

Title: Welfare Reform and Work Bill: Impact Assessment for the benefit cap Lead department or agency: Department for Work and Pensions Other departments or agencies: Local Authorities	Impact Assessment (IA)		
	Date: July 2015		
	Stage: Final		
	Source of intervention: Domestic		
	Type of measure: Primary legislation		
Contact for enquiries: workingage.benefitsstrategy@dwp.gsi.gov.uk			

Summary: Intervention and Options	RPC Opinion: Not Applicable
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Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out? Measure qualifies as
N/A	N/A	N/A	No NA

What is the problem under consideration? Why is government intervention necessary?
The current benefit cap has been shown to be successful with more households looking for and finding work. The long term positive, intergenerational, effects from people moving into work are well-known and therefore, to encourage more households to move into work, a new lower, tiered cap has been designed to strengthen the work incentives for those on benefits. It also helps in tackling the deficit and consequent reductions in public expenditure that the Government is making to return to sustainable public finances. Evaluation evidence shows that the existing benefit cap, at £26,000, is improving work incentives, promoting fairness between those on out of work benefits and taxpayers and delivering savings. Reducing the benefit cap to £20,000 in Great Britain and £23,000 in Greater London builds on this, delivering further positive change.

What are the policy objectives and the intended effects?
The objective of the policy change is to build on the successes of the existing benefit cap, as shown by evaluation evidence. We will do this by restricting the total amount of benefits that a household can receive to £20,000 in Great Britain and £23,000 in Greater London (and 67% of these levels for single people without children). By doing this the policy will:

1. Further improve work incentives for those on benefits
2. Promote even greater fairness between those on out of work benefits and tax payers in employment (who largely support the current benefit cap), whilst providing support to the most vulnerable
3. Further reduce benefit expenditure and continue to help tackle the financial deficit.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
We considered 3 options: (1) Applying the cap to all working age benefit recipients (2) Leaving the cap at £26,000 as the policy is in place and clearly working as intended (3) Lowering the cap to £20,000 in Great Britain and £23,000 in Greater London to build on the current success of the cap in improving incentives to work, delivering fairness and benefit savings.
Removing exemptions reduces fairness and work incentives, despite increasing savings and so was rejected. The current cap meets policy intentions; however, there is opportunity to further build on its success with a lower cap. We believe the lower levels further enhance work incentives, whilst striking a balance between claimants and taxpayers interests for fairness and spending and ensuring a safety net for the most vulnerable; it is, therefore, the chosen option.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 12/2018

Does implementation go beyond minimum EU requirements?	No				
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro No	< 20 No	Small No	Medium No	Large No
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: N/A		Non-traded: N/A		

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:  Date: 20/07/2015

Summary: Analysis & Evidence

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 15/16	PV Base Year 15/16	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate:

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate		£325m	

Description and scale of key monetised costs by 'main affected groups'

The estimates shown do not take account of the expected behavioural changes from reform as these are difficult to estimate. All figures shown relate to Great Britain. In a static environment an estimated total 120,000 households could be affected by benefit cap in the implementation year of 2016/17, 90,000 of them additional over the current policy. However, all households taking action to move into work will be unaffected by the changes. Those not responding will have their benefits reduced by an average of around £63 per week (median £50) in 2017/18 leading to a transfer from these households of £95m in 2016/17 and £300m in 2017/18 (cash terms).

For many people who will be affected by the cap these reductions are notional changes in entitlement rather than actual cash losses i.e. those who become capped once the policy is in place haven't seen any reductions in their benefit, just a lower maximum limit on the benefit they would, otherwise, have been entitled to. Households who do not make an adjustment before the lower cap is introduced would face a cash reduction in their benefit receipt.

Other key non-monetised costs by 'main affected groups'

Households who may be affected by the cap will face the same choices as working families over where to live and managing their household expenditure. It is not possible to robustly quantify these costs because they are based on behavioural changes which are difficult to assess.

These costs do not include the operational cost of implementing the benefit cap or support provided to capped claimants. The Department is currently refining the estimate of these costs. To help ensure Local Authorities are able to protect the most vulnerable a total of £800m in Discretionary Housing Payments over 5 years (from 2016/17) will be available.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate		£325m	

Description and scale of key monetised benefits by 'main affected groups'

Deliver additional fiscal savings of £95m in 2016/17 and £300m in 2017/18 (cash terms) or £95m in 2016/17 and £295m in 2017/18 (2015/16 prices), these being the benefits transferred to the taxpayer as a result of the policy change. Further additional savings from the policy change, assuming the cap remained at the same level would be £350m in 2018/19, £395m in 2019/20 and £480m in 2020/21 (cash terms) or £330m in 2018/19, £365m in 2019/20 and £435m in 2020/21 (2015/16 prices).

Other key non-monetised benefits by 'main affected groups'

This measure sits alongside the other measures announced in the Welfare Reform and Work Bill to continue to improve work incentives, make the welfare system fair and affordable for all. Workless households will see limits in benefit receipt and this improves work incentives, particularly since entitlement to Working Tax Credits will provide exemption from being capped. There are long term, positive, intergenerational, effects from work and improving work incentives helps deliver these.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5%

Impacts have been estimated using administrative records held by the DWP on benefit recipients (see Annex 1 for further detail). The source data relates to November 2014, but has been up-rated to the relevant year's prices and benefit rates, therefore assumptions about future inflation rates have been made. The modelling was carried out under the assumption of a 4 year benefit freeze starting in 2016/17. All of the £m figures above have been rounded to the nearest £5m. All estimates are shown for at a Great Britain level. No behavioural change has been assumed in the impacts, although such change is likely; evaluation has shown more people looking for and finding work from the current cap level.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: N/A	Benefits: N/A	Net: N/A	No	NA

Introduction

The Welfare Reform and Work Bill incorporates a number of policy changes designed to improve work incentives and enhance fairness, whilst ensuring support for the most vulnerable.

Measures include the Government's intention that key elements of benefits and tax credits be frozen at their 2015/16 levels in 2016/17, 2017/18, 2018/19 and 2019/20 and, also, that from 2016/17 total household benefit payments for working-age claimants will be capped so that workless households will no longer be entitled to receive more than £20,000¹ in benefit (£13,400 for single adults with no children) and £23,000 (£15,410 for single adults with no children) in Greater London.

Separate Impact Assessments have been produced to assess the impacts of the policies within the Bill. This Impact Assessment examines the move from a £26,000 benefit cap to a benefit cap of £20,000 in Great Britain and £23,000 in Greater London.

The current policy

From April 2013 the Government introduced a cap on the total amount of benefit that working-age people can receive. The cap was set at £26,000 per year or £500 per week for a couple (with or without children) and single parent households; and equivalised at 67%, or £350 per week (after rounding), for single adult households without children.

Benefits taken into account

Benefits and tax credits (with the exception of working tax credit) that provide an out-of-work income for adults or support for children and housing are taken into account for purposes of applying the cap.

The cap applies to the combined income from:

- Bereavement Allowance
- Carer's Allowance
- Child Benefit
- Child Tax Credit
- Employment and Support Allowance except where the support component has been awarded
- Guardian's Allowance
- Housing Benefit
- Incapacity Benefit
- Income Support
- Jobseeker's Allowance
- Maternity Allowance
- Severe Disablement Allowance
- Universal Credit

¹ An equivalisation, in line with OECD modified scale, has been made so the single-adult rate is equal to 67% of the cap level for families. Equivalisation means a single person can typically attain the same standard of living as a childless couple on only 67% of its income

- Widowed Parent's Allowance
- Widow's Benefit

Currently, where the total amount of welfare benefits exceeds the cap, the LA will reduce a claimant's entitlement to HB by the amount of the excess, but increasingly the benefit cap will be administered through UC. The Impact Assessment focuses on the effects of households claiming Housing Benefit.

Benefits not taken into account

Legislation specifically excludes State Pension and Pension Credit, reflecting that the policy is primarily a work incentive aimed at people of working age. Also excluded are one-off payments, non-cash benefits and those not paid by government, such as Statutory Sick Pay (which, in any event, would be paid while someone was in employment and so exempt from the cap).

Exemptions

Entitlement to Working Tax Credit reflects the main aim of the policy, which is to increase the incentive to work. This includes households who are working sufficient hours to qualify for WTC but whose earnings are so great that they have been awarded a "nil entitlement."

Receipt of Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Industrial Injuries Benefits (and equivalent payments made as part of a war disablement pension or the Armed Forces Compensation Scheme) or the Support Component of Employment and Support Allowance recognise the additional financial costs that can arise from disability and that disabled people will have less scope to alter their spending patterns or reduce their housing costs, or adjust their circumstances to improve their employment prospects (Attendance Allowance and Personal Independence Allowance are replacing Disability Living Allowance.)

War Widows and Widowers receiving a pension paid under the relevant parts of the War Pension Scheme, Armed Forces Compensation Scheme or analogous schemes are exempt to reflect commitments to support the aim of the Armed Forces Covenant to recognise sacrifice of those seriously injured or killed in the service of their country.

Grace Period provides a fixed period of protection for those with a consistent work history whose employment has ended or those who have been forced to leave work due to a change in their circumstances during which they can adapt to their position and look for alternative employment. The grace period will be for a set 39 weeks, and if applicable it will remain in place irrespective of any reportable change of circumstances made by the claimant during the 39 weeks.

Disregards

In addition some payments are disregarded for purposes of the benefit cap. Housing costs paid in respect of 'supported exempt accommodation' and "specified accommodation" (e.g. some refuges, hostels) are not included in the benefit cap calculation.

What policy changes are we making and why?

The cap was originally established to enhance work incentives as part of the Welfare Reform Act which received Royal Assent in March 2012. The level of the cap was set at £26,000 per year for couples, with or without children, and lone parents, and £18,200 per year for households of a single adult with no children.

A lower cap level

Our welfare reforms are focussed on transforming lives by supporting people to find and keep work. The changes we are making to the benefit cap will support our ambition of moving to full employment. From 2016/17 total household benefit payments for working-age claimants will be capped so that workless households will no longer be entitled to receive more than £20,000 in benefit (£13,400 for single adults

with no children) and £23,000 (£15,410 for single adults with no children) in Greater London, which is defined as the 32 London boroughs and the City of London.

Why is the benefit cap being lowered and tiered?

- The new lower, tiered cap strengthens work incentives, achieves fairness for taxpayers and ensures there is a reasonable safety net of support for the most vulnerable.
- An evaluation² of the current £26,000 benefit cap showed capped households were 41% more likely to enter work than comparable households not affected by the benefit cap, and the greater the amount by which benefit receipt was reduced by the cap, the greater the proportion moving into employment.
- A lower cap recognises that many hard working families earn less than median earnings – a lower cap provides a strong work incentive.
- The tiered approach recognises that under the current cap, a disproportionate percentage of capped households are in London. Almost half of all households currently capped are living in London, in contrast only 3% of capped households live in the North East. The tiered cap would see a more equitable distribution of capped cases, with around 24% in London.
- A higher cap tier of £23,000 in London takes account of the higher household costs in London including housing. For example, average private rents are almost three times more expensive in London than in the North East. Average Housing Benefit payments in London are around £3,000 per year higher than outside London. A tiered cap will mean that the distribution of capped households will be more broadly in line with the geographical distribution of Housing Benefit claimants. This will ensure that the work incentive effects of the cap are realised nationally, and not only in London³.
- The level of the tiered caps is fair and reflects the broader economic situation – for instance, alongside the differences in housing costs, around 4 out of 10 households earn less than £23,000 in London, whilst around 4 out of 10 households in GB (excluding London) earn less than £20,000⁴.
- The level of the tiered caps alongside the introduction of the national living wage aims to strengthen the work incentives for households. A couple, where both adults work full-time at the national living wage, may be up to £4,000 better off in work.
- People who do the right thing and move into work are not affected by the cap – creating a clear incentive to move into employment. Those who work at least 16 hours (24 hours for a couple) and are entitled to Working Tax Credit are exempt from the benefit cap.

The cap will continue to be administered by either:

- local authorities through housing benefit payments: when a household's total benefit entitlement exceeds the cap the local authority will reduce the level of housing benefit by the excess amount; or
- decision makers when the cap is also applied through Universal Credit: when a household's total benefit entitlement exceeds the cap the UC award will be reduced by the excess amount. Analysis within this Impact Assessment has focused on households under the Housing Benefit system.

² Available at <https://www.gov.uk/government/publications/benefit-cap-evaluation>

³ Housing Benefit statistics are available from <https://stat-xplore.dwp.gov.uk/>. Private rental market statistics are available from: <https://www.gov.uk/government/statistics/private-rental-market-statistics-may-2015>

⁴ Family Resource Survey 2013/14 and updated in line with average earnings growth.

Who is exempt from the changes?

The lower cap will retain the same policy design around exemptions, benefits taken into account and disregarded as the cap at £26,000.

Options for policy change that have been considered

We considered 3 potential options for the benefit cap:

(1) Applying the cap to all working age benefit recipients would clearly fail to meet all the policy intentions. It would significantly reduce the extent to which the policy improves incentives to work, since the cap would then apply to working households and the inclusion of disability related benefits would not protect the most vulnerable who are not able to make the choice to return to work. Whilst it would increase savings to the taxpayer to help tackle the financial deficit this wasn't felt an appropriate trade off. Therefore, this option was rejected.

(2) Leaving the cap at £26,000 would retain its current work incentives and its benefit savings. Evaluation evidence shows that the existing benefit cap, at £26,000, is delivering savings, improving work incentives and promoting fairness between those on out of work benefits and tax payers, it is right we build on this and go further in extending these positive outcomes. Additionally, this level may not be encouraging work across all regions as the level remains significantly higher than average earnings in many regions.

(3) Reducing the benefit cap to £20,000 and £23,000 in London (chosen option) will build on this existing policy success and help, alongside other necessary reforms, in strengthening work incentives, whilst also helping achieve fiscal stability alongside increasing fairness between claimants and taxpayers (around 4 in 10 working households will still have earnings below this lower level) and ensures there is a reasonable safety net of support for the most vulnerable

Estimating costs and benefits of the policy change

The impacts presented in this assessment are based on static assumptions, transposing the policy change on to a population that we model based on the current benefit system and claimants. These changes therefore do not show the full dynamic picture as people are now aware of the policy changes that will affect their future benefit entitlement once the policy is implemented. This change has an immediate impact on the financial incentives to move into work. Movement into work will result in them increasing their income rather than face a reduction, or a lower entitlement, in the future. Therefore, households will have to face similar choices faced by working families.

Behavioural change

Estimates of caseload and amounts do not include behavioural responses, which would lower the number of households capped. We have, however, seen clear evidence of positive behavioural responses to the cap at £26,000 (for example, from movements into work); this has been observed from post implementation evaluation. The evaluation of the current £26,000 benefit cap found:

- Those who would be impacted by the cap are 41% more likely to go into work than a similar group who fall just below the cap's level. But this trend didn't exist before the cap was in place – indeed those with higher weekly benefit used to be less likely to move into work.
- 38% of those capped said they were doing more to find work, a third were submitting more applications and 1 in 5 went to more interviews.
- Where households said they intended to seek work because of the cap in February 2014 (45%), by August, the vast majority of them (85%) had done so – 2 in 5 (40%) of those who said they had looked for work because of the cap in February actually entered employment by August.

The new cap level of £20,000, and £23,000 in Greater London, strengthens the work incentive for a larger number of households to encourage households to move into work and to increase their hours of

work. Couples must, together, work at least 24 hours per week to be exempt from the cap. Lone parents must work 16 hours per week to be exempt.

Children can have their life chances and opportunities damaged as a result of living in households where no-one has worked for years and where no-one considers work is an option. For example:

- Children in households where neither parent is in work are much more likely to have challenging behaviour at age 5 than children in households where both parents are in paid employment⁵.
- Growing up in a workless household is associated with poorer academic attainment and a higher risk of being not in education, employment and training (NEET) in late adolescence⁶.

The recent evaluation of the current benefit cap also found that most capped households spoke very positively about the overall benefits of being in work on their health and family life. Most were keen to work for multiple reasons including: health, happiness, self-esteem and overall quality of life benefits. In a few cases, the new employment had brought sufficient financial rewards that people now felt better off such as being able to afford treats for their children.

Encouraging more households to move into work would also help increase the household's income and improve their well-being: research⁷ shows for people without work, re-employment leads to improvement in health and well-being whereas further unemployment leads to deterioration. We therefore expect the reduction of the benefit cap to have a positive impact on households moving into work.

We do not have sufficient information to reliably be able to predict, in advance of implementation, the potential magnitude of such responses for a lower cap, but there will be 2 groups affected by a lower cap:

- Those already capped at £26,000 will have the new, lower, cap applied to them. Evidence from evaluation suggests households that are capped by larger amounts are more likely to move into employment than those capped by smaller amounts. Therefore, all else being equal, a lower cap will increase work incentives for this group.
- A group of people not capped at £26,000. Some of these people will be capped by small amounts and evaluation evidence suggests adjustments, at least initially, are likely to come through changes in spending patterns. In the slightly longer term, this group may respond by seeking employment or moving house etc. We may, therefore, see similar responses to those capped at £26,000, but given there are some small differences between the groups (if these weren't present they'd have already been capped) they may respond differently.

If those capped responded similarly to those assessed as part of the previous benefit cap evaluation we could expect to see those impacted by the cap being 41% more likely to go into work than a similar group who fall just below the cap's level.

Details of methodology

Estimates of caseload and amounts do not include behavioural responses, which would reduce the number of households capped. Modelling for this assessment was conducted using administrative records held by the Department for Work and Pensions that dated from November 2014. This data contains amounts of benefit paid (including Child Benefit, as paid by HM Revenue and Customs), family structure, and indicators of receipt of Working Tax Credit and exemption benefits such as DLA. This enables the separation of households into those excluded from the cap, and those which will be subject to it. Further information on the data can be found in Annex 1.

⁵ Economic and Social Research Council (2012) Parenting Style Influences Social Mobility. Economic and Social Research Council Briefing Paper.

⁶ Barnes, M. et al. (2012) Intergenerational Transmission of Worklessness: Evidence from the Millennium Cohort Study and Longitudinal Study of Young People in England. Department for Education research report 234

⁷ For example, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212266/hwwb-mental-health-and-work.pdf

The administrative records relate to November 2014, but have been adjusted to reflect the future benefit regime which is consistent with OBR economic assumptions for the July 2015 Budget. The modelling takes account of a 4 year freeze in working-age benefits (included in the Welfare Reform and Work Bill) from 2016/17.

At this stage decisions over the precise details of implementation (for example, roll out schedule and level of pre-implementation employment support available) haven't been finalised; however, DWP has learned lessons from the successful roll out of the cap at £26,000. Given detailed implementation plans have not been finalised we have not currently set out departmental DEL costs (for example, DWP staff costs for processing additional cases and New Burdens funding for LA costs). To help ensure Local Authorities are able to protect the most vulnerable a total of £800m in Discretionary Housing Payments over 5 years (from 2016/17) will be available. Further information and details will be developed as implementation is agreed.

Savings

In the absence of behavioural responses to the policy changes an estimated average⁸ total of 126,000 households will be affected by a £20,000 benefit cap and £23,000 benefit cap in Greater London in the first full-year of the policy in 2017/18. It is estimated that 92,000 of these households will be additional (over and above those affected by without a policy change i.e. with the cap at £26,000).

Households making a behavioural response to the cap will not face a reduction in their benefit receipt from the benefit cap. For households not making a behavioural response to the change their benefit entitlement will be reduced by an average of around £63 per week (median £50). For many people who will be affected by the cap these reductions are notional changes in entitlement rather than actual cash losses i.e. those who become capped once the policy is in place haven't seen any reductions in their benefit, just a lower maximum limit on the benefit they would, otherwise, have been entitled to. Households who do not make an adjustment before the lower cap is introduced would face a cash reduction in their benefit receipt.

The effects of the changes are shown in the table below. The 2016/17 figures shown currently assume the policy has a phased implementation. Plans for implementation are yet to be finalised and therefore a cautious approach has been taken using a third of full-year additional savings.

Table 1: Additional AME savings from the benefit cap changes without behavioural responses

Year	Additional savings from the policy change (cash terms)	Additional savings from the policy change (2015/16 prices)
2016/17	£95m	£95m
2017/18	£300m	£295m
2018/19	£350m	£330m
2019/20	£395m	£365m
2020/21	£480m	£435m

Note: Figures rounded to the nearest £5m. Estimates are shown at a Great Britain level and made in the absence of behavioural changes.

The estimated savings have been based on a benefit cap level remaining at £20,000 and £23,000 in Greater London. The benefit cap level may be reviewed in line with a range of factors and considerations at least once in a Parliament and any change to the level would impact the savings from the policy change.

Savings from the policy are also sensitive to a number of other factors. They may be affected by behavioural responses to the policy. In addition estimates have been based on OBR economic assumptions for the Summer Budget 2015 and if inflation was different to the forecast, the up-rating of working-age benefits in 2020/21 and the growth of eligible rents may be impacted resulting in changes to the number of households affected by the benefit cap and the average benefit reduction. Any additional welfare reforms (other than the

⁸ The total number of households affected by the cap in any year will be larger than the average number as there are flows onto and out of the cap.

four-year out-of-work working age benefit freeze) may also have an impact on the number of households affected by the benefit cap and the average reduction in benefit entitlement.

The estimated savings and the impacts of the benefit cap have been assessed on a Great Britain basis. If the estimated savings were reflected at a United Kingdom level, savings would be estimated at £100m in 2016/17, £310m in 2017/18, £360m in 2018/19, £405m in 2019/20 and £495m in 2020/21 (cash terms). These savings are aligned to those published alongside the Summer Budget 2015. These are Great Britain figures scaled up using the Barnett formula; however, analysis is based on Great Britain.

Caseload

In the absence of any behavioural response to the policy, around 92,000 additional households over and above those affected by the current cap at £26,000 will have their benefits reduced by the policy in 2017/18 (this is roughly 2% of the out-of-work benefit caseload). Within these households, in 2016/17, the additional number of adults affected is 112,000 and the number of children 224,000. The average total number of households affected by the change if they do not make the choice to move into employment is around 126,000 in 2017/18; this includes those who would see their current cap lowered. Within these households, in 2017/18, the number of adults affected is 156,000 and the number of children 333,000.

However, if those capped responded similarly to those assessed as part of the previous benefit cap evaluation we might expect to see those impacted by the cap being 41% more likely to go into work than a similar group who fall just below the cap's level

Average amount of benefit reduction

Households making a behavioural response to the cap will not face a reduction in their benefit receipt. In those households not making a behavioural response to the cap the average (mean) reduction in benefit is estimated to be around £63 a week (median reduction £50 a week). For many people who will be affected by the cap these reductions are notional changes in entitlement rather than actual cash losses i.e. those who become capped once the policy is in place haven't seen any reductions in their benefit, just a lower maximum limit on the benefit they would, otherwise, have been entitled to. Households who do not make an adjustment before the lower cap is introduced would face a cash reduction in their benefit receipt.

For those households who may be newly affected by the benefit cap (around 92,000 households in 2017/18), their average reduction in entitlement is around £39 per week. Households who would have had their benefit capped at £26,000 will lose a further £64 per week from the change. However, some households who may have been impacted by the policy may, therefore, move into work and be financially better off.

Around half of the additional households affected will face a reduction of £50 per week or less. As a proportion of the caseload, this distribution of reduction in benefit entitlement is estimated to be similar to the distribution under the current benefit cap level.

Impacts of the policy on people with protected characteristics are set out in the following sections. It's important to note these do not include any behavioural response to the cap, which might affect both numbers and types of cases impacted. For example, additional moves into employment, as observed with a £26,000 cap, may reduce the overall capped caseload.

Impacts of the policy change

All impacts are shown in a static world, without behavioural change, for 2017/18 as this is the first full year the policy is expected to be rolled out for. Impacts are subject to the same sensitivities as noted for the savings estimates.

This document records the analysis undertaken by the Department to enable Ministers to fulfil the requirements placed on them by the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010.

The PSED requires the Minister to pay due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and those who do not; and
- foster good relations between people who share a protected characteristic and those who do not.

In undertaking the analysis, where applicable, the Department has also taken into account:

- the United Nations Convention on the Rights of the Child (UNCRC) and, in particular: Article 2 (the duty not to discriminate); Article 3 (the duty to treat the best interests of the child as a primary consideration); Article 6 (the right to life and to develop to the maximum extent possible); Article 9 (the right for children not to be separated from their parents against their will); Article 16 (prohibition against arbitrary or unlawful interference with private life, home and family); article 26 (social security); and article 27 (standard of living).
- the Convention on the Elimination of all forms of Discrimination Against Women in particular articles 2 (policy measures), 3 (Guarantee of Basic Human Rights and Fundamental Freedoms) and 13 (economic and social benefits);
- and the UN Convention on the Rights of Persons with Disabilities.

Gender

Modelling suggests that around 64% of claimants who are likely to have their benefit reduced by the cap will be single females but only around 12% will be single men.

Most of the single women affected are likely to be lone parents: this is because we expect the majority of households affected by the policy to have children. Around 59% of the caseload are estimated to be female lone parents.

The female employment rate is currently at a record high of 68.6% and there are a record 14.53m women in work (Labour Market Statistics June 2015). The latest estimates also show 1.248 million lone parents in employment (63.5%) in the UK in 2014 (Quarter 4)⁹.

Age

Modelling suggests that just over three-quarters (76%) of additional households affected will be aged 25 to 44 (ages are based on the age of the main claimant). This is mainly because those under 25 generally receive less in benefit payments and are less likely to have children. The cap will only apply to working-age benefits and will not impact on single people or couples who have both reached the qualifying age for Pension Credit. In Housing Benefit the cap will not apply to most couples where one partner has reached the qualifying age for Pension Credit. The age distribution of affected claimants remains broadly similar to the current cap.

Disability

Households where someone is in receipt of Disability Living Allowance (or its replacement, Personal Independence Payment), Attendance Allowance, Industrial Injuries Benefit or the support component of Employment Support Allowance are exempt from the benefit cap.

⁹ <http://www.ons.gov.uk/ons/rel/lmac/working-and-workless-households/index.html>

Ethnicity

We cannot precisely quantify the number of capped households where a member is from an ethnic minority since recording of ethnicity on benefits administrative data isn't sufficiently reliable to be used. A large proportion of those affected by the benefit cap are larger families. Those from cultural backgrounds with a high prevalence of large families and households from certain ethnic minorities that tend to have a higher proportion of large families are more likely to be affected. A large proportion of the caseload is also in London which, relative to the rest of the country, has a more diverse population. An indicative proportion can be taken from the Ipsos MORI survey of affected claimants (with the cap set at £26,000) which found that 37% of households sampled in the cohort were from a black or minority ethnic background; however, the new cap will, relatively, have a greater proportion of its caseload outside London, so this finding needs to be treated with some caution.

Sexual orientation

The Department does not hold information on its administrative systems on the sexual orientation of claimants. The Government does not envisage an adverse impact on these grounds.

Pregnancy and maternity

The Department only holds information on pregnancy and maternity on its administrative systems where it is the primary reason for incapacity. It cannot therefore be used to accurately assess the equality impacts. The Government does not envisage an adverse impact on these grounds.

Religion or belief

The Department does not hold information on its administrative systems on the religion or beliefs of claimants. There may be some religions with a high prevalence of large families that are more likely to be affected. However, the Government does not envisage an adverse impact on these grounds.

Gender reassignment

The Department does not hold information on its administrative systems on gender reassignment. The Government does not envisage an adverse impact on these grounds.

Marriage and Civil Partnership

The Department does not hold information on its administrative systems on the marital or civil partnership status of claimants. The Government does not envisage an adverse impact on these grounds.

Carers

The vast majority, 94%, of households in receipt of Carer's Allowance who have a benefit income above the new cap level are exempt from the cap, mainly because the person they care for is in the same household and is in receipt of an exempting disability related benefit. The characteristics of those in receipt of Carer's Allowance are broadly similar to the total capped caseload.

Life Chances

The new Life Chances legislation (incorporated into the Welfare Reform and Work Bill) proposes to remove a number of the legal duties and measures set out in the Child Poverty Act 2010 and to place a new duty on the Secretary of State to report annually on children in workless households and the educational attainment of children. This is because evidence shows these to be the two main factors leading to child poverty now and in the future (respectively).

The benefit cap is supportive of the Life Chances legislation in that this policy gives the incentive for people to make the choice to move into work.

The current benefit cap, at £26,000, has been shown to be successful with more households looking for, and finding work. The new, lower, tiered cap aims to build on this success by strengthening the work incentive for households. In this way the number of children living in workless households could fall over time.

What are we doing in mitigation?

DWP has a number of measures in place to ease the transition for families affected by the policy change. Our strategy is based on the principle of providing mainstream services that are flexible enough at the point of delivery to deal with the needs of individual customers. Most of the obstacles to labour market participation faced by our customers are very similar, whatever their background. Barriers that may exist - such as lack of confidence, poor educational achievement, low skill levels, childcare or disabilities - are universal. Where impediments are specific to a person's ethnic origins, such as lack of fluency in English, these can be addressed within the mainstream programmes. Additional childcare provided will better support households with children to make the decision to move into work.

There is evidence to show behavioural change prior to implementation for the £26,000 level of the benefit cap:

- Of those who entered work prior to implementation: over three-in-five people (62%) of those who took action said they looked for a job after being notified they would be affected by the benefit cap.
- Around 14% of households in scope for the cap in May 2012 (a year before implementation) moved into work after a year compared to around 11% for similar uncapped households. After controlling for a range of observable characteristics, those in scope for the cap were 1.5 percentage points (14%) more likely to enter employment after a year compared to similar uncapped households.

Employment support

There is a wide range of help and employment support currently offered and available by Jobcentre Plus and its partners such as the Work Programme and Work Choice.

Childcare Costs

Support for childcare costs for those in work is currently provided through Working Tax Credit and households in receipt of Working Tax Credit are exempt from the cap. Under UC childcare support will be paid via an element within UC and will be available to all lone parents and couples, where both members are in work, regardless of the number of hours they work. Payments to support childcare costs through UC will not be affected by the cap and will continue to be received in full. This will help mitigate the impacts of the cap for parents whilst maintaining the work incentive effects of providing support for the costs of childcare for those in employment.

The government currently provides 15 hours of free childcare during term time for all three and four year olds and for the most (around 40%) disadvantaged two year olds. From September 2017 onwards, this free entitlement will be doubled to 30 hours a week for working parents of three and four year olds, worth around £5,000 a year per child. The Government will implement this extension of free hours early in some local areas from September 2016. Additionally those on low incomes, eligible for Working Tax Credit, can already recover 70% of childcare costs, up to a limit of £175 per week for one child and £300 for two or more children and under Universal Credit. The previous Government announced that support will be increased to cover up to 85% of childcare costs, where lone parents or where both parents are in work, regardless of the number of hours they work.

Exemptions

Certain benefits and payments will result in exemption from the cap; these were effective under the £26,000 and remain in place under the policy change.

Discretionary Housing Payments

DHPs¹⁰ make an important contribution to managing the transition for various customers whilst they make the necessary changes to adapt to the application of the benefit cap. Resources are available to provide short-term, temporary relief to families who may face a variety of challenges. DHPs can also help families manage their move into more appropriate accommodation. Each case is considered on its own merits rather than on predefined criteria. An additional £65 million was provided for this purpose in 2013/14 and a further £45 million in 2014/15 and £25m in 2015/16.

A total of £800m in Discretionary Housing Payments are being provided over the next 5 years (from 2016/17) which are available to vulnerable people who need extra support. In circumstances where the HB weekly payment would reduce to below £0.50 – a weekly amount of £0.50 remains in payment to enable access to the DHP Scheme and passported benefits.

In 2014/15, benefit cap DHP expenditure was around £27m, 68% of the allocation to the 347 Local Authorities that returned data on expenditure¹¹.

Evidence from the evaluation of the £26,000 cap showed that more than two in five (42%) of respondents applied for and received DHP, half of whom (22% overall) were no longer receiving them. Those who applied for and got DHP and who are still receiving them are more likely to have a benefit cap of at least £100 a week (41%), pay £300 or more in rent a week (29%) or live in a council/local authority property (39%). Respondents who are no longer receiving DHP are more likely to be from one-parent families with two or more children (68%) or from a black and minority ethnic background (48%)

Households who had not received DHPs were more likely to say that they had not made any progress to overcome barriers to work (48% compared to 36% overall). Evidence from across the evaluation showed that households affected may not have seen DHP as a long-term solution.

Implementation plans

Lowering the benefit cap threshold will include activity in Universal Credit and in the legacy benefits and we will be working from the existing benefit cap arrangements. The implementation of the benefit cap will include customer engagement and support ahead of the actual capping. The Department will be aiming to follow its best practice of a phased roll out and hopes to complete implementation around the close of 2016. Further details on the roll out will be announced in due course.

Monitoring and evaluation

On 15 December 2014, a review of the first year of the benefit cap was published alongside four reports which explored the progress from policy development to implementation of the current benefit cap. They reviewed the progress so far against the three main aims of the benefit cap:

- 1) Increase incentives to work
- 2) Introduce greater fairness in the welfare system
- 3) Make financial savings

We are committed to monitoring the impacts of our policies and to establishing the extent to which they have met their objectives. We will be developing our evaluation plans over the coming weeks.

¹⁰ DHPs provide claimants with further financial assistance, in addition to any welfare benefits, when an LA considers that help with housing costs is required.

¹¹ <https://www.gov.uk/government/statistics/use-of-discretionary-housing-payments-financial-year-201415>

The department will continue to produce **Official Statistics** on the benefit cap on a quarterly basis allowing frequent monitoring on the number of households affected by the policy. The statistics cover:

- Cumulative and point-in-time statistics on the number of households capped in Great Britain, regional and local authority level by household type, number of children and amount of the benefit cap.
- Great Britain and regional level off-flow statistics from the benefit and by reason of the off-flow.
- Further breakdowns are also available by local authority and Parliamentary Constituency.

Annex 1: Data used to model the benefit cap

This analysis has been performed on bespoke datasets commissioned for the purpose of evaluating the benefit cap, created from a range of administrative benefit records from different sources within the Department for Work and Pensions, Her Majesty's Revenue and Customs (HMRC) and Local Authorities (LAs) including:

The Single Housing Benefit Extract (SHBE): SHBE is a monthly electronic record of claimant level data compiled from scans directly taken from Local Authority Housing Benefit administration systems and is the main source of data on Housing Benefit. Local Authorities (LAs) send DWP data on a rolling timescale, therefore this data is the best information on Housing Benefit payments in that month, but is not a snapshot across all LAs on a specific date. It provides contextual information such as the current claim amount, postcode and tenure type. Where a record is not found, for example due to a non-return, the most recent return is used instead. The vast majority of returns are received every month so this is not a widespread flaw in the data.

This is then matched to the:

Work and Pensions Longitudinal Study (WPLS): WPLS links benefit and programme information held by DWP on its claimants to employment records from HMRC. This provides information on weekly Child Tax Credit and Working Tax Credit entitlement (including nil entitlements), benefit income data, and demographic details about claimants.

Further input is then provided from other data sources to obtain information on other benefit types including Personal Independence Payments and Child Benefit. Where all claim information across sources are linked to the HB lead claimant and, where applicable, partner.

The benefit cap datasets were created for each month using the latest information available. Each dataset presents the best information we have on benefit income of households in that specific month from our administrative data. For example, for the April 2013 benefit cap dataset, data was used from the 2nd May 2013 scan from SHBE, March 2014 from WPLS, and April 2013 for other datasets.

As data is drawn from administrative records, some variables are not available or are incomplete in the data. However we explored the use of more variables than were eventually included in the data. For example, ethnicity was considered as a possible variable to include in the dataset, but due to the number of missing records, it would not provide an accurate breakdown and is therefore not available on the dataset.

The datasets were created retrospectively, therefore will include households who were not identified as in scope for the cap at the time. For example where the scan of the administrative data takes place on a Monday and a household's benefit claim was processed on Tuesday, but backdated to when they initially became eligible for the award on the previous Friday then they will be included in our data, but would not be identified and capped until they appeared in the data. It may also be the case that a household is identified as in scope, but then changes circumstance prior to the cap being applied by the LA. These operational data-lags means that our estimates of those capped are not the same as the Official Statistics which identify capped households as a starting point, they use a different methodology. The Official statistics are quality assured to standards set out by the UK Statistics Authority, whilst our methodology for this analysis has been developed with the advice of the Institute for Fiscal Studies. However our estimated levels converge closely with the actually capped caseload (as shown in official statistics) providing confidence in the reliability of the estimates of those in scope for the cap.