



## **Benefits that work**

The social value of the Community Allowance

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# Glossary

CA	The Community Allowance
DWP	Department for Work and Pensions
ESA	Employment Support Allowance
IB	Incapacity Benefit
JSA	Jobseeker's Allowance
NDYP	New Deal for Young People
NDLP	New Deal for Lone Parents
SROI	Social Return on Investment

## About this report

**nef** (the new economics foundation) was commissioned by the **Hadley Trust** to carry out a **Social Return on Investment** (SROI) analysis of the **Community Allowance** pilot programme in 2009.

The CREATE Consortium is a consortium of organisations that have come together to try to establish the Community Allowance within the benefits system. To demonstrate the effectiveness of the approach, the consortium aims to run pilots of the programme across the UK. As this initiative has not yet taken place what is presented here is a *forecasted* SROI, an analysis of the social value that is likely to be created if the pilot programme proves successful and the Community Allowance becomes established. The aim is also to inform the planning, development and evaluation of the initiative were it to proceed.

The Community Allowance is an initiative that aims to support the long-term unemployed in taking the first steps back to work, developing their skills, experience and confidence. It will create new jobs in the community, involving regeneration and social work in the community. The Community Allowance would safeguard benefits for a year, allowing the individuals on benefits to earn an income on top of their benefits. Alongside providing new jobs, the programme includes integrated training and support

# Executive Summary

Unemployment benefits act more like a trap than a ladder. While they do provide a safety net, they also constrain recipients' options to improve their lives. The inflexibility of the benefits system is felt most strongly in low-income neighbourhoods. This is where unemployment is most concentrated but also where much needed work is left undone. The government spends billions of pounds in benefits on these areas, with limited positive impact. This report evaluates the Community Allowance, which proposes to channel benefits spending into the creation of jobs to help communities and support people to move into work.

## Introduction

The Department for Work and Pensions spends nearly £3 billion on Jobseeker's allowance and over £8 million on Income Support every year. For many deprived areas spending on benefits payments and welfare to work programmes is the largest public investment they receive. In reality this investment may fail to get to the root of the problems that exist in these neighbourhoods.

The benefits system often compounds the challenge of tackling long-term unemployment. It is complex and riddled with perverse incentives. It does not fit well with the flexibility of today's UK labour market, where many of the jobs involve part-time, temporary or irregular hours. Complying with the requirements of benefits can create a burden instead of supporting people to find employment.

Low income neighbourhoods have the most pressing need for activities to improve them. They also have the most workless adults. This report sets out an analysis of a new policy proposal – The Community Allowance – which aims to make a constructive link between public spending on benefits and work for the development of local neighbourhoods.

The Community Allowance would allow community organisations to employ people out of work to develop the areas they live in. There is nothing particularly new about work schemes. What makes the Community Allowance original is that it secures the benefits and an additional income for people. It allows them to concentrate their efforts on moving towards employment instead of meeting the requirements of their benefits. By working through community organisations, the Community Allowance would ensure that the work and the support it provides would be tailored to the needs of the long-term unemployed.

## Employment policy lacks innovation

Unemployment has a range of negative effects for people and communities. For this reason full employment has often been a target of governments, though economic realities have led many to conclude that it is an unattainable goal. Most accept a 'natural rate' of unemployment, which can lead to a lack of ambition in policy making.

Although couched in different language, and shaded with greater obligation and conditionality, the reforms introduced under the current Labour government have not broken with the primary emphasis on supply-side solutions initiated under the

Conservatives. Labour's most recent reforms were made in the context of a decade of uninterrupted economic growth, which is unlikely to be repeated in the near future. The focus on the supply side is being echoed by emerging Conservative plans, which promise to significantly reduce incapacity benefits in order to make work more attractive. In a recession – characterised by rising unemployment among the low skilled, the young and the least educated – new ideas and approaches are required. Focusing primarily on the supply of labour will not work.

At the time of writing unemployment was still on the increase. Some economists expect it to peak at three million in 2010, despite some signs of an improvement in the underlying economic situation. The long-term effects of the recession on employment are subject to complex influences, and are not easy to determine. We can say, however, that structural unemployment can be traced to government inactivity during previous recessions. If we do not act decisively, the newly unemployed today may be the long-term unemployed of tomorrow. There is also a spatial dimension to this: most workless households are concentrated in low-income areas, where regeneration spending has failed to improve their relative economic position.

### **Our approach**

The research presented in this report is based on principles of Social Return on Investment (SROI). This is a measurement approach that helps organisations to demonstrate and understand the social, environmental and economic value that they are creating. It is informed by real people's experiences, and the things that make a difference to the lives of those directly involved and affected. The end result is an economic model that represents change in terms of social value, challenging decision-making that relies solely on economic or financial returns. As this study is about a scheme that has not yet been implemented, the analysis is based on predictions about its likely impact.

### **What people told us**

We spoke to people on benefits and to community organisations which informed both the economic model that we built and the outcomes we measured. This qualitative information also informed our findings about people's experiences on benefits, and the potential that the Community Allowance has to improve their lives.

- Being dependent on benefits has negative consequences for people's confidence, self-esteem and quality of life.
- Small increases in income for people on benefits make a critical difference.
- Many people experience periods of stress and upheaval when benefit payments are disrupted.
- Lack of work experience is a significant barrier for people who are out of work. Even people who have lost their jobs relatively recently in this recession feel that being out of work has already put them in a disadvantaged position for securing future employment.
- For many people on benefits – particularly lone parents or those moving into part-time or temporary work – gaining a job may make them less financially secure.
- Complying with the benefits system creates significant stress for people on benefits. Many do not value the support they have had from Jobcentre Plus. They found their Jobcentre Plus advisers unable to adapt to their individual circumstances, or unable to support them in finding work experience or meaningful work. So much emphasis has been placed on control rather than support that many of the people interviewed spoke of mistrust and loss of motivation.
- People out of work have skills and assets that would be valuable to community organisations. They have personal connections in the area and can better understand the experience of other unemployed people.

## What our research found

- For every pound invested in the Community Allowance £10.20 worth of social value is created. In other words, this is an initiative that has the potential to generate positive social, economic and environmental outcomes that are worth ten times the investment required to achieve them.
- Most of the value created through the investment is created for the local community through the work undertaken with the Community Allowance. The community as a stakeholder receives about half of the overall benefits.
- There are large differences in the value created through different types of work in the community. Work with children and community learning can be particularly beneficial for the people in the area.
- The average Community Allowance worker would create savings for the state of between £5,000 and £6,000 per year. The mean cost for one worker would be about £4,500, so the state would recover more than it is spending on the programme overall.

## Conclusions

Welfare reform has focused on bringing more people into the labour market and emphasising the responsibilities of the claimants. This has meant more conditions and means-testing for those claiming benefits. In the current economic recession this approach is unlikely to succeed. Not only are there less jobs but vacancies that do exist are often poorly paid and temporary. Continuing to focus on how to prepare people for work, when the required jobs are not there, will only go half way.

The balance between support and responsibilities needs to be carefully considered. Emphasising responsibilities can reinforce often misconceived perceptions of people on benefits. It can make people waste their time in empty gestures to fulfil the conditions set to their benefits. It erodes the trust between people who are out of work and the institutions who are supposed to be protecting their rights. Squeezing benefits or increasing the burden of compliance to push people back into work can be counterproductive, and make the goal of employment unattainable for claimants.

In a fair society demands placed on individuals are matched by the responsibilities of government. The state should ensure that citizens have enough resources to meet their obligations. Benefit claimants should receive enough effective support to allow those that can to contribute through their work. The Community Allowance is a promising scheme to create jobs alongside personalised help and advice. It focuses efforts on building the skills and abilities of people who are out of work to empower individuals that take part. It has the potential to make the money spent on the benefits system work for people and their communities.

## Summary of recommendations

### Policy recommendations

- **Invest in the Community Allowance pilots.** Based on the SROI analysis reported here, we expect the Community Allowance to be effective in creating social value both for its participants and for the communities where it is implemented.
- **Involve Community Organisations in solutions.** Community Organisations have established trusted relationships with people on benefits. By focusing on the skills and assets of local people they are in a good position to support people back into work.
- **Reduce the costs of compliance.** The support provided at Jobcentre Plus needs to build people's confidence, skills and self esteem and focus on outcomes over process.
- **Make the scheme universal.** The results of our SROI analysis found that the savings to the state were highest when individuals on JSA are taking part.

- **Simplify the benefits system.** For many people benefits hold them back from investing in personal development and entering the workforce. Increasing the level of earnings disregarded would take a step towards lifting people out of poverty. The extra income would make a huge difference to people living on or below the poverty line.

#### Implementation recommendations

Should the Community Allowance be taken up, the following recommendations will ensure that it maximises public benefit:

- **Ensure that community work is effective.** If the jobs in which the Community Allowance participants are employed do not live up to their potential, the benefits of the programme will be severely limited. This is also important for how participants feel about their work. If the work is seen as low value, or seen as a punishment, it will not work.
- **Support Individuals.** The period when participants move on from the scheme needs to be carefully managed for all participants with support and advice on what to do next.
- **Measure the impact of scheme through appropriate data collection.** To validate these findings an evaluative SROI would need to be carried out. A robust measurement system that measures distance travelled needs to be put in place from the outset.



# Section 1.

## SROI and the Community Allowance

“Decision making and place-shaping are important, but the caring, sharing, supportive, cleaning, greening, keeping-safe, checking-over, sorting out, neighbourhood managing, wardens, lollipop ladies, befriending, youth-work, sports and social, healthy living, conflict-resolving, care-taking roles are of fundamental value in making and sustaining communities. These are the roles that can prevent many of the problems that government programmes seek to address from arising in the first place.”<sup>1</sup>

### Introduction

Persistent and entrenched unemployment is one of the most intractable social problems that communities and policy makers have to grapple with. There is plenty of evidence of its damaging effects on people and communities. For individuals long-term unemployment is linked strongly with poor health, low well-being and drug use. When concentrated in communities it is associated with higher crime and deprivation.

The rules of the benefits system and the process of claiming benefits are badly suited to the realities of today's labour market. Much of the work available is short-term and part-time, especially in the low-pay parts of the labour market. Many job contracts guarantee no baseline of working hours at all, calling in the workers only when their input is required. Taking up such jobs puts people in a precarious position, as moving back to benefits may be a complicated and time-consuming process. Even with relatively steady employment, the actual financial rewards from work may be small, or the net earnings of the claimant may even be lower.

It is in the most deprived areas where the need for work and investment is most acute, and where worklessness is most concentrated. These areas are often those in greatest need of regeneration. The long-term unemployed could contribute in a way that would reduce need for further government investment and indirectly benefit everyone. But their labour contribution is held at bay by the inflexibility of the social security system and its bureaucratic burden.

The Community Allowance presents an innovative and potentially powerful scheme through which the creation of jobs could be achieved. It combines the objectives of bringing individuals closer to employment while encouraging the kind of work that will benefit the whole community. It has the dual aim therefore of raising the incomes of those that need this most, while ensuring that worthwhile social and environmental goals are achieved.

### What is the Community Allowance?

The Community Allowance is a proposal developed by several community organisations that have come together as the CREATE Consortium to push for its establishment. To demonstrate the effectiveness of the approach, the consortium aims to run pilots of the programme across the UK in 2010.

The Community Allowance is a support package that will enable local people to do valuable and preventative work in their local communities through community

organisations. It responds simultaneously to several of the problems associated with entrenched unemployment that are outlined in this report. The scheme includes several elements, and these are summarised below:

### **Work that pays**

The core feature is that participants should be employed in their community to do part-time work to a maximum of 16 hours a week. The maximum earnings on top of benefits would be capped at £4,469 – or the equivalent of up to 15 hours a week on the minimum wage. This fits in with the government's vision of personalised conditionality.

### **Training and development**

Each participant will also be provided with training, together with support in dealing with barriers and personal issues. There will be the opportunity to gain accredited qualification through the jobs created, and each participant will gain a personal reference on completion. Community organisations will also enable access to other training opportunities through local voluntary and community sector training providers. Every person participating in the Community Allowance will continue to search for a job and will be provided with personalised support towards finding employment from the community organisation employing them.

### **Improving local areas and regeneration**

All eligible jobs would be selected to ensure that they contribute to strengthening the neighbourhood. The Community Allowance aims to make a productive link between public spending in poor neighbourhoods and the abilities of those neighbourhoods to liberate themselves from poverty and poor services.

### **A simpler benefits system**

The Community Allowance would safeguard benefits for a year, reducing the fear that people have when declaring part-time or temporary work. This would enable people to focus on personal development through local, integrated provision of work, training and development opportunities, instead of concentrating on meeting the requirements of their benefits.

### **Who will take part**

The Community Allowance is suitable for a range of people, and we have modelled a universal system eligible for people on all different benefits. These will include people who are furthest from the labour market and are so called 'hard to reach'. The Community Allowance is also suitable for people that have responsibilities to dependants, people who have been unemployed for a long time for health reasons, and people who have recently become unemployed and who live in areas of deprivation.

### **What is SROI?**

Social Return on Investment (SROI) is a method for measuring and evaluating the impacts of a project, organisation or policy. It is a framework for measuring value that goes beyond the conventional economic sense. It covers environmental and social changes that are not usually thought of in these terms.

One defining principle of SROI is that the analysis is informed by stakeholders, those for whom significant changes would take place. For this report we interviewed a range of people on benefits and community organisations that would be operating the Community Allowance. This means, unlike traditional cost benefits analysis, our economic model reflects the views of the people affected by the programme.

By aggregating the value of all these changes it is possible to compare their magnitude to the size of the investment. The end result is an SROI ratio, which tells us how much social value is created for each pound invested. This is the measure of how effective the work is in creating beneficial changes for everyone involved.

In the case of the Community Allowance, the study is about a prospective programme that has not yet taken place. We are carrying out a forecasted SROI analysis that predicts what the outcomes of investment are likely to be. We have based our assumptions on empirical data and stakeholder views. We have also conducted an analysis to test the sensitivity of the estimates used. See Appendix 1 for more details on the methodology.

## Section 2.

# Labour market policy and benefits during a recession

Welfare reform under Labour has focused on increasing the supply of labour and the number of people actively looking for work. Most of these reforms were developed in a period of almost unabated economic growth. We are now in a recession, the effects of which are being felt especially by the low-skilled and the young. Challenging times call for new ideas and approaches.

### Welfare to Work 1997–2008

Since Labour came into power in 1997, the relationship between citizens and the state has increasingly been seen in the form of a contract, with rights and obligations on both sides.<sup>2</sup> The state is providing more support to bring individuals into the labour market, but demands certain behavioural conditions to be met in return. This means above all taking part in employment schemes or processes to prepare people to take up work, such as the Work Focused Interviews. The aim is to create a society of 'something for something'. This goes hand in hand with the increased emphasis on full-filling conditions and the reduction of non-means-tested benefits.

These principles have been made concrete in several phases of welfare reform. The first Labour government was focused on reducing long-term unemployment. Its New Deal initiatives were heralded as one of the most successful innovations, with structured programmes of support that were initially aimed at young people. They were later complemented by New Deal programmes for those over 25 and over 50.

There were also changes to benefits for those in work. Working families tax credits were introduced in 1999 with the aim of building incentives for families to move off welfare. This was motivated in part by the high numbers of workless families in the UK, compared to other countries.

More recently the scope of welfare-to-work policies has broadened to focus on wider inactivity and worklessness.<sup>3</sup> In 2008 the government published the Green Paper *No One Written Off: Reforming welfare to reward responsibility*. A range of changes to the benefits system followed. More long-term unemployed and lone parents have been brought into the labour market. Policies associated with this include the replacement of Incapacity Benefit with Employment and Support Allowance; the New Deal for Disabled People; Pathways to Work; and new requirements for lone parents to work.

The White Paper *Raising Expectations and Increasing Support: Reforming welfare for the future* was published in December 2008. The report builds on the Green Paper and takes steps towards a simpler benefits system, with more personalised support for people looking to overcome barriers they face in trying to get back into work. It has a renewed focus on conditionality, envisaging a system where virtually everyone on benefits is expected to take active steps towards work or face sanctions. It sets out a range of initiatives including the Flexible New Deal, which requires all those involved to go through a four-week, full-time activity programme.<sup>4</sup>

## Responding to the recession 2008 – 2009

The government has recognised that the global economic climate has changed significantly since the publication of *No One Written Off*. We are currently going through a serious recession, the effects of which are partly being felt in rising unemployment.

At the time of writing unemployment was still on the increase. Some economists expect it to peak at three million in 2010, despite some signs of an improvement in the underlying economic situation. The people who are being hit hardest by the recession are not predominantly middle class or from the financial sector as initially predicted. Instead it is the low-skilled, the less educated and young workers who are seeing the biggest impact on their job prospects, just as in previous recessions.<sup>5</sup>

For people who have lost their jobs in this recession, the consequences are often far-reaching. Unemployment may have a bigger impact on their living standards than it has had in previous recessions. This is because out-of-work benefit entitlements have been falling relative to average incomes for the past 20 years. The experience of unemployment can also be deeply disempowering. It is characterised by frequent rejections of applications and the kind of social isolation that can leave lasting scars. Evidence suggests that recessions can have permanent effects on the national economy by leaving a legacy of long-term unemployed who are unable to get back into work.<sup>6</sup>

The long-term employment effects of the current recession are subject to complex influences and difficult to predict. But government policy has scope to make a real difference. Since the onset of the recession economic policies that are based on restoring overall demand by means of expansionary state spending have gained in favour. Much of this stimulatory spending has been aimed at employment schemes, giving better incentives for keeping people in jobs and creating new employment.

Some economists have argued that the higher rates of unemployment in Europe in the 1980s, compared to those in the United States, were a result of tight economic policy in Europe following the aggregate supply shocks in the 1970s. The failure to implement a stimulus package in Europe meant that many people failed to find a job in the aftermath of the supply shocks,<sup>7</sup> prompting an increase in long term unemployment. Government has expressed a desire to avoid the mistakes of previous recessions, described by James Purnell MP (then Secretary of State for Work and Pensions) as “shuffling people onto inactive benefits, and then trapping them there”.

The Community Allowance presents an innovative and potentially powerful job creation scheme. It aims to bringing the unemployed closer to employment while engaging them in beneficial work for the communities they live in.

### The benefits system

For many people moving into work does not mean an increase in income. This is because benefits payments are withdrawn rapidly after moving into work. The earnings disregard, at £5 a week since 1988 for individuals on Jobseeker's Allowance, places a limit on how much an individual on benefits can earn without a reduction in benefit payments. Earning anything above the limit will result in money being deducted from benefits. In practice an individual has to earn a wage significantly higher than the level of benefit payments before work starts to deliver a net increase in income. Low wages add to these problems. Moving into work doesn't always lift people out of poverty. In 2006 over 43 per cent of children in poverty lived in a household where at least one adult worked.<sup>8</sup>

A reduction in benefit payments is not the only reason to be hesitant about accepting a job. Many of today's jobs are very uncertain and precarious. They are often part-time, or temporary, or have uncertain hours. The benefits system is not well equipped to respond to such unpredictable working conditions.

Fluctuating incomes make it difficult for people to get all the financial support that they are entitled to. Once an individual has stopped receiving support for his or her housing, for example, it might take as long as six weeks to start receiving it again. This can be a long wait for someone that has lost their job and has no savings to draw upon. People may also have a fear of coming off benefit because of the risk of

losing access to other passported benefits, such as free prescriptions, free school meals, and help with school uniforms.

Against this background there is no shortage of beneficial work that could be done within the communities in which unemployed individuals live – in community development, for example, and in social work, child care and so on. Much of this work is seasonal and part-time in character. Very often people from outside the neighbourhood are employed and trained to do this work, because local people claiming benefits are constrained by the benefit system from taking up the jobs. This is despite the fact that such local people are often better equipped to do them. They often have personal connections with other people in the community or first-hand knowledge about the issues in the area.

### **Balancing rights and responsibilities**

Even though schemes that loosen the conditionality of social security can be effective in creating positive outcomes, it can be argued that it is legitimate to keep such checks in place. After all, entitlement to support from the government's purse is meant to be a right only for those who actively seek work, and the public largely seem to wish to keep this condition. Balancing rights with some responsibilities adds to the taxpayer's willingness to finance the system. As Bastagli mentions in his study on British public opinion, "the link... between welfare payments and some form of valued social participation or reciprocity appears to act as a source of legitimacy for welfare spending".<sup>9</sup> One of the aims of the conditionality and sanctions in the benefits system is to convey this message to the public.

As much as policy should reflect these public demands, government should also acknowledge the role that conditionality can play in shaping negative public perceptions of benefit claimants. This has been backed up by high profile campaigns against benefit fraud. Research by the DWP reports that benefit fraud is now at the lowest level ever recorded with the latest estimate that it is of just over half a penny for every £1 in benefits paid.<sup>10</sup>

Some research shows that attitudes towards claimants have become more punitive since Labour has placed greater emphasis on the responsibilities of claimants.<sup>11</sup> It seems that the fear expressed by the social-security policy consultant Fran Bennett – that an emphasis on the conditions and sanctions attached to benefits "risks reinforcing rather than countering negative images of benefits/claimants" – has proved to be well founded. Instead of making the welfare state more popular, government policies have tended to add to a view of benefit claimants as a somehow separate, inadequate group who bear primary responsibility for their plight.

The current increase in the conditionality of benefits has been based on the idea of a balance between rights and responsibilities for state support. Even accepting this normative framework for the provision of public support, the duties placed on individuals should be reciprocally matched by obligations placed on government. The state should ensure that minimal needs are met to ensure that citizens can meet their responsibilities. In the context of benefit claimants this should include fair opportunity, fair reward for labour and the valuing of contributions to society in their full diversity.<sup>12</sup>

### **The need for new ideas**

To a large extent many of the reforms since 1997 have been about increasing the supply of the labour market, getting more people ready for work. While there is a role for this kind of 'supply-side' approach, it is dangerous against a background of recession, with reduced demand in the economy. Evidence suggests that the success of regeneration policy since 1997 has been limited in reducing worklessness within low-income communities.<sup>13</sup>

The Community Allowance is an innovative new scheme that aims to utilise the existing skills of people on benefits. Although the structure of the Community Allowance has some similarities with previous labour market schemes, at its core it takes a very different approach to benefit reform. It is becoming increasingly clear that new forms of paid work are urgently required in the current economic climate. The Community Allowance aims to create a wide range of part-time and short-term jobs, a new wave of employment opportunities that are not viable under the existing benefits system.



## Section 3.

# The real costs of life on benefits

Welfare reform has tried to make sure that taking up work does not come with a cost. The focus has been on making employment financially rewarding relative to staying on benefits. Other costs, such as increased uncertainty associated with work or the resources required to comply with the conditions of benefits have not been properly understood. Our interviews found a range of costs for claimants and communities that are usually ignored.

### Benefits traps and dependency

For economists the potential of the benefit system to create dependency has been a constant concern. It is pointed out that welfare payments, designed to shield against periods of unemployment, can make people less willing to take up work in the first place. A system that has been developed to tackle some of the insecurities of the modern economy has become a source of problems itself.

We often hear that social policy has created a 'benefits trap' in which social security, while an essential part of any modern welfare state, can also discourage people from taking up paid work. The Martin Taylor Taskforce, which did the groundwork for much of Labour's social policy, defined the benefits trap as a situation where "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".<sup>14</sup> The trap is laid because the received benefits are conditional on not being employed, and low-wage work may not bring in enough money to offset the support payments that will be lost.

The benefits trap is often explained in terms of marginal tax rates, benefit withdrawal rates or participation tax rates. These measures show how much a person's income would increase through more hours in work or a move away from reliance on benefits altogether. Modelling the effects of the welfare system shows that the marginal tax rate is 100 per cent, or close to that, until relatively high rates of earning are reached. In other words, benefit claimants see no or little improvement in their financial situation until their wages reach quite a high level. The trap is set, the argument runs, by the fact that much of the work available to people does not provide a net financial reward.

It is true that money matters. This is especially the case for people on the very margins of the income distribution that have to count every single purchase if they want to make ends meet. Still, benefit dependency has been understood in terms too narrow. The benefit system creates impediments for taking up work that go far beyond those of reducing the returns from taking up work. Important as financial incentives may be, the choices of individuals are not determined only by changes in their earnings. Just as important is the stability and security of those earnings, and whether or not individuals are afraid to lose their benefits.

The current system also imposes costs on those who remain on benefits. These costs can make attaining work more difficult. Most of the attention that claimants get is negative; in the form of monitoring, or control. Adding conditions and costs to the use of benefits is obviously meant to push individuals to take

*"You feel like you're useless. With benefits it's not the money, it's the feeling of being left behind. If I had worked I feel like I could have achieved something."*  
(Female, Incapacity Benefit claimant)

*'I don't like the way they treat you and for the money it's not worth it. It is a waste of time. I went to Woolwich Job Fair... The place was full of desperate people wanting help. Not one person I spoke to called me back, and no one there got a job. It just makes the Jobcentre look good.'*  
(Male, former JSA claimant)

up employment. However, the evidence on this is mixed. An evaluation for mandatory Work Focused Interviews found that the number of claimants was reduced – but only through a fall in the take-up of benefits.<sup>15</sup>

The difficulty of complying with benefit conditions creates other indirect costs. Much of the work of advice agencies stems from “failure demand”: work that would not need to be done without failings in services such as Jobcentre Plus.<sup>16</sup> Some claimants commit benefit fraud partly because they find it difficult to comply with the complexities of the benefits system. Research by the DWP found that a range of factors – anxiety about the benefits rules, lack of understanding about how those rules operate, the difficulty of fulfilling benefit conditions – led some claimants to neglect reporting changes in their financial situation.<sup>17</sup>

But it is not only the claimants that face these costs. The communities they live in also bear the burden of wasted potential, resources and skills. The whole neighbourhood stays stagnant when its inhabitants are not allowed to progress.

### **The personal costs of unemployment**

It is not without good reason that the DWP White Paper states that “every redundancy is a personal tragedy”.<sup>18</sup> People on benefits commonly report low self-esteem, a lack of confidence and poor quality of life. They can be demoralised and dispirited by constant job rejections, a lack of routine in their lives and feelings of dependence associated with being on benefits.

*‘To be honest, it is embarrassing. You are grateful for the help but at the same time you don’t want to be helped for so long.’*  
(Male, early 20s, JSA claimant)

The long-term effects of this have been labelled in economic research as the scarring effects of unemployment. This describes the fact that the real costs of unemployment are much higher than the immediate loss of earnings and have long-term effects on the lives of individuals. Redundancy is a major life disrupting event, ranking behind only bereavement and divorce in its negative effects.<sup>19</sup>

### **Managing uncertainty**

The social welfare system was built in an era when work placements were full time and long-lasting. As it stands today, it is not properly designed to respond to short periods of work or unpredictable working hours. In many low-skilled jobs in the service industry, employees are required to be flexible to the point of only being called in when demand arises. Such uncertainty of work is often the norm for those with low skills or limited qualifications and no recent work experience on their CV, who have little power to negotiate over the terms of their work. Work that was terminated after a short period and a lack of control about hours worked were problems constantly mentioned in our interviews.

The uncertainty of work creates additional disincentives for its take-up. Weekly changes in earnings have to be reported to the agency. If an individual is unexpectedly made redundant, getting back on benefits such as housing benefit may require waiting for a long period. Our interviewees had encountered a range of problems, such as having to chase benefits appeals and having to deal with disruption of payments and underpayments. Expenditure for basic subsistence, such as food and transport, may quickly become impossible.

People often don’t have a good understanding of the details of the benefit system; what they can apply for, and under what conditions they can receive it. This is no wonder, as even sector experts often find it hard to keep up with the rules of the system. As a consequence, people can be fearful that some of the money they have received could be reclaimed, which can deter them from accepting some of the work offered to them.

The pace of change in the system also creates problems. DWP research has found that some pensioners had trouble keeping up with what they were entitled to or how to claim it, which made them forfeit their benefits altogether.<sup>20</sup>

## Loss aversion

Perceptions of loss can be just as important as financial realities for some people. The sense of loss associated with moving off benefits may outweigh and overpower any sense of gain associated with being in work – a phenomenon known as loss aversion in cognitive psychology. If people come to see benefits as their regular income, they will be careful not to lose them. Even increased earnings through wage income may not seem enough for them, because the loss of support payments weighs so heavily on their minds.

As a consequence, even if taking up work pays more than is lost in reduced benefits, people can be disinclined to make the transition. The pay on offer has to be high enough to overcome both loss aversion and the feelings of uncertainty that can be associated with having the 'safety net' of benefits removed. A previous **nef** report has modelled the appropriate design of government policy to bring people into work while taking account of loss aversion.<sup>21</sup>

## Compliance and control

The DWP has recently made some large investments in the infrastructure of Jobcentre Plus around the country. Talking about the functioning of the system, the people interviewed spoke of several unintended consequences that they felt made their transition to work more difficult.

The first criticisms are around the process of signing on. People felt the conditionality around JSA was a tokenist gesture. Little attempt was made to check whether people had applied for the jobs they said they had, or indeed that they were appropriate. It was perceived as mere 'box ticking', which made the whole exercise discouraging.

Many people also experienced a lack of personalisation in the approach of personal advisers. Often they were unable or unwilling to offer tailored support. Some people found this situation improved when they had been out of work longer, but they were still given little choice about the sort of jobs they applied for. A number of interviewees had had particularly bad experiences in which they felt that Jobcentre Plus staff had not only been unhelpful but had also actively discouraged them from trying to gain relevant work experience.

Our interviewees had a general lack of trust and faith in Jobcentre Plus. For some this had reached such extremes that they had stopped engaging with the system, and were no longer signing on. Some of the criticisms of Jobcentre Plus may be unfair, particularly as changes are being implemented in the direction of greater personalisation. However an emphasis on what people can't do, or on the process of applying for jobs (some of which may be unsuitable) can be very damaging for people on benefits. There is a worry that in some cases Jobcentre Plus may actually be adding to the problems it is supposed to be solving. For welfare-to-work programmes to be successful they must build on the skills and confidence of those out of work rather than conflict with them.

The fact that benefit claimants have negative experiences of using state services has been confirmed in research by the DWP and the Social Exclusion Unit. They found that claimants experience a lack of respect when engaging with official agencies, which made the process discouraging and stressful. Another significant problem was that people found it difficult to obtain and follow information about the progress of their applications.<sup>22</sup>

The feedback from people on benefits raises some questions about the principles on which the current social welfare system is based. Given that there is little evidence that making the experience of claiming benefits unpleasant will lead to people taking up jobs, the approach is counterproductive and penalises people unfairly. The system has entrenched a cumbersome and ethically dubious process that can add to the stigma and personal costs associated with unemployment.

*'It is true that many people are on benefits for years. They go, pick up benefits, do a quick job search and go home. No one goes to them and says, "perhaps you can do that". They never actually look at the applications you have done. You have to take in a list of applications you have made, but nobody checks. People are there year in year out.'*  
(Female, JSA claimant)

*'It didn't feel like they had much training. There are now nice bright walls and pictures on the walls and it feels much friendlier. But I don't think the process helps. All the walls are brighter but the process is frustrating. You can't get the person you are seeing to do anything apart from sign you in.'*  
(Female, JSA claimant)

*'You have to apply for the jobs they suggest, and sometimes you need to do a bit of research on the companies. To be honest even though I have done the research I haven't been called for an interview yet. I haven't got one interview yet.'*  
(Female, JSA claimant)



## The marginal utility of income

Our interviews with unemployed people frequently described how even small changes in their income might dramatically change their life situation. Economic evaluations often start from the assumption that the value of increased income is the same, regardless of its recipient. The value of a pound is just that – a pound. Because our analysis starts from the perspective of a broader sense of value, rather than one based on money alone, it recognises that a pound to someone on a very low income may be worth far more than to someone whose basic needs are already met.

In our economic model we wanted to take into account the differing value of increased income to individuals on different income levels. We did this by making use of research by Richard Layard of the London School of Economics. Layard's research was based on the British Household Panel Survey (BHPS). Using econometric techniques, he showed how much an increased income changed the life satisfaction of individuals, all other things being equal.

Informed by Layard's results and analysis, we can argue that the income received by people on benefits should be weighted by 2.39 to 1 when compared with the value of the same income to people not claiming benefits. Although this is a rough statistical estimate, it does reflect the large benefits that even a relatively small addition to income can create for those living at the margins. For a full explanation of how we reached the 2.39 figure, please see Appendix 3.

### Living with a low income

*'From a claimant perspective, one of the major costs of being on benefit can be poverty'*

Social policy researcher, cited in Bennett et al<sup>23</sup>

Most benefit payments are indexed to changes in prices rather than wages. This has caused benefit income to decline in relation to wider standards of living. The Joseph Rowntree Foundation recently made estimates of what the 'minimum income standard' should be to enable someone to fully participate in today's society.<sup>24</sup> It was suggested that the minimum income level ought to be considerably higher than that attained by a minimum wage job, not to mention unemployment. For single adults the income required to fully participate in society was twice as high as typical earnings from benefits. In addition to all the costs created directly through the requirements of the benefit system, there are human costs associated with living on the income afforded by the social security system.

The people we spoke to faced challenges of managing financially on benefits. This was particularly the case for people with dependants. Many people with children spoke of how important it was to fund extra-curricular activities for them, or to spend more on pocket money or birthdays.

Individuals claiming benefits frequently stated that their sense of isolation was reinforced because they were unable to afford to take part in social activities. Claimants were often unable to make use of transport or childcare. Social isolation seemed to be experienced especially by lone parents and carers. In our evaluation of the Community Allowance we attempted to account for this by looking at changes in life satisfaction and reduced social isolation.

Individuals with a lower income often face higher prices for the goods that they need. A 'poverty premium' is created, for instance, through reliance on prepayment meters for utilities or the need to pay higher interest rates for credit.<sup>25</sup> This further exacerbates the costs of living on a very low income.

### Costs for the community

The costs of benefits are not limited to the expenditure of the state or the burden on the individual. There are also wider costs to the communities in which unemployed people live, as well as to society in general.

*"I just want to be able to afford my daughters birthday in September... I have already told her I am not going to be able to pay for the present and that's a horrible feeling."*  
(Male, Incapacity Benefit claimant)

*'It will add credibility to us as an organisation and will open us to different ways of working. It is the ethos of a development trust to have street reps on each block of flats. There are lots of isolated people out there.'*  
(Community organisation worker)

## Positive Role Models

We spoke to Carrie who is now employed as a community development worker at a Sure Start Centre in Manchester. She has recently got this job after being a service user at a Teens and Tums group at the hospital. With the support of the group she got training and a CRB check. She helped to set up a support group called Teens and Tots with two other mothers. She then found out about the new development worker posts, applied and got the job. She talked of what working means to her:

*"It has made me more self confident, I was quite shy and nervous before (I still am a bit). It is knowing that I am supporting my daughter and not relying on anyone else and not on benefits which is how most young people stereotype young parents."*

Carrie feels that her own experience of a teenage parent means she can build up good relationships with other young parents and act as a positive role model.

*"I can relate to what they are going through... I've been there. It is nice to be able to run the group that I went to when I was 18, lonely and pregnant. Being able to offer the young parents and Dads the support I have when I was 18, that's really nice."*

Feedback from the SureStart centre where she works has been very positive.

*"This has been a huge difference and we have seen a massive difference in our outcomes... In terms of engaging teenage parents we have recruited a huge number into our children's centres."*

Having a large number of people on benefits constitutes wasted potential. Within deprived areas there is much work that needs doing – from helping children and elderly to improving safety and people's physical surroundings. But many of the people that could be well placed to take up this work are excluded by the bureaucratic weight and inflexibility of the benefits system.

The community organisations we spoke to had experience of people being prevented from working for them as a consequence of the benefits trap. A community childcare worker in Newham spoke of the problems facing newly qualified crèche workers. Crèche work is typically temporary and part time. Many people choose to volunteer rather than face the stress and risk of sacrificing benefits. They are prevented from taking the next step into employment because of inflexibility and a lack of support from the system that their livelihood depends on.

Community organisations stated that they would benefit from the opportunity to employ some of the people currently unemployed. They had identified a range of different skills and assets that people on benefits could bring to their organisations that would contribute to the work they do. Workers from community organisations said they could make use of local people's extended families and social networks in the local area. They had experience that was relevant for understanding other people out of work. Local people would also have the potential to present positive role models for others in the community.

*'If you are long-term unemployed and you see someone else who is long-term unemployed in work, then it is a role model and it is much better than telling them how much better it is being in work rather than us.'*  
(Community organisation worker)

## Section 4.

# A potential solution: the Community Allowance

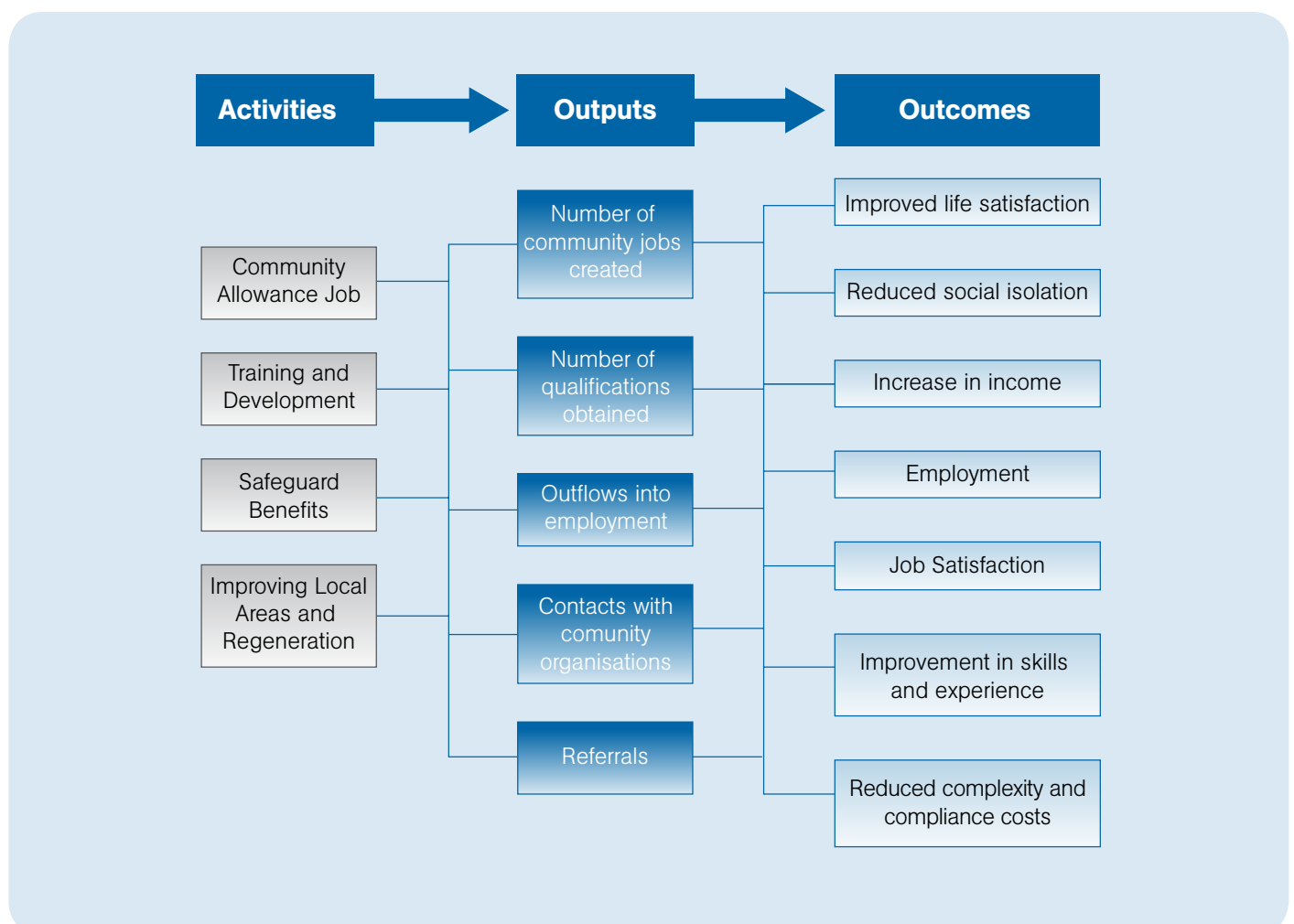
### Introduction

The Community Allowance is a scheme that deals with many of the current problems of the benefits system simultaneously. It is designed to deal with the benefits trap by ensuring that the participating individuals retain their benefits. It creates new opportunities for regenerating communities by employing people in projects that benefit others in the neighbourhood.

To better understand the consequences of the programme, a Social Return on Investment analysis (SROI) was completed. As the scheme has not been tried out yet, the SROI was based on forecasts rather than real outcomes. Our analysis is based on interviews with people on benefits and workers from community organisations, together with a review of the relevant academic and policy literature.

This section outlines the results of the SROI study. We begin by describing the elements of the Community Allowance approach.

**Figure 1. The outputs and outcomes of the Community Allowance**



## Principles of the Community Allowance

Figure 1 describes the 'theory of change' for the Community Allowance i.e. what should happen as a result of the scheme. Drawing from the literature and interviews, this section sets out the principles of the Community Allowance that make it distinct from other employment programmes.

### Meaningful work with the community

Subsidised work placements have been a core feature of many labour market schemes, such as the New Deal. The employment subsidy schemes have often been found to be successful.<sup>26</sup> However, sometimes they come with unintended consequences. Findings from the United States indicate that wage subsidies may have stigma effects on those who take part and may be a bad signal to potential employers.<sup>27</sup>

The Community Allowance is framed differently. Community organisations will not be subsidised to take on Community Allowance placements. Individuals on benefits will be employed because of the skills and knowledge they will bring to the jobs. The work that will be done by participants is not a condition for them to keep their benefits. The expectation is that they will help community organisations to deliver their services more effectively, which will lead to improved outcomes for the local community as a whole.

The wage that participants are paid is important. Community organisations will view the Community Allowance participants as staff members who are paid a fair wage to reflect their level of responsibility and also to reward the important work they are doing. This is very different from the 'work for your benefits' ideas that are being piloted by labour and the long-term community work scheme suggested by the Conservative Party. In these schemes the community work is effectively a punishment and it is difficult to see how this will foster participants confidence or have the same outcomes for the community in which they are placed.

### Training and development, and support into work

The community organisations delivering the programme provide participants with support to adapt back to a working life. Each participant will be provided with training, as well as support in personal development planning and in dealing with barriers and personal issues. This type of support would not typically be available in private companies, such as those involved in the New Deal employment programmes.<sup>28</sup> Community organisations may be better placed to understand the needs of individuals than mainstream businesses.

*'It is our stock in trade in supporting people back to work – going back into work is a hard thing. We are used to working with people with all those barriers. We know the issues and can work through it with them. I don't think it would work if it was a normal employer.'*

Community organisation worker

Training and development as part of Welfare to Work is not new. It is a big part of other government programmes. There has been some criticism of the delivery of these schemes. For example the behaviour, decisions and morale of personal advisers at Jobcentre Plus are partly driven by considerations of performance targets, in some cases to the detriment of the individual customer. Jobcentre Plus targets have been criticised for emphasising the quantity of jobs found for people and not their quality. Yet the quality of jobs may be the very issue that influences the willingness of some customers to enter work and to stay in employment.<sup>29</sup>

Earlier **nef** work has found that the first months in work are most difficult for people that have been unemployed for longer.<sup>30</sup> Starting work is often a very drastic change, which may involve moving to a different place and having less chance to make social contacts. Having effective in-work support during this period can make a big difference. Especially within private enterprises, such support is largely unavailable.

### Improving local areas and regeneration

Previous government employment schemes have often included voluntary work such as the NDYP's voluntary sector option and the environmental task force. Some evaluations suggest that options were reserved for participants that were most difficult to place, viewing them as the 'option of last resort'.<sup>31</sup> In contrast, community organisations see the Community Allowance as a tool to regenerate deprived areas. It will enable local people to be active in a wide range of visible roles in their neighbourhoods.

Other government welfare-to-work policies have had broader regeneration aims, for instance in the Working Neighbourhoods Pilot (WNP) in 2004. The aim of the programme was to address a perceived 'culture of worklessness' in certain areas through intensive, focused intervention to help people move into and retain jobs that were available in or near the locality.<sup>32</sup> Although the pilot had some success for individuals in finding jobs, the area-level outcomes were much harder to establish. The evaluation of the pilot found little evidence that there was a longer-term legacy of the WNP. It was felt that the pilot had not been in operation long enough to bring about significant change.

### A simpler benefits system

When someone signs up to the Community Allowance, the burden of compliance with the benefit system shifts from the claimant to the CREATE partner organisation for the duration of the programme. This will enable people on benefits to focus on personal development, as benefits will be safeguarded for a year. This is expected to increase take-up in comparison with previous programmes. It is also expected to enhance the effectiveness of the programme for the community and individuals, as participants will have to use less of their time and other resources on the requirements associated with claiming benefits.

### Engaging with those far from the labour market

The work under the Community Allowance will be structured to fit around childcare, caring and other responsibilities or special requirements that participants may have. Community organisations delivering the programme are likely to be well placed to work supportively with people who have such barriers in getting back into work. A middle-aged carer who receives Carer's Allowance and works one day a week at one of the community organisations commented:

*"I still wouldn't be able to take part-time work as it is above the earnings disregard and it would mess up benefits. The employer also needs to be understanding. Here they understand if I need to pop home to sort anything out, most employers wouldn't understand the responsibilities I have as a carer. The job also needs to be local so I can pop home."*

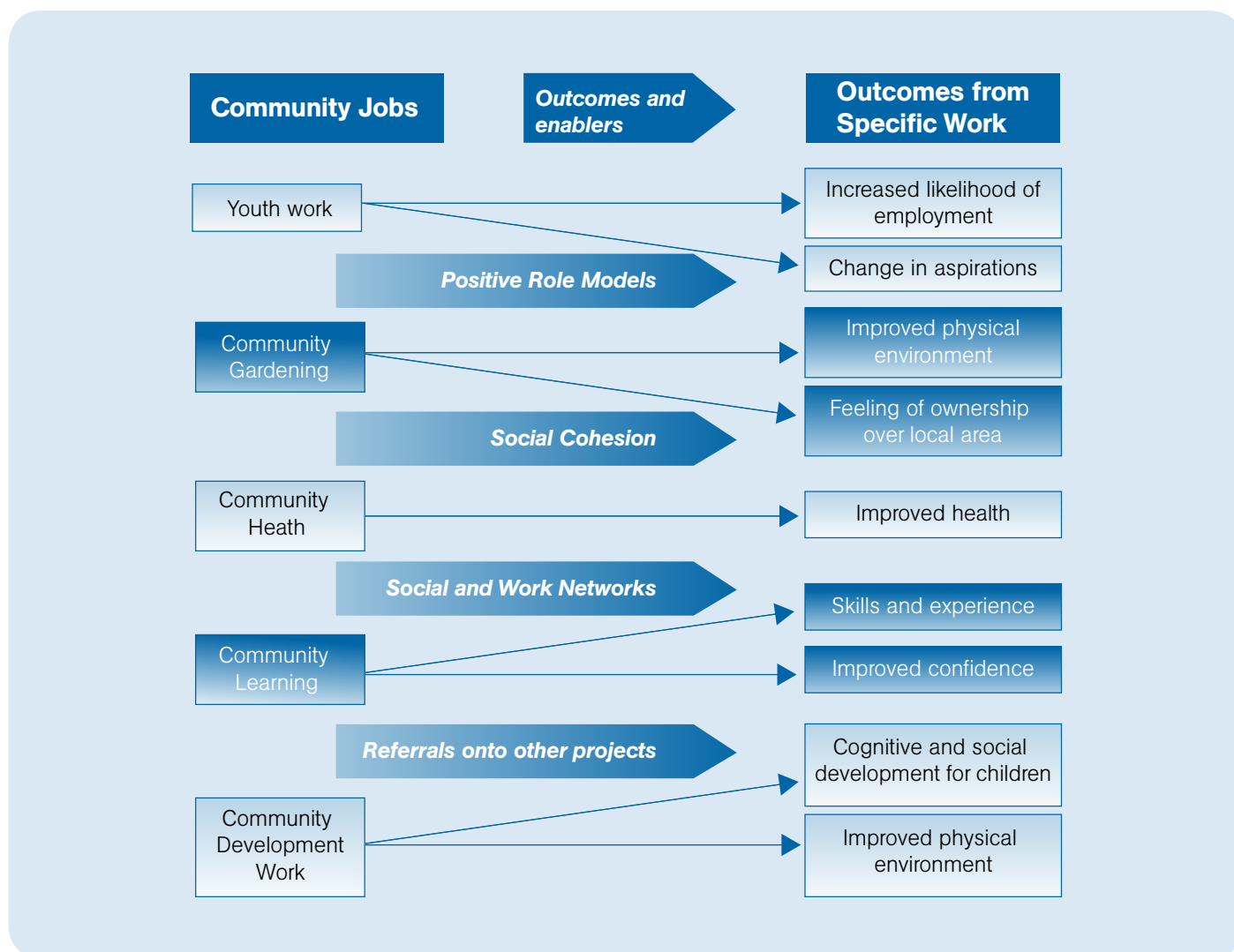
The aim of the CREATE Consortium is to offer the Community Allowance with universal eligibility. Although in theory those on JSA are ready for work, many of these people may have significant barriers that are preventing them from getting back to work. In David Freud's 2007 report for the DWP<sup>33</sup> he warned that there was a distinctive group of people characterised by 'multiple disadvantage' who did not receive the attention they deserved.

### Examples of community work

The jobs created on the Community Allowance would be restricted to those that contribute to the public interest of the community and local area. The possible work placements would be defined and limited by the CREATE Consortium over the duration of the pilots, through dialogue with CREATE partners.

There are a range of suggested work tasks for the Community Allowance set out in the Right to Bid proposal. For our SROI work we used the example of five different jobs. In our interviews with workers from community organisations, we got a broad understanding of what the tasks would involve if participants of the Community Allowance took part in them, and what types of outcomes they would create. Figure 2 describes the expected outcomes from each of the community jobs.

**Figure 2. Outcomes for the community of work done under the Community Allowance**



### Community gardening operatives

Those employed in the positions linked to community gardening projects would take part in initiatives to maintain local public spaces. This might include cleaning up larger areas, developing and decorating public places, helping council house tenants that cannot take care of their gardens themselves, or preparing a spot for a community festival.

The gardening work would require no initial training, and is easily accessible for individuals with different levels of skills and capabilities. Participants would work towards acquiring NVQs in Horticulture.

For our SROI study, we have modelled the gardening work and its outcomes on the environmental improvement work that will be done by Marsh Farm Outreach, a project on an estate in Bedfordshire. The project will encourage residents to take part in deciding how New Deal for Communities funding for the enhancement of public spaces is used. The project starts with a fun day at the estate that engaged local people to decide what their priorities were for their area, and how they wanted it changed. The improvements agreed upon, such as more trees, flowers and lighting, will be made by people that live on the estate.

### Community learning champions

These community learning positions will work within existing employment and training projects. Their focus will be on supporting and mentoring participants in these projects, helping them to find paid employment. Participants can work towards NVQs in Information Advice and Guidance.



We based our SROI model on the work done within the employment and training project of the Building Futures project at Trust Thamesmead. This project provides training, advice, work placements and other support for people looking for work.

Within such a work placement, there will be a large role for Community Allowance employees in supporting people through training courses. A large part of their work will be making sure that people who have left school with few qualifications don't feel as if they have missed out and building their confidence to undertake training courses. Community Allowance employees could become good positive role models that other benefits claimants can relate to.

### **Community development workers**

Our modelling of community development work was based on the work of a children's centre. The role involves delivering activity sessions aimed at parents and children. It also includes outreach work in the community to encourage parents to use the centre, support breastfeeding and promote various activities and services. Training would include NVQ L1 and L2 in Community Development.

### **Community health champions**

Community health champions will offer support to local residents and promote health improvement initiatives, including healthy eating and giving up smoking. Training will be provided in the form of the L1 and L2 qualification 'Your Community, Your Health'.

Our study of the work position is based on interviews with stakeholders at St Peter's Partnerships. The staff interviewed felt that participants on the Community Allowance would be well placed to deliver this work:

*"It strengthens the work we do. For example, with health outcomes and the health campaigns, it is much more effective for people in the community to work as outreach workers. Support from next door rather than advice from on high. It will be more effective if it comes from someone locally. They also know more about the area and what is going on there at night."*

### **Community youth workers**

A youth project by Community Links is the basis for our analysis of youth work in the SROI analysis. The organisation runs workshops in which it gives young people the skills that will help them move into employment. The training includes developing job search skills and learning how to carry out various tasks for which local jobs are available. In addition to new skills, the projects add to the confidence and aspirations of participants.

Community Links already employs young people as support workers in its summer workshops. Having the Community Allowance available would allow the project to employ some individuals that cannot take work at the moment, out of fear of losing their benefits. The workers we interviewed believed that employing people from the local community would add to the value of the training workshops, as involving local people creates a sense of ownership and fosters community cohesion.

### **Impact of the Community Allowance**

The Community Allowance has not yet been in operation, so no direct evidence of its effectiveness is available. Our SROI study is based on predictions about the likely impacts. Our predictions were made on the basis of academic literature and evaluations of similar types of programmes. These sources help us to forecast what the impact of the Community Allowance would be, if it proved to be at least as successful as previously evaluated work has been. (See Appendix 3 for a more detailed description of the process of forecasting.)

After predicting outcomes, the next step of SROI is to attach a monetary value to all outcomes. The valuations reflect how much individuals or the community place value on the changes that result from the programme, and are based on research on behaviour and attitudes. Presenting the impact of the Community

Allowance by using such a measure allows comparisons to be made concerning the effectiveness of the investment into the program. It also makes it possible to track which of the stakeholders most benefit from the positive changes.

The SROI ratio for the Community Allowance programme as a whole is 10.2. This means that for each pound invested, social value of about £10 would be created. This means the value of changes created through Community Allowance is about ten times that of the resources invested into it. The SROI ratio was found not to be sensitive to any single assumptions. See Appendix 3 for details.

The distribution of the social value created among different groups affected by the programme is presented in Figure 3. In our categorisation, the community stands for all the people that would be affected by the work done by Community Allowance employees. As Figure 3 shows, the community receives about half of the total created benefits. The participants themselves and the state also benefit considerably. Benefits for the family were found to be lower in our analysis. A more comprehensive analysis with better information on outcomes for families might have demonstrated a higher share of value for them.

Our analysis found that there are large differences in how effective the different types of work are. The SROI ratios for the five types of community work are displayed in Table 1. Based on our predictions, work to increase the development and long-term prospects of children turn out to be most beneficial. In contrast, the gardening work was found to create fewest benefits for the people affected.

These results suggest that it is crucial to make sure that the community work in question is of high quality. At the same time, employing people to do the right type of work can create very tangible benefits for the community that would be unlikely to result from employing people in private enterprises. The potential to create high social value for the communities that organisations work with should be viewed as another potential advantage of the Community Allowance.

The impact of the programme depends on the type of people participating. Individuals with low needs, such as some JSA claimants and lone parents, create higher savings for the state (see below). Individuals with lower needs are also likely to be more effective in the work that they do, and will create more benefits for the community as a consequence. However, the people that will benefit most from taking part in the scheme are those with higher needs. They have the highest incidences of reduced social isolation and increased job satisfaction.

The results suggest that it makes significant difference who participates in the scheme. Despite differences how effective the work is in creating positive changes in the community, the focus of the work is in helping the participants. It is advisable that the Community Allowance would work with individuals that have high needs whenever it can. Organisations that have close ties with the community are best equipped to reach some claimants who have fallen out of touch with the mainstream employment agencies.

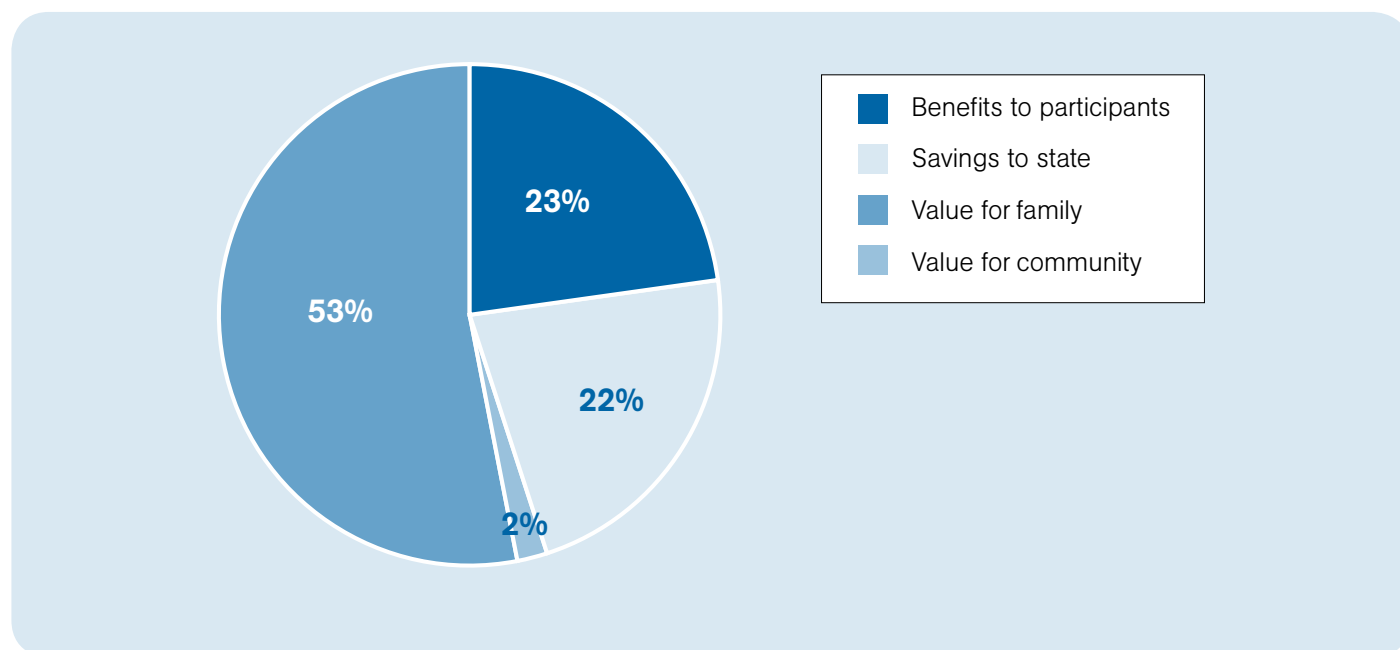
### **Savings to the state**

As savings to the state are a prominent feature in public debate on social policy, it is worth drawing out the figures for the state explicitly. For each Community Allowance participant, we expect the state to make savings through increasing the likelihood that people will attain employment in the future. We have estimated the amount in reduction of benefit payments and increase in tax intake, depending on whether the future employment is part-time or full-time.

The expected average savings for a single Community Allowance participant are summarised in Table 2. They are highest for low needs JSA claimants because the increased likelihood of employment is largest for them. They are lower for lone parents because of the high prevalence of part-time work, less valuable for the state, among this group. The savings to the state were modelled based on increased tax intake and reduced benefit payment. At the same time, we know that getting people into work, particularly in low-income areas, creates savings across public services – in health, criminal justice, education and so on. Although we have not modelled what these potential savings are, there is reason to believe that the



**Figure 3. Distribution of benefits between stakeholders for the Community Allowance programme as a whole**



actual savings would be higher.

The savings to the state are not limited to the increased employability of Community Allowance participants. The community work done through the Community Allowance also has consequences for the need for state expenditure. Through the five types of work examined in this report, savings will be created by the reduced use of health care, the increased employment of young people and a reduced need for child protection. With a portfolio of these five types of work, one Community Allowance worker will on average create state savings of about £4,200 through the work they do in a year.

Within the conservative estimates that we have used in our predictions, we expect the public sector to save between £5,000 and £6,000 per Community Allowance participant. The average cost of employing an individual within the scheme is about £4,500 pounds. Public savings are hence slightly more than all the required

**Table 1. The mean costs and SROI ratios for different types of work**

	<i>Most important outcomes</i>	<i>Mean cost per worker</i>	<i>SROI ratio</i>
Youth work	Improved qualifications, increased likelihood of employment, change in aspirations and confidence	£4,076	4.3
Child care	Improved child development, greater confidence, positive role models for clients, social networks	£5,069	10.8
Community health	Health improvements for clients, social networks and improved confidence	£3,576	4.0
Gardening	Better physical environment, sense of ownership over own area	£4,969	2.7
Community learning	Improvement in skills and qualifications, positive role models, social networks and confidence	£4,469	7.3

**Table 2. Expected savings to the state from the average worker, for different types of participants**

<i>Savings to the state</i>	
Jobseeker's Allowance, low needs	£1,589
Jobseeker's Allowance, high needs	£775
Incapacity Benefit	£1,033
Lone parents	£980

investments. In the proposal for a pilot, the suggestion is that the state would supply about half of this cost. The state is likely to recuperate about double of what it spends through the Community Allowance in the form of savings elsewhere in the public sector.

### **Costs of the Community Allowance**

The CREATE Consortium is bidding for funding from the DWP through the Right to Bid scheme to pilot the Community Allowance in three areas. The funding required from DWP would be matched with funding by community organisations, who will cover all salary costs of participants.

Using our interviews with community organisations, we were able to estimate the costs of employment in different types of work. Some of our stakeholders voiced concern about the fact that individuals with higher needs would need more support and training to participate in the community work. This is likely to be of benefit to the participants, but will also create a cost to the community organisation.

Based on our interviews with community organisations, we estimate that the typical cost of employing an individual will be £4,212. This is the average of all the five work types we have considered. It includes wages, training costs and other material costs. We also asked questions concerning extra costs for working with high-needs benefits claimants, such as those claiming Incapacity Benefits or some individuals on Jobseeker's Allowance. These costs were estimated to raise the total cost of the scheme to £4,652.

## Section 5. Conclusions

Welfare policy in the last decade has above all concentrated on bringing more people into the labour market. The level of benefits has been consistently deteriorating in terms of its purchasing power, while the government has provided tax credits for those that take up work. Under the banner of “rights and responsibilities” the conditions and means-testing of unemployment benefits has been increased. This trend under Labour is being echoed by emerging Conservative plans, which promise to significantly reduce incapacity benefits in order to make work more attractive.<sup>34</sup>

Policies such as these are guided in part by a concern to remove benefit traps and ‘make work pay’. The emphasis has often been placed on marginal tax rates or other purely financial measures. This does not always reflect the realities of the job market today. The recession means there is less work available and more people competing for each vacancy. Jobs that are available at the margins can be poorly paid, insecure and with flexible and unpredictable hours. This means that for many, work doesn’t increase income and it comes with additional costs such as risk and uncertainty that the benefits system doesn’t respond well to. To really make work pay these costs need to be fully understood and offset.

The dual aims of increasing rights and strengthening responsibilities do not always sit well together. The people on benefits we spoke to experienced negative consequences of the responsibilities placed upon them. They reinforce poor public perceptions of people on benefits and are a further knock to self esteem and confidence which are already low from being out of work. This can erode trust between people out of work and the institutions that are supposed to be supporting them. It deters some people from claiming benefits and the support they are entitled to. There are also wider costs to the communities in which unemployed people live, who bear the burden of wasted potential, resources and skills.

We have evaluated the Community Allowance as an innovative proposal to create jobs as well in-work support and experience for those taking part. It allows people to take the first steps back into work without the risks of a lower income. It will make state spending on welfare reform on benefits more effective by reducing the time spent on complying with benefits for participants and Jobcentre Plus staff. Instead money is spent on allowing work to be done for the benefit of the whole community building participants confidence, skills and experience at the same time.

A recent study comparing public attitudes found that the countries with the most extensive social security tended to have the highest level of dedication to work.<sup>35</sup> This suggests that the balance between rights and responsibilities in welfare policy needs to be carefully considered. Squeezing people’s benefits, or providing insufficient state resources for welfare-to-work programmes, can be just as potent in limiting success as the claimants’ lack of commitment to work. Recognising this in the design of social security and creating appropriate support to go alongside legitimate demands, will bring benefits to people and communities.

# Section 6. Recommendations

## Policy recommendations

- **Invest in the Community Allowance pilots.** Based on the SROI analysis reported here, we expect the Community Allowance to be effective in creating social value both for its participants and for the communities where it is implemented. For each pound invested, we predict a social value of £10.2 to be created. In savings to the state, the money spent on the Community Allowance will be more than recuperated.
- **Make the scheme universal.** Our research highlighted several reasons why the scheme should be eligible to those on JSA. First, classification of individuals by type of benefit that they receive does not always truthfully reflect the complexities of their lives. Community organisations feel that there are many people on JSA who have significant barriers to getting back into work. Second, our SROI ratio indicates the savings for the state are highest when individuals on JSA are taking part because of the effectiveness of the work they can do and the significant potential to reduce what the state spends on them in other areas. Given the beneficial outcomes that result in participation regardless of benefit type, we recommend trialling the Community Allowance pilots without restriction based on benefit type.
- **Involve community organisations in solutions.** In the white paper *Raising Expectations and Increasing Support* <sup>36</sup> devolving power is seen as a key principle of reform. **nef** agrees that this is key to the success of welfare-to-work policy. Community organisations already have established relationships with local people. In many cases they have also built up a higher level of trust with their clients than job centres have been able to achieve. This means community organisations are in a good position to support people back into work.
- **Simplify the benefits system.** Our research suggests that the benefits system is out of touch with the labour market. For many individuals benefits are a source of stress and confusion. The system holds them back from personal development or entering the work force. Increasing the earnings disregard would take a step towards lifting people out of poverty, allowing them to begin to take part-time work and gain work experience. This would have benefits for their quality of life over and above the money it would cost to implement.
- **Reduce costs of compliance.** The act of signing on at the job centre has costs beyond the time spent there. A recent White Paper argues that visits to the job centre should be seen as a “key part of accounting for active work search”.<sup>37</sup> Yet people told us their time at Jobcentre Plus tends to focus on checks and processes, rather than providing the support and tailored job search they need. People that have no real intention of looking for work can easily tick the right boxes and pretend they have done their job search. People who are genuinely looking for work get little or nothing from the process. This is a waste of public funds, and money could be put to better use in supporting people to move to employment.

- **Explore whether there is a role for claimants in production of services.**

To make sure that claimants' viewpoints and priorities are understood by the employment agencies, claimants themselves should be engaged in shaping and delivering the services of employment agencies where possible. One practical suggestion is to involve claimants in the training of Jobcentre Plus staff.<sup>38</sup>

### Recommendations for community organisations

- **Ensure that community work is effective.** The scenario we have modelled indicates that work done by claimants through the Community Allowance could create significant benefits. The benefits to the local community as well as to the claimant are a clear advantage over typical subsidised employment schemes – investing the same amount of money to support employment in private enterprise might not aid the local community to the same extent. The element of community benefit is also important for how participants feel about their work. The scheme aims to build confidence and build experience. If the work is seen as low value, or seen as a punishment, it will not work.
- **Support individuals.** Our model indicates that the majority of participants will enjoy significant positive outcomes as a result of the year that they spend participating in the Community Allowance programme. But gains from employment are only projected for a relatively small number of participants that move into employment at the end of the scheme. The period when participants move on from the Community Allowance programme needs to be carefully managed for all participants, with support and advice on what to do next. They should be encouraged and advised in continuing to be engaged with community organisation, to seek employment in the private sector or set up their own enterprise.

### Measurement recommendations

To validate these findings an evaluative SROI would need to be carried out. A robust measurement system needs to be put in place from the outset. To ensure that the impact of the Community Allowance can be properly demonstrated and managed, the scheme should be implemented with an appropriate data collection scheme in place. We recommend two separate measurement systems. One should focus on documenting the changes and benefits experienced by community organisations and the wider community. A separate system should measure what the Community Allowance programme has done for each individual claimant participating, and to do this it should be designed to be sensitive to the outcomes that are most relevant to participants.<sup>39</sup>

For both these measurement systems we recommend the following principles.

- **Measure outcomes.** The measurements should not focus on how much resources were used or the output of the activity even though these figures might be relatively easy to obtain. The focus should be on the outcomes; the actual changes occurring in the lives of individuals or communities. Only with such information can the connection between resources spent and impact be made clear and managed.
- **Avoid over-claiming.** The measurements made should estimate the difference that the work in question has accomplished, to not over-claim its contribution. The simplest way to do this is to take into account changes in the so called benchmark group: the wider population of comparable people.
- **Respond to the results.** In the end measurements will only help to the extent that the practitioners are able and willing to learn from what the evidence and past experience tell them. The results of the measurement should be embedded into the strategic planning processes of the organisations involved.

In particular for the measurement system directed at individuals on benefits taking part in Community Allowance programmes, we recommend the following principles.

- **Measurement should be person-centred and include indicators of positive progress.** The system should identify and track the outcomes that are most relevant for the participants and their efforts to get their lives on track. This should include any measures of positive development and improved strengths, and not just a reduction in risk or defects.
- **Be sensitive to small improvements, not just completed changes.** For individuals with many barriers to getting back to work, simply moving towards a goal can be an accomplishment. The measurements should track the distance travelled towards a change, not only whether something has changed completely.

# Appendix 1. The SROI process

The flow of the SROI methodology can be summarised as follows. For a more detailed description of the methodology, see the guidance published by the Cabinet Office.<sup>40</sup>

## Phase 1: Setting parameters and impact map

### Stakeholders

- Identify the stakeholders that are affected by the project or organisation.
- Prioritise key stakeholders and objectives. The principle of materiality – whether omission would have consequences for the reader's or stakeholder's decision – is used in the selection of stakeholders and objectives.
- Identify common or overriding objectives.

### Impact map

- Get stakeholders involved in creating an impact map that describes how the organisation/investment affects them.
- An impact map demonstrates how an organisation's inputs and activities are connected to its outputs, and how in turn these may affect stakeholders' outcomes. Impacts can then be assessed from the identified outcomes.

## Phase 2: Prediction and valuation

### Prediction

- Research literature and evaluations of comparable programmes are reviewed to find predictions about all the material outcomes. Where these are not available, conservative estimates are made, based on feedback from interviews with stakeholders.

### Valuation

- For all outcomes, the literature is reviewed to identify the most appropriate monetary valuations. These are chosen so that they match both the quality of the outcome and the type of stakeholder.

## Phase 3: Model and calculate

### Model and calculate

- Create an economic model to calculate the social value created through the investment:
- Calculate the present value of benefits and investment, total value added, SROI ratio and payback period.
- Account for the displacement, attribution and deadweight of the organisation/investment under review.
- Use sensitivity analysis to identify any single variables that can significantly alter the results.

## Phase 4: Report

### Report

- Consider and present the SROI produced by the organisation or investment.
- Identify how the benefits are divided between stakeholders.
- Identify the key factors that affect the SROI ratio.

# Appendix 2. Identifying and interviewing stakeholders

The intention of the research is to capture all relevant impacts of the Community Allowance. The Community Allowance is clearly a programme that affects a broad range of different parties. With such a wide scope for our analysis, it is important to make sure that we include the most significant elements in our study, and that we don't burden it with any additions that add nothing to our results.

The way in which SROI accomplishes this is through the principle of materiality – only those stakeholders that are deemed material will be included. A stakeholder is considered material if its omission has the potential to significantly change the overall findings, and alter decisions made on the basis of the SROI results. We will apply this principle in the selection of both stakeholders and outcomes below.

## Identifying stakeholders

The first step of our analysis was to map who the potential stakeholders of the programme were. This was done through an iterative process. We started with a broad idea of the relevant stakeholders, and revised our understanding of their importance and possible omissions at each step of interviews.

We based our interviews at four different community organisations: Community Links, Trust Thamesmead, St Peter's Partnerships and Marsh Farm Outreach.

- Community Links is an inner-city charity running community-based projects in east London. Founded in 1977, the organisation works with around 50,000 children, young people and adults every year. It delivers a range of services, including advice and support work among vulnerable people. This work is delivered in Newham, one of the poorest boroughs in Europe.
- Trust Thamesmead was formed in 1976 and is a development trust and registered charity working in Thamesmead in south-east London. We carried out interviews with stakeholders on the Building Futures project, which offers free support, guidance and advice for local people looking for training and employment.
- St Peter's Partnerships is a registered charity that provides support and services within the St Peter's ward of Ashton-under-Lyne. The partnership also has a trading arm, which operates as a social enterprise. This generates a surplus, which is gifted back to the charity to support further community-based activities.
- Marsh Farm Outreach is a community organisation in the Marsh Farm Estate in Luton, Bedfordshire. It promotes economic development and regeneration within the estate, and develops community businesses to improve the local economy.

Table 3 displays all the stakeholders to the programme that we identified. It also explains who we decided to include in the final analysis, as well as who was left out and why. One of the most contentious stakeholders was the community organisations. There are a range of positive benefits that flow to organisations participating in the Community Allowance, not least as it may allow them to work in a more effective and sustainable way.

Although we decided to consult with community organisations, we did not include them in the SROI economic model. This is because we thought the analysis would be clearer if the final beneficiaries of the outcomes for community organisations



**Table 3. Stakeholder audit trail**

<b>Stakeholder</b>	<b>Included in / excluded from SROI economic model?</b>	<b>Included in/ excluded from stakeholder engagement?</b>	<b>No. engaged</b>
People on benefits	Included – primary beneficiary	Included – semi-structured interviews at Community Links, Trust Thamesmead and St Peter's Partnerships.	17
Client families	Included – material outcomes	Not included. Interviews with people on benefits included prompt about families.	None directly
Wider community	Included – secondary beneficiary	Via CREATE Consortium, community organisations and frontline staff as below.	None directly
CREATE Consortium and community organisations	Excluded – outcomes they generate accrue to the wider community.	Included – structured roundtable discussion with CREATE consortium.	10
Frontline staff at community organisations	Excluded – outcomes they generate accrue to the wider community.	Included – as a proxy for the wider community. Semi-structured interviews.	9
State	Included – savings across a range of service areas	Excluded – policy documents reviewed.	n/a

were thought to be individuals in the community, rather than community organisations themselves. This would remove the need to have community organisations as separate stakeholders, and ensures that we have avoided double counting benefits.

## Appendix 3. The economic model

In our model, we assume the financial resources at hand are distributed equally between the different types of work. Furthermore, there will be the same amount of individuals recruited from each claimant category, regardless of differences in their costs. A high training cost will hence bring down the amount of individuals that can be employed in total within that type of work. This will reduce the SROI ratio accordingly, as fewer individuals can take part in that type of work and fewer beneficial changes in the community will be created.

### Predicting outcomes

As this is an SROI analysis based on forecasts, our assessment is based on predictions instead of empirical recordings of outcomes. Our predictions were based firstly on academic literature and evaluations of the effectiveness of community work. Where such literature was not available, we tried to base our estimates on input from interviews with stakeholders, and make reasonable estimates of the outcomes. To reduce the risk of over-estimation, we have used conservative figures from the predictive literature and in our own estimates.

Given that the outcomes are based purely on predictions, the results of the model should be considered as indicative and not as a conclusive demonstration of the effectiveness of the programme. The outcomes predicted are conservative estimates of what should be expected if the Community Allowance were to operate as successfully as comparable work has done in the past.

In making the predictions, we have tried to adjust the likelihood of an outcome based on the type of stakeholder in question, especially for the different types of participant groups. For example, based on the empirical research that we have reviewed, doing short-term part-time work is more likely to increase the chances of later moving into a regular job in the case of individuals with low needs than for other groups of claimants. We have reflected this in setting the probabilities of the outcomes occurring in the economic model.

Table 5 lists some examples of the predictions and their sources that are made in the model.

### Forecasting future employment

One of the central objectives of the Community Allowance is to help individuals on benefits move into regular employment. Given the importance of this goal, we put

**Table 4. Costs for different types of work**

	Cost
Youth work	£3,576 for a year's salary; £500 extra training cost for workers with high needs.
Child care	£4,469 for a year's salary; £1,200 extra training cost for workers with high needs, and £600 for workers with low needs.
Community health	£3,576 for a year's salary.
Gardening	£4,469 for a year's salary; £500 in material costs for each worker.
Community learning	£4,469 for a year's salary.

**Table 5. Examples of methods of predicting outcomes**

<b>Stakeholder</b>	<b>Outcome</b>	<b>Method/Rationale</b>
Clients on JSA	Movement into employment	Drawing on evaluations of similar schemes and research from the Department for Work and Pensions. Statistics about unemployed population at large used as a benchmark for changes.
	Increase in life satisfaction due to working	Academic research on increase in confidence and life satisfaction due to finding employment.
Community	Reduction in the need for health care as a result of physical activity	Statistics on improvements in health caused by starting to be more physically active.
	Increased likelihood of employment through training of youth	Academic research on impact of youth training from the Department for Education and Skills.

emphasis on making predictions that were as robust as possible on the increase in the likelihood of employment for the Community Allowance participants.

Employment is a challenging outcome to forecast, as it is contingent on the state of the larger labour market. Applying generalisations from previous research to a period with a changed economic outlook cannot be done with full accuracy. Furthermore, the Community Allowance scheme includes a unique set of features that have not been tried out before in the same combination. No evaluative research was available that would match the functioning of the programme perfectly.

To predict the outcome, we looked for evaluations of schemes that had some characteristics similar to those of the Community Allowance. The Working Neighbourhoods Pilot (WNP) attempted to help individuals on benefit to overcome barriers to employment. It worked in 12 areas with relatively high unemployment in England, Scotland and Wales, starting from 2004. It was similar to the Community Allowance in that it provided advice and support on a local basis. In many areas it set up new offices for help within deprived wards.

In other respects, the programme was different from the Community Allowance. Most importantly, it did not involve creating new working positions within the community, but rather was directed towards supporting individuals to get regular work, partly through the use of retention payments. Despite such differences, the WNP pilots give an indication of the likely effect of localised advice and support work. The pilots were evaluated by the Department for Work and Pensions.<sup>41</sup> It reported that, after engagement from WNP workers, 42 per cent of individuals on JSA and 20 per cent of those on IB found work.

It is possible that some of the clients of WNP would have found a job regardless of their engagement with the project. To estimate the deadweight, or the extent of change that takes place without any contribution from the project, we looked at the statistics from the DWP for employment subsequently secured by those on various forms of benefits. Given the normal movement away from benefits, the additional impact of WNP is likely to be employment for 32 per cent of individuals on JSA and for 13 per cent of those on IB.

As allowing people to work in a meaningful role is a central part of the Community Allowance, we need to take account of the 'stepping-stone effect' in relation to the Community Allowance programme – the positive knock-on effect that having a short-term part-time job can have on the prospects for more regular employment later. The most rigorous evidence for this comes from econometric studies

**Table 6. Increase in the likelihood of getting part-time or full-time employment after taking part in the Community Allowance programmes.**

	<i>Part-time employment</i>	<i>Full-time employment</i>
JSA	9%	23%
IB and JSA high needs	4%	9%
Lone parents	22%	5%

documenting the effect of tax credits. The Working Families' Tax Credit has been studied with respect to the impact of working 16 hours per week. The Department for Work and Pensions reported that working up to 16 hours increases the likelihood of following employment by 19 per cent.<sup>42</sup> The same figure for lone parents is 27 per cent.<sup>43</sup>

In our model, we have used the effect of WNP pilots as estimates for individuals on JSA and IB, and used the recorded effect of working up to 16 hours as the estimate for lone parents. These are believed to be reasonably conservative approximations, as they reflect the impact of single aspects of the Community Allowance: the stepping-stone effect or advice. The total effect of the Community Allowance, combining both of these features, is likely to be higher. The predictions are summarised in Table 6.

### **Monetising outcomes**

The next step in the construction of the economic model is attaching monetary values to the outcomes. For individuals and the community, the monetary figures reflect how much they value the occurrence of that outcome. This includes things that are not traded, and for which there is no price in the typical sense. While there is no conclusive way to place value on such changes, we have tried to use academic literature to come up with valuations. For putting a monetary value on increased job satisfaction, for example, we used research that compared how much having a satisfactory job improved workers' evaluation of their lives when compared to increased pay. These results allow us to make such less tangible effects of the Community Allowance visible within the economic model. For some other outcomes, such as cost savings for the state, estimating monetary values is more straightforward, as we can use the financial savings directly.

Our engagement with stakeholders is central to the process of attaching monetary values to outcomes. We have attempted to be sensitive to differences between the stakeholders, and in many cases these variations have shaped the value we have put on certain outcomes. For example, the individuals on JSA placed more emphasis on the additional burden and stigma associated with being on benefits. A person who had decided not to claim JSA made the following comment about his negative experiences of Jobcentre Plus and why he had decided to stop claiming, even though he was still not working and had problems with money:

*"I don't like the way they treat you and for the money it's not worth it. It is a waste of time. I went to Woolwich Job Fair. I asked the guy behind the counter and he admitted it was just a play to make them feel good. The place was full of desperate people wanting help. Not one person I spoke to called me back, and no one there got a job. It just makes the job centre feel good."*

In the light of this kind of feedback we modelled the cost of compliance to be larger for individuals on Jobseeker's Allowance than for lone parents. A further example of adjustment specific for stakeholders, the changing value of additional income, is discussed below. Table 7 gives a range of examples about how monetary valuation was calculated in the model.

**Table 7. Selected financial proxies and direct costs**

<b>Stakeholder</b>	<b>Outcome</b>	<b>Proxy/ direct cost description</b>	<b>Source</b>
Community Allowance participants	Increase in income	Estimate from Community Allowance documentation, multiplied by factor to represent higher value of money for poor	Research from London School of Economics
	Reduced stigma and cost of compliance of benefits	Revealed preferences from individuals choosing not to take up benefits, and time costs for individuals on JSA	Research from University of Leicester
	Increased job satisfaction	Value of moving from 50th percentile to 75th percentile on job satisfaction scale as a percentage of income	Research from University of British Columbia
	Improvement in skills	Earnings increase gained by moving from no qualification to at least Level 2 apprenticeship	Department for Children, Schools and Families
State	Reduction in benefit payments and increase in tax intake	Costing of scenarios of typical individuals on JSA and IB	Based on DWP benefits calculator
	Savings from reduced use of health care	Reduced visits to GP and less use of medications	Based on DWP benefits calculator
Community	Increased social cohesion	Value of increased life satisfaction associated with increased personal contact with neighbours	Research from London University's Institute of Education
	Improved social and work networks	Amount spent on social events and leisure with other people	Family Spending Survey

### Meaning of increased income

One of the recurring themes of our interviews was the huge benefits that people can get from just a small increase in their incomes. For example, one mother who was concerned about her daughter looking for work talked about the value of money to her:

*“My daughter would take a job even if it paid half. Even £20 would make her over the moon. The other day she got a £10 voucher for doing some research and it meant a lot to her.”*

Other stakeholders talked about how small amounts of money would help them with transport, sending their children to karate classes, new shoes for work, and transport for a holiday.

We have incorporated this into the economic model by increasing the value of additional income for the Community Allowance participants, who as a rule have very low earnings. Unlike in conventional economic analyses, SROI is about measuring value, rather than money. This makes it legitimate to estimate and value the increased utility that individuals receive from an increase in income.

The empirical basis on which we make this adjustment is based on the measurement of life satisfaction of individuals through the British Household Panel Survey (BHPS).<sup>43</sup> Using econometric regressions of the BHPS, Layard et al estimate how much the life satisfaction of individuals would rise as a consequence of an

increase in income, all other things being equal. We used the value of increased income to an individual with the median income (about £20,000) as a baseline, and compared that to a person that has a level of income of someone relying on unemployment benefits.

Although this is a very rough statistical estimate, it does reflect the large benefits that even a relatively small addition to income can create for Community Allowance participants. We multiplied the significance of each monetary outcome for Community Allowance participants in the economic model by the figure 2.39. This means that an extra pound is about 2.39 times more valuable to a poor person than a person on median income. Further research would be required to provide more accurate measurement. However, for the purposes of this research, it is sufficient to make the point that this income is more beneficial to people than would be conventionally thought.

### **Determining impact**

One of the crucial parts of SROI is estimating and being explicit about the extent to which change can be attributed to the investment that is being examined, and not to other factors. We have made some predictions about what is likely to change for individuals and communities taking part in Community Allowance programmes, but how much of that change does occur because of the scheme alone? Since there are many other employment schemes that have been piloted or are being rolled out by the state – including Pathways to Work, the New Deal, flexible New Deal and Future Jobs Fund – it is important to determine how much the Community Allowance can achieve that would not have taken place regardless of it, by virtue of the other investments.

The first way in which the impact of the investment is qualified is through measures of deadweight. Deadweight represents the amount of change that would take place regardless of Community Allowance work. As was shown in the section on predicting future employment, measures of deadweight are estimated for each outcome separately, to make sure that the model is not claiming credit for changes for which it is not responsible.

The second factor in determining impact is attribution. This refers to how much of the impact can be attributed to the Community Allowance. In many cases individuals work with a number of different organisations, and the full scale of the change created cannot be attributed to any single one of them. For individuals on Jobseeker's Allowance, for example, a whole range of initiatives for advice and education is available. Because improvements in the situation of JSA claimants taking part in the Community Allowance is likely to happen partly by virtue of working with other programmes, not all of the change in outcomes should be attributed to the Community Allowance. We represent this idea in the model through attribution factors, which we use to reduce the overall amount of value claimed to result from the investment.

We have used an attribution factor of 0.5 for the outcomes for the community that result from the work done under the Community Allowance. This estimate reflects the fact that the work could not be done without other workers, and the resources made available by the community organisations. In practice work is a process that requires the input of a number of employees of different types.

Despite such differences, there are likely to be disparities in how well individuals from different types of circumstances will perform the given tasks. Individuals in a difficult situation with high needs may have to stay away from work on some days, or may not be able to fulfil the job with full efficiency. One of those interviewed described this difference:

*"The level of support they [IB claimants] need to come in to a few hours of work is quite intensive, and people, particularly with mental health issues, can't tell when they will be able to come into work. You expect someone in, and then you get a phone call from someone else the next day saying they are not well. In terms of running services if they are volunteers then that is okay, but once they are part of the workforce that is different."*

**Table 8. Attribution of changes experienced by Community Allowance participants that are specific to their participation in the programme**

<b>Stakeholder</b>	<b>Attribution of outcomes</b>
Jobseeker's Allowance with low needs	Estimate of 0.5 based on the observation that clients would on average work with one other organisation.
Jobseeker's Allowance with high needs	Estimate of 0.6 based on assumption of attention from other organisations, but on a less effective basis.
Incapacity benefit	Estimate of 0.8 based on assumption of less social work attention paid to individuals on IB.
Lone parents	Estimate of 0.6 based on observation of relatively high amount of support available to lone parents.

Table 8 lists all attribution factors we have used in the model on the outcomes for Community Allowance participants.

We have taken the difference between participants with low and high needs into account by changing the attribution factors for outcomes of community work based on the type of participant. Individuals with low needs (lone parents and some Jobseeker's Allowance claimants) were given an attribution factor of 0.6, whereas the high needs individuals (some Jobseeker's Allowance claimants and people on Incapacity Benefit) have a factor of 0.4. This is the same as assuming that individuals with high needs are one third less effective in their work.

### **Displacement**

Some of the community organisations make use of volunteer work in their activities. This is beneficial, as volunteering can help people gain new skills and may create employment opportunities. The use of volunteers, however, does make it unclear how much the work undertaken with the Community Allowance would be additional to the current labour of volunteers. It may be the case that the Community Allowance would only improve the conditions of such work, through increased income and so on, but not actually increase the amount of work done in the community.

In our stakeholder engagement we established that the Community Allowance would operate in a complementary but distinctly different way from the work currently done by volunteers:

*"We have a number of steps to people becoming involved with us. Firstly it starts out on a fun basis so they come and be involved as a parent by bringing family to activities and we engage them in that way. They then might do some training and from then it is a formal stepped programme through volunteering. Community Allowance would never replace these volunteers."*

Community Allowance workers would be treated very differently from volunteers and would have the same responsibilities and expectations as paid workers:

*"As volunteers they would go out with a paid worker but would not be seen as workers in their own right....One girl who had been a teenage parent led a programme called 'baby life check' and worked with local parents to develop and launch it in the local area. I would never have asked her to do this as a volunteer."*



**Table 9. Benefit period and annual drop off**

<b>Stakeholder</b>	<b>Benefit Period</b>	<b>Drop off</b>	<b>Rationale</b>
Community Allowance participant	4 years	0.8	Most of the outcomes for individual participants are short-lived.
Community	5 years	0.5	Many long-term initiatives, such as child care and youth work
Community – gardening work	3 years	0.8	Gardening requires reinvestment after a few years
State	5 years	0.4	Increased skills and employability, remaining for a long time span.

**Benefit period and drop-off**

The effects of an intervention in many cases last longer than the intervention itself. For this reason, the value of benefits is projected into the future. The benefit period is the amount of years through which the value of the outcomes is considered. Some of the outcomes occur only for one year and don't have a direct impact afterwards. For example, the increased income for participants in Community Allowance programmes occurs only for the year in which the person is a part of the programme, and then stops. Any improvement in skills, in contrast, stays with the individual for longer.

A drop-off rate is applied to take account of the degree to which the effect of the initial intervention wears off. The drop-off rate is a number with which the total benefits accrued to a stakeholder is multiplied after each year. With a drop-off rate of 0.5, for instance, the value of the outcomes is halved after each year.

The benefit period and drop-off were estimated for each stakeholder as there was no longitudinal data from which to determine a benefit period and drop off empirically. These are reported in Table 9.

**Discounting future outcomes**

When projecting benefits into the future, it is standard SROI practice to discount any future benefits. This means that the value of outcomes in the future is reduced relative to those happening immediately. This is done through the use of a discount rate, which increases by compounding year by year, like an interest rate would.

The HM Treasury discount rate of 3.5 per cent was applied to all future benefits in the model. With this discount rate, all value accrued from the second year is reduced by 3.5 per cent, the year after that by 7.1 per cent, and so on.

# Appendix 4. Sensitivity analysis

The economic model includes several assumptions that cannot be fully validated, yet which may have a substantial impact on the results. In the sensitivity analysis we identify the variables that have the largest impact on the results and test which range the SROI ratio can fall within if these variables are changed. In the following we define an assumption to have a *significant* effect on the ratio if it drops by more than one.

## Predictions of outcomes and monetary valuation

The rates into employment are currently conservative, and based on the evaluation of the Working Neighbourhoods Pilot. As outlined in the economic model, there are some reasons to believe that the Community Allowance will have higher flows into employment, particularly as the project is delivered by community organisations and all participants will gain practical work experience.

The CREATE consortium made projections that 20 per cent of participants would find part-time work, and 20 per cent would find full-time work. Changing the economic model to reflect these assumptions increases the SROI ratio to 10.6, which is not a significant change. Some of the other outcomes, such as increases in confidence, skills and experience, were also altered. The ratio was not sensitive to this.

Changing the monetary valuations of outcomes was found to have no significant impacts. Individual financial proxies were systematically varied, and found not to have a large effect on the SROI ratio. The single most important valuation was the adjustment we had made to increases in income, based on research on the higher utility of increased income for poorer people. Even changing this valuation had no significant effect: If we remove the adjustments we made about differences in marginal utility the ratio drops from 10.2 to 9.4.

## Attribution and deadweight

The economic model uses different attribution rates to assess the value of outcomes for individual participants and the wider community. The attribution rates we have assumed are relatively low, and likely to be conservative. If we assume the Community Allowance is fully responsible for the outcomes for participants, the ratio increases to 12.2.

In our model the attribution rates for the community outcomes vary for each type of participant, but are on average 0.5. If we halve this attribution ratio (to 0.25) there are significant effects on the SROI ratio, which decreases to 7.6. This does indicate some sensitivity in the model, but our stakeholder engagement suggested that Community Allowance staff were central to the achievement of the positive outcomes we were projecting. It may even be appropriate to assume a higher attribution rate of 0.75, which would give us a SROI of 12.7. If we take both the outcomes for participants and the outcomes for the community combined, attribution would have to be reduced to just 0.04 per cent to generate a social return investment ratio of approximately 1:1.

In the economic model we have used evidence of rate of change that is typical for stakeholders to estimate what would take place without the additional work made through the Community Allowance. If we did not take this deadweight into account, the SROI ratio would increase to 16. Even removing the deadweight from a single outcome creates a significant change: the SROI ratio without deadweight for employment outflows would increase to 11.3.

### **Projecting into the future**

Our economic model projects value five years into the future, showing how it drops off at different rates for individual participants and the community. If we assume that this is not the case, and that all outcomes last for one year only, then the SROI ratio falls to 6.7. Although this indicates that the model is very sensitive to the drop-off rate, we can be reasonably confident in assuming that the community outcomes will last longer than a year.

### **Conclusions**

Overall the model is not very sensitive to the individual financial proxies used or the outflows to employment. The SROI model is sensitive to the attribution and drop-off rates that have been chosen. The rates that we are using have received support from interviews with stakeholders and academic research, and we have been selecting conservative estimates to avoid overstating the benefits. A more optimistic scenario, combining assumptions about outcomes outlined above with a lower drop-off rate, would reach a substantially higher ratio of 18.7.

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