Title Impact assessment for the Household Benefit Cap **Lead department or agency:** Department for Work and Pensions **Other departments or agencies:** Jobcentre Plus Local Authorities	**Impact Assessment (IA)** **IA No:** **Date :** 16 February 2011 **Stage :** Final **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:**

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

The Benefit Cap should be seen in the context of the budget deficit and the reductions in public expenditure that the Government is making to tackle it. Spending on welfare increased by 45 per cent in real terms in the decade to 2009-2010. Last year the Government spent £192 billion on welfare payments, compared to £35 billion on defence, £50 billion on education, and £98 billion on health. The state can no longer afford to pay people disproportionate amounts in benefit each week in welfare payments – sometimes in excess of the average weekly wage earned by working families. So, from 2013 the Government will introduce a cap on the total amount of benefit that working-age people can receive so that workless households will no longer receive more in benefit than working households receive in average wages.

What are the policy objectives and intended effects?

The objective of the policy is to restrict the total amount of welfare a household can receive to broadly the level of the average earned income after tax for working households. By doing this the policy will:

- deliver fiscal savings,
- sit alongside the other measures announced in the Spending Review to make the system fair and affordable as workless households will no longer receive more in benefits than the average working households receive in pay, and
- improve working incentives for those on benefits.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

It was considered applying the cap to all working age benefit recipients; however, it was decided to exempt those claiming Working Tax Credit as to have done otherwise would have significantly reduced the extent to which the policy would have improved incentives to work. It was also decided to exempt those in receipt of Disability Living Allowance and Constant Attendance Allowance as disabled people with additional care and/or mobility costs will have less ability to alter their spending patterns or reduce their housing costs to reflect a cap in their benefit. War widows have also been exempted because the Government believes that to support Armed Forces and their families it will be necessary at times to offer special treatment in order to recognise sacrifice for those seriously injured or killed. Consideration was given to setting the cap at a different level. However, the policy is intended to promote fairness between those in work and those receiving working age benefits so the decision was taken to base it on net median earnings as this figure best represents the average take home pay of working households.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	Ongoing review from April 2013
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes, see Annex 1

Summary: Analysis and Evidence

Price Base Year 10/11	PV Base Year 10/11	Time Period Years 2	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: £0m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	-		-	-
High	-		-	-
Best Estimate	-		-	£400m

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

Around 50,000 households will have their benefits reduced by the policy losing on average around £93 per week.

Welfare savings present a cost to individuals totalling £225m in 2013/14 and £270m in 2014/15 (cash terms) or £210m in 2013/14 and £240m in 2014/15 (2010/11 prices).

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

The cap is likely to affect where different family types will be able to live. Housing Benefit may no longer cover housing costs and some households may go into rent arrears. This will require expense and effort by landlords and the courts to evict and seek to recoup rent arrears. Some households are likely to present as homeless, and may as a result need to move into more expensive temporary accommodation, at a cost to the local authority. It is not possible to quantify these costs because they are based on behavioural changes which are difficult to assess robustly.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-		-	-
High	-		-	-
Best Estimate	-		-	£400m

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

Deliver fiscal savings of £225m in 2013/14 and £270m in 2014/15 (cash terms) or £210m in 2013/14 and £240m in 2014/15 (2010/11 prices) – benefit to the taxpayer.

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

This measure sits alongside the other measures announced in the Spending Review to make the system fair and affordable as workless households will no longer receive more in benefits than the average working families receive in pay, and will improve working incentives for those on benefits.

Key assumptions/sensitivities/risks	Discount rate	3.5%

Impacts on households assume no behavioural changes and are estimated using the using the Department for Work and Pension's Policy Simulation Model. This is a static microsimulation model based on data from the 2008-09 Family Resources Survey, up-rated to the relevant year's prices, benefit rates and earnings levels. The modelling was carried out under the current benefit system rules.

Impact on admin burden (AB) (£m):			Impact on policy cost savings	In
New AB:	AB savings:	Net:	Policy cost savings:	

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			**Great Britain**		
From what date will the policy be implemented?			**2013**		
Which organisation(s) will enforce the policy?			**DWP**		
What is the annual change in enforcement cost (£m)?			**N/A**		
Does enforcement comply with Hampton principles?			**Yes**		
Does implementation go beyond minimum EU requirements?			**No**		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded: N/A**		**Non-traded: N/A**
Does the proposal have an impact on competition?			**NO**		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:** N/A		**Benefits:** N/A
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	N/A	N/A	N/A	N/A	N/A

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on…?	Impact	Page ref within IA
Statutory equality duties[1]	**YES**	**Separate publication**
Economic impacts		
Competition	**NO**	
Small firms	**NO**	
Environmental impacts		
Greenhouse gas assessment	**NO**	
Wider environmental issues	**NO**	
Social impacts		
Health and well-being	**NO**	
Human rights	**NO**	
Justice system Error! Bookmark not defined.	**NO**	
Rural proofing	**NO**	
Sustainable development	**NO**	

[1] Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Evidence Base

Annual profile of monetised costs and benefits* - (£m) constant prices

	2010/11	2011/12	2012/13	2013/14	2014/15
Transition costs					
Annual recurring cost				210	240
Total annual costs				210	240
Transition benefits					
Annual recurring				210	240
Total annual benefits				210	240

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base

Policy Rationale

What is the current policy?

1. Currently there is no limit to the total amount of benefit a household can receive in state support.

What is the change in policy?

2. Under this policy total household welfare payments (of working age households) will be limited to £500/week for couple and lone parent households, and to £350/week for single person households.

3. Until the introduction of Universal Credit, the cap will apply to the combined income from the main out-of-work benefits (Jobseeker's Allowance, Income Support, and Employment Support Allowance); other means-tested benefits (Housing Benefit, Council Tax Benefit); Child Benefit and Child Tax Credit; and other benefits – such as Carer's Allowance and Industrial Injuries Disablement Benefit. One-off benefits (for example Social Fund Loans) and non-cash benefits (for example Free School Meals) will not be included in the assessment of benefit income. In Work Credit, which can be paid to lone parents, and Return to Work Credit, which can be paid to those leaving incapacity benefits, are intended to act as work incentives and so will also not be included when calculating benefit income.

Reason for change in policy?

4. The objective of the policy is to restrict the total amount of welfare a household can receive to broadly the level of the average earned income after tax for working households. By doing this the policy will:

- deliver fiscal savings,
- sit alongside the other measures announced in the Spending Review to make the system fair and affordable as workless households will no longer receive more in benefits than the average working families receive in pay, and
- improve working incentives for those on benefits.

5. Households which include a member who is entitled to Working Tax Credit, Disability Living Allowance or Constant Attendance Allowance will be exempt from the cap as will War Widows. This policy is intended to encourage customers to move into work or increase the hours they work. Including recipients of Working Tax Credit among those affected by the cap would seriously reduce incentives to work. Disability Living Allowance and Constant Attendance Allowance recipients will be excluded from the cap in recognition of the additional financial care and mobility needs a disability can bring. War widows have been exempted because the Government believes that to support Armed Forces and their families it will be necessary at times to offer special treatment in order to recognise sacrifice for those seriously injured or killed[2].

Estimating Costs and Benefits

6. Modelling, conducted using the Department for Work and Pension's Policy Simulation Model, suggests that overall around 50,000 households will have their benefits reduced by the policy – this is roughly 1% of the out-of-work benefit caseload. Broadly this policy affects large families who are out of work, in the most part with three or more children, or households in high rent areas receiving large Housing Benefit payments.

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[2] The Government Command Paper, "*The Nation's Commitment: Cross-Government Support to our Armed Forces, their Families and Veterans*" - Published July 2008

7. On average households will lose around £93 per week. The median loss is around £66 per week; this is less because the mean is skewed by some households losing large amounts.

8. Around 40% of the losers will lose less than £50 per week. Around 25% will lose between £50 and £100 per week. Around 20% will lose between £100 and £150 per week. The remaining 15% will lose more than £150 per week.

9. The impact on those affected will be that they will need to choose between taking up work (the cap does not apply to those entitled to Working Tax Credit); reducing their non-rent expenditure; or moving to cheaper accommodation or area. Households which include a member who is in receipt of Working Tax Credit (WTC) will be excluded from the cap. This will increase the incentive for people to find employment because once they are in receipt of WTC their benefits will no longer be subject to the cap, further more they will also gain from earning once they enter work.

10. Approximately 40% of households who are likely to be affected by the cap will consist of five or more children whilst over 80% will consist of 3 or more children. Fewer than 10% of households likely to be affected by the cap will have no children at all.

11. Analysis of those affected by the benefit cap has been modelled using survey data - as such there is a degree of uncertainty around the results and to provide the numbers behind this table would be misleading because of small sample sizes. However as a broad rule of thumb <u>each 10 percentage points suggests something of the order of 5,000 cases</u>

<u>Estimated make up of capped households</u>

	Number of children in household				
	0	**1 or 2**	**3**	**4**	**5 or more**
Couples	1%	3%	13%	8%	10%
Singles /Lone parent	7%	10%	5%	10%	32%

Source: DWP Policy Simulation Model

Estimated Fiscal Benefits

12. The savings scored in the Spending Review are £225m in 2013/14 and £270m in 2014/15 (cash terms). In 2010/11 prices the savings are £210m in 2013/14 and £240m in 2014/15.

£ million (10/11 prices)	**2013/14**	**2014/15**
Total household benefit payments capped on the basis of average take-home pay for working households	210	240

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review:

The impact of the policy changes will be reviewed and monitored as roll out takes place. All analysis in the review will be subject to the ongoing availability of the required underlying administrative and survey data.

Review objective:

To assess whether the benefit cap meets the broad objectives set out in the Impact Assessment.

Review approach and rationale:

A mixture of approaches will be used including:

1) Analysis of internal administrative datasets,

2) Analysis of survey data such as Family Resources Survey,

3) Other bespoke analysis to cover questions not addressed by the other approaches.

The review will use an mixture of approaches, reflecting the fact that a range of datasets and methodologies are required to assess all of potential impacts of the policy and the interactions with other welfare reform policies.

Baseline:

Projected trends in caseload, expenditure and other key variables under the current benefit and tax credit system in the absence of the change.

Success criteria:

Criteria will include indicators such as total benefit expenditure, caseload trends on the main out of work benefits, work incentives, duration of unemployment, as well as some of the wider impacts outlined in this document.

Monitoring information arrangements:

The review will assess impacts based on Departmental administrative data and survey data such as the Family Resources Survey and will collect other information as required through appropriate means.

Reasons for not planning a PIR:

Not applicable