for 2 half days per week, a total of 10 hours, on the minimum wage.

At the end of his first week, he's only £5 better off than had he just remained on benefits. The other £53 he worked for have been negated by the equivalent decrease in benefits. He has effectively been working for 50p an hour.

John's story

John has worked on a temporary contract for a private firm for the last year. His last contract came to an end in September, and he has been looking for a job since then.

After signing on to Jobseekers Allowance (at the under-25 rate of just £50.95 a week) he was offered a day's work in his old job. Thinking he'd have an extra £80 at the end of the week he willingly took it, but was shocked when he declared it to the Jobcentre and they immediately deducted £45, leaving him only £35 better off than had he done nothing. John freely admits that next time he would think twice before declaring work like this to the Jobcentre.

John said "I completely felt that having the jobseekers, and going through the drama of going and talking to these people just wasn't worth it if I was having my money pinched back. The rates are just ridiculous, they don't leave enough money to actually want to travel to job interviews etc and eat...."

Saving the taxpayer money

There has never been a pilot study to assess the impact of raising the earnings disregard, so it is difficult to estimate the cost. The coalition's considerable grassroots experience suggests that raising the disregard will help more people move off benefits, ultimately reducing the cost of the welfare system considerably. Furthermore, many of those claiming the new disregard (perhaps the vast majority) will have moved into formal work only as a result of the reforms, so the upfront cost to the taxpayer will be very little.

More is needed

The very low earnings cap for people on Job Seekers Allowance is only one of many issues that contribute to unemployment and poverty in the UK. In the long term the benefits system needs a complete overhaul, so that it properly reflects the reality of work in the 21st Century. In addition to creating incentives for work within the benefits system, individuals need active support from Jobcentre staff to find and stay in a job. The Need NOT Greed coalition, coordinated by east London charity Community Links, has a comprehensive set of recommendations available on its website – www.neednotgreed.org.uk

The Need NOT Greed coalition

Need Not Greed is a national coalition of grassroots organisations campaigning for reform of the benefits system, which forces people to work illegally out of need, not greed.

Bill's story

Bill was left virtually penniless after the Jobcentre docked his benefit before he'd been paid.

Bill has been unemployed since April and receiving Jobseekers Allowance. He lives with his wife and 5 year old daughter in Manchester. In July he applied for some temporary work as an exam invigilator with the local council – about 9 hours work over two weeks –and was expecting to get a welcome extra £90.

However, when he told the Jobcentre he discovered that he would only be £10 better off than had he done no work at all. And to make things worse, the Jobcentre deducted the money from his benefits before he had been paid by the council, leaving him virtually penniless. It took him 11 phone calls over 4 days to get his JSA reinstated, during which time he had to rely on friends to see him through. An earnings disregard of £50 would have allowed Bill to confidently declare his earnings, safe in the knowledge that his benefits would not have been affected.

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