

# THE BENEFITS OF TACKLING WORKLESSNESS AND LOW PAY

This report assesses the gains to government and the economy of tackling worklessness and low pay, using Leeds and Leeds City Region as examples.

## Key points

- Tackling worklessness and low pay reduces poverty and decreases public expenditure on welfare spending and tax credits, with indirect savings in other public service areas, including healthcare, crime and social services.
- Reducing worklessness and low pay increases government revenue through the increased taxation (income tax and National Insurance) on the incomes of those who find work or a higher-paid job.
- Last year, for every out-of-work claimant moving into a job at the Living Wage (which was then £7.45 per hour), the government gained on average £6,897. For every £1 of public spending saved, 80p accrued to central government (Department for Work and Pensions and HM Revenue and Customs), 10p to NHS commissioners, 7p to the local authority, and 3p to criminal justice services, fire services and social housing providers.
- The limited gains that accrue locally give rise to important questions around local-level incentives for tackling worklessness and low pay. Successful, innovative city-level poverty reduction strategies could be rewarded by local areas retaining some of the benefits savings.
- Gains to government vary by locality, driven by a combination of local wage levels, the range of housing costs and tenure, and characteristics of benefits claimants.
- People moving into work generate additional output, and by moving into better jobs they raise productivity. Being in work also raises incomes and the amount of spend and demand in the local economy, directly benefiting local businesses and creating a 'multiplier' effect.
- Whenever an out-of-work claimant moves into a job at the Living Wage, the local economy benefits on average by £14,436 annually.

## The research

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# BACKGROUND

This study assesses the gains to government and the economy of tackling worklessness and low pay. Getting an individual into work, or into better-paid work, increases personal and household income and reduces poverty. It also delivers significant economic gains. Exploring these gains using Leeds and Leeds City Region as examples, this research examines the impacts of a more integrated approach to jobs, growth and poverty reduction.

## Government gains

Tackling worklessness and low pay reduces poverty and decreases public expenditure on welfare and tax credits, with indirect savings in other public services, and increases revenue through additional tax.

**Figure 1 – Gains to government from tackling worklessness and low pay**

Source of gain	Responsibility and breakdown
Out-of-work benefits*	Department for Work and Pensions (DWP): Jobseekers' Allowance, Employment and Support Allowance, Income Support/Incapacity Benefit/Severe Disablement Allowance  HM Revenue and Customs (HMRC): Child Tax Credit
In-work benefits*	HMRC; includes Working Tax Credit and Child Tax Credit
Housing Benefit*	Local authority administered for DWP
Council Tax support**	Local authority funded and administered
Administrative costs	Jobcentre Plus job-search activity, Housing Benefit, Council Tax support and tax credits, plus programme delivery costs
Tax revenues	Tax and National Insurance (NI) revenue from employees and employers
Measured indirect costs	Metrics for quantifying reduced health service, police and criminal justice costs
Other, non-quantified indirect costs	The strain poverty places on local services, e.g. housing, education, social and environmental services

\* Included in Universal Credit

\*\* Not included in Universal Credit

For every out-of-work claimant moving into a job at the Living Wage – which was £7.45 per hour during the period the data reflects – the government gained on average £6,897 (£6,800 in Leeds); the gain is £265 (£176 in Leeds) for someone on Minimum Wage moving to the Living Wage. The latter gain is small because employees receiving the Living Wage may remain eligible for in-work benefits.

Figure 2 breaks down the cumulative gains of tackling worklessness, but the gains identified in Leeds and Leeds City Region do not accrue to local public services.

**Figure 2 – Annual per capita gains from out-of work claimants moving to Living Wage work**

Source of gain	National	Leeds City Region	City of Leeds
Benefit savings	£2,998	£2,494	£2,981
Administration savings	£646	£651	£648
Direct taxation	£1,959	£1,959	£1,959
Reduced health costs	£846	£766	£750
Reduced crime costs	£448	£410	£461
Total	£6,897	£6,280	£6,800

Based on Leeds, moving 10,000 out-of-work claimants into Living Wage jobs would generate £68m annually in gains to government; moving 40,000 people would generate £272m.

## Who benefits from the gains?

The accrual for every £1 of public spending saved is: 80p to central government; 10p to NHS commissioners; 7p to the local authority; 3p to criminal justice services, fire services and social housing providers. The limited scale of gains accruing locally raises important questions around local-level incentives for tackling worklessness and low pay.

## Local variation in gains

Gains vary locally through: local wage levels and types of jobs; housing costs and tenure, with varying rent levels across areas/housing types impacting on Housing Benefit levels; claimants' characteristics (numbers on health-related benefits, age, gender).

## Impacts on local economies

People paid the Living Wage should be sufficiently productive to cover their labour costs, wages, employer NI and pensions. The extra output and productivity could contribute to economic growth. Getting into work, or better-paid work, increases incomes and people's disposable expenditure and raises spend and demand in the local economy, directly benefiting local businesses and creating a 'multiplier' effect. Areas with high levels of in-work poverty would gain the most from increasing pay levels.

Whenever an out-of-work claimant moves into a Living Wage job, the local economy benefits on average by £14,436 annually, of which £1,303 is the multiplier. Someone moving from low-paid work to a Living Wage job benefits the economy by £428 annually; the gain is limited because many jobs are part-time and may still be below NI thresholds.

## Summary of gains

Figure 3 summarises the gains from tackling worklessness and low pay, based on Leeds City Region.

**Figure 3 – Government and economic gains (Leeds City Region)**

	Halve unemployment <sup>1</sup>	10,000 unemployed into work	Halve numbers in low pay <sup>2</sup>	10,000 from low pay to Living Wage
Fiscal gain	£408m a year	£62m a year	£36m a year	£2.4m a year
Economic gain	£952m a year	£146m a year	£60m a year	£4.0m a year

<sup>1</sup> Halving unemployment: from 8.6% to 4.3%, or from 130,000 to 65,000. <sup>2</sup> Halving the numbers in in-work poverty: from 150,000 to 75,000.

## Cost-benefit analysis

Most people move out of poverty and into work or higher-paid jobs without support from programmes. However, some people need help through Welfare to Work programmes. Others use Jobcentre Plus or local support schemes. Comparing the costs of helping people into work with the benefits gained highlights the potential cost effectiveness of well-designed and delivered schemes.

## Implications for city policy

### Linking strategies for growth and poverty reduction

The financial case for linking growth and poverty reduction is clear. Connecting people in poverty to jobs with decent pay reduces welfare demand. Conversely, the costs of alleviating the impacts of worklessness and low pay raise demands on public finances. Alleviating poverty needs to form an integral part of plans to boost local economic growth and a central component of long-term strategies for managing demand on public services.

### Clearer local incentives

At city level, however, the gains in reducing poverty are not always apparent, because most of the direct measurable gains accrue to national government. Local partners have no clear incentive to tackle worklessness and low pay in local growth strategies, or to make the most efficient, effective choices for local circumstances. Successful, innovative poverty reduction strategies could be rewarded by local areas retaining some benefits savings, thereby incentivising local partners to invest more resources, time and energy in promoting balanced, inclusive economic growth.

### Sound evidence base

Cities need a sound evidence base for the spending on workless and low-paid people, including identifying the key influences that move people in and out of poverty. Greater recognition is also needed of how much the drivers of poverty vary locally, to tailor local strategies appropriately.

## Cost-benefit approach

Sufficiently detailed identification of the costs and benefits to cities of reducing poverty is feasible for informing their strategic decisions about the investment required in people, infrastructure and support services. A cost-benefit approach clarifies the elements needed to increase growth and lessen poverty. With reduced local government spending and the need to prioritise expenditure, this approach provides a more holistic investment appraisal for the wider economic benefits of poverty reduction.

## Policy choices

Local economic strategies can adopt various approaches to poverty reduction to achieve wider economic and fiscal benefits, including developing effective relationships with local businesses and employers, through:

- attracting more higher-paid jobs in relevant sectors/occupations;
- improving pay rates by encouraging employers to adopt the Living Wage;
- improving affordable childcare/other care so people can increase their working hours;
- ensuring sufficient part-time jobs for those who want/need them;
- employment/training programmes to increase the local workforce's employability;
- delivering a training system for people to achieve qualifications needed by employers;
- promoting progression in work by encouraging employers to train people, to invest in their skills;
- a housing strategy ensuring sufficient affordable housing;
- a strategy for affordable, convenient public transport so residents can access employment without losing their gains from working;
- a procurement strategy which maximises impact locally and is geared towards reducing poverty;
- focused actions for people in entrenched poverty;
- a local support services framework for the welfare system which helps people to escape poverty and insecure employment.

## Conclusion

By quantifying the gains to government and the economy of tackling worklessness and low pay, this study demonstrates the strong case for making better connections between strategies to promote growth and reduce poverty. This case could be strengthened through clearer local incentives.

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## About the project

This study is part of JRF's Cities, Growth and Poverty research programme. It updated previous estimates of the costs of worklessness, and identified the cost benefits of tackling worklessness and reducing poverty, using the Living Wage as a benchmark.

## FOR FURTHER INFORMATION

The full report, **The benefits of tackling worklessness and low pay** by Paul Bivand and Dave Simmonds, is published by the Joseph Rowntree Foundation. It is available as a free PDF at [www.jrf.org.uk](http://www.jrf.org.uk)

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