

**Work Incentives
in the Benefits System:
Increasing levels of
Earnings Disregards**

Community Links Evidence Paper No. 12

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linksUK

Our purpose is to champion social change. We pioneer new ideas and new ways of working locally and share the learning nationally with practitioners and policy makers. As a result, we are recognised as national leaders in regeneration and social policy.

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Preface

'Work Incentives' in the Benefits System: Increasing levels of 'earnings disregards'

This position paper was written by Community Links in June 2005 on behalf of an informal network of interested organisations seeking to reform the earnings disregards rules.

A revised and updated version of this report will be published in autumn 2008, placing 'earnings disregards' within the wider framework of 'work incentives', i.e. financial incentives which aim to progress people off benefits into work, such as earnings disregards, permitted hour rules, and in-work credits.

It is interesting to note that, three years on, many of the issues and problems remain the same. The government must address the perverse situation which exists with work incentives, particularly earnings disregards; the current rules actively disincentives people from returning to work. For example, shortly after this paper was written in October 2005 the national minimum wage rose to over £5.00 an hour. This meant that a single person on Jobseekers Allowance was not able to work even one hour a week! Earnings disregards are counted as income when housing benefit and council tax benefit are calculated, again disincentivising people from returning to work. The government is giving with one hand, but taking with the other, effectively offering no incentive for those that do want to take small steps back into the world of work.

From our work on earnings disregards, we collaborated with the National Community Forum at the Department for Communities and Local Government, and developed CREATE: the Community Allowance.

The CREATE Consortium (made up of Community Links, DTA, BURA, National Community Forum and Silvers of Time) is leading a campaign to establish the Community Allowance within the UK benefits system. This would enable community organisations to pay people who work to strengthen their communities, without it affecting any of their benefits. It is born from the knowledge of the opportunities that exist within deprived communities to get people back into work. Part-time or sessional work undertaken as part of a journey towards the formal labour market could make a real difference in those neighbourhoods.

A five minute film, 'Benefits Rule', about how benefits regulations stop people from getting paid work in their community can be viewed online at our CREATE website www.communityallowance.org.uk

The latest DWP Green Paper '*No One Written Off*' is a tremendous opportunity to revisit and examine the most effective ways of using work incentives in the benefits system, including earnings disregards, to support and encourage more people back into work, and so move closer to reaching the ambition of an 80% employment rate.

We recommend that reforms to 'work incentives' should not be assessed in isolation, but incorporated into the wider context of reforming the benefits system, including benefit simplification.

In addition to an internal DWP review of work incentives, the government should seek to incorporate the experience, views and solutions of benefit claimants themselves, and the voluntary and community sector organisations who work with claimants, as well as public and private sector organisations. Community Links would be interested in facilitating an event to introduce such people to the DWP.

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1. The Problem

The levels of 'earnings disregards' for people in receipt of welfare benefits have remained virtually unchanged for the last 17 years (since 1988) and are pitifully low. This impacts greatly on individuals as it prohibits a move off benefits into work and it stops organisations from employing staff either part-time, sessional, or temporarily because people do not want to give up their benefits for such short term work = the benefits trap. The consequence being that people remain trapped in poverty, reliant on welfare benefits and unable to contribute to the development of their community and society.

The low earnings disregards thresholds have been acknowledged as a problem in various DWP research reports and has been systematically highlighted by the Social Exclusion Unit 1999. It is also acknowledged as a problem by a wide range of government departments and politicians, as well as benefit recipients themselves, employers and those in the voluntary & community sector, who are often working from the ground up.

What is the 'earnings disregard'?

The 'earnings disregard' is the amount of money that can be earned by welfare benefit recipients every week without losing benefits – the 'earnings disregard'.

How much is it?

The disregards range from £5 for an individual, £10 for a married couple, and £25 for lone parents. Anything earned and declared beyond this amount is taken penny-for-penny from weekly benefit payments.

2. Why it must change: The effects of low levels of 'earnings disregards'

Disincentive to work

The low level of earnings disregards fails to provide an adequate route off benefits into work, so perpetuating the 'benefits / poverty' trap. Employment increases self-confidence, skill development, work experience, community involvement and networks, all of which enhance future work prospects.

Earnings disregards should act as an incentive to move people gradually into work, by encouraging people to move en route onto tax credits and/or New Deal. This will narrow the gap between different government support programmes which aim to encourage people into work.

Out of synch with today's norm of flexible, sessional, portfolio type working

Currently people on benefits can either choose to work a 35 hour week or live on benefits. This does not reflect the reality of work today. A quarter of those in employment work part-time, of which three quarters are women. Flexible, sessional, portfolio type working is now more typical in many private and public sector industries (catering and health care, for example). The benefits system remains an on/off switch instead of a dimmer switch where people could exert more control, flexibility and choice.

Prohibits efforts to tackle and eradicate poverty

The effect of the current levels of earnings disregards has the net effect of trapping families in poverty, which is in direct contrast to the government's commitment and policies to eradicate child poverty within a generation.

Prevents community participation, cohesion and integration and the building of social capital in communities

The most important asset communities have is people. In poor areas there are many people with skills and the time to work in and contribute to those areas. However the one barrier to stop them getting involved is the earnings disregard. For example, Local PCT's will pay for local representatives to sit on their boards, however if you're on benefits you can't, and yet they are the people that often have the time to commit. If local people could get involved it would initiate a virtuous cycle of community asset and capacity building of their own deprived communities. Social and community capital would be built as would the increased collective and individual well being e.g. improved health, reduced crime, cleaner environments, increased work (paid and unpaid).

Stunts entrepreneurship: business start up and growth development

Low levels of earnings disregards provide a disincentive to people wishing to start up and develop their own business, which in areas of high unemployment is a key factor in bringing about job creation and independence from the 'benefit trap'.

Encourages informal economic activity and benefit fraud

Given that people are unable to work without forfeiting their only 'stable' form of income provided by welfare benefits, it provides an incentive to work informally or cash-in-hand, and acts as an incentive to 'hide' income-earning activities from the authorities. Thereby decreasing HM Government's tax revenue, criminalising their activities and creates an 'underclass' outside of which government policy and support programmes have no reach or effect.

Creates debt

Since people are disincentivised from accumulating savings, people are encouraged to take out credit (frequently at extremely high levels of interest) and get into debt.

Prevents savings

Any capital owned above £3,000 disqualifies an entitlement to benefits. People are unable to create 'safety nets' to provide for themselves and their family, in order to cover the cost of living in the event of a crisis, for example, or to save to invest in a business, one's children's future education or retirement. (This limit is being increased to £6,000 in 2006. Close monitoring is needed to assess its impact).

Discriminates against certain groups, in particular

- Women
- Ethnic minority communities

Women

Women are more likely to run part-time businesses. Of those women that do start businesses almost half choose to start part-time and 21% do so to fit work around their

families. This is very different to the male business ownership norm, where 80% of men are full-time self-employed and only 2% become self-employed due to family commitments (ONS Labour Force Survey 2000).

Women are more likely to start businesses in a tentative manner. Women's businesses generally start more slowly, with a longer incubation period, than their male counterparts, and so need a longer 'income-bridge' to support them.

Childcare costs remain a barrier in the transition to employment

Ethnic minority communities

The low levels of earnings disregards particularly affects those living in disadvantaged and deprived areas, many of which are frequently populated by high concentrations of minority ethnic communities. Research shows that if you are from a Black & Minority Ethnic community you are more likely to be poor and live in poorer communities, which themselves experience higher unemployment and poverty rates. People therefore need greater support, incentives and routes into employment.

3. The Solution

We are seeking reform of the 'earnings disregards' thresholds in order to:

- Enable more people to move into work
- Tackle and eradicate poverty, particularly child poverty
- Ensure more people take part in regenerating their communities

We recognise the success of the government's 'Welfare to Work' programmes but argue that 'those left behind' will not be served by 'more of the same'. Increasing the levels of earnings disregards is one part of the solution to ensure the success of existing (and future) strategies and policies which aim to tackle unemployment, poverty and deprived communities.

The following preliminary recommendations are based on evidence gathered from a number of sources. These include local people in east London, and discussions with think-tanks, academics, and voluntary & community sector practitioners in the UK. They are, nevertheless, only intended to guide the policy-making process and help determine the selection of potential policy changes that may need to be tested and refined through pilot projects.

Each solution should be simple, straightforward and clearly defined. Our recommendations include:

1. Introduce an annual 'Earnings Credit'. We note with interest that the 1999 SEU / PAT1 report recommended a reform of the ED, using the Australian model of an annual £1,000 earnings credit pot. (And/or to have a short term high rate and a long term low rate of earnings disregards, thereby giving people choice and responsibility).

2. Raise the levels of earnings disregards to the limit of an individual's first band of their yearly personal tax allowance e.g. one is entitled to an annual earning disregards of £4,890.
3. Raise the levels of earnings disregards to a reasonable, liveable rate of £50 per week.
4. Ensure that when Housing Benefit and Council Tax Benefits are calculated that they disregard these disregards.
5. An additional exemption could be to exclude work costs e.g. travel, childcare expenses from earnings disregards.
6. Ensure that earnings disregards levels are index linked (either linked by inflation or earnings), and uprated accordingly. Lord Rooker (a supporter of these changes) is renowned for the Rooker-Wise amendment to the Finance Act of 1977. This index-linked the personal tax allowance, so that it would automatically increase with inflation.
7. Link levels of earnings disregards to a new permitted hour rule and the minimum wage. E.g. allow a person to work a limited number of hours per week, at the levels of the minimum wage and keep their benefits.
8. Increase levels of earning disregards on condition that the person:
 - receives enhanced/extended business support
 - receives basic skills – information, advice, guidance, and training
 - does a particular type of work e.g. community work

4. Conclusion

Increasing the levels of earnings disregards provides the social and cost benefits of a more flexible approach that would build social capital, ease people towards sustainable employment, reduce poverty by increasing people's income, and increase the quality, availability and appropriateness of local services and communities.

We would like to work together with decision makers in government to tackle the barriers that remain in the present system to increasing the levels of earnings disregards.

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Appendix 1: ‘Reforming Earnings Disregards’ a UK-wide Network

This positioning paper has been prepared by Community Links on behalf of an informal group of 45+ organisations throughout the UK seeking reform of the Earnings Disregards rules and thresholds. These include:

Age Concern England	Lancashire SSD
Benefits Working Group, National Community Forum, ODPM	London School of Economics
British Urban Regeneration Association	Low Incomes Tax Reform Group
Child Poverty Action Group	New Economic Foundation
Church Action on Poverty	National Markets
Community Development Finance Association	National Association of Citizens Advice Bureaux
Community Links	Neighbourhood Renewal Unit, ODPM
Cyfenter, Welsh Development Agency	One Parent Families
De Montfort University	PROWESS
Debt on our Doorstep	Royal National Institute of the Blind
Disability Alliance	Runnymede Trust
Fair Finance / Environment Trust	Social Security Advisory Committee
Family Welfare Association	Street Cred
Hertfordshire County Council	Tower Hamlets Partnership
Institute for Public Policy Research	Trades Union Congress
Jobcentre Plus, Newham	Train 2000
Local Government Association	WM Enterprise Ltd
London Borough of Newham	Urban Forum

Appendix 2: An introduction to Community Links

Community Links is an innovative charity running community-based projects in east London. Founded in 1977, we now help over 53,000 vulnerable children, young people and adults every year, with most of our work delivered in Newham, one of the poorest boroughs in Europe.

Our Vision is to be champions of social change.

Our Purpose is to tackle the causes and consequences of social exclusion by developing and running first rate practical activities in east London, and by sharing the local experience with practitioners and policy makers nationwide.

Our Work is based on the belief that we all have the potential to do great things. Community Links aims to encourage everyone to fulfil their own potential and knows that every adult can build their own ladder out of poverty or disadvantage. This is reflected by 80% of Community Links' services being provided by people who were themselves service users.

In east London we provide advice, training and practical support, including education programmes for non-school attenders, play and care schemes, family advice sessions, youth work with young people on the street, training schemes, counselling groups, emergency services and much more.

linksUK explained

Community Links shares the learning from our local work through **linksUK**, which provides practitioner-led consultancy and training, research and policy development and a programme of publications

Over the last eight years, linksUK has:

- published over 35 books and reports based on our research
- worked with over 5,000 local people using our innovative 'Everyday Innovators' approach
- succeeded in securing 12 national policy changes
- influenced government strategy and policy on the informal economy and deprived neighbourhoods
- hosted seven government secondments
- and has successfully tested 11 ideas for improving delivery of local services.

Further information

Website: www.community-links.org

Blog: www.community-links.org/linksuk

Email: uk@community-links.org

Appendix 3 Community Links 'Evidence Papers' series

Download the Community Links 'Evidence Papers' series of research findings and policy recommendations free from www.community-links.org

A number of our evidence papers remain unpublished working papers, some of which have been superseded by other of our publications. Do leave a comment about them on our blog: www.community-links.org/linksuk

[EP11: Housing Benefit in 2008: issues, examples and recommendations](#) This report details some of the issues, problems and concerns with Housing Benefit; it is illustrated with examples and case studies taken from our Advice Team, staff and clients.

[EP10: Knowing the Regulations: Volunteering Whilst on Benefits](#) This brief report clarifies the current regulations about benefit claimants who volunteer and addresses how the existing policy can be better implemented at an operational level.

[EP9: The Effects of High Rents in Temporary Accommodation](#) A qualitative study into the effect of high rents of temporary accommodation and, in particular, difficulties for residents who wish to return to work based on Case studies in Newham.

[EP6: Incapacity Benefit](#) A report submitted to the Newham Benefits Agency presenting ideas from service users on how to improve the delivery of Incapacity Benefit in Newham.

[EP5: The Uncounted](#) An investigation into the permanent residents of east London not officially recorded as living here.

[EP3: For Whose Benefit?](#) A report by Dr. Anne Gray, South Bank University presenting the conclusions of our Citizens' Jury on how to make the benefit system and training services better at helping people to find and keep a job.

[EP2: Prospects for Enterprise](#) A report by Dr. Andrew Travers, University of Exeter, uncovering motivations for people working informally and highlighting why current government policy in this area needs re-thinking.

[EP1: What if...?: Welfare to Work](#) A report submitted to the pre-Budget consultation 2000 presenting recommendations for changes to the tax and benefit system that would help people move into employment.

Current Publications from Community Links

Community Links website is an invaluable source of information on our activities and publications. You can see what we have, sample a few pages and even order on-line. Visit: www.community-links.org/our-national-work/publications/

Our most recent publications include:

[Britain's Everyday Heroes](#) Community Links worked with Prime Minister Gordon Brown to produce this book telling the stories of 33 individuals whose commitment to a community or cause has informed and inspired him.

[Making links: 15 visions of community](#) Gordon Brown, David Cameron and others share their visions for our communities. To mark our 30th anniversary we invited some friends to take a look with us at the state of our communities and, perhaps more importantly, where we are going.

[Unconditional Leadership](#) Now in its second edition Unconditional Leadership by David Robinson is a book about leadership... with attitude. The book describes a values driven approach to developing people, building teams and maximising results.

[Self-employed and micro-entrepreneurs: Informal trading and the journeys towards formalisation](#) Small cash-in-hand businesses could revitalise the economy in London's most deprived communities if they were not penalised and instead encouraged to grow.

[People in low-paid informal work: Need not Greed](#) This research report explores the experience of people on low incomes, doing informal paid work, including those working cash-in-hand and those undertaking undeclared work whilst claiming benefits.

[Visible Voices: young peoples Ideas Annual](#) By including young people, we make our communities more inclusive, more functional and more effective. The ideas in Visible Voices illustrate the creative and risk taking ideas from young people that are bringing about change in local communities.

[Ground Up: Good Ideas for Tackling Child Poverty](#) At a time when the elimination of Child Poverty is high on the government's agenda, we celebrate exceptional role models and inspirational projects already making a practical difference to vulnerable families in disadvantaged communities.

[Small Places, Close to Home: Community projects led by or working with refugees and asylum seekers](#) This Idea's Annual celebrates the contribution made to their own and the wider community by asylum seekers, refugees and those who work with them. Refugees and asylum seekers are dedicated and important providers of services.

