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E(81) 34

20 March 1981

COPY NO 57

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

Benefits and Allowances for Young People

Memorandum by the Secretary of State for Employment

I was asked to set out the options for a revised system of benefits and allowances, taking into account Ministerial discussion on Young Persons Benefit (YB), and covering the options for reducing training allowances and for changing unemployment benefit for young people (E(81) 8th Meeting).

2. Annex 1 is a note by my officials, consulting DHSS as required, which sets out the present position and the YB proposal as considered by H Committee, relates them to the New Training Initiative (NTI) and sets out the options.

3. There are four options on YB:

1. No YB - keep the existing structure of allowances with possible minor adjustments.
2. YB for those in education or unemployed and also for those in training who would otherwise be unemployed.
3. YB for those in education or unemployed.
4. YB for those unemployed.

What these options mean in terms of allowances for young people in the different categories is shown in Annex 2 and they are assessed in Annex 1. In particular, the conflicting considerations bearing on YB as considered by H Committee are summarised in paragraph 8 of Annex 1.

MY OWN ASSESSMENT

4. I view the YB proposal primarily from its impact on the NTI. Under the latter we are trying to encourage employers to provide adequate skill and other vocational training for 16-17 year olds,

whether employed by them or unemployed but trained on their premises at public expense. We have agreed that our approach to this should be voluntary. This means that we must persuade employers to provide the training places for the unemployed young and persuade the unions - representing the employees they must work alongside and with many adult members unemployed - to cooperate in their provision. The MSC and CBI are having to mount a special campaign to get the many more places already needed this year. More again will be needed if youth unemployment continues to rise and if we are to achieve our longer term aim under the NTI.

5. These places will not be forthcoming if the YB concept is applied to the YOP allowance and the latter reduced by parental means test. I have already lowered its real value this year by holding it at £23.50 instead of the £26 recommended by the MSC and YOP is coming under increasing criticism from unions and young people as a source of cheap labour. We shall risk forfeiting essential union cooperation altogether and employers will then offer few places on their premises. To meet the YOP guarantees the Government will then have to step up provision of alternative courses, at up to twice the cost of those on employers' premises, and not the kind that we mainly want under the NTI.

6. To means-test the YOP allowance would also make YOP less attractive to young people, often those who can most benefit from it. We could of course react - as suggested at our last meeting - by refusing SB to those who do not accept a YOP place. But that would destroy the voluntary basis of the programme to which sponsors - both firms and voluntary organisations - attach great importance. They don't want to take "pressed men".

7. So I am opposed to applying any YB scheme to training allowances. I think we have to accept that young trainees are akin to young people in work and should be treated accordingly to the extent of having a flat rate allowance paid to them. Nonetheless, I am very conscious of the rising costs of YOP as youth unemployment mounts and I do not rule out a further reduction of the allowance's real value at the next uprating as a contribution to the cost of providing more places.

8. Of the four options I would therefore rule out option 2 (YB applying also to training allowances). I do, however, accept the idea of rationalising training allowances and I propose to ask the MSC to review them.

9. Option 4 (YB for the unemployed only) does not seem to me to be a real YB option. It is really only the application of parental means testing to SB for unemployed young people and would be clearly seen as such. Its best justification would be that it is a way of saving money to provide YOP places for the unemployed. But it would leave most of the young unemployed much worse off. Only those with parents on a very low income (about half average earnings ie less than £70 a week) would continue to receive full SB and eligibility for the means-tested element would cease at quite modest incomes (well below average earnings). Could we rebut the criticism that this is simply cutting costs at the expense of the most vulnerable group, the vast majority of whom have certainly not chosen to become unemployed?

10. Option 3 (YB for those in education or unemployed) is the basic

YB concept - namely, transferring resources from the young unemployed whose parents can afford to keep them to those in education whose parents can't. But whatever the case in equity for this, I very seriously doubt the wisdom of making the change when youth unemployment is so exceptionally high. On the basis of the financial impact on the unemployed that I have just described the change is bound to be depicted as being at the expense of those who are suffering the greatest difficulty in order to favour those who remain in education and generally have the better prospects. As it is, the increases to those in education would in fact be modest and the incentive to stay on not great, particularly as in that case YB goes to the parents.

CONCLUSION

11. I therefore propose that:

(a) we drop the YB idea. It is a political loser. If it applied to YOP allowances it would act against our training aims and have a perverse effect on costs. If it is applied to the young unemployed, with or without extension to those in education, it would be seen, however unfairly, as an attack on them. The concept may have more merit when we are much further advanced with the longer term aim of the NTI and can offer all young people an alternative to involuntary unemployment.

(b) we seek to improve the existing structure by

- (i) asking the MSC to review training allowances with a view to rationalisation.
- (ii) considering in the Autumn review of YOP the possibility of lowering further the real value of the allowance as a contribution to the cost of providing more places, although reducing the level this year has led to considerable criticism.
- (iii) asking the Secretary of State for Social Services to consider, before the next uprating of unemployment benefit, the possibility of lowering the rate for those under 18 who have paid their NI contributions.

Department of Employment
20 March 1981

JP

BENEFITS AND ALLOWANCES FOR YOUNG PEOPLE

This note sets out existing benefits and allowances for young people and the Youth Benefit proposals considered by H Committee; relates them to the new training initiative; and sets out the options for action.

EXISTING BENEFITS AND ALLOWANCES

2 16-18 year olds fall into the following four categories:

(a) Education (30% of them).

Assumed to be dependent on their parents, who receive child benefit (£475)* and, if eligible, a dependency element with social security benefits such as unemployment or sickness benefit, or family income supplement (FIS).

(b) Employment (Over 50% of them).

Paid wages ranging from £30 (female) to £32 (male) in the lowest decile, through the average of £45-£48, to £61 and £68 in the highest decile.

(c) Unemployed:

Eligible for supplementary benefit (SB) in their own right - £15.25 for 16-17 year olds. Fewer than a quarter of the total of young claimants become eligible through previous NI contributions for unemployment benefit of £20.65.

(d) YOP and other trainees:

YOP trainees are paid £23.50 by the MSC. Some 2,000 apprentices receive a £26 training allowance under the Training Awards Scheme (a substantial part of the cost in two of the three industries covered by the Scheme being met by the employers).

3 Individuals move rapidly between the last three categories and from job to job.

YOUNG PERSONS BENEFIT (YB)

4 Under this proposal YB would replace SB for unemployed young people aged 16 and 17 and child benefit (CB) for 16, 17 or 18 year olds continuing in full time (but not higher) education. (It would not apply to unemployed 18 year olds or to 16-17 year olds who are out of work, but living away from home; married; with a child etc. And young people who have paid sufficient contributions to qualify for national insurance benefits would remain entitled to them).

* The benefits and allowances quoted relate to those in force from November 1980; earnings figures are for April 1980.

5 YB would consist of a basic allowance of £4.75 a week, plus a supplement of up to £10.50 a week depending on parents' means. YB would be paid to the parent as long as the young person were in education, but paid to the young person after he had left that sector.

6 The main aim of YB is to treat equally all those 16 and 17 year olds who are not in employment. So those in education and the unemployed would both be regarded as dependent on their parents, though YB would go to the parents of those at school and to the young people themselves if unemployed. Few in either group would qualify for the full allowance: a minority of the parents of those in education would receive more than the current CB of £4.75 and the majority of unemployed would get less than the present SB of £15.25. At the rates proposed it would have a nil benefit cost at 1980 levels of youth unemployment.

7 As regards YOP trainees, a possible alternative to the present arrangements has been suggested. This would replace the present flat-rate allowance of £23.50 by YB plus a flat-rate supplement of £8. In effect this would mean a minimum flat-rate allowance of £12.75 (£4.75 plus £8) with a supplement of up to £10.50 according to parental means. This would result in a lower average payment, the introduction of means-testing and a complicated three-part structure paid partly by DHSS and partly by MSC.

CONSIDERATIONS BEARING ON YB

8 H Committee had before it in its discussion on 2 March (H(81)8th) item 2) a report by officials (H(81)17) on the balance of advantage of the introduction of YB. This report identified the following relevant factors:

(i) To pay SB to 16 and 17 year olds living at home does not in many cases meet a genuine financial need within the household at a whole. YB would mean that the poorest families with a child staying on in full time education would benefit, while slightly better off families (those with incomes above half average earnings) whose child did not stay on would lose.

(ii) People between 16 and 18 not in employment would be treated more equally by the State and anomalies in financial support available to different members of the same educational or vocational group would be reduced.

(iii) The financial incentive to be unemployed rather than in full time education would disappear and courses could be taken up without loss of benefit. The effect of the change on staying on rates is, however, uncertain and no early or dramatic effect on numbers is likely.

(iv) Most unemployed young people would get up to £10.50 less than under present arrangements. The change would thus be seen as an attack on the young unemployed and parental means testing as a return to the unpopular household means test. Young people would be treated as financially dependent on their parents, which could be particularly difficult for those who have had the independence of a job. Those not living at home would be eligible for SB, so there would be some incentive to leave home.

(v) While locally administered means tests for educational and maintenance allowances could go, there would be an additional means test for YB to complicate the national social security system.

RELEVANCE TO THE NEW TRAINING INITIATIVE (NTI)

9 The NTI (as set out in E(81)33) aims at improving the training of young people in employment and at moving to a position whereby young people under 18 have the opportunity either of continuing in full-time education or of entering a period of planned work experience combined with work-related training and education.

10 So far as those in employment are concerned, there is no direct relationship between Government benefits and allowances and payments to young trainees and others in employment for which the employer will normally be responsible. (Any financial assistance given by Government would be channelled to the employer (as under UVP) rather than to the individual). It is a relevant NTI objective to secure some reduction of levels of wages of young trainees relative to those of adults. On a voluntary approach, however, this has to be done by influencing collective bargaining, particularly by persuading the unions that reductions in relative wages would influence employers to provide more jobs for young people and better training. It might be argued that YB would set a new floor for young people's wages, but the wide discrepancy between SB for 16-17 year olds (£15.25) and even their lowest earnings levels (£30-32 for the lowest decile) suggest that the former can have little effect on the latter.

11 It is proposed to move over the next 2-3 years towards the other NTI objectives - planned work experience and training for all unemployed 16-17 year olds - by developing YOP. The accent of YOP has always been on work experience on employers' premises and, while there has been no question of a full wage, all trainees receive a standard allowance. Means-testing of any part of the allowance according to parental income seems totally inapplicable in this situation, which is akin to employment. Unions for one would strongly object to means-testing in these circumstances - YOP is already under criticism as providing cheap labour - and without their cooperation the supply of places on employers' premises would fall off, just when it needs to be greatly increased. The Government would then find itself providing places directly, less effectively

and at a higher cost eg through entirely college-based courses or in training centres.

12 So if this aim of the NTI is to be met, it seems necessary to continue to pay a flat-rate allowance, at a sufficiently high rate with none of its elements means tested, to YOP trainees. Its level should continue to be fixed in relation to the maximum of the SB rate (or YB if that were introduced) on a basis providing some modest incentive to take up training and reflecting increased expenses.

13 Other Training Allowances. There is a case, however, within the NTI approach for seeking to rationalise the differing levels of allowance currently paid by MSC to young people under different training schemes. This ought to be examined.

14 Developments to improve the preparation young people receive in school for the transition to working life clearly support the NTI, but there is no necessary consequence arising from the NTI for payments to those in education. Nor does the NTI depend on particular levels of, or systems of payments to, the unemployed. But introduction of YB for the unemployed would need careful handling so as not to affect attitudes towards the NTI adversely.

ELIGIBILITY FOR BENEFIT AND LEVEL OF UNEMPLOYMENT BENEFIT

15 Before considering the options on YB, there are two other questions affecting benefit which were raised by E and are relevant. The first is the suggestion that an unemployed young person who refuses a training opportunity should not receive benefit. This was suggested in the context of all 16 year olds having a choice which would leave none involuntarily unemployed. Attainment of this goal is unlikely over the next 2-3 years under the NTI as envisaged and to apply this rule now to YOP would undermine its voluntary character, create difficulties for sponsors in taking on "pressed" recruits and affect the number of places offered. The voluntary character of YOP has been one of its strengths, welcomed by industry and voluntary organisations who provide most of the sponsors. Disqualification does not seem advisable or appropriate for consideration until there is comprehensive coverage of the kind envisaged in E.

16 E also raised the question of amending unemployment benefit for young people. Young workers pay contributions which give them entitlement to various benefits in the shorter term - including sickness and unemployment benefits - and count towards their later entitlement to long term benefits. Reduced rate short term benefits for young people were abandoned in 1975 when contributions were put on a straight percentage basis for everyone. It would be hard to justify reintroducing them without reducing the contributions correspondingly. But it is possible to envisage unemployment benefit alone being paid at a reduced rate corresponding to flat rate YB plus the maximum of the means tested supplement. Other benefits eg, for incapacity and handicap would not be affected. The arguments are finely balanced, and could be considered at a future uprating.

THE OPTIONS

17 In the light of the above considerations, there seem to be four options:

- 1 No YB - keep the existing structure of allowances.
- 2 YB for those in education or unemployed and also for those in training who would otherwise be unemployed.
- 3 YB for those in education or unemployed.
- 4 YB for those unemployed.

What these options mean for the young people in the different categories is shown in Annex 2, together with the possible cost effects.

18 Option 1 (current system) is compatible with the NTI. It runs no risk of jeopardising industrial cooperation both in the YOP and in the NTI generally. It does not offer the financial savings of YB, but still offers the possibility of savings from some further reduction in the real value of the YOP allowance, as happened in 1980. This would pay for more places without undermining the supply.

19 Option 2 (YB generally) would be a radical new departure which would equalise benefits paid to those in education and those unemployed. Under this option it would also apply to YOP and would therefore have the big disadvantage of maximising the loss of cooperation from industry, which would be particularly acute in loss of places for schemes on employers' premises. If at the same time disqualification for failing to take up a place on schemes was introduced, the voluntary principle would also suffer with a consequent further risk to the provision of places. The essential cooperation with YOP could be lost - with an adverse effect on DHSS - and the NTI more generally jeopardised. The impact on the unemployed not in YOP is considered under option 3.

20 Option 3 (YB only for those in education or unemployed) would avoid the direct adverse consequences on the NTI. Those in education and those unemployed not on training schemes would be similarly treated, while those in training would be regarded as in a similar category to those at work. It would thus be less far reaching than option 2, but would achieve the basic aim of YB namely, to bring those in education into line financially with the unemployed. It would, however, markedly reduce benefits to the young unemployed to the advantage of those in education whose prospects are generally better. At a time of exceptionally high youth unemployment this transfer and the introduction of parental means testing are likely to be highly controversial.

21 Option 4 (YB only for the unemployed) could be presented as complementing the NTI, as the money saved from means testing the parents rather than the young person himself could be spent on more

training places rather than transferred to those in education. It could, however, be more readily criticised as simple cost cutting on SB.

22 Handling and timing. If the Government wishes to proceed with any of the three YB options, it would seem desirable to set out the proposal in a consultative document of some kind with a view to introducing legislative changes in the next session to come into force in 1982-83. Such a document should be kept separate from the NTI consultations, so as to try to avoid adding to the difficulties of securing acceptance of the NTI itself.

THE FOUR OPTIONS

	EDUCATION	EMPLOYMENT	STATE TRAINING ALLOWANCES	UNEMPLOYED
Option 1:(1)	CB £4.75	Wage £30-£68	YOP £23.50	SB £15.25

The structure of existing allowances is retained. Costs will increase as youth unemployment rises, though it will remain possible to seek to offset this in some degree by further depressing the real value of State training allowances.

Option 2:(2)(3)	YB £4.75 +MTAP £10.50 max	Wage £30-£68	YB £4.75 +MTAY £10.50 max +£8	YB £4.75 +MTAY £10.50 max
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This transfers money from the unemployed to those in education. At 1980 levels of unemployment the transfer involves no net cost. At higher levels of unemployment there would be a net saving, eg, if the number of unemployed young people receiving SB were to rise by 50% the cost on this system would be about £25 million less than under the existing system.

Means testing the YOP allowance would, other things being equal, also lead to savings. Thus, a YOP programme at 1979/80 levels would be about £28 million cheaper; at 1981/82 levels, nearer £60 million a year cheaper than it would otherwise be. If, however, the change reduced the availability of work experience places in industry and the Government had to provide these by other means (normally twice as expensive), there would be offsetting extra costs.

Option 3 +	YB £4.75 +MTAP £10.50 max	Wage £30-£68	YOP £23.50	YB £4.75 +MTAY £10.50 max
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The effect of this is the same as option 2 as far as the transfer from the unemployed to those in education is concerned, ie, no net cost at 1980 levels of unemployment.

Option 4	CB £4.75	Wage £30-£68	YOP £23.50	YB £4.75 +MTAY £10.50 max
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This option would result - at 1980 levels of unemployment - in a saving of £20 million by reducing payments to the unemployed.

1. MTAP - means tested on parents income - allowance paid to parent.
2. MTAY - means tested on parents income - allowance paid to young person.
3. References to the costs of YB assume it would be paid to 16-17 year olds, but also to 18 year olds continuing in education (other than higher).