

Financial incentives to encourage the employment of people with convictions

Background

Many businesses are fearful of hiring people with a criminal record. Almost 75% of companies [ask about criminal records on application](#) and 75% of companies admit [discriminating against applicants who tick the box](#). In a 2016 [survey](#), 32% of employers had concerns about this group's skills and capability, 45% were concerned they would be unreliable and 40% were worried about the public image of their business. These concerns are unfounded; employers who pro-actively recruit from this population [report positive experiences](#). Polling from [2019](#) shows that 81% of employers report a positive impact on their business, while 75% of consumers would buy from a business that hired people with convictions. Yet the problem persists. Just 17% of people leaving prison are in PAYE employment after 12 months.

This comes at a cost to society; around a third of people claiming job seekers allowance have a criminal record. 11 million people in the UK have some form of criminal record - can we afford to exclude them?

In December 2016, the [Work and Pensions Committee recommended](#) "that the Government pilot the reduction of National Insurance Contributions for those employers who actively employ ex-offenders." The [Conservative Manifesto in 2017](#) committed to it: "We will also work to help those groups who have in the past found it difficult to get employment, by incentivising employers to take them on. So, for businesses employing...those who have committed a crime but who have repaid their debt to society...we will offer a holiday on their employers' National Insurance Contributions for a full year." In September 2018 Unlock, along with the Prison Reform Trust, Greggs and Timpsons, co-signed a letter to the Treasury setting out a vision for realising the Manifesto commitment. The response indicated that this was still being considered but it never came to fruition. Onward's [2019 report](#) on transforming prisons included evidence from employers that financial incentives could influence their hiring practice.

The [2019 Manifesto](#) did not repeat the commitment but says "We need a fair justice system [...] that gives a second chance to those who have served their time and wish to make a fresh start." It goes on to say: "We will improve employment opportunities for ex-offenders, including a job coach in each prison." Importantly, the Manifesto notes that "This approach is proven to reduce reoffending." We trust that the new government will wish to explore all avenues to increasing employment as way to drive down the [£18bn a year](#) cost of reoffending.

The Ministry of Justice's [single departmental plan 2019-2022](#) includes, as one of its objectives, the reduction of reoffending and the improvement of life chances for offenders. They aim to '...increase the number of prisoners in education or employment during their sentences which improves employment opportunities on release' as part of this.

Unlock recognises and champions those employers that are [already employing](#) people with convictions. At a time when almost a quarter of companies are finding it [hard to recruit the people they need](#) these employers have seen the benefits of tapping into a wider talent pool.

Yet many more companies need to be encouraged to see the person behind the criminal record. Our [priorities for government in 2020](#) include incentivising employers to recruit people with convictions and this briefing provides more detail on how to do that.

How are financial incentives used?

Financial incentives include tax credits, investment allowances and accelerated depreciation, all with aim of reducing the cost of the desired behaviour. These can take the form of:

Tax holidays: Temporary exemption (full or partial) from specified taxes

Special zones: areas or sectors where firms are exempted from taxes

Reduced tax rates: typically, a reduction in the corporate income tax rate.

Financial incentives are used to influence behaviour across a range of sectors. For example, the NHS in England offers financial incentives to trusts that support [healthy living initiatives](#). The government offers a range of exemptions and reliefs to encourage [green business](#) and many local authorities offer support and incentives for [private landlords](#) in areas with limited social housing.

Employment focused incentives are designed to encourage the creation and take-up of jobs. They are targeted, temporary and conditional payments or reductions of tax or NICs designed to improve employment for vulnerable or marginalised groups. An evidence review carried out by the [what works centre for local economic growth](#) looked at the impact of financial incentives on take-up of employment training. Importantly, they found that: incentives do not necessarily need to be large to influence behaviour but must be carefully designed to achieve their intended outcome.

Costs should be balanced against the economic and social benefits, which may take time to realise.

Other evidence shows incentives influence behaviours around [waste disposal](#), [energy usage](#), and [transportation choices](#) and that the benefits can continue even after the incentive is withdrawn.

A [2018 study](#) in the US examined the impact of tax credits on employers' attitude to hiring people with convictions. 60% of employers said a tax credit on 25% of a worker's wages would encourage them to make positive hiring decisions. They found increasing the tax credit to cover 40% of the worker's wages would encourage almost 80% of employers to make positive hiring decisions.

How do financial incentives differ from Ban the Box?

Unlock works to improve employment prospects for people with convictions in several ways. We were a founding member of Ban the Box in the UK. The campaign calls on employers to remove questions about criminal records from application forms and instead ask later, if necessary. This way, applicants with convictions can be judged on merit first.

Banning the box is only one part of the solution. While many employers are able to see past a conviction when seen in the context of an applicant's skills and abilities, others remain reluctant – usually because of the misconceptions outlined [above](#). Financial incentives are another tool to influence positive decisions. The two initiatives complement each other in several ways:

- Both are designed to encourage employers to look at people with convictions as potential employees. The principle is that employers judge people first on who they are now, rather than what they did in the past.
- Ban the Box delays questions about criminal records until later in an application process, instead of on the initial application form - but doesn't prevent asking before employment commences.
- Tax incentives encourage employers to proactively recruit people leaving prison, those on probation and those receiving support from agencies in the community specifically supporting people with convictions. In this context, they will already be aware that they have a criminal record. They can still consider the details later in the recruitment process as they would do with any applicant.
- Employers can comfortably do both - and government should consider ways to incentivise both.

The aim of both ban the box and financial incentives is to encourage employers to give people with convictions a chance. Evidence from employers is that people with convictions make a positive contribution to their business but are often rejected before being given a chance. Financial incentives encourage employers to offer that chance, while ban the box embeds good practice – seeing people for their skills and abilities first.

Types of incentive

1. National Insurance Contributions holiday

The Work and Pensions Select Committee and the 2017 Manifesto referred to a national insurance holiday. With such schemes, employers are invited to apply for rebate at the end of the fiscal year, for each employee matching the agreed criteria. This means employers remain incentivised to keep the employee on the payroll until the end of the year and requires minimal administration which is particularly beneficial for small businesses.

However, this is not a particularly generous subsidy, especially for lower earners. On the 2019 median salary of [£30,420](#) it works out at £2,510. A [Finnish study](#) found negligible impact on employment of the eligible group.

Employers don't necessarily need a large incentive to engage in a scheme, but recent experience shows that NIC holidays are not well taken up. Between 2010 and 2013 the coalition government ran a regional [NIC holiday scheme](#) for new businesses in specified geographic areas. The Regional Employer National Insurance contributions Holiday for New Businesses scheme was designed to encourage job creation in regions reliant on public sector employment by reducing the cost to new business of employing staff. However, take-up was poor, with less than 15,000 employers (compared to a projected 200,000) signing up in the [first 18 months](#).

2. Wage subsidy

Wage subsidies attached are used extensively in [some European countries](#) and may influence hiring decisions more than a rebate at the end of the year. In Belgium, subsidies have successfully improved employment prospects for disabled people, with contributions scaled to level of need. Subsidies need to be [carefully designed](#) to account for the needs of applicants and employers. Conditions around training and contract length could be attached, ensuring the employee has the benefit of real work experience for a period of 12 months or more.

The main objective of a targeted wage subsidy is to give the targeted workers a better chance in the labour market by making the target group more attractive in the short term, and improving their employment prospects in the medium to long term. Measures of success need to take into account the short and long term effects.

There are two ways to operationalise wage subsidies:

- **Option 1:** The wage is fully subsidised for 6-12 months, conditional on the employer providing training and development to improve long-term employability. This is particularly suitable for industries with skills gaps.
- **Option 2:** The wage is part subsidised for 12-24 months, conditional on the employer providing relevant training and retaining the employee for an agreed period. This is particularly suitable for employers with recruitment/retention difficulties.

Monitoring a wage subsidy programme could become costly but without monitoring there is a risk that employers may try to claim the subsidy without adhering to conditions. Take-up is likely to reflect not only the level of the subsidy but also the extent to which employers need recruits and are willing to invest in them. A high subsidy might not be necessary to engage employers, and focusing on employers with skills/people shortages is likely to improve take-up.

3. Tailored/targeted financial incentives

[Tailored financial incentives](#) are designed to meet the needs of the target group (in this case employers). Aligning incentives with other objectives can [influence behaviours](#) more effectively than financial incentives alone, but requires work to understand their needs and monitor impact. Incentives can be scaled so that better paid jobs receive a higher incentive creating an additional incentive to recruit people with convictions into skilled roles with better learning and development opportunities. There is some evidence that this is a more [cost-effective](#) approach than other financial incentives.

For most companies, its reputation is its most important asset - even with a financial incentive, businesses (especially new and small ones) may not want to risk their reputation by hiring people with convictions. Conversely, companies with a strong emphasis on inclusion and social responsibility may see the value in promoting their recruitment decision.

There are two main options:

- **Option 1:** A lump sum is paid to small businesses on the condition that they keep the employee for 12 months – and provide training. A portion of the incentive must be allocated to learning and development.

- **Option 2:** The employer opts to receive a payment of up to 40% of the financial incentive within the first six months of employment – with the remainder being paid at the end of the year.

4. Insurance

The [Federal Bonding Program](#) is a US Department of Labor initiative to help vulnerable job-seekers into work. Fidelity bonds are issued as business insurance policies that protect employers in case of theft, forgery, larceny, or embezzlement of money or property by an employee covered by the bond. The bond coverage is usually \$5000-25000 with no liability for the employer but exclusions for poor workmanship, job injuries, or work accidents.

The bonds are free of charge to both the applicant and the employer and can be issued for any job at any employer in any state. Any full or part-time employee paid wages can be bonded. Being protected by insurance can alleviate some of the concerns employers have about the reliability and trustworthiness of employees with convictions. Given that evidence suggests employees with convictions tend to be loyal and hardworking, it's a potentially low cost option. However, it does potentially reinforce the idea that a person with conviction is risky and that may have a limited impact on longer-term opportunities.

Our recommendation

It is important to be mindful of the evidence on financial incentives and the range of options. Investment need not be high to achieve returns but those returns may take time to be realised, and some monitoring of this will be necessary.

Narrowly targeted interventions are more likely to see take-up and success and we recommend a focus on recent prison leavers and/or those currently serving a sentence in the community under probation supervision. This safeguards against an increase in employers seeking to 'identify' people with convictions in their application processes by asking them to disclose if they have a criminal record.

Based on the options explored in this briefing, **we recommend a wage subsidy for relevant employees, based in selected regions, and paid in instalments at agreed intervals in the contract.** This would need to be managed through specified services to monitor take-up of incentives and adherence to any conditions. The [New Futures Network](#) is a specialist part of Her Majesty's Prison and Probation Service. They broker partnerships between prisons and employers and are now in contact with over [500 employers](#) nationally. The New Futures Network is well placed to understand employers' needs and ensure effective delivery of incentives to both people leaving prison and those serving sentences in the community.

We recommend a 3-year pilot to ensure enough time to raise awareness and boost take-up as well as realise benefits. The pilot should be regionally based and designed in collaboration with businesses who have expressed an interest in recruiting from this population.

About Unlock

Unlock is an independent award-winning national charity that provides a voice and support for people with convictions who are facing stigma and obstacles because of their criminal record, often long after they have served their sentence.

In 2015 Unlock, supported by the Esmée Fairbairn Foundation, began challenging the discrimination faced by people with convictions seeking employment. Our approach is to support and challenge employers to bring about positive change, building on our track-record of working with Government, employers and others. We use our knowledge and experience to influence and develop policies and initiatives that seek to increase the employment of people with convictions.

To get in touch with us about this briefing, please email policy@unlock.org.uk.