

The 16 Hour Rule - Past its Sell by Date

by



the

FOYER

federation

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A proposal from the Foyer Federation – the UK’s leading youth organisation providing the largest network of accommodation integrated with education and training opportunities for homeless 16-25 year olds.

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"The government assumes that all young people know what they want to do by the time they reach 19. Unfortunately a lot of them don't. The 16-hr rule takes away their last opportunity to study."

The Foyer for Ipswich

"He was 24 and wanted to study for his A'Levels including history - he wanted to go to University to do a BA in History. But A'Levels were not allowed him on the New Deal. He found a job after living on JSA for four months in a call-centre and is now working there. He was a very committed guy, very focussed. He would have gone to University if he'd got to do his A'Levels."

Crewe YMCA Foyer

1. INTRODUCTION

The 16 hr rule which is the object of this campaign document restricts adults aged 19 and over from claiming Housing Benefit while studying full time (more than 16 guided learning hours/week).

Annex A explains the rule's operation – which we call 16 hr rule Type1- and contrasts it with the other 16 hr rule – 16 hr rule Type 2 - which limits JSA claimants' ability to study for more than 16 hrs/week. For reasons explained in the Annex we are not arguing against this second version of the 16 hr rule.

This document argues that the 16 hr rule – Type 1, hereafter referred to simply as the 16 hr rule, is:

- **irrational.** Ryan and Diane are both earning £60/week. Ryan is seeking to improve his labour market prospects by studying full time for an NVQ3 in Business Administration. Diane is happy to spend the rest of her life watching daytime television. Ryan is denied Housing Benefit - Diane can claim it.
- **discriminatory.** While the 16 hr rule was originally introduced in the mid-90s partly to stop university students claiming housing benefit, the 16 hr rule actually hits particularly hard those, including many Foyer residents, whose passage through school age education has already been interrupted. Already behind their contemporaries at the age of 19, they are forced to fall further behind by studying part-time rather than full time.
- **fiscally counter-productive.** By delaying the acquisition of skills with labour market value, the 16 hr rule increases the time that people spend wholly or partially dependent on benefits. By deterring a good proportion of people from acquiring such skills, the rule leads to substantial losses to the Exchequer from tax and NI payments. **We estimate that these losses amount to between £104m and £112m p.a.**
- **morally dubious.** It is forcing some colleges to be 'economical with the truth' in order to enable their students to continue to study.

This paper draws on new research across the UK Foyer movement and demonstrates that:

- **The 16 hr rule is a significant impediment to Foyer residents, and others in a similar position, fulfilling their economic potential.** Around 50% of young people affected by the rule simply abandon their attempts to gain qualifications at Level 2 and 3.

- **Eliminating the 16 hr rule would significantly benefit the Exchequer.** At present, short-term gains of £923/head through encouraging earlier entry into work, are much more than outweighed by long term losses, through lower earnings, of £6,621/head.
- **and would not increase the burden of Housing Benefit administration.** If anything Housing Benefit administration would be simplified.
- **The 16 hr rule is preventing the Government from achieving its targets for widening access to HE and increasing the proportion of adults with Level 2 or 3 qualifications. Eliminating the 16 hr rule could increase the number of students from disadvantaged backgrounds in Higher Education by more than 9%.**
- **Eliminating the 16 hr rule would not require primary legislation, but could be done by regulation.**

In short, The Foyer Federation wants to see adults able to study full time for qualifications at Level 3 (A Levels, Advanced BTEC and equivalent, NVQ3 and Access courses) or below without suffering loss of Housing Benefit.

This campaign document has benefited from advice from Keith Jenkins of Jenkins and Hand, Donald Hirsch and Andrew Van Doorn, as well as input from over 80 Foyer staff and residents. All responsibility for its contents rests with the Foyer Federation.

2. The problem

2.1 In the UK:

- fewer young people stay in education after 16 than in almost any other EU country
- 7 million adults lack a qualification at Level 2
- 41% of those aged 20-29 have qualifications below Level 3, 24% have either a Level 1 qualification or none at all
- fewer than 2% of all adults aged 21-24 are engaged in full-time, full-year Further Education programmes
- 1 in 5 job vacancies remain unfilled because of a shortage of skilled workers

2.2 More education is increasingly seen as the key to higher levels of productivity in the economy, and better education as an important factor in combating social exclusion.

2.3 Yet, despite the Government's commitment to lifelong learning, we still have a system which strongly discourages full time study, except at university, after the age of 18, **leaving the people who have fallen furthest behind in the education race with least opportunity to catch up.**

2.4 But current regulations mean that this group - the least skilled, least qualified and most vulnerable - is being denied the opportunity to get back into education because once they hit the age of 19, financial support from the Government to study full-time for qualifications such as GCSEs and A Levels is almost non-existent.

2.5 16-18 year olds can study full time while claiming benefits, including Housing Benefit. But Housing Benefit is not available to people over 18 studying for more than 16 hours a week.

2.6 We see the results of these disincentives to learning and gaining qualifications in the statistics for age group participation in Further Education. Whilst 466,000 16-18 year olds participate in FE, less than a tenth of this number - only 41,000 - of the 19-21 year old age group participate in full time full year FE. Whilst there is a decline in numbers in each year from 16 to 18, the decline is much sharper between 18 and 19.

In the UK:

2.7 Turning from the economy as a whole to the position of young people seeking to study, the current system allows almost no leeway for delays, obstacles or wrong choices on the path to qualifications post 16. Those who continue in education without a break post 16 can gain the qualifications they need for the work place or entry into higher education by the time they reach 19. However, a significant minority trip up along the way, including at least half of the 7,000 young people who use Foyer accommodation each year. Half of our residents had no qualifications at all on entering the Foyer - compared to 5% of the population as a whole, around 30,000. There are a number of factors unrelated to ability and potential, which explain poor attainment in compulsory education.

2.8 *Absence from school* - across England, about 10,000 young people 'disappear' from school rolls between the end of KS3 and the beginning of KS4. For homeless young people the numbers are much higher. In a sample of young

people in 5 Foyers, 25% had stopped attending school by the age of 14ⁱ. This was due to a number of different factors. Some disliked school because of real or perceived bullying by peers or teachers, or because of the lack of relevance of school subjects to their lives. Others were kept away from school by the need to look after younger siblings, parents or other family members with mental health or dependency problems, or to earn money. One Foyer resident had, for example, been working on a market stall from the age of 12 to try to keep her family solvent. While Government initiatives to address attendance are very welcome, second chances will always be needed.

- 2.9 Even where pupils attended school up to age 16, *circumstances often made it difficult for them to succeed*. 'You can tell the 14 year olds coming to school from a different bed each night' observed one secondary head. Lack of parental support meant that for some, studying was a low priority. In other cases the sheer disruption of living in different places made it difficult or impossible to attend consistently and punctually or complete course work. The stress of dealing with collapsing family relations also militates against good performance at school.

Claire (not her real name), 21, from London explains why she left school with few qualifications.

Before I came to the Foyer I'd been out of hospital for about 6 months - I have a mental illness - and life was very hard going. I was living with my mother and we just couldn't live together any longer. Before I got ill I had a good education but then it lapsed. I left school with a few GCSEs.

3 The barriers to re-entering full time further education aged 19 and older

- 3.1 Failure at school often leads to an aversion to further learning, which can take several years to overcome. In our experience, it is generally around age 19 – 21 that young people are ready to reconsider learning, which is precisely when the benefit system restrictions start to bite. It is, for example, at this age that young people experience the reality of working in the labour market without qualifications - in particular the lack of progression opportunities in most cases - and that they see friends with qualifications moving ahead in terms of income. These experiences motivate them to start learning again. However this motivation needs to be supported and encouraged. Instead, there is a range of disincentives to re-entering full time education.
- 3.2 *For those in work*, employers are least likely to provide training for their least skilled employees. The Government's recent 'Skills Strategy Progress Report' quotes research on the likelihood of different groups of employees receiving training from their employers. While 22% of those with degree or sub-degree qualifications had received training in the previous four weeks, the figure fell to 5% for those with no qualifications.ⁱⁱ For those in the casualised contract part of the labour force, as illustrated in Polly Toynbee's recent book 'Hard Work', where many unskilled jobs are found, the chances are probably close to zero. The report also comments that the UK is more dependent than other countries on employer financed training. Even when training is provided, the quality is patchy, and around half of young people in work based training fail to complete their qualifications.
- 3.3 *For those out of work*, the New Deal provides limited opportunities for learning, with an increasing focus on lower level qualifications and basic skills. There is still a strong emphasis on 'the best way to get a good job is to get a job.' For many young people who have no interest in further learning this is an appropriate emphasis, though New Deal jobs tend to be clustered around the minimum wageⁱⁱⁱ and there is, as yet, little data on how people then progress through the labour market. But for young people with untapped academic potential, and a strong desire to learn, this route is unlikely to maximise their long term earnings and contribution to the economy.
- 3.4 *Those who study full or part time and work as well*. Many young people follow this route. However, it is not open to everyone. In areas of high unemployment or in rural areas, part-time work may often be unavailable, or inaccessible. And this strategy is least open to those who may need it most – i.e. homeless young people; those who aren't able to continue living with their parents; and those whose time at school was disrupted by their home circumstances.
- 3.5 Young homeless people also need more money to live on because they have to pay rent, and do not receive the financial or non-financial subsidy that most parents provide to children living at home. They have less time to earn, because they are managing their own households, doing their own shopping and cooking and in many cases grappling with the benefit system.
- 3.6 They face particular problems with Housing Benefit (HB). First, it is not paid to people over the age of 18 studying full time, defined as 16 hours or more of contact time. Even if college staff are prepared to state that a course is less than 16 hours contact time, it may still count as a full time course for HB purposes. It appears that college staff not infrequently find themselves making false statements about the course hours. And many courses cannot be taken in less than 16 hours. In addition, because every change in income, however

short term or marginal, requires a new Housing Benefit claim, Housing Benefit rapidly becomes tangled up if young people go in and out of work to fit the demands of study. This can lead to serious rent arrears.

- 3.7 In practice this means that, for many homeless young people, there are only two options. **One** is to study fulltime and also earn enough to cover their rent and costs, which may be approaching £150/week, making it almost impossible to combine both activities. **The alternative** is to drop down to a part-time course, often losing a year because of the need to start again part-time in the new college year. By taking twice as long to achieve their qualifications, they are falling further and further behind their contemporaries. But in fact our research indicates that many Foyer residents struggling to stay in full time education take neither of these options. Instead they appear to give up the attempt to gain qualifications and revert to the New Deal or to work that does not require, or lead to, qualifications.
- 3.8 This effect is mirrored in the population as a whole. Of those who leave school without a qualification, only 5% achieve a Level 2 qualification thereafter, and 22% a Level 3 qualification. Almost 3 in 4 remain essentially unqualified for the rest of their working lives.

4 What is the Government's response?

4.1 The Government places a very high priority on increasing the proportion of the population qualified to at least Level 2, with additional targets for Level 3 and Level 4, and has a range of initiatives to achieve this. They include:

- **reform of the 14-19 education system**, with the aim, among others, of increasing participation rates between 14 and 16, staying on rates post 16 and the achievement of qualifications by a greater proportion of the age group.
- introduction of **Educational Maintenance Allowances** for all low income 16-18 year olds in full time education, from autumn 2004.
- introduction on a pilot basis of the **Adult Learning Grant**. This provides full time students aged 19 plus studying for Level 3 and Level 2 qualifications with a grant of £30/week. The Foyer Federation lobbied for its introduction, and is encouraging Foyer residents to claim it. However, it is paradoxical, to say the least, that the Adult Learning Grant is for full-time study, which is precisely what the Housing Benefit regulations prohibit. **Without reform of the latter, we are concerned that the Adult Learning Grant will not achieve its desired impact.**
- promotion of **Modern Apprenticeships** to strengthen the work-based route to training, coupled with a range of incentives for employers to invest in their work-force.

4.2 These are all important and welcome initiatives. Collectively they will have a much more substantial impact than changing the 16 hr rule. However, the 16 hr rule is particularly significant for the most disadvantaged group in society, that is homeless people, as our research, set out in the next section, indicates.

5 Findings from the Foyer Federation's research

"We had a 20 year old lady who had been living at home studying for a GNVQ in Child Care. But she'd had an abusive home life and left her family behind and moved into the Foyer. She had to sign onto JSA as she needed to look after herself, but as soon as she soon as she signed onto JSA she had to give up on full-time training and start to work. She's now working in McDonald's and still trying to study, but only part-time towards the GNVQ. She could have already finished her course and had much more self-confidence. Qualifications give young people self-confidence and it's tragic that this has been taken away from her."

Jupiter House training and employment manager

- 5.1 The Foyer Federation's research, carried out in November-December 2003, was intended to establish how many Foyer residents were affected by the 16 hr rule, and what choices they made as a result of the constraints placed on them by the rule. The latter data has enabled us to construct a tentative model of the costs and benefits of the 16 hr rule to the economy as a whole.
- 5.2 This paper draws on new research carried out in a sample of 82 Foyers representing 70% of all UK Foyers. We believe its findings are typical of Foyers as a whole. In addition to asking Foyers what proportion of their residents aged 19 plus were affected by the 16 hr rule, we also asked them to give us the most recent example of a young person who had experienced difficulties because of the 16 hr rule.

Proportion of residents affected by the 16 hr rule

- 5.3 Across the sample, different Foyers had very different estimates of the proportion of residents who were affected, ranging from 10% to 100%. This reflects the differing nature of the client group, educational histories and labour market opportunities. The mean figure across the whole sample was 35%. This is broadly consistent with research carried out three years ago, in which a smaller sample of Foyers estimated that 40% of their residents were affected.

Levels of qualification attempted

- 5.4 Of the individual cases, 42 related to students attempting Level 3 qualifications - A Levels, AVCE, Advanced BTEC, Access Courses, NVQ3. 28 related to students attempting Level 2 qualifications, or in a couple of cases Level 1 - NVQs, City and Guilds, BTECs. The remaining 12 Foyers either had no residents over 19, or in most cases said that all their residents studied part-time only after the age of 19.

Impact of the 16 hr rule

- 5.5 Students can be divided into three categories - those who carried on in learning against the odds, those who gave up their courses, and those who got by because people were prepared to bend the rules.

"The 16 hr rule forces some college advisers to lie on young people's behalf saying that the course is part-time even though it is not, so that young people can keep their Housing Benefit"
Foyer manager

- 5.6 Of the students studying at Level 3, 14, i.e. a third, carried on against the odds. Almost all degraded to a part-time course therefore doubling the time it took to

complete the qualification and the time spent dependent on benefits. In addition 3 had to give up their accommodation at the Foyer, and one faces eviction for rent arrears. 7 got by, because colleges were prepared to say that courses were part-time when in fact they were full time, and in one case provide hardship money for the last few months of the course, and two New Deal advisers showed particular flexibility. In one case, an anaphylactic reaction to nuts was counted as a disability, allowing the young person to come under the rules for people with disabilities. Incredibly, against the odds, four have already made it to university, one on an OU course. The advocacy of Foyer staff is clearly an important factor in the achievement of these positive outcomes.

"The latest case was of a young guy who was 21. He wanted to study an Access course for University. He was very determined to go to university so he continued on his education and lost his HB and JSA. He secured a job in a petrol station, worked every night, and studied in the petrol station every night to be able to pay his rent. He managed to finish the Access course and in September last year he started to read for a BA in Developmental Psychology at the University of Sussex."

Lewes District Foyer

- 5.7 The other 21 gave up their courses. Of these 13 are on JSA or the New Deal, and 8 are working in shops, bars, call centres and factories. The long term impact of the failure to gain qualifications is modelled in Section 6.

"He was studying for A'levels in Irish, History and Politics. Before he was supported by his family, but he'd had a very tragic life in the family and failed his courses. He came to the Foyer six months before he was due to turn 19. He wanted to study again, but he couldn't afford to lose the benefits. He has now given up on his education and is working in a pub."

Training officer, Flax Foyer, NI

- 5.8 The outcomes were slightly more positive for those studying at Level 2, because of the more flexible stance of the New Deal. 14 carried on against the odds, mostly part-time. Three were allowed to study while on the New Deal, and in one further case the New Deal PA 'fixed' the Housing Benefit. 2 secured additional funding from a local authority, or the Prince's Trust. In two further cases, colleges were prepared to write and say that courses were part-time. Nevertheless, 4 of the 11 are likely to be evicted because of rent arrears.

- 5.9 Nearly half - 12 - gave up their courses. Of these, 7 are on the New Deal and 5 working in unskilled jobs, as above.

She could have been a professional hairdresser and maybe opened her own salon. Instead she's now doing bar work.

The Foyer for Ipswich

- 5.10 The 16 hr rule clearly has a disproportionate effect on young people who have become homeless, such as Foyer residents. It is also likely to have a significant impact on refugees. Most refugees, once given leave to remain, will be dependent on Housing Benefit. They are also likely to be more dependent than

the local population on acquiring qualifications, and/or language skills, to enter the labour market, since they do not have access to the informal networks through which most entry level jobs are found. Young people who have achieved qualifications in their originating country, may also need to re-train and re-qualify as entering the labour market with non-UK qualifications can be difficult. Skilled people need timely access to retraining to help them move back into the field of work they are qualified for, thus enhancing their long-term economic contribution to the UK.

- 5.11 The Home Office has recently introduced measures to speed the integration of refugees into the labour market. By requiring people to take part-time rather than full-time course, the 16 hr rule works against these measures.

6 Implications of discarding the 16 hr rule

- 6.1 We believe that an objective study of the 16 hr rule would indicate that the costs of the rule far outweigh the benefits. Therefore in this section we argue for its abolition altogether. But we also outline a more limited approach which might have some benefits from a political point of view.

The implications of discarding the rule can be looked at under 5 heads:

- financial
- number of people affected
- impact on achievement of Government targets
- administration of Housing Benefit
- legislative requirements

Financial

- 6.2 Before looking at the number of people affected by the 16 hr rule, this section attempts to calculate the impact of the 16 hr rule as it currently stands on a sample of the population. To do this, we are assuming that the pattern of behaviour shown in our sample of Foyer residents is typical of the whole sample of people affected by the rule. **Even if this is not the case, the basic result still stands, that both those who drop down to part-time study and those who give up studying, cost the Exchequer money.**

Impact of the 16 hr rule on behaviour pathways

- 6.3 Based on the Foyer sample, a notional group of 20 people would behave as follows:

Stayed in education	Studying at Level 2	Studying at Level 3
Continued with course f/t	1 Path A	2 Path B
Changed to p/t	2 Path C	4 Path D
Evicted	1 Path E	-
Abandoned education		
Claiming JSA/New Deal	2 Path F	4 Path G
Unskilled work	2 Path H	2 Path I
Total	8	12

Financial implications for each pathway

- 6.4 Annex B shows how we have assigned a value to the impact of the 16 hr rule for each of these paths, in the year immediately following the point at which they are affected by the rule. This gives the short term effect on the 16 hr rule. The long term effects come through the loss of long term revenue to the Exchequer from higher earnings, offset against the cost of student support.
- 6.5 If we multiply the numbers of people out of the sample of 20 in each category with the financial impact in each case, we get the following table for the short term effects:

STAYED IN EDUCATION	Studying at Level 2		Studying at Level 3	
	Per person	Total	Per person	Total
Continued with course f/t	1 Path A @ No financial impact	£ 0	2 Path B @ No financial impact	£0
Changed to p/t	2 Path C @ (£4,238)	(£8,476)	4 Path D @ (£4,014)	(£16,056)
Evicted	1 Path E @ (£3,500)	(£3,500)		
ABANDONED EDUCATION				
Claiming JSA/New Deal	2 Path F@ £4,283	£8,566	4 Path G@ £4,283	£17,132
Unskilled work	2 Path H@ £5,200	£10,400	2 Path I@ £5,200	£10,400
Total impact of 16 hr rule	8 Net Gain =	£6,990	12 Net Gain =	£11,476

- 6.6 The short term effect for students studying at Level 2 and 3 therefore is a gain to the Exchequer from the implementation of the 16 hr rule of £18,466 or £923/head. In the short term the 'work first' approach saves money. The costs incurred by doubling the duration of study for those who stay in learning are outweighed by the reduction in costs as people abandon learning and move into the labour market, albeit on low wages.
- 6.7 The long term effects result from the higher earnings that would have resulted if those in the second group had not abandoned their education and had gained qualifications at Level 2 or Level 3. These calculations assume that Level 2 qualifications do not increase earnings, (and that none of those who gained Level 2 qualifications then upgrade to Level 3 qualifications) but do increase the chances of getting a job. Level 3 qualifications increase earnings and increase the chances of getting a job.
- 6.8 Taking the first ten years of employment (which for those with Level 3 qualifications might be after completing a degree) we calculate that the loss per head to the Exchequer from those on Path F and H who would have gained Level 2 qualifications is £4,582, representing 9 months more of unemployment over a ten year time scale.
- 6.9 For those on Paths G and I who would have gained a Level 3 qualification, and in some cases a degree, we assume 6 months more of unemployment (from 6 months to 12 months), plus a failure to achieve a 20% uplift in earnings from the base level of £16,000. This gives a loss per head to the Exchequer of £19,015 (equates to £3,055 due to more unemployment and £15,960 due to tax and NI foregone).

Stayed in education	Studying at Level 2	Studying at Level 3
Continued with course f/t	1	2
Changed to p/t	2	4
Evicted	1	-
	No financial impact	No financial impact
Abandoned education		
Claiming JSA/New Deal	2	4
Unskilled work	2	2
Total	4 x £4,582 = £18,328	6 x £19, 015 = £114,090

6.10 These sums, of Exchequer revenue foregone by the implementation of the 16 hr rule, massively outweigh the short-term effects. **In fact if we pro-rata these gains on an annual basis, getting rid of the 16 hr rule pays off in less than eighteen months after those who have managed to gain qualifications enter the labour market. (£114,090 + £18,328 = £132,418, divided by 10 years gives an annual benefit of £13,242, compared with one off short term savings of £18,466).** On a per head basis i.e. dividing both figures by the 20 people in the model, these figures equate to a long term benefit of £6,621 from eliminating the 16 hr rule, versus a short term loss of £923 This is mainly due to the high tax take on marginal earnings of 44%, taking PAYE, and employer and employee NI together. Factoring in child tax credits, the failure of some students to complete their courses and the costs of student support would increase the payback period, but would not change the basic direction of impact.

We have calculated the annual loss to the Exchequer from the existence of the 16 hr rule at £104m -£112m. This is based on the following assumptions:

- A discount rate of 3.5%
- The additional unemployment resulting from the 16 hr rule is spread evenly across a 10 year period.
- The higher figure assumes all students would have gone straight into employment after acquiring their qualifications ie we have not made any allowance for either the increased earnings from Level 3 students achieving degrees, or the delay in their participation in f/t employment due to university study. The lower figure assumes that 50% of the Level 3 students take a three year full time degree, pay no tax and NI during that period, but then see a 5% p.a. increase in salary in real terms.
- The total number of people affected p.a is 27.300 (see next section.)

These or similar calculations no doubt underlie the Government's strong policy emphasis on increasing the level of qualifications in the population as a whole.

6.11 It might be argued that these positive effects apply to people who are studying in order to improve their labour market prospects, but that the 16 hr rule is primarily intended to discourage people from studying full time courses that are purely recreational, and would not lead to any Exchequer gains.

6.12 However, the recent IFF study for DfES, Study of Learners in Further Education, found that only 10% of students were on courses with no qualification aim, and

of these 96% were studying part-time¹. So the proportion of people studying full time for a course with no labour market value is likely to be negligible.

Numbers of people affected

6.13 In a previous paper, *Second Chances*, which made the case for a Further Education Maintenance Allowance (now Adult Learning Grant) we estimated the long term take up of FEMAs at 40,991/per year.

ELIGIBLE POOL	
1. Total pool of 20-29 year olds with no more than Level 2 qualification.....	2.5 million
2. Add an estimated 0.2 million 19 year olds.....	0.2 m
3. Making a total of	2.7 m
4. Deduct those 44,500 people whose basic skills are so low they could not achieve a level 2 qualification.....	2.254 m
TAKE UP WITHIN ELIGIBLE POOL	
5. Assume that with FEMA available only once to each participant, only one eleventh of eligible pool would start a FEMA in a single year.....	204,955
6. Set upper band estimate at 36% of this eleventh of the eligible pool, reflecting Foyer research on number likely to benefit from full time FE.....	73,784
7. Set lower band estimate at EMA take up rate of 6%	12,297
8. Set best guess estimate, between lower estimate of 6% and upper estimate of 36%, at 20%	40,991

6.14 This estimate seems likely to apply equally to the number of people who would benefit from a relaxation of the 16 hr rule. Although it does not include people over the age of 30, there is unlikely to be significant take-up among those aged 30+, except possibly among refugees.

6.15 This compares with the 1.18m people (as at May 2002) who were receiving Housing Benefit but not receiving JSA or Income Support.

6.16 However it would be wrong to assume that all those likely to benefit from the new Adult Learning Grant will also claim housing benefit - some may still live at home. Therefore by making the crude assumption that the average age of leaving home in the UK is 22, the overall number of people who would benefit from removing the 16 hr rule falls to approximately **27,300**.

Impact on Housing Benefit administration

¹ Study of Learners in Further Education, (2003), IFF Research Ltd, ISBN: 1 84478 083 X

- 6.17 The administration of Housing Benefit is complex, and currently quite poor in many areas. Therefore it is important to establish whether eliminating the 16 hr rule for courses at Level 3 and below would complicate or simplify administration.
- 6.18 On the face of it, it would seem likely to simplify administration, as there would be fewer situations in which claims would need to be examined (including in some cases dialogue with colleges over the exact nature and hours of a course.) HB administrators would only need to understand the difference between a Level 4 course and one that was Level 3 and below.
- 6.19 The HB administrators we have spoken to so far have confirmed that they do not deal with many cases at the moment, and that making this change would if anything simplify rather than complicate their work. In addition it would reduce the temptation to make a fraudulent claim in order to avoid having to choose between education and accommodation.
- 6.20 If the 16 hr rule Type 1 were to be abolished, then only JSA claimants would be debarred from studying full time. Given the recent changes to create closer bonds between JSA claimants and their Job Centre Plus advisers, as against proposals such as the Local Rent Allowance, which will distance HB officials from those claiming housing subsidies, Job Centre Plus would seem to be in a better position to police the 16 hr rule.

Legislative implications

- 6.21 The 16 rule could be changed by regulation and would not require primary legislation. The regulations state the type of people who are covered by the 16 hr rule (Type 1) and the type of courses that are covered. We believe that the logic of this paper points to changing the regulations so that only people studying at Level 4 and above would be caught by the 16 hr rule (Type 1).

If, however, the Government felt that a wholesale change of this kind created too much risk, it would be possible to draft the regulations in order to limit the relaxation of the 16 hr rule (Type 1) to categories such as:

- Foyer residents
- Anyone who had ever claimed Severe Hardship Payments
- Anyone who had ever been looked after
- Anyone receiving the means-tested Adult Learning Grant

This would have the disadvantage of increasing the burden of administration, compared with a simple change outlined in 6.19. Benefit staff would have to do more checks on the status of claimants, including in some cases their past status. But it would eliminate the danger of large scale unforeseen consequences from the change.

Impact on the achievement of Government objectives

- 6.22 Eliminating the 16 hr rule would, we believe, help the Government to achieve objectives in two key areas:
- increasing the proportion of the population with Level 2 and Level 3 qualifications

- widening access to higher education for disadvantaged groups including in areas of skill shortage.

6.23 The Labour Force Survey, 2001, shows the following levels of qualifications:

Age Group	20-24		25-29		Total 20-29	
	Number (000s)	% of age group	Number (000s)	% of age group	Number (000s)	% of age group
No qualifications	249	8%	302	9%	551	9%
NVQ1 or equiv	390	13%	521	16%	911	15%
NVQ2 or equiv	550	18%	488	15%	1038	17%
Total in age group	2981		3291		6272	

Source: Labour Force Survey, 2001

6.24 Adding the first two rows together, 1.462m people aged 20-29 do not have a Level 2 qualification, or approximately 147,000 in each year of the 10 year age cohort. If 40% of those benefiting from elimination of the 16 hr rule were studying at this level, this would reduce the number by about 10% ($41,000 \times 0.4 = 16,400$, allowing for some non-completion.) But as the Foyer data suggest that half of the residents studying for Level 2 qualifications did manage to stay in education despite the 16 hr rule, the true impact would be to reduce the number by 5% rather than 10%.

6.25 Turning to those studying at Level 3, if the remaining students were able to gain access to university, and again half of them would not have been able to stay in education without a change in the rule, we would see an increase of at least 8,300 in the number of young people from very disadvantaged backgrounds able to access university education. This figure represents 9.3% of young full time undergraduate entrants from Social Classes IIIM, IV and V. These figures show that enabling 8,300 additional students to access Higher Education courses by removing the 16 hour rule would boost the government's goals of widening participation, and of increasing the number of students in HE.

7 Conclusion

- 7.1 This paper has demonstrated that while there would be a small near term cost of eliminating the 16 hr rule, around £923 per person affected, taking a longer term view the impact of people in the labour force operating with higher levels of skill brings a net gain per head in the first ten years thereafter of £6,621. Within the first 18 months of an individual gaining employment with higher skills, the initial cost has been wiped out. Across the economy as a whole the Exchequer is currently losing £104m -£112m as a result of the implementation of the rule.
- 7.2 One of the reasons why the calculation is so favourable is that part of the near term impact is the cost of people remaining to a greater or lesser extent benefit dependent while they study part-time over a longer time period, as compared to being able to study full-time.
- 7.3 Making this change would enable the Government to demonstrate its commitment to lifelong learning, increase the proportion of the labour force with higher level skills, in line with its targets for Level 2 and Level 3 qualifications, and make a significant contribution to access to higher education for the most disadvantaged. And while necessarily we have only calculated the public benefits, we believe that eliminating the 16 hr rule would also lead to significant private benefits as well.
- 7.4 There is no downside in terms of complicating HB administration, and this change could be implemented through regulations, without need for primary legislation.
- 7.5 **To conclude, a regulation which favours people who do nothing over those who are trying to improve their employability as quickly as possible makes no sense to the lay person, and is certainly not in line with Government thinking in other areas. We urge the Government to address this anomaly with all speed.**

Annex A

The 16 hr rule 'Type 1' and 'Type 2'

The 16 hr rule (Type 1) forbids those claiming Housing Benefit who have passed their 19th birthday to studying for more than 16 hrs of guided learning per week, even if they are not claiming any other benefits. This applies to all levels of learning, from a basic ESOL (English as a Second Language) course to degree level study. The only people permitted to study for more than 16 hrs while claiming Housing Benefit are parents or people with disabilities.

We accept that those seeking to study at university i.e. at Level 4 or above should not be eligible to claim Housing Benefit. University students have access to a system of income support which is intended to allow them to cover their rents without recourse to Housing Benefit. But this system of support does not apply for those studying at Level 3 and below.

The 16 hr rule (Type 2) relates to JSA claimants. In most circumstances people claiming JSA, including those on New Deal programmes, are not entitled to study for more than 16 hrs/week once they have passed their 19th birthday. In addition, Job Centre Plus may require claimants to abandon courses of study in order to participate in mandatory short courses that are part of the New Deal, or to take up employment. While the way that this Type 2 version is implemented is sometimes insensitive and possibly even counter-productive, we are not arguing with the principle that some-one on JSA should owe their primary allegiance to looking for work.

We are aiming for a situation in which those who want to study full time to improve their labour market prospects will be able to claim the Adult Learning Grant, supplemented with some income from work, and Housing Benefit, and therefore not need to be dependent on JSA except during holidays when the Adult Learning Grant is not available.

Annex B – Calculations of costs and benefits for each pathway chosen

Stayed in education	Studying at Level 2	Studying at Level 3
Continued with course f/t	1 path A	2 path B
Changed to p/t	2 path C	4 path D
Evicted	1 path E	-
Abandoned education		
Claiming JSA/New Deal	2 path F	4 path G
Unskilled work	2 path H	2 path I
Total	8	12

A Short term impact

A1 Level 2 students

Path A Stayed in education full time - no impact

Path C Changed to part-time education, thus doubling length of study
Assume - 50% studying while on JSA/New Deal, 50% working part-time but not reaching the PAYE threshold

Average cost of one additional year of study per person

Housing Benefit @£60/week for 52 weeks	£3,120
JSA at 18-25 rate for 50% of year	£1,118
Net cost	-£4,238

Path E Evicted
Estimated costs of failed tenancy (rent arrears, relet time etc)
(Average of Wolverhampton and Birmingham Housing Dept estimates) **-£3,500**

Path F Left education, signing on (assume in work after 6 months)
(assume was previously on JSA while studying)

Costs incurred - 6 months HB, 6 months JSA	-£2,678
Costs saved - 12 months HB, 12 months JSA (while studying)	£5,356
Tax and NI on £10,000 p.a. for 6 months	£1,605
Net saving	+£4,283

Path H Left education, working
(assume was previously working while studying, now earning £100/week more than before)

Costs saved - 12 months HB	£3,120
Benefit to Exchequer from tax and NI on higher earnings	

- say 40% on £5,200
Net saving

£2,080
+£5,200

Level 3 students

Path B **Stayed in education full time - no impact**

Path D **Changed to part-time education**

Assume - 40% studying while on JSA/New Deal, 60% working part-time but not reaching the PAYE threshold

Average cost of one additional year of study per person

Housing Benefit @£60/week for 52 weeks	£3,120
JSA at 18-25 rate for 40% of cohort	£ 894
Net cost	-£4,014

Path G **Left education, signing on (assume in work after 6 months)**
(assume was previously on JSA while studying)

Costs incurred - 6 months HB, 6 months JSA	-£2,678
Costs saved - 12 months HB, 12 months JSA	£5,356
Tax and NI on on £10,000 for 6 months	£1,605
Net saving	£4,238

Path I **Left education, working**
(assume was previously working while studying)

Costs saved - 12 months HB	£3,120
Benefit to Exchequer from tax and NI - say 40% on £5,250	£2,100
Net saving	£5,220

Long Term Effects

Level 2 students on pathway F and H

Assume long term wage of £16,000 (= 30% percentile)

No change in wage received but 18 months claiming JSA/HB in place of 9 months over the next ten years in work, as a result of not completing Level 2 qualification.

Cost per head over ten years = 39 weeks x (£57.50JSA + £60HB) *£4,582*

Level 3 students on pathway G and I

Assume long term wage of £20,000 (premium of 20% for Level3/Level4 qualifications)

Assume 12 months claiming JSA instead of 6 months over the next ten years in work, as a result of not completing Level 3 qualification.

Cost per head = 26 weeks x (£57.50JSA + £60 HB) *£3,055*

Increase in tax for Exchequer foregone as a result of not gaining Level 3 qualifications, 9.5 years at 42% of £4,000 incremental earnings £15,960

Total loss to Exchequer per head over 10 years **£19,015**

ⁱ Moving on Up Foyer Federation 1999; research carried out in Foyers by the Carnegie Young People's Initiative

ⁱⁱ Labour Force Survey, Spring 2001 – as used in Chart 9 of 'Developing a National Skills Strategy and Delivery Plan: Underlying Evidence, 2003'

ⁱⁱⁱ Peter Kenway, New Policy Institute, quoted in The Guardian, 26.3.03