Is prevention cheaper than cure?

An estimation of the additional costs of homelessness for NEET young people

October 2016

centre point

give homeless young people a future

Contents

Executive Summary

Youth homelessness is a complex issue that is often a symptom of wider problems in young people's lives, such as the breakdown of family relationships, domestic abuse, substance misuse and mental health problems (Centrepoint 2016, Watts 2015). At the same time, the effect of homelessness goes far beyond the lack of a safe place to sleep. It also affects young people's educational attainment, mental and physical health and their employment prospects, all of which can have a 'scarring' effect on young people's lives, seriously diminishing their prospects many years later. Moreover, dealing with the effect of youth homelessness incurs a higher public cost than if that young people had remained in accommodation.

Homelessness is not a linear process, so conclusively saying that homelessness causes increased social problems is not possible (Crisis, 2012). However, there is clear evidence that homelessness is associated with poorer social outcomes (Crane et al 2016). For example, being a young offender or having poor mental health increases the original risk that a young person will become homeless. At the same time, experiencing homelessness also consequently increases your risk of poorer life outcomes in the future (Shelter, 2012).

Therefore the estimated costs in this report give an indication of the potential public savings that could be made if youth homelessness was prevented. However, because there is a two-way link between homelessness and other life behaviours, not all future costs could be reduced by changes to social policies that prevent youth homelessness.

If preventing youth homelessness at an earlier stage could produce significant financial savings for local authorities and central government, then there will be a clear incentive to increase the funding for early intervention programmes for young people at risk.

This study set out to estimate how large that financial incentive might be, by estimating the public cost of a homeless young person who is not in education, employment or training (NEET), compared to a hypothetical situation where they did not experience homelessness. Due to the different life circumstances between young people under and over 18 in terms of education and employment, two cost estimates have been produced: one for the cost of homelessness for 16-17 year olds and one for the cost of homelessness for 18-24 year olds.

The research found that the estimated cost to the state of a NEET homeless young person is £12,200 per year at 16-17 years old, which is £8,900 more than for a NEET-only young person. The total cost of a NEET homeless person then rises for 18-24 year olds to £19,400 per year. This is £12,200 more than the cost of a NEET-only young person.

It is estimated that 83,000 young people experience homelessness every year (Clarke. 2015). Based on Centrepoint data which shows that 58 per cent of homeless young people are NEET, the annual net public finance cost for all NEET homeless young people is estimated at **£556m per year** over and above the cost if these young people had not been homeless.

Age Range	Cost of NEET young person (a)	Cost of NEET homeless young person (b)	Added cost of homelessness (b - a)
16/ 17 year olds	£3,300	£12,200	**£8,900**
18-24 year olds	£7,200	£19,400	**£12,200**

Added cost of youth homelessness
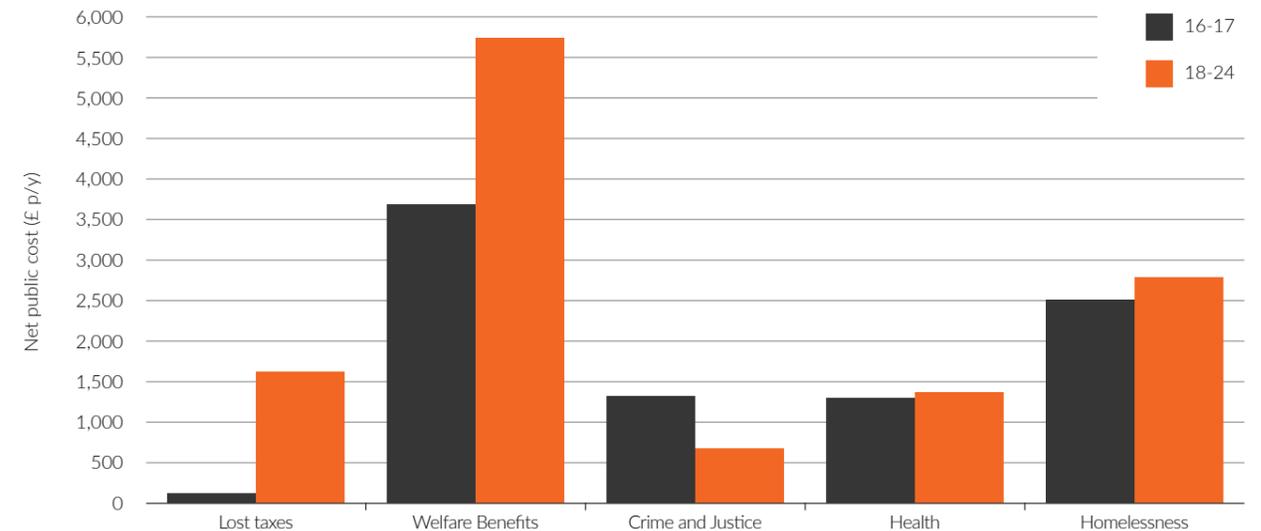
The graph above shows the significant rise in additional costs that occur once homeless young people reach 18, primarily due to increased welfare expenditure and lost taxes. Leaving homelessness problems until young people are over 18, is likely to cost the state an estimated 37 per cent extra every year, primarily in lost tax revenue and additional welfare spending.

Too often, economic discussions of youth homelessness focus on the cost of providing supported accommodation for homeless people and the cost of homelessness housing services. This study shows that the primary costs of youth homelessness are from additional welfare benefit payments, both due to unemployment and due to housing. The actual homelessness costs experienced by local councils (processing homelessness applications and the cost of rough sleeping) are lower at roughly £2,600 per year.

This research gives a strong indication that tackling the root causes of youth homelessness is likely to be far cheaper than supporting young people once they reach crisis point and leave the family home. Youth prevention services that support NEET 16-17 year olds before they reach a housing crisis, are likely to be cost-beneficial if they can be delivered for less than £8,900 per child per year. This study provides evidence that when it comes to youth homelessness, not only is prevention better than cure, but that prevention is cheaper as well.

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Section 1: Why study the costs of youth homelessness?

Youth homelessness is a complex issue that is often a symptom of wider problems in young people's lives, such as family breakdown, domestic abuse, substance misuse and mental health problems (Centrepoint 2016, Watts 2015). At the same time, the effect of homelessness goes far beyond just the lack of a safe place to sleep. Youth homelessness also affects young people's educational attainment, mental and physical health and their personal debt, all of which can have a 'scarring' effect on young people's lives, seriously diminishing their employment and life prospects many years after they experienced homelessness.

The interrelationship of cause and effect also means that it is particularly difficult to prevent youth homelessness. To do so would require sustainable solutions to a range of systemic social problems that affect the most disadvantaged young people in society, including long-term unemployment, family breakdown, substance abuse and the UK's housing crisis.

At the moment, youth homelessness prevention services tend to be focussed on helping young people when they reach crisis point. Local authorities' prevention strategies primarily focus on supporting young people when they present to the council at the point of crisis (Shelter, 2007).

Similarly, the No Second Night Out programme in London works to ensure that no one arriving on the streets of London will sleep out for a second night. The No Second Night Out programme can also therefore be viewed as a late-stage prevention. While NSNO is a positive programme which prevents prolonged rough sleeping, effective prevention has to span a range of early to late-stage interventions (Shelter, 2016).

Unfortunately, preventing homelessness before young people reach crisis point is now even harder because of the cuts to local councils' funding. Housing Services budgets were cut by 23 per cent on average between 2010 and 2015 (DCLG, 2012). As a result, most homelessness prevention work that councils carry out is now focussed on crisis alleviation for those most at risk. Some local councils are now so under-funded that they reject over one-fifth of all Discretionary Housing Payment applications that they receive (Inside Housing, 2016).

Early prevention services have also faced similar cuts to funding. In 2010, a number of different funding streams for early intervention were pulled together into the Early Intervention Grant. These included information and advice for young people, teenage pregnancy and substance misuse services, young offender and crime prevention services and family support services.

The total value of the Early Intervention Grant was around £3.2 billion (today's prices) when it was introduced. By 2015 however, the value of the grant had been halved to around £1.5 billion. The grant is also not ring-fenced within councils' overall budgets, which means that councils can use that money to fund other non-intervention activities [Children's Society, 2016].

Against this financial backdrop, we urgently need to show the public costs incurred when youth homelessness is not prevented. The longer that someone experiences homelessness, the more likely it is that their problems will become entrenched, leading to higher public spending.

We have to understand the additional cost of homelessness in the UK, over and above the general resource spent on a similar young person; otherwise we cannot assess the potential financial savings if homelessness were prevented. If earlier prevention of youth homelessness could produce significant financial savings, then councils and Government will have a strong incentive to fund more early intervention services, rather than cutting funding to cover only crisis alleviation.

This research sets out to answer the question, **is homelessness prevention cheaper than cure?**

Section 2: What do we know about the costs of youth homelessness?

There is currently little literature on the additional cost of youth homelessness in the UK. Several pieces of research have attempted to estimate how much a homeless adult costs the state per year. Estimates of the annual costs to government from these studies range from £25,500 - £32,000 per person (uprated to 2015 prices) (DCLG, 2012) and the National Audit Office has estimated that £1 billion is spent annually on preventing and dealing with homelessness.

However, the demographics of adult homeless people, and the associated public costs, are markedly different to those of young homeless people. Adult homeless people are more likely to be rough sleepers, compared to young homeless people. These rough sleepers not only have higher support costs than younger homeless people, but they are also predominately male (St Mungo's 2016). As a result, the existing total cost estimates for homeless adults may not be directly relevant as an estimate of the costs to the state of a young homeless person.

In addition, the studies referenced above have only sought to estimate the total cost of a young homeless person to the state. Whereas, the *additional* cost to the state of a young person being homeless in the UK has so far not been estimated. All disadvantaged young people receive some level of public funding, for example in terms of education, justice, welfare and health costs. The *additional* expenditure that is spent on a homeless young person is the difference in cost between a homeless young person and a comparable non-homeless young person.

The only study that has estimated the added cost of youth homelessness is a recent Australian project which followed 400 young people over four years and tracked their cost to the state. This study found that the expenditure per year is $15,000 higher (£8,500)[1] for a homeless young person, when compared to a young job seeker (MacKenzie et al, 2016).

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1 This only includes the non-housing costs of youth homelessness

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Section 3: Introduction to the costing methodology

To estimate the cost to the state of a young person experiencing homelessness, we will compare a homeless young person's costs to a hypothetical situation where they did not experience homelessness. To do this, we will compare NEET homeless young people to a comparable group of young people who are not homeless. For the purposes of this research, young people who are not in employment, education or training (NEET) will be used as a suitable comparison group.

Due to the significant differences between young people under and over 18, in terms of education and employment, two cost estimates have been produced: one for the net cost of homelessness for 16-17 year olds and one for the net cost of homelessness for 18-24 year olds.

This report brings together the existing incidence rates of certain behaviours among NEET-homeless and NEET-only young people, as well as the unit costs of certain behaviours and characteristics for each group. The existing literature will be used to provide a preliminary estimate of the short-term public finance costs of homelessness for young people, over and above the public cost due to their general background and NEET status.

There is no single predictor for why some disadvantaged young people reach a crisis point where they experience homelessness. A general issue with this methodology is the nature of the 'excess costs' incurred by the homeless group, compared to NEET young people.

Estimating excess costs implies that a comparison can be made between NEET homeless people and NEET non-homeless people and that the additional costs can be attributed to being homeless. This comparison rests on an assumption that all NEET young people are relatively similar regardless of their homelessness status. We assume that this is true for the purposes of this study.

This study has used a narrow costing methodology to estimate the cost impact of youth homelessness on public expenditure over the short-term period of one year. To ensure the analysis is as robust as possible, this study will not consider the individual costs arising from youth homelessness. It will only focus on the additional public costs of one year of youth homelessness.

The research has avoided double counting between the different circumstances that are costed. For example, the overall public finance cost of crime would also include associated costs to the health and benefits systems, as well as to the justice system. However, in this analysis we have only considered the direct costs to the relevant system, and have assumed that other secondary costs will be included within other parts of the analysis.

> **In the remainder of this report, any reference to homeless young people only includes young people who are both NEET and homeless.**

Section 4: Incidence values

Section 4 considers the main circumstances and short-term costs that are associated with being homeless for NEET 16 to 24 year olds. It summarises the main public finance costs used to complete the costing exercise and sets out the incidence values for NEET and homeless young people. Section 5 then sets out the unit costs for each circumstance, where reliable estimates of these costs can be found.

To estimate the additional cost of youth homelessness, it is necessary to calculate both the unit cost and the incidence value for each of the circumstances. So for instance, the additional cost of unemployment for homeless young people is based on the different rate of unemployment for NEET and homeless young people, multiplied by the cost to the state of being unemployed. Where reliable estimates could not be sourced, the particular cost has not been included in the final estimate.

As a starting point, we define the total population of both homeless young people and NEET young people.

> **NEET:** According to the latest government statistics, a total of 865,000 young people aged 16 to 24 in the UK are NEET. Of these, 381,000 are unemployed and 484,000 are economically inactive. Of this total, there are 58,000 young people who are aged 16-17 and NEET and there are 808,000 young people who are aged 18-24 and NEET (ONS, 2016b).
>
> **Homeless and NEET:** 58 per cent of homeless people in Centrepoint arrive here NEET. Centrepoint estimates that 83,000 young people in England, who experience homelessness, are housed by local authorities or charities every year (Clarke et al, 2015). Therefore an estimated 48,140 homeless young people are NEET in the UK.

4.1 Unemployment

Young people who are NEET may be unemployed for a period of time if they are not in education. Young people will, on average, have poorer life outcomes the longer they are unemployed [DfE, 2014]. This is known as a 'scarring effect' of unemployment. The direct public finance costs that arise from unemployment are due to benefit payments and a loss of taxation.

NEET	From ONS (2016b) data: • 45 per cent of NEET 16-17 year olds are unemployed • 44 per cent of NEET 18-24 year olds are unemployed
NEET and homeless	From Centrepoint's own internal data: • 43 per cent of NEET 16-17 year olds are unemployed • 68 per cent of NEET 18-24 year olds are unemployed

4.2 Educational under-achievement

People who underachieve educationally earn less, on average, than similar people with higher academic qualifications. They are also more likely to be unemployed. The public finance costs of poor educational achievement arise from the need to provide additional benefit payments to people with lower qualifications, the loss of taxation and National Insurance contributions when the individuals are underemployed.

| NEET | ONS data from the 2011 Census estimates that 40 per cent of NEET 16-17 year olds are both unemployed and have no qualifications above Level 1 (ONS, 2011)

From the same source, we can estimate that 41 per cent of NEET 18-24 year olds are unemployed and have no qualifications. |
|---|---|
| NEET and homeless | In contrast, from Centrepoint's own internal data, between July 2014 and July 2016, 37 per cent of the 16-17 year olds who arrived at Centrepoint NEET were unemployed and had no qualifications above Level 1. This figure rose to 67 per cent of 18-24 year olds. |

4.3 Economically Inactive

Economically inactive young people are those who are out of the labour force out of choice. The main reasons for young people to be economically inactive are that they are studying or because they are caring for family. The public finance costs of economic inactivity are similar to unemployment, in terms of loss of tax revenue and higher benefits.

There is a large difference between the numbers of NEET young people and homeless young people, who are economically inactive. This is likely to be because a large proportion of the NEET group are parents looking after dependents. In contrast, the majority of homeless young people are seeking work. For the purposes of this research, we restricted the definition of economic inactivity to young people who are inactive for reasons other than being a student, or retired.

NEET	Based on the latest ONS dataset, 18 per cent of 16-17 year olds and 18 per cent of18-24 year olds are economically inactive for reasons other than being a student, or retired (ONS, 2016a).
NEET and homeless	Extrapolating from Centrepoint's internal data, we estimate that 11 per cent of homeless NEETs are economically inactive for reasons other than being a student, or retired.

4.4 Housing Benefit

Housing Benefit is provided by DWP to help people on low incomes to pay their rental costs, either in the social or private sector. Homeless young people who can't stay in the family home are key recipients of housing benefit and are much more likely to claim it compared to the general NEET population. For the purposes of this report, we will estimate that both cohorts who claim housing benefit will do so for the full year. Over half of NEET young people are unemployed for more than a year (Sissons, 2012). We will assume that these young people claim housing benefit for the full year that they are unemployed. Homeless NEET young people by definition, also claim housing benefit for the entirety of their time in supported accommodation.

NEET	Based upon the current data from the Department for Work and Pensions (DWP), eight per cent of NEET 16-17 year olds and 11 per cent of NEET 18-24 year olds claim housing benefit [sourced using DWP Stat-Xplore data, 2016]
NEET and homeless	100 per cent of homeless NEET young people claim housing benefit, or are supported to the equivalent cost by social services (if they are a minor).

We will assume that all homeless young people who are living in supported accommodation cost the same amount, equal to the average level of housing benefit. |

4.5 Jobseeker's Allowance

Jobseeker's Allowance (JSA) is a benefit for people who are unemployed but capable of work.

| NEET | 72,700 young people claim Jobseeker's Allowance in the UK. This equates to nine per cent of all NEET 18-24 year olds claiming Jobseeker's Allowance (ONS, 2016c).

We will assume that the rate of under 18s claiming JSA is zero per cent for the purposes of this report. |
|---|---|
| NEET and homeless | Within Centrepoint, 66 per cent of NEET 18-24 year olds are active job seekers, of which 90 per cent are claiming JSA. Therefore 59 per cent of these young people claim JSA. We will also assume that zero per cent of 16-17 year old homeless young people claim JSA. |

4.6 Employment Support Allowance (ESA)

Employment Support Allowance is also available for young people to support themselves if they are unable to work for a period of time, due to illness or disability. The estimated levels of NEET and homeless young people claiming ESA are broadly similar.

NEET	10 per cent of NEET 16-17 year olds and 12 per cent of NEET 18-24 year olds claim Employment Support Allowance (AVECO, 2012).
NEET and homeless	Four per cent of homeless 16-17 year olds and 17 per cent of homeless 18-24 year olds claim Employment Support Allowance.

4.7 Crime and the Justice System

The costs to the criminal justice system of young people committing crime or entering a Young Offenders Institution are considerable. The fact that someone has been homeless greatly increases the likelihood that they will commit a crime, spend time in prison and even be a victim of crime (Mackenzie, 2016). The chaotic life of a homeless young person and their often transitory living arrangements may increase the likelihood that they have to commit crime to survive. Rough sleeping also increases the chances that young people will be the victim of a crime, compared to NEET young people (Centrepoint, 2015b). For instance, over a third of young people have been a victim of theft while they were homeless.

Although there is a large amount of literature on youth crime, there is less specific data around young people who are NEET. Therefore for the purposes of this report we will use a Department for Education (DfE) estimate which notes that NEET young people are twenty times as likely to commit a crime, compared to non-NEETs (Winnett, 2005). Therefore, for all of the NEET estimates below, we have assumed that NEET young people are twenty times more likely to commit crimes and spend time in prison.

NEET	Prison
	According to latest statistics, the prison population includes an estimated 435 16-17 year olds and an estimated 34,388 18-24 year olds (Ministry of Justice 2014, Poverty Site, 2010). This translates to an estimate that 0.3 per cent of NEET 16-17 year olds having spent time in prison and 3.1 per cent of NEET 18-24 year olds.
	Criminal Offences
	49,558 crimes were committed by young people by 16-17 year olds (Ministry of Justice, 2015b) and an estimated 138,554 offences were committed by 18-24 year olds in 2015 (Ministry of Justice 2015a, Poverty Site 2010). Given that NEET young people are twenty times more likely to commit an offence, this equates to an offence rate of 0.39 per NEET 16-17 year old and 0.13 crimes committed per NEET 18-24 year old.
	Victims of Crime
	Eight per cent of the total NEET young population have been a victim of crime. There was no reliable estimate of the difference in victimisation between 16-17 year olds and 18-24 year olds. We will assume that both groups experience a rate of 8 crimes per 100 young people (ONS, 2016d).
NEET and homeless	Again using Centrepoint data on our young people admitted to our services over the past two years, we estimate that:
	• Four per cent of 16-17 year olds and three per cent of 18-24 year olds spent time in prison in the past year
	• 40 per cent of 16-17 year olds and 33 per cent of 18-24 year olds have committed a crime in the past year
	• 36 per cent of 16-17 year olds have been a victim of crime each year and 25 per cent of 18-24 year olds

4.8 Physical and Mental Health

Young homeless people experience a large number of physical and mental health needs, including long-term illness, depression and physical impairments. The traumatic nature of homelessness means that they generally have poorer health outcomes than other disadvantaged young people. Homeless young people are also more likely than the general population to self-harm. The direct costs to the state of physical and mental illness include the cost of health care, employment support and out of work benefits for sick and disabled people.

Homeless young people are also more likely to abuse substances, compared to other NEET young people. The public finance costs of substance abuse relate to additional welfare and the cost of treatment and prevention.

NEET	• 18 per cent of NEET young people have an alcohol abuse issue (Goldman-Mellor et al, 2016)
	• NEET young people visit the GP 2.59 times per year, on average (Martin, 2001)
	• No reliable data could be found on the number of visits that NEET young people made to A&E over the course of a year. However, 16-24 year olds in general visit A&E 0.4 times per year on average. Taking into account that NEET young people are more disadvantaged than non-NEET young people, we will estimate that NEET young people visit A&E at a rate of 0.8 times per year (Baker, 2015)
	• There is also no reliable data on the exact number of NEET young people who stay in hospital per year. However, Feng (2015) estimate that NEET young people are 1.28 times as likely to visit hospital as non-NEET people. Given a total number of hospital admissions of 1,115,980, we estimate that 9.6 per cent of NEET young people visit hospital each year.
	• 35 per cent of NEET young people have a mental health condition (Goldman-Mellor et al, 2016)
NEET and homeless	• 33 per cent of homeless young people have an alcohol abuse issue
	• 16-17 year olds visit the GP 3.42 times per year on average and 18-24 year olds visit the GP 3.87 times per year on average
	• 16-17 year olds visit A&E 1.06 times per year on average and 18-24 year olds visit A&E 1.19 times per year on average

Homelessness

One of the largest incidence differentials between the two groups is the rates of young people who rough sleep or who approach their local council for help with their housing.

Homelessness application and support

NEET	In 2015/16, 36,897 young people received help from their local council for homelessness (Youth Homelessness Databank, 2016). Assuming that 58 per cent of all homeless young people are NEET (21,400) at any one time, we can estimate that nine per cent of 16-17 year old NEETs and two per cent of 18-24 year old NEETs receive homelessness support each year.
NEET and homeless	By definition, 100 per cent of homeless NEET young people will receive homelessness support from their council each year.

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Rough Sleeping

NEET	We know that three per cent of all young people have slept outside at least once in the previous year. Given that 58 per cent of all homeless young people are NEET and 12 per cent of the general population are NEET, we can estimate that the total NEET population who have slept rough is (1.7 per cent / 12 per cent), which equates to 14 per cent of the total NEET population rough sleep each year.
NEET and homeless	20 per cent of 16-17 year olds rough sleep each year, compared to 34 per cent of 18-24 year old NEET homeless people. The average length of rough sleeping is 21 days among this cohort.

Section 5: Unit costs and assumptions

In this section the unit costs and the periods to which they apply are set out. For example, the costs of alcohol abuse are given as an annual average cost. For weekly costs it has been necessary to estimate how long each group will experience particular circumstances.

The aim is to find a consistent set of costs in 2015 prices, in order to estimate the overall net cost of the NEET homeless population, at the current moment in time. For the purposes of this report, we are therefore ignoring medium and long-term costs that may be attributed to either group.

5.1 Unemployment

Duration of unemployment

The NEET group is defined in terms of those who are unemployed or inactive in July 2016. The homeless NEET group has similarly been defined as those young people who are both homeless and NEET in July 2016.

Over half of NEET young people are unemployed for more than a year (Sissons, 2012). From Centrepoint data, the average length of unemployment for NEET homeless young people is also roughly 12 months. Therefore we assume that the average length of unemployment is one year for both cohorts.

5.11 Foregone Earnings

We will assume that unemployed young people in both groups will forgo earnings at the weekly rates based on average gross earnings, as described in the Labour Force Survey (2016). This will result in a loss of £80.40 per week for NEET 16-17 year olds and a loss of £263.65 per week for NEET 18-24 year olds.

5.12 Tax forgone

Direct taxes

The current tax rate is 20 per cent for any incomes above £11,000. So the weekly tax for each group is:

- For 16-17 year olds is £0 because their wage is below the threshold

- For 18-24 year olds is £10.42 per week

National Insurance contributions

The marginal rate for employee's contribution to National Insurance is 12 per cent; above the £155 per week lower threshold and the employer's contribution is 13.8 per cent. However, employers do not have to pay any National Insurance for employees under 21 who earn less than £827 per week.

National Insurance contributions are calculated using different age ranges of 16-20 and 20 to 24. Therefore to calculate loss of National Insurance contribution also requires an estimate of the weekly wage for both age ranges. Again, the average gross earnings for NEET 16-20 year olds is £155 per week and £301.05 for 20 to 24 year olds.

- For 16-20s, the loss of National Insurance contributions is £0 per week

- For 20 to 24 year olds, the loss of National Insurance contributions is £41.47 per week

Indirect taxes

Youth homelessness also costs the state, through the loss of indirect tax expenditure. Indirect taxes are taxes levied on goods and services rather than on income or profits, such as VAT.

In 2014/15, the poorest fifth of households had 30 per cent of their disposable income collected as indirect tax (ONS, 2016e). This is the amount of indirect tax that is lost for young people who are unemployed.

- For 16-17 year olds this would be £24.92 per week

- For 18 to 24 year olds this would be £65.65 per week

5.2 Underemployment due to educational underachievement

Educational underachievement leads to poorer employment outcomes than would have been the case if the individuals had completed more education or training (Aveco, 2012). The costs of underemployment can be estimated as the difference between the weekly wages of someone with poor qualifications compared to the earnings of those with slightly higher qualifications. This gives an estimate of the lost earnings that could have been achieved if someone had gained average qualifications.

5.21 Foregone earnings

Average gross weekly earnings for 16-17 year olds are:

- £79.18 for young people with qualifications at Level 2 or above

- £83.75 for young people with no qualifications or qualifications below Level 2

Average gross weekly earnings for 18-24 year olds are:

- £269.40 for young people with qualifications at Level 2 or above

- £232.80 for young people with no qualifications or qualifications below Level 2

- Labour Force Survey (2016)

We assume that the wage differential for educational underachievers is the difference between the two hourly wages. We will assume that this wage differential is experienced for a full year by both age groups.

5.22 Tax forgone - underemployment

As a result of their lower earnings, homeless young people will pay lower taxes than general NEET young people. We have estimated the tax forgone, based on the wage differentials listed above.

Direct taxes

The current tax rate is 20 per cent for any incomes above £11,000 per year. So the weekly tax for each group is:

16-17 year olds / No qualifications	£0
16-17 year olds / GCSE or above	£0
18-24 year olds / No qualifications	£4.25
18-24 year olds / GCSE or above	£11.57

Therefore the direct tax lost due to underemployment is:

- £0 for 16-17 year olds because average wages are under the threshold

- £7.32 for 18-24 year olds with no qualifications

National Insurance Contributions

The rate for National insurance contributions is quoted in the above section. Therefore, an employee's weekly contributions for 16-20 year olds are:

16-20 / No qualifications	£0
16-20 / GCSE or above	£0

Weekly contributions for over-21s are:

Employer's contributions

16-20 / No qualifications	£0
16-20 / GCSE or above	£0

Employee's contributions

Over 20s / No qualifications	£14.63
Over 20s / GCSE or above	£18.00

Therefore the NIC lost for over-20s with no qualifications is £3.37.

Indirect taxes

In 2014/15, the poorest fifth of households had 30 per cent of their disposable income collected as indirect tax (ONS, 2016e). Therefore the loss of indirect tax due to underemployment will be 30% of the disposable income differential between people with higher and lower educational standards.

- For 16 to 17 year olds the weekly loss is -£1.42

- For 18 to 24 year olds, the weekly loss is £8.03

5.3 Economic Inactivity

We will assume that NEET young people who are economically inactive are then inactive for a full year. The costs in terms of lost taxes and earnings will be assumed to be the same as for an unemployed young person.

5.4 Welfare Benefits

Jobseeker's Allowance

Jobseeker's allowance is £57.90 per week for under25s. Over half of NEET young people are unemployed for more than a year (Sissons, 2012). From Centrepoint data, the average length of unemployment for NEET homeless young people is also roughly 12 months. We will assume if either NEET or homeless young people are claiming JSA that they will also do so for a full year.

Housing benefit

From Department for Work and Pensions statistics, we can conclude that the average housing benefit claimed by NEET young people is £82 per week (Stat-Xplore, 2016).

We will use the Centrepoint average housing benefit rate of £84.05 per week as a proxy for the housing benefit rates of homeless young people, from Centrepoint internal data.

Employment and Support Allowance

Employment and Support Allowance (ESA) is £109.30 per week. We will assume if either NEET or homeless young people are claiming ESA that they will again do so for a full year.

5.5 Crime and the Justice System

We do not have adequate breakdowns of the types of crime that NEET or homeless young people commit each year. Obviously some types of crime, such as assault, have a far higher public finance cost than other crimes such as theft. Therefore, for the purposes of this estimate, we will use an overall average cost of a crime being committed to the justice system at £663 per crime committed (Home Office, 2011)

Homeless young people are also more likely than the general NEET population to have been a victim of crime. This is potentially a consequence of time spent rough sleeping, where young people are at risk of abuse, assault or theft. Therefore, to assess the public cost of being a victim of crime, we will also assume an average cost to the state of £663 per incident.

5.6 Health

Homeless young people are more likely to use and access statutory services, compared to other NEET young people. Homeless young people are also more likely to have mental health issues and drug and alcohol misuse problems. We have compiled the following unit costs for healthcare from a variety of sources, which we will discuss below. All figures taken from New Economics Foundation (2015):

Health Cost	Unit Cost	Frequency
Alcohol abuse	£2,015.00	Annual
GP surgery	£20.83	Per appointment
A&E attendance	£117.00	Per occurrence
Hospital stay	£1,863.00	Per occurrence
Mental health	£271.00	Annual

5.7 Homelessness

One of the significant differences in cost between homeless NEET young people and young people who are simply NEET is the public resource cost involved in assessing and supporting someone to find suitable accommodation.

In this scenario, the estimates are that it costs the local council £2,724 for each homelessness application that they receive (Shelter, 2012). This is because of the high resource costs involved in assessing and managing those applications by the local housing department.

According to New Economics Foundation (2015) the cost of rough sleeping is £8,605 per year. The average length of time spent rough sleeping is 21 days for Centrepoint residents.

Section 6: Summary of findings

The summary of total public finance costs per homeless NEET young person is set out in this section. Multiplying all of the incidence rates by the corresponding unit cost provides an estimate of the public cost of a NEET homeless person per year.

The research found that the estimated cost to the state of a NEET homeless young person is £12,200 per year at 16-17 years old, which is £8,900 more than for a NEET-only young person. The total cost of youth homelessness then rises to £19,400 per year for 18-24 year old NEETs. This is £12,200 more than the cost of a NEET-only young person.

The relative cost to the state of a NEET homeless young person is broken down in the following table:

Age Range	Cost of NEET young person (per year)	Cost of NEET and homeless young person (per year)	Additional cost of homelessness
16-17	£3,300	£12,200	£8,900
18-24	£7,200	£19,400	£12,200

From the graph below it can be seen that welfare costs (£3,670 and £5,720) dominate the differential between the two groups, primarily due to the cost of housing benefit for homeless young people. A breakdown of the full cost estimate can be found in the appendices. However the estimates also show that health and crime costs are both higher for young homeless people, in the region of £670 to 1,370 per year. They are more likely to have poor health and to both commit and be the victim of crime.

Additional cost of youth homelessness
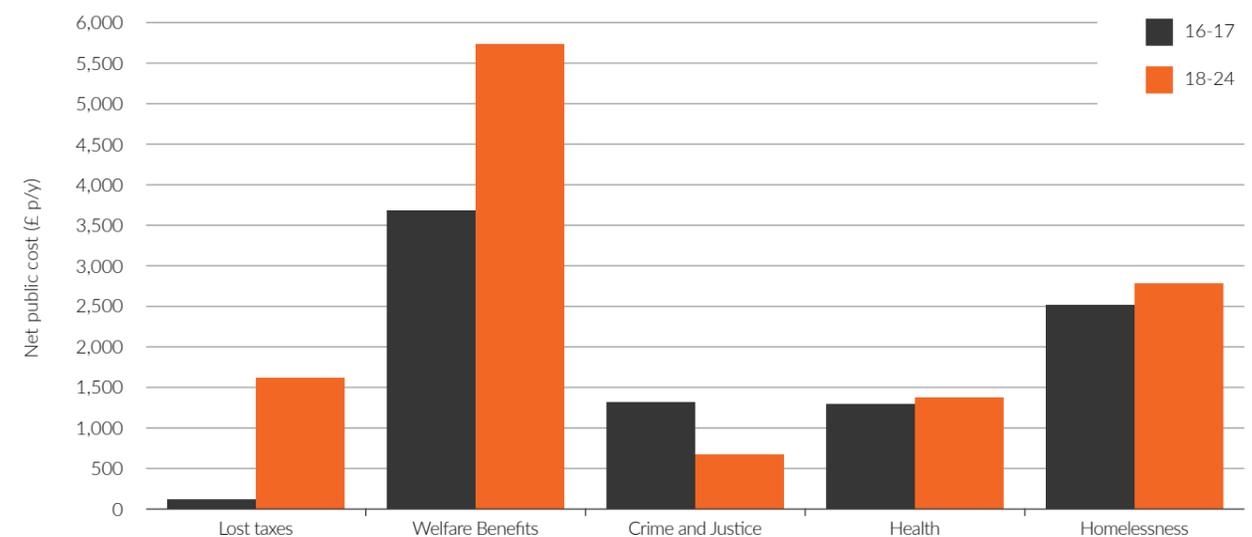
The data for crime and health was the most speculative data included in the study, based on the poorer reliability of the incidence values for NEET young people. If crime and health costs were excluded from the analysis, then the cost of a homeless NEET young person would decrease to £6,300 for a 16-17 year old and to £10,100 for an 18-24 year old, compared to a NEET young person.

It is estimated that 83,000 young people experience homelessness every year. Based on Centrepoint data which shows that 58 per cent of homeless young people are NEET, the annual net public finance cost for all homeless NEET young people is estimated at **£556m per year** over and above the cost if these young people had not been homeless.

Age Range	Number of homeless NEETs	Cost of NEET homeless person	Additional cost of NEET homeless person, compared to a NEET person	Total cost of NEET homeless population (£m/y)	Additional cost of NEET homeless population (£m/y)
16-17	9339	£12,200	£8,900	£113.9	£83.1
18-24	38801	19400	£12,200	£752.7	£473.4
Total				**£866.7**	**£556.5**

Sensitivity

This estimate is conservative and only accounts for a limited range of potential costs. Most estimates were based on a single source of data and therefore there was no means of running sensitivity analysis across the estimates. The incidence rates for homeless young people are considered robust as they are based on primary data from Centrepoint young people. However, in some cases the NEET young person incidence rates are more speculative.

If the incidence rates for NEET young people across each cost category are varied by plus or minus 20 per cent, the overall costs then vary by plus or minus seventeen per cent for 18-24 year olds and by plus or minus nine per cent for 16-17 year olds. Therefore the overall costs are relatively insensitive to changes in the incidence estimates for NEET young people.

Comparisons with other cost estimates of homelessness

These estimates compare well with other estimates of the net cost of youth homelessness. Crisis provided a vignette of a young homeless woman and estimated the additional costs as £11,733 per year (Crisis, 2015). This is slightly lower than our cost estimate for homelessness of £12,200 for a NEET 18-24 year old.

One of the few longitudinal studies of the net costs of youth homelessness, based on empirical data, was recently concluded in Australia. This study found that the net cost of homelessness is $15,000 (£8,500) per person for non-housing costs (Mackenzie et al, 2016). This is within the range of our cost estimates of £6,400 and £9,400 for non-housing costs.

Section 7: Discussion

This exercise has shown the high public finance costs of being homeless between 16 and 24. Given that this is often the first experience of homelessness for these young people, their problems are often not as entrenched as for older rough sleepers. There is therefore more scope for preventative social policies that would help a proportion of these young people not to become homeless in the first place.

Too often, economic discussions of youth homelessness focus on the costs of providing supported accommodation for homeless people and the cost of homelessness housing services. This study has shown that the primary costs of youth homelessness are from additional welfare benefit payments, both due to unemployment and due to housing.

The actual homelessness costs experienced by local councils (e.g. processing homelessness applications and the cost of rough sleeping) are lower. Any policies that help to reduce the root causes of youth homelessness are also likely to be the most cost-effective at reducing the amount the state spends young people at risk of homelessness.

So rather than focussing on where the major costs are (e.g. unemployment and housing benefit), Government should focus on solving the issues that cause young homeless people to have higher levels of unemployment, health problems and underachievement in the first place.

Since the main reason for youth homelessness is because of relationship breakdown, the policies that would be most effective at preventing youth homelessness from occurring almost certainly relate to preventing family breakdown and measures to support whole families with unemployment, health, education and relationship issues in a holistic way.

This research gives a strong indication that tackling the root causes of youth homelessness is likely to be cheaper than supporting young people once they reach crisis point and leave the family home. Youth prevention services that support NEET 16-17 year olds before they reach a housing crisis, are likely to be cost-beneficial if they can be delivered for less than £8,900 per child per year.

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Appendix 1: Estimated public costs for NEET 16-17 year olds

Cost Category	Costs	Unit Cost (£)	Frequency	NEET incidence	NEET cost (a)	Homeless NEET incidence	Homeless NEET cost (b)	Additional cost of homelessness (b - a)
Unemployment	Direct tax forgone	£0.00	Annual	45%	£0.00	43%	£0.00	£0.00
	NI forgone	£0.00	Weekly	45%	£0.00	43%	£0.00	£0.00
	Indirect taxes	£24.92	Weekly	45%	£580.54	43%	£557.21	£23.33
Educational underachievement	Direct tax forgone	£0.00	Weekly	40%	£0.00	37%	£0.00	£0.00
	NI forgone	£0.00	Weekly	40%	£0.00	37%	£0.00	£0.00
	Indirect taxes	£1.42	Weekly	40%	£29.24	37%	£27.17	£2.07
Economic Inactivity	Direct tax forgone	£0.00	Annual	18%	£0.00	30%	£0.00	£0.00
	NI forgone	£0.00	Weekly	18%	£0.00	30%	£0.00	£0.00
	Indirect taxes	£24.92	Weekly	18%	£233.25	30%	£382.27	£149.02
Welfare Benefits	JSA	£57.90	Week	0%	£0.00	0%	£0.00	£0.00
	Housing Benefit	82 for NEET, 84.05 for homeless	Week	8%	£332.59	100%	£4370.60	£4,038.01
	ESA	£109.30	Week	10%	£591.09	4%	£227.34	£363.75
Crime	Prison population	£34,840.00	Annual	0%	£91.46	4%	£1219.40	£1,127.95
	Crime	£663.00	Per occurrence	39%	£255.92	40%	£265.20	£9.28
	Victim of Crime	£663.00	Per occurrence	8%	£53.04	36%	£237.35	£184.31
Health	Alcohol Abuse	£2,015.00	Annual	18%	£356.66	36%	£719.36	£362.70
	GP surgery	£20.83	Annual	259%	£53.96	342%	£71.25	£17.29
	A&E attendance	£117.00	Annual	80%	£93.60	106%	£124.02	£30.42
	Hospital stay	£1,863.00	Occurrence	10%	£178.85	57%	£1061.91	£883.06
	Mental Health	£271.00	Annual	35%	£94.85	36%	£96.75	£1.90
Homelessness	Homelessness application	£2,724.00	Per occurrence	9%	£245.16	100%	£2724.00	£2,478.84
	Rough Sleeping	£8,605.00	Daily	14%	£74.92	20%	£105.43	£30.50
Total					£3,265.12		£12,189.26	£8,924.14

Appendix 2: Estimated public costs for NEET 18-24 year olds

Cost Category	Costs	Unit Cost (£)	Frequency	NEET incidence	NEET cost (a)	Homeless NEET incidence	Homeless NEET cost (b)	Additional cost of homelessness (b - a)
Unemployment	Direct tax forgone	£541.84	Annual	44%	£238.41	68%	£365.74	£127.33
	NI forgone	£41.47	Weekly	44%	£948.83	68%	£1455.60	£506.76
	Indirect taxes	£65.65	Weekly	44%	£1,502.07	68%	£2304.32	£802.24
Educational underachievement	Direct tax forgone	£7.32	Weekly	41%	£156.06	67%	£253.89	£97.82
	NI forgone	£7.25	Weekly	41%	£154.57	67%	£251.46	£96.89
	Indirect taxes	£8.03	Weekly	41%	£171.20	67%	£278.51	£107.31
Economic Inactivity	Direct tax forgone	£541.84	Annual	18%	£97.53	16%	£86.69	£10.84
	NI forgone	£41.47	Weekly	18%	£388.16	16%	£345.03	£43.13
	Indirect taxes	£65.65	Weekly	18%	£614.48	16%	£546.21	£68.28
Welfare Benefits	JSA	£57.90	Week	9%	£270.97	59%	£1788.42	£1,517.44
	Housing Benefit	82 for NEET, 84.05 for homeless	Week	11%	£447.72	100%	£4370.60	£3,922.88
	ESA	£109.30	Week	12%	£682.03	17%	£966.21	£284.18
Crime	Prison population	£34,840.00	Annual	2%	£518.25	3%	£945.04	£426.79
	Crime	£663.00	Occurrence	13%	£85.53	33%	£218.79	£133.26
	Victim of Crime	£663.00	Occurrence	8%	£53.04	25%	£163.10	£110.06
Health	Alcohol Abuse	£2,015.00	Annual	18%	£356.66	35%	£705.25	£348.60
	GP surgery	£20.83	Annual	259%	£53.96	387%	£80.63	£26.67
	A&E attendance	£117.00	Annual	80%	£93.60	115%	£134.55	£40.95
	Hospital stay	£1,863.00	Occurrence	10%	£178.85	59%	£1099.17	£920.32
	Mental Health	£271.00	Annual	35%	£94.85	47%	£127.37	£32.52
Homelessness	Homelessness application	£2,724.00	Per occurrence	2%	£54.48	100%	£2724.00	£2,669.52
	Rough Sleeping	£8,605.00	Annual	14%	£74.92	34%	£181.95	£107.03
Total					£7,236.17		£19,392.51	£12,156.34

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