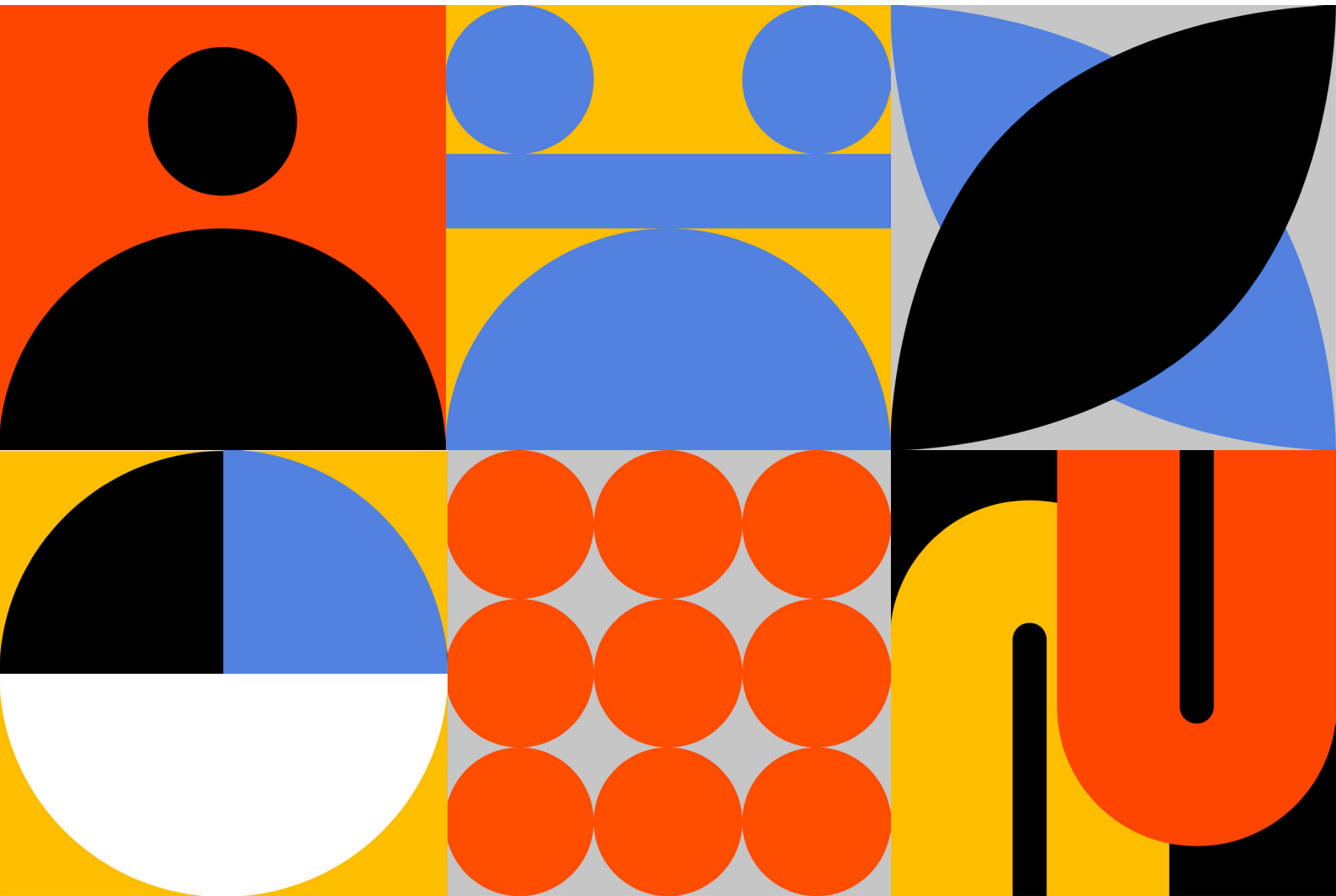
STONEHAVEN

YMCA

Breaking barriers to work

RETURN ON INVESTMENT ANALYSIS

April 2024



Summary

An estimated 189,500 working age people live in supported housing across the UK. Supported housing helps these people prepare to move into independent living. But vulnerable young are being held back by an anachronism of welfare policy. This report finds that a moderate investment of £110m per year could both solve this while saving Government some £18 for every £1 spent.

In August 2023, YMCA England & Wales published a report into the barriers facing young people in supported housing from working.[1] One major issue is the interaction of Universal Credit with one of the legacy benefits, Housing Benefit, which covers the cost of supported housing. Current policy means once someone under 25 earns above £566 a month (equivalent to working just over 11 hours per week at minimum wage), they immediately become liable for £150 of their housing costs. These earnings are only recovered after working another 8.5 hours per week at the 21-24 year old minimum wage. This is holding young people back from helping themselves.

YMCA England & Wales commissioned Stonehaven to calculate the return on investment from two of YMCA's proposed reforms.

01 Raising the Standard Allowance for under 25s in supported housing to match the over 25s rate;

02 Introducing the Work Allowance for residents of supported housing.

The first reform would give younger residents enough to afford basic necessities. Unlike other under 25s, residents of support housing may not have family to fall back on for support. Yet they still have the same needs and bills as those over 25s.

The second reform would allow residents to keep more of their Universal Credit payments when entering the workforce. This provides greater incentives to work, helps them start paying off debt and save for a rental deposit when they are eventually ready to move into independent accommodation.

Together, these reforms can tackle barriers to young people working. It gives them enough to afford the essentials of food and bills. It provides more financial stability, reducing the burden on other government services such as mental health care provision. And it helps them build up savings so they can move on to independent living when they are ready.

This last point is the biggest opportunity for a prudential government. Supported housing provides many essential services for vulnerable young people. But its provisions are more costly to government than supporting someone in the private rental sector. Helping the vulnerable young move onto independence when they are ready is good not just for the individual, but for the public purse too.

We have focussed our analysis on the fiscal impacts of these reforms, simply considering whether they are fiscally prudent changes. We find the reforms would cost around £110m per year and could save Government up to £11 in tax receipts and welfare spending per £1 spent. This increases to £18 when accounting for wider health and justice impacts.

Yet these reforms have very human impacts. The small group of 189,500 struggles to earn enough to cover basic expenses, and often have poor mental health. Overcoming these barriers is not only fiscally prudent, but it could also make a very real difference to those in supported housing, helping them realise aspirations to move on into independent living.

01 Context

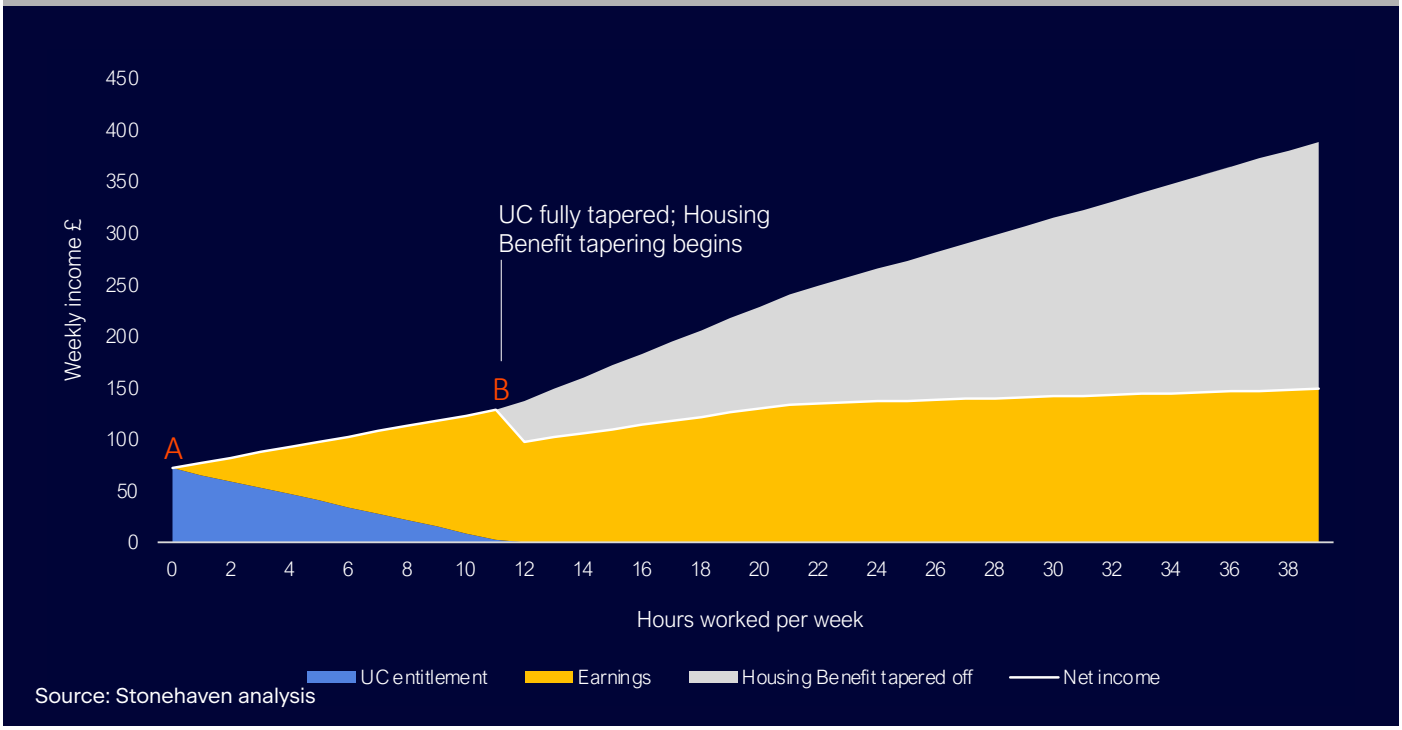
YMCA England & Wales published their 'Breaking Barriers to Work' report in August 2023.[2] The report highlighted how people in supported housing are penalised for moving into employment. They face challenges created by their unique experience of the benefits system, notably, the interaction between Housing Benefit and Universal Credit (UC).

A claimant's UC payment gets tapered once they start earning income from work. The current 0.55 taper rate means for every £1 they earn through wages, their UC payments are reduced by 55 pence. This means they face a marginal effective tax rate (METR) of 55% (see the appendix for METR charts). Workers receiving UC are therefore effectively 'taxed' 55p for every £1 they earn and take home 45 pence. Figure 1 illustrates this: the falling blue triangle reflects UC being tapered; the yellow area shows earnings from wages increasing as claimants work more hours; and the black line shows net income. Claimants are still better off working than not working, and the Government saves money on its welfare bill.

This principle is undermined by the interaction between UC and Housing Benefit, one of the legacy benefits. Most supported housing is funded through Housing Benefit and is exempt from the Local Housing Allowance cap. This is to reflect the additional costs supported housing requires, e.g. hiring qualified workers to help residents with maintaining their property and getting access to benefits, signposting residents to support services, or ensuring the safety and security of residents.

Housing Benefit starts being tapered once UC is fully tapered off. However, the personal allowance for Housing Benefit (beyond which earnings are tapered at 0.65) does not align to the point where UC is tapered off. This results in an immediate drop in net income, creating the cliff edge labelled 'B' in Figure 1 where Housing Benefit begins to be tapered (illustrated as the grey area in the chart). At this point a 21-24 year old resident would face a METR of 370%, meaning they pay back £3.70 for every £1 earnt between 11 and 12 hours work per week. Residents essentially lose money by working beyond the point where UC is tapered. These earnings are only recovered once a 21-24 year old works 19 hours per week. The situation is even worse for those over 24, where someone working minimum wage faces a cliff edge at 14 hours per week and only recovers that income at 42 hours per week.[3]

Figure 1: Status quo net weekly income for a 21-24 year old in Supported Housing working minimum wage



Source: Stonehaven analysis

YMCA England & Wales commissioned Stonehaven to analyse two policies recommended in the Breaking Barriers to Work report.

01 Raising the Standard Allowance for under 25s in supported housing to match the over-25s rate.

The lower Standard Allowance for under 25s is based on the notion that they are not financially independent and therefore don't face the same costs as older adults. This may not hold for young people in supported housing who may lack the support of a familial network.

02 Introducing the Work Allowance for residents of supported housing.

This policy would give everyone living in supported housing the 'Work Allowance' that some people with disabilities or responsibility for a child receive. A Work Allowance is the monthly earnings level people can have before their UC is tapered. They were abolished for non-disabled childless claimants in the 2015 Summer Budget.[4] Their reintroduction would allow recipients retain more of their benefits before it is tapered off as they move into work.

Stonehaven were commissioned to test whether these reforms would provide a return on investment to Government. We analysed whether the extra support would reduce the welfare bill through helping prepare young people to move on from supported housing. We have focused solely on the fiscal impacts: our analysis does not consider the very real impact these reforms could have on residents from moving into work or on to greater independence outside of supported housing.

The next section outlines our approach. Section 3 presents our results. Section 4 tests the sensitivity of our results to our assumptions. Section 5 concludes.

02 Our Approach

Overarching approach

Stonehaven has modelled how UC and Housing Benefit interact with earnings for three age groups: 18-20 year olds, 21-24 year olds, and 25+ year olds. These groups experience different combinations of UC Standard Allowance and national minimum wage rates. We assume hours worked are paid at the 2024-25 National Minimum Wage. We validated this assumption through two workshops with local YMCAs. Figure 1 illustrates how earnings, UC and Housing Benefit interact for 21-24 year olds.

We then modelled how the proposed reforms would change individuals' income and government welfare spending. Figure 2 illustrates a scenario for 21-24 year olds where both the Standard Allowance has been increased and Work Allowance introduced.[5]

The reforms would shift work incentives for those in supported housing. As an example, for the 21-24 age group the METR (see figure 9 in the appendix) would fall from:

— 55% to 0% for those working zero hours; or

— 370% to 55% for those working 11 to 12 hours.

Ideally we would model how people change their work hours in response to these reforms. However, there is limited evidence to substantiate any assumption. We instead look at three illustrative scenarios and test sensitivities.

The first scenario assumes those not working remain not working. Figure 2 illustrates this scenario as moving from point A to point C. This is in part justified by a UK Low Pay Commission commissioned meta-study that found the National Minimum Wage had no significant impact on employment.[6] We note, however, that the National Minimum Wage (unlike Universal Credit) impacts both employer incentives to hire, as well as employee incentives to work. It is therefore feasible we have underestimated the impact of the reforms on getting people into work.

Our second and third scenarios focus on those in work. The second scenario assumes no behavioural response to the reform. We look at individual working at the pre-reform cliff edge who do not change their hours worked. For example a 21-24 year old shown in Figure 1 continues working at 11 hours. This illustrated by the move from point B to D in Figure 2.

Our third scenario assumes a full behavioural response where those in work move from one cliff edge to the next. This means a 21-24 year old would increase their work hours from 11 to 22 per week, the cliff edge shown in Figure 2. This is illustrated as a move from point B to E.

We estimate the direct fiscal impacts by modelling changes in:

— Benefits: impact of the reforms on UC and Housing Benefits payments;

— Direct tax: impact of change in hours worked (and thus earnings) on income tax and national insurance;

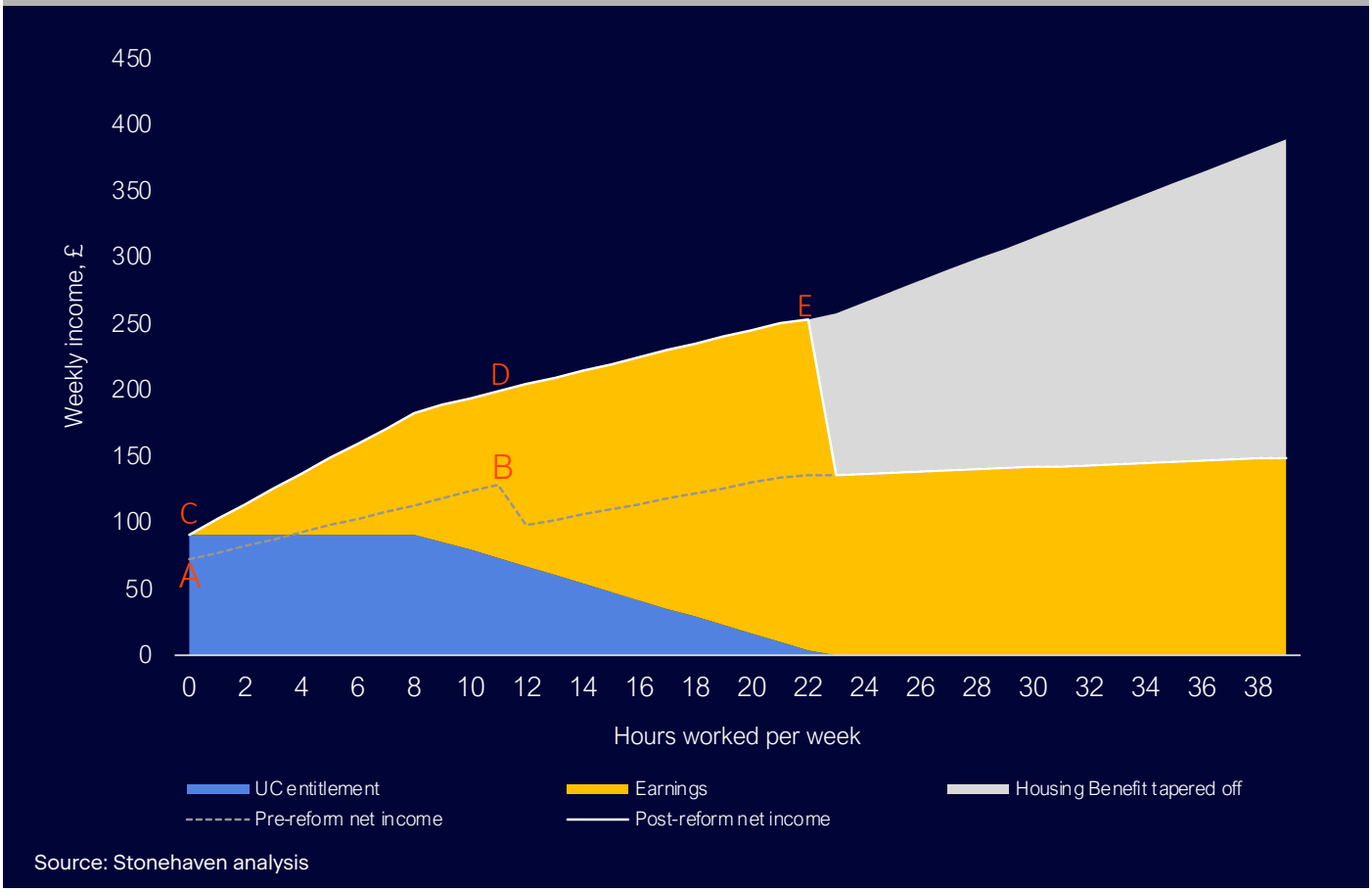
— VAT: impact of higher spending on VAT receipts;

— Housing Benefits vs Housing Allowance: savings to government from individuals moving on from supported housing and thus receiving Housing Allowance in place of Housing Benefit.

Our analysis also looks at wider impacts on health and justice services. YMCA's Breaking Barriers report found that poor mental health prevented nearly half of respondents from working or increasing their hours. We therefore estimated the impact of higher incomes on mental health, which could reduce NHS burdens and thus save taxpayer money.[7] We also estimate the impact of the reforms on justice policy. Our roundtables with local YMCAs provided evidence that because UC payments were insufficient to cover the essentials, some residents might explore alternative ways to make ends meet. We combined data from Local YMCAs on the share of residents with experience of the criminal justice system with data on the cost of crime. As a proxy, we have used a Home Office study on the economic costs of property crime to value these fiscal impacts.[8] This estimates the impact of higher work earnings on crime rates.

Using these two approaches, we have estimated the potential savings to health and justice policy resulting from higher incomes and work earnings. The next section lists the remaining sources and assumptions behind our modelling.

Figure 2: Post-reform net weekly income for a 21-24 year old in Supported housing working minimum wage



Source: Stonehaven analysis

Sources and assumptions

The change in benefit payments were calculated using 2024/25 allowances for single people,[9] the lower Work Allowance rate of £404 per month,[10] and 2023/24 Housing Benefit personal allowance for single people uprated with CPI.[11]

Income tax and national insurance receipts were estimated using 2024/25 rates and assuming regular working patterns for simplicity.[12] In reality, evidence from the Breaking Barriers report suggests working arrangements like zero-hour contracts mean weekly earnings often fluctuate. We estimated VAT receipts by applying the weighted average VAT rate paid by the bottom income decile (15.8%) as derived from ONS data.[13]

We have estimated the fiscal impact of individuals moving on from supported housing by modelling how long it takes them to save for a rental deposit. We know from the Breaking Barriers report that current incomes are insufficient to cover many essentials. However, we have limited evidence on how residents would spend vs save additional earnings from the policy reforms – i.e. their marginal propensity to consume. Our analysis assumes all earnings up to the essentials guarantee level for a single adult of £6,240 per year, estimated by the Joseph Rowntree Foundation, are spent.[14] This reflects the costs of meeting essentials such as food, clothing, and bills. We test different assumptions for how earnings beyond the essentials guarantee are used, assuming either 10%, 50% or at the extreme 100% are saved for a rental deposit.

The results section presents modelling with the 50% savings assumption as a central estimate. Section 4 presents our sensitivity analysis from assuming savings of 10% and 100%.

Estimating Return on Investment

We estimate a return on investment by dividing the policy savings by the initial policy costs.

For simplicity, we assume all recipients live alone, an assumption we again tested with Local YMCAs. The cost of a higher Standard Allowance for under 25s is calculated as the difference in UC personal allowance with those aged 25 and over (£981.24 each year), multiplied by the number of under 25s in supported housing. A 2016 DWP and DCLG study estimated this at 21,500 (Figure 3),[15] putting the total cost of the first reform at £20m (Figure 4). YMCA staff we consulted suggested the number of available beds for supported housing may not have increased significantly since then.

We estimated the cost of the Work Allowance by first modelling UC payments by hours worked at minimum wage, as shown in Figure 1. We compare this with a scenario where a Work Allowance is introduced (as in Figure 2), giving us the cost of introducing a Work Allowance for an individual by the hours worked by that individual. We used YMCA data underpinning their Breaking Barriers report to estimate the average hours worked. Whilst this helps us estimate an average cost of the Work Allowance, we felt the sample size too small to inform our illustrative scenarios of how people would respond to the reforms. Using broader illustrative scenarios allowed us to instead test the range of impacts rather than relying on a small sample size.

This approach gives us an average cost of £1,900 per individual affected. Data from YMCA's Breaking Barriers report, supplemented by data from additional Local YMCAs, suggests 23% of residents are employed. We therefore estimate around 44,600 of the 189,500 residents are in work and could be impacted by the Work Allowance. This means that introducing the Work Allowance in isolation could cost £80m, or £110m when introduced alongside the higher Standard Allowance. We test the sensitivity of our employment assumption in section 4.

Figure 3: Estimated number of residents in supported housing

	In work	Not working	**Total**
Under 25	4,600	16,900	**21,500**
25 plus	39,100	128,900	**168,000**
Total	**43,600**	**145,900**	**189,500**

Source: Total population sizes for age groups are from DWP. The in / out work split is from Stonehaven Analysis based on YMCA data. Figures may not sum due to rounding.

Figure 4: Estimated policy costs

	Population size	Cost per person (£ per year, 2024 prices)	Annual cost (£m, 2024 prices)
1. Higher Standard Allowance	21,500	981.24	**20**
2. Work Allowance	43,600	1,900	80
3. Higher Standard Allowance & Work Allowance (Breakdown below)	**60,600**	**1,700**	**110**
Under 25 not in work	16,900	981.24	20
Under 25 in work	4,600	2800	10
Over 25 in work	39,100	1900	80

Source: Figures may not sum due to rounding. The cost of a higher Standard Allowance is exact as the difference between Standard Allowance levels is derived from 2024/25 benefit rates (see footnote 10). The cost of a Work Allowance is rounded as it is derived from Stonehaven analysis.

The policy savings are estimated in two parts. We first estimate the change in benefit payments and tax receipts first whilst an individual is still in supported housing, and then once they have saved enough for a deposit to move into their own rented property. The first part can be negative (i.e. the reform costs Government money) if UC payments increase. The second part is typically positive (i.e. the Government saves money) given Housing Allowance is lower than Housing Benefit. One key variable in this formula is the time taken to save for a deposit. This is driven by the marginal propensity to consume, rather than save, additional income. Our modelling tests different saving assumptions which we present in section 4.

03 Results

Figures 5 and 6 show our central results. Our central scenario assumes:

— Residents save half of earnings above the essentials guarantee;

— 23% of residents are employed: and

— Presents the mid-point between assuming

i. all employed work at the cliff edge and do not change behaviour (point B to D on figure 2) and

ii. all employed move from cliff edge to cliff edge following the reforms (point B to E).

Section 4 tests how sensitive our estimated return on investment is to these assumptions. Figure 5 illustrates the direct fiscal impacts from the modelled reforms over 1, 3 and 5 years.

Figure 5: Direct Return on Investment

	Cost (2024 prices)	Return on investment over 1 year	Return on investment over 3 years	Return on investment over 5 years
1. Increase Standard Allowance for u25	£20m / yr	-£0.70	-£0.10	£1.30
2. Introduce Work Allowance	£80m / yr	£0.50	£8.60	£17.00
3. Combine both reforms	£110m / yr	£0.10	£5.40	£11.00

Source: Stonehaven analysis. Figures may not sum due to rounding. Return on investments below £10 are rounded to 1 decimal place; above 10 are rounded to 0 decimal places.

We find that increasing the Standard Allowance for under 25s has the lowest Return on investment. Our evidence suggests only 21% of this group are employed. The higher Standard Allowance is insufficient to cover essentials, meaning only those who work can earn enough to save for a rental deposit. Whilst the higher UC payments will benefit recipients, our analysis suggests the return on investment for Government only comes once accounting for wider health and justice impacts (Figure 6).

The Work Allowance, meanwhile, impacts only those in work. The result is that over five years, this group is much more likely to be able to save for a rental deposit with the Work Allowance than without. As such the initial cost to government is quickly repaid via savings by moving claimants from Housing Benefit to Housing Allowance.

The return on investment of implementing both reforms lies in the middle. As with increasing the Standard Allowance in isolation, under 25s not working cannot save enough for a deposit. Meanwhile those in work are able to more quickly save, particularly the under 25s who benefit from receiving both the higher Standard Allowance and the Work Allowance.

Figure 6 illustrates the return on investment when wider impacts are accounted for (see page 5 for details on how we have estimated the wider benefits). Accounting for health and justice benefits increases all return on investments. This impact is particularly pronounced for the lowest paid (under 25s not in work) as the higher Standard Allowance reflects a proportionately high increase in their net income, leading to significant benefits for their mental health. This reflects the Breaking Barriers findings, which highlighted the impact of financial precarity on people's mental health.

Our results show these reforms will ultimately save taxpayer money within a Parliament. However, there are a number of uncertainties in our assumptions. The next section tests how sensitive our results are to these uncertainties.

Figure 6: Wider Return on Investment

	Cost (2024 prices)	Return on investment over 1 year	Return on investment over 3 years	Return on investment over 5 years
1. Increase Standard Allowance for u25	£20m / yr	£1.60	£2.40	£4.20
2. Introduce Work Allowance	£80m / yr	£3.00	£15.00	£26.00
3. Combine both reforms	£110m / yr	£2.40	£10.00	£18.00

Source: Stonehaven analysis. Figures may not sum due to rounding. Return on investments below £10 are rounded to 1 decimal place; above 10 are rounded to 0 decimal places.

04 Key Uncertainties

The key uncertainties in our analysis are:

— **Save vs spend additional income:** we don't know how extra income would be used. We test different assumptions to test the sensitivities of our findings, assuming residents save either 10%, 50%, or 100% of earnings above the essentials guarantee.

— **Number in employment:** whilst we supplemented data from the Breaking Barriers report with additional evidence from Local YMCAs, there is still uncertainty over how representative our data is of the supported housing population. We therefore test how the return on investment changes with fewer people in work.
This reduces the return on investment of raising the Standard Allowance, as the reform impacts people regardless of whether they work. There is little impact on the return on investment of introducing the Work Allowance given that it only impacts those already in work, and this group are most likely to be able to save for a rental deposit as a result of the additional earnings. Our data suggests 23% of supported housing residents are employed. We test sensitivities of ±15%.

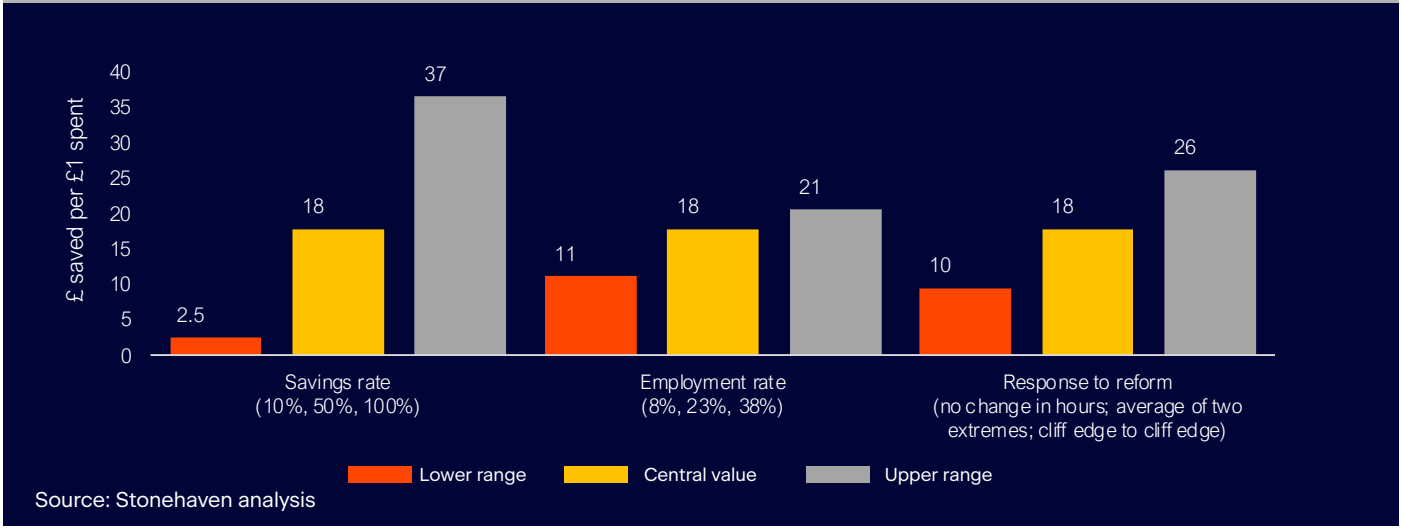
— **Response to reform:** data from local YMCAs was inconclusive as to how work hours / employment rates would change in response to the proposed reforms. We assumed no change in employment rates to reflect evidence on minimum wage.
Meanwhile we present two extreme scenarios on how those in work might respond: assuming no change in behaviour, and assuming a move from cliff edge to cliff edge (see page 5).

We have tested how sensitive the return on investment is to these uncertainties. Figure 7 presents the 5-year return on investment for different assumptions. The central values match the 5-year return from introducing both reforms, shown in Figure 6. We see the return on investment is most sensitive to the savings rate. However, even with a relatively modest assumption that only 10% of earnings beyond the essentials guarantee are saved, we still see the reforms return £2.50 for every £1 spent. This is driven by the introduction of the Work Allowance allowing those in work to save more quickly for a rental deposit.

The results are less sensitive to our assumptions about the employment rate or post-reform changes in work hours. This is because the results are driven by those in work being able to build up savings. Assuming fewer people are in work reduces both the cost and the benefit of introducing the Work Allowance. This means the return on investment changes only slightly when assuming a higher or lower employment rate.

Our employment rate sensitivities do impact the cost of reforms. Assuming a 38% employment rate increases the cost from £110m per year to £160m. Assuming 8% reduces the cost to £50m per year.

Figure 7: Sensitivity analysis: Wider Return on investment of the combined reforms over 5 years



Source: Stonehaven analysis

05 Conclusion

We have modelled the impact of increasing the UC Standard Allowance for under 25s in supported housing and introducing the Work Allowance for all supported housing residents. We find that while these reforms would imwpact a relatively small number of people, they could provide significant savings to the taxpayer. This is because they will help young prepare to move on from supported housing. Our conclusions hold even when testing the sensitivity of our analysis to our assumptions.

We find the policy proposals would cost around £110m per year and could save Government around £11 in tax receipts and welfare spending per £1 spent. This increases to £18 per £1 spend when including wider health and justice policy. At its most pessimistic (i.e. a low savings rate), our analysis suggests direct returns of £0.20 per £1 spent that increase to £2.50 when including these wider impacts. We therefore conclude that these modest proposals could be a fiscally prudent investment by Government.

We have focused on the fiscal impacts for Government and not considered the benefits to those impacted – a relatively small group of up to 189,500. This is a vulnerable group for whom the current welfare system represents a disincentive to work their way to greater independence. Overcoming the barriers identified in YMCA's Breaking Barriers report could benefit both the taxpayer and those in supported housing.

The ultimate impact of the reforms depends both on the behavioural responses of those directly impacted and on secondary incentives. We have not tested how the reforms could disincentivise leaving supported housing, as those who left would lose the higher Standard Allowance and Work Allowance introduced by these reforms. These perverse incentives could be resolved via a grace period for those leaving supported housing. Alternatively, the DWP could continue exploring how to simplify benefits for those in supported housing to completely remove, rather than just shift, the cliff edge illustrated in Figures 1 and 2.[16]

We recommend these reforms are seriously considered by Government. They are fiscally prudent, paying for themselves within the lifetime of a parliament. They are a relatively cheap reform at £110m per year. And importantly, they benefit a vulnerable group for whom the current system is unintentionally hindering. These reforms could help them prepare for independent living by breaking down barriers to work.

06 Glossary

Housing Allowance: the housing element under Universal Credit, paid monthly to help with housing costs.

Housing Benefit: a monthly benefit to help with housing costs under the legacy welfare system.

Marginal Effective Tax Rate: the percentage of each extra £1 of gross earnings a person loses in the form of income taxes, National Insurance, and reduced benefits.

Marginal Propensity to Consume: the proportion of additional income which people spend rather than save.

Standard Allowance: the basic amount awarded monthly under Universal Credit.

Taper rate: the rate at which benefits (e.g. Universal Credit, Housing Benefit) are reduced as someone's earnings increase.

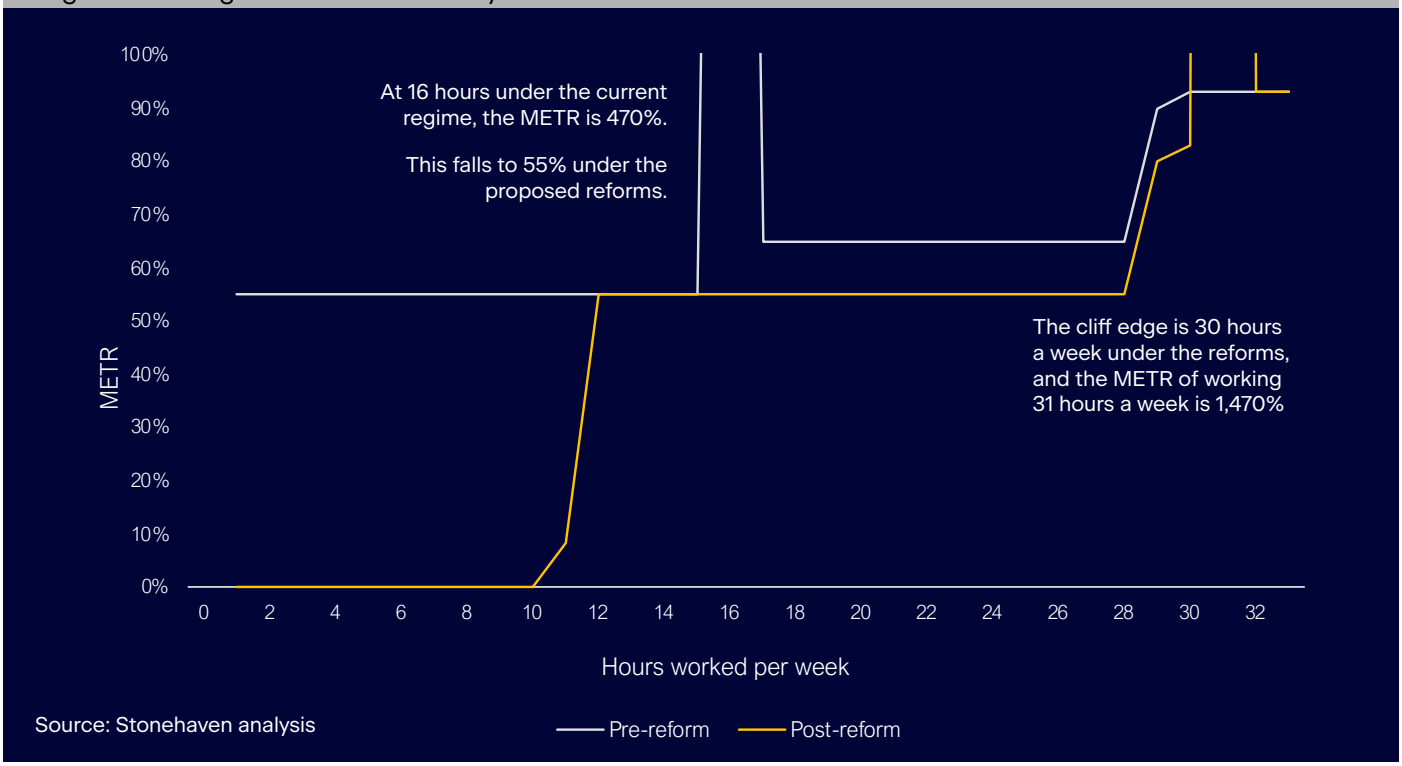
Universal Credit: a benefit payment for people on low income and out of work.

Work Allowance: the monthly earnings level people can have before their Universal Credit is tapered.

07 Appendix

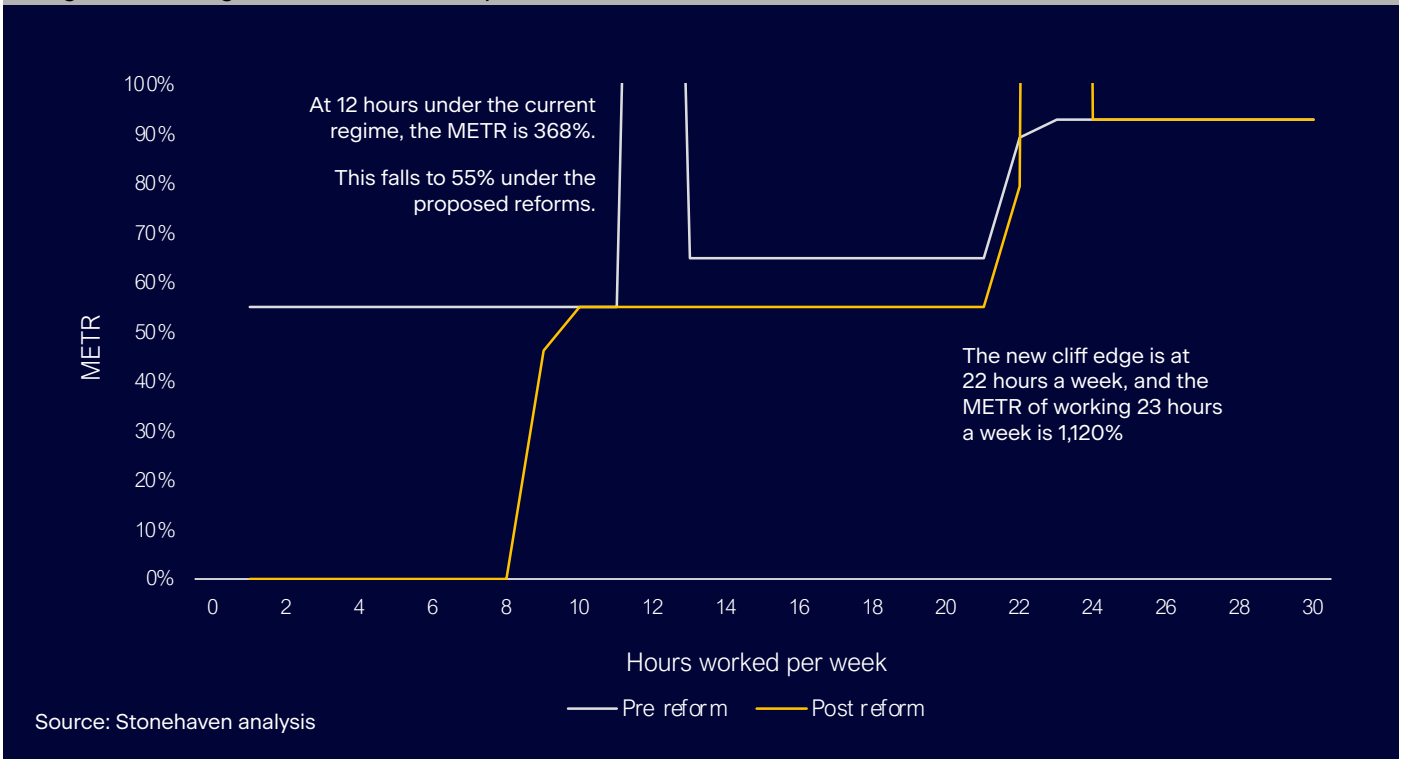
Figures 8 to 10 shows how the Marginal Effective Tax Rate (METR) changes for the various age groups as their working hours increase under the current system and under the proposed reforms. The introduction of a Work Allowance reduces the METR to 0% for the hours worked before earnings exceed the Work Allowance.

Figure 8: Change in METR for 18-20 year olds



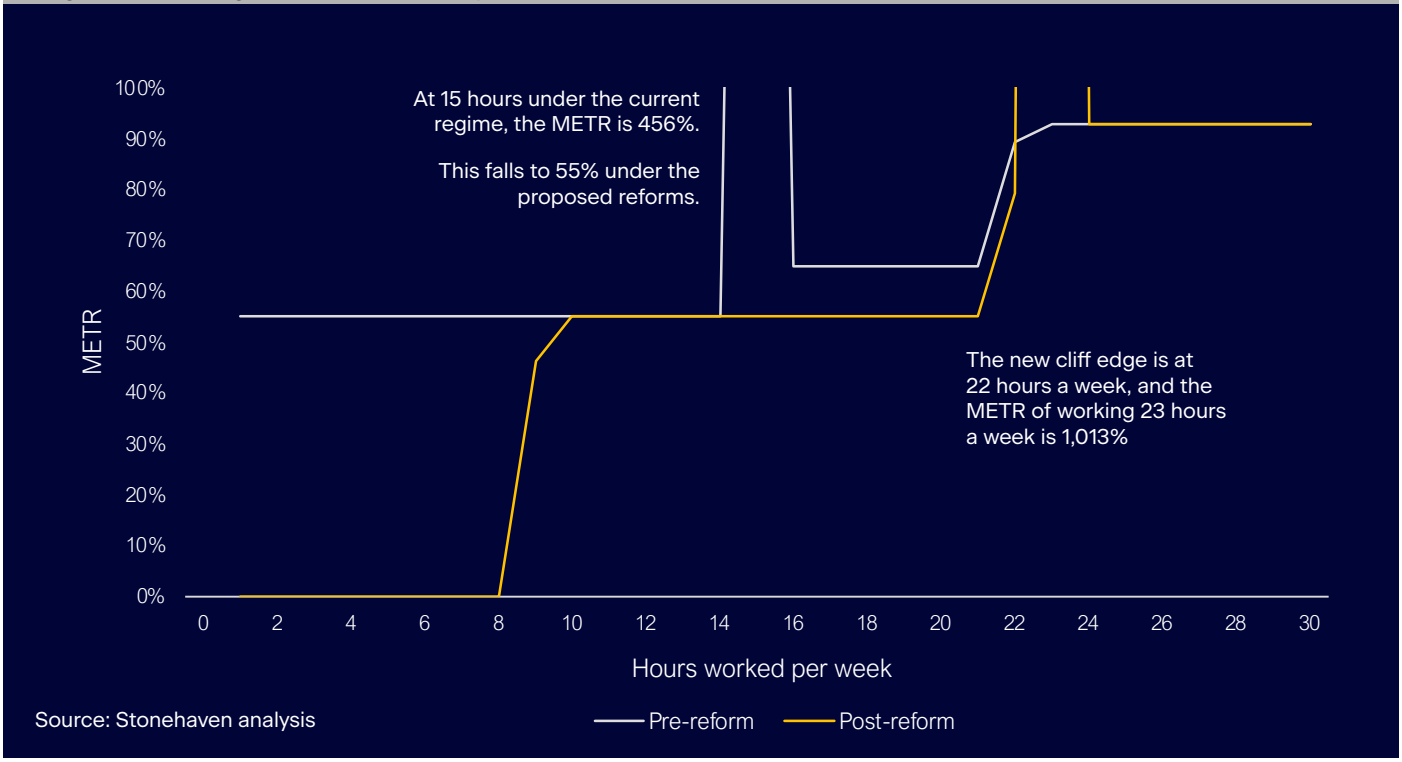
Source: Stonehaven analysis

Figure 9: Change in METR for 21-24 year olds



Source: Stonehaven analysis

Figure 10: Change in METR for 25+ year olds



Source: Stonehaven analysis

08 Endnotes

1 ymca-breaking-barriers-to-work-2023-digital.pdf

2 https://www.ymca.org.uk/wp-content/uploads/2023/08/ymca-breaking-barriers-to-work-2023-digital.pdf

3 This delay is due to income tax and national insurance kicking in to give a METR of 93%. This comprises of 65% from the Housing Benefit taper, the 20% basic rate of income tax, and the 8% national insurance rate (65% + 20% + 8% = 93%).

4 https://www.gov.uk/government/publications/summer-budget-2015/summer-budget-2015

5 There are two Work Allowances under UC. We model the lower rate of £404.39 per month.

6 Impacts of minimum wages: review of the international evidence (publishing.service.gov.uk)

7 Health impacts were calculated by quantifying the increase in Quality-Adjusted Life Years (QALYs) from an increase in disposable income.

8 The annual cost of property crime per supported housing resident is estimated at £5,100 in 2024 prices. This is derived from statistics on the supported housing working age population and the annual cost of property crime (£21.8 billion in 2024 prices). The economic and social costs of crime (publishing.service.gov.uk)

9 Universal Credit: What you'll get - GOV.UK (www.gov.uk)

10 New 'Chance to Work Guarantee' will remove barriers to work for millions - GOV.UK (www.gov.uk)

11 Benefit and pension rates 2023 to 2024 - GOV.UK (www.gov.uk)

12 Income Tax rates and Personal Allowances : Current rates and allowances - GOV.UK (www.gov.uk)
National Insurance rates and categories: Contribution rates - GOV.UK (www.gov.uk)

13 Effects of taxes and benefits on household income: historical person-level datasets - Office for National Statistics (ons.gov.uk)

14 Guarantee our Essentials: reforming Universal Credit to ensure we can all afford the essentials in hard times | Joseph Rowntree Foundation (jrf.org.uk)

15 Supported housing review: The scale, scope and cost of the supported housing sector (publishing.service.gov.uk)

16 West Midlands to kick off DWP trailblazer trial of new simplified benefits system to help young people into work (wmca.org.uk)

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