

Title: Disability Living Allowance Reform Lead department or agency: Department for Work and Pensions Other departments or agencies:	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 current assessment process is complex and subjective making it difficult to assess people's needs on a consistent basis. Reviews can be infrequent and awards may not reflect changes in the impact of impairments. The current system is not sustainable in the long term. There are now 3.16 million people receiving Disability Living Allowance (DLA) and forecast expenditure on the benefit for 2010/11 is £12.1 billion. In just eight years the numbers claiming DLA has risen from around 2.4 million to 3.2 million – an increase of 30%.

DLA is widely perceived to be an out of work benefit and receiving DLA in itself appears to reduce the likelihood of being in employment, even after allowing for the impact of health conditions.

What are the policy objectives and the intended effects?

To create a new more active and enabling benefit that supports disabled people to overcome the barriers they face to leading full and independent lives.

Ensure that support is focused on those with the greatest barriers and that expenditure is sustainable.

The new assessment is being designed to assess more accurately, objectively and transparently those people who would benefit most from additional support.

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

1. Do nothing. This would do nothing to ensure expenditure is sustainable, improve the assessment process or increase understanding that the benefit is available both in and out of work.

2. Reform DLA including a new objective assessment. Reform will help to ensure that expenditure on DLA is sustainable and focused on those most in need of additional support. A new assessment will improve consistency in decisions and through regular reviews ensure that awards remain correct. Replacing DLA with a new benefit that supports disabled people to overcome the barriers they face to leading full and independent lives will provide an opportunity to improve understanding of the benefit and communicate that support is available both in and out of work.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?

It will be reviewed from 2014

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 2010/11	PV Base 2010/11	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -675

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	-	-	-
High	-	-	-
Best Estimate	585	-	2,845

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

Costs of £675m to implement a new benefit and move existing DLA recipients to the new benefit. Net costs to individuals of £2,170m from reduced benefit expenditure from focussing support on disabled people with greatest needs. Due to forecast growth in working age DLA expenditure, reducing working age DLA expenditure by 20% in 2015/16 means returning working age DLA spending to 2009/10 levels in real terms.

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

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-	-	-
High	-	-	-
Best Estimate	-	-	2,170

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

Net reductions in benefit expenditure from focussing support on disabled people with greatest needs will lead to benefits for taxpayers and the exchequer.

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

If there is a positive employment impact as a result of this policy there would be the benefit of higher economic output and the subsequent gain in revenue from increased taxation. There are also likely to be individual health benefits if more disabled people move into work.

Key assumptions/sensitivities/risks

Discount rate 3.5

Savings expected to result from this reform are equivalent to 20% of forecast working age DLA expenditure. The Department is working with stakeholders, including groups representing disabled people to design the objective assessment, which is still being developed. As more detailed design is completed savings estimates will be updated accordingly to the increased level of detail.

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?			2013/14		
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?			N/A		
Does implementation go beyond minimum EU requirements?			N/A		
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: 100%	Benefits: 100%	
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	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 - Annual profile of monetised costs and benefits* - (£m) constant prices

	2011/12	2012/13	2013/14	2014/15	2015/16
Transition costs	35	60	145	235	110
Annual recurring cost	-	-	380	1,020	1,305
Total annual costs	35	60	520	1,255	1,420
Transition benefits	-	-	-	-	-
Annual recurring benefits	-	-	325	950	1,250
Total annual benefits	-	-	325	950	1,250

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

Evidence Base

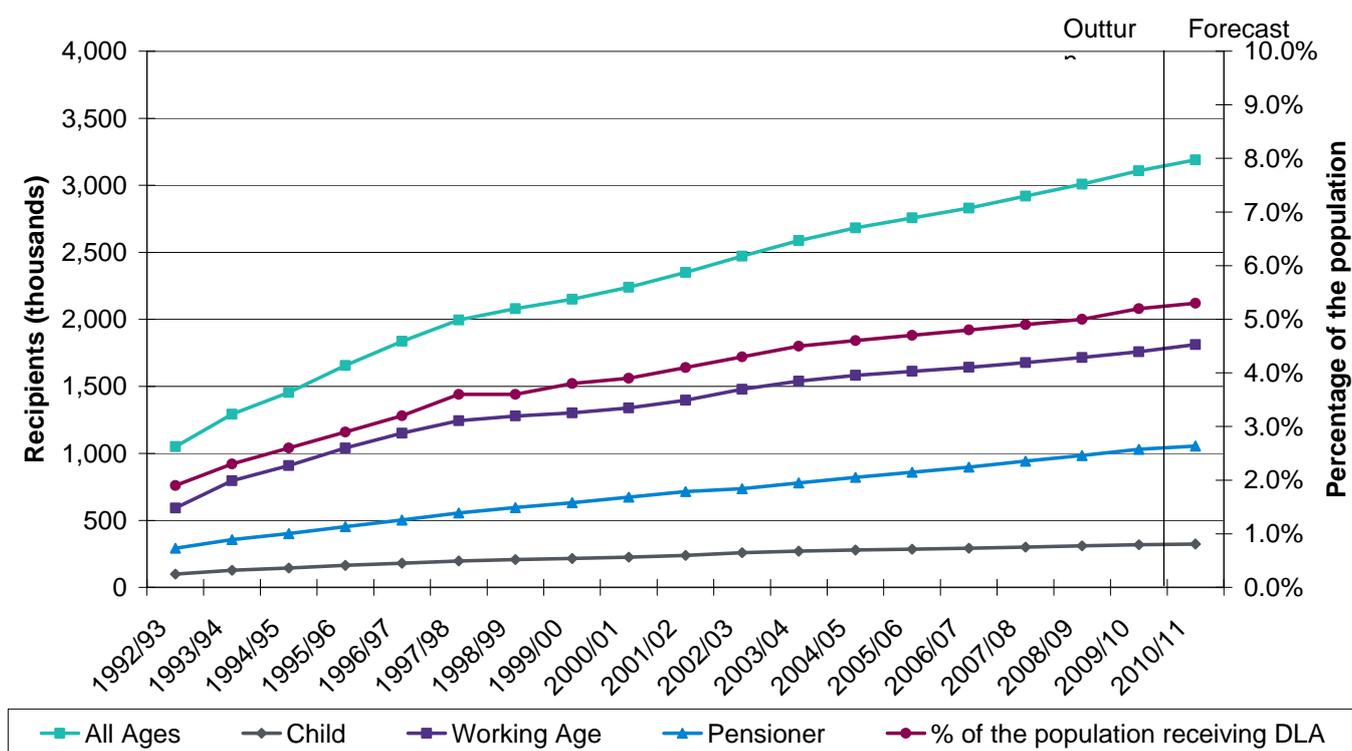
Policy Rationale

What is the current policy?

1. DLA is a benefit that provides a cash contribution towards the extra costs of needs arising from an impairment or health condition. DLA is a non-means-tested benefit payable regardless of employment status. Although it is intended to contribute towards extra costs, measuring each individual's expenditure would be administratively complex and expensive. Entitlement and award levels are, therefore, based on proxies – care and mobility – as research at the time of DLA's introduction showed that they were the greatest sources of extra costs². The decision about whether to award benefit is not made on the basis of an individual's costs, but on the severity of their care and mobility needs.
2. To apply for DLA, individuals complete a lengthy DLA claim form which requests detailed information about the impact that their impairment or health condition has on their ability to manage their care themselves and/or get around. The claim form is considered by a Decision Maker, sometimes alongside other evidence such as reports from the claimant's General Practitioner (GP) or consultant. Currently, additional medical evidence is gathered in around half of all cases. The Decision Maker either awards or turns down the claim. Awards are currently payable at two mobility and three care rates leading to a possible eleven different combinations of payable rates of benefit. Awards can be made for any duration, including indefinitely. Awards are reviewed if an individual reports a change, but there is currently no process to systematically review all awards.
3. The current DLA legislation provides automatic entitlements to certain rates on the basis of specific conditions and impairments, or the treatment an individual is receiving. As a result, eligibility for DLA is sometimes based on medical condition rather than the impact of that condition, meaning that support is not always appropriately targeted.
4. There are now 3.16 million people receiving Disability Living Allowance (DLA) and forecast expenditure on the benefit for 2010/11 is £12.1 billion. In just eight years the number claiming DLA has risen from 2.4 million to 3.2 million – an increase of 30%.

² Office of Population Censuses and Surveys, *The financial circumstances of disabled adults living in private households*, 1988.

DLA Recipients by age group



- DLA is widely perceived to be an out of work benefit and receiving DLA in itself appears to reduce the likelihood of being in employment, even after allowing for the impact of health conditions or impairments³.

What is the change in policy?

- The public consultation on DLA reform proposes replacing DLA with a new benefit (Personal Independence Payment) to support disabled people who face the greatest barriers to leading full and independent lives. The new benefit is planned to be introduced for new claimants from 2013/14. Existing working age (16-64) recipients will also begin to be reassessed from 2013/14. The proposed elements of the new benefit are:
 - A new objective assessment to deliver more consistent outcomes and greater transparency for individuals.
 - Two components, linked to the activities considered in the assessment. Eligibility for one will be based on the individual's ability to get around, the other on their ability to carry out other key activities necessary to be able to participate in daily life.
 - Two rates for each component (four in total).
 - Eligibility based on a qualifying period of 6 months, with the expectation that the entitlement conditions will continue to be satisfied for a further 6 months.
 - Moving away from automatic entitlement based on certain conditions to assessments based on the impact of an impairment.
 - The facility to regularly review all awards.
 - Maintenance of existing special rules to fast track claims for people who are terminally ill.
- The DLA mobility component for those in care homes will be retained until March 2013, and any subsequent changes will be rolled into the design of the new Personal Independence Payment. The policy objective in respect of this measure is to identify and remove any overlaps in the way in which the mobility needs of people in residential care homes are met. Therefore the Department will review

³ Disability Living Allowance and work: Exploratory research and evidence review, DWP Research Report No. 648

the support given by DLA against the responsibilities of care homes, and reflect the outcomes from this review in the PIP eligibility criteria for people in residential care homes.

Reason for change in policy?

8. The objectives of the policy are to:

- Create a new more active and enabling benefit that supports disabled people to overcome the barriers they face to leading full and independent lives.
- Ensure that support is focused on those with the greatest barriers and that expenditure is sustainable.
- Assess more accurately, objectively and transparently those people who would benefit most from additional support.

Rationale for Intervention

9. The new benefit will help to ensure that expenditure on DLA is sustainable and focused on those most in need of additional support. A new assessment will improve consistency in decisions and through regular reviews ensure that awards remain correct. Replacing DLA with a new benefit that supports disabled people to overcome the barriers they face to leading full and independent lives will provide an opportunity to improve understanding of the benefit and communicate that support is available both in and out of work.

Estimating Costs and Benefits

Estimated Costs

10. The costs of implementing a new benefit will depend on the detail of how the benefit is delivered and the design of the new assessment. Costs will be refined as further detail on the reform is developed. Approximate high level costs have been estimated to be **£675m**. These include provision for making changes to the IT systems, training DWP staff, the administrative effort required to manage the transition of existing recipients to the new system and the cost of independent health care professionals undertaking the new assessment.
11. There will be net costs to individuals from reductions in benefit expenditure from focussing support on those with greatest needs. These are assumed to be the same as the savings to the exchequer of **£2,170m**.

Estimated Benefits

12. Support in the new benefit will be focussed on those with the greatest needs. The detailed criteria that will be used in the new assessment to determine eligibility for the rates of the benefit are currently being developed. As more detailed design is completed savings estimates will be updated accordingly to the increased level of detail.. However, the Chancellor announced in June 2010 that he anticipated that the overall impact of reform will result in savings equivalent to 20% of forecast working age DLA expenditure⁴. This would result in estimated savings to the exchequer of **£2,170m**. This estimate is consistent with savings figures published in the June Budget, but differs from these figures as it includes savings up to 2015/16 and is presented as a Net Present Value.
13. As the assessment is further developed work will be undertaken to assess its likely impact, which will inform subsequent impact assessments. This will include testing a sample of DLA claims against the new assessment criteria.

⁴ http://www.hm-treasury.gov.uk/d/junebudget_costings.pdf

14. If the new benefit results in a better understanding of the benefit including that it is available in work then it is possible that this will lead to more disabled people moving into work, resulting in benefits to the economy, individual and also to the exchequer through increased revenue from taxation.
15. All costs and benefits are presented as Net Present Values in 2010/11 prices, and include costs and benefits occurring between 2011/12 and 2015/16.

Number of People Affected

16. The Department is working with stakeholders, including groups representing disabled people to design the objective assessment, which is still being developed. As more detailed design is completed estimates of the impact of the new assessment on people receiving DLA will be made. Information on the number of people receiving different rates of DLA and the position of DLA recipients in the income distribution is detailed below to provide an indication of the people who could potentially be affected by the policy.

Number of people in receipt of DLA by Rate Combination

	Higher Rate Mobility	Lower Rate Mobility	No Mobility Rate
Highest Rate Care	510,000	180,000	40,000
Middle Rate Care	460,000	480,000	120,000
Lowest Rate Care	420,000	210,000	250,000
No Care Rate	390,000	100,000	--

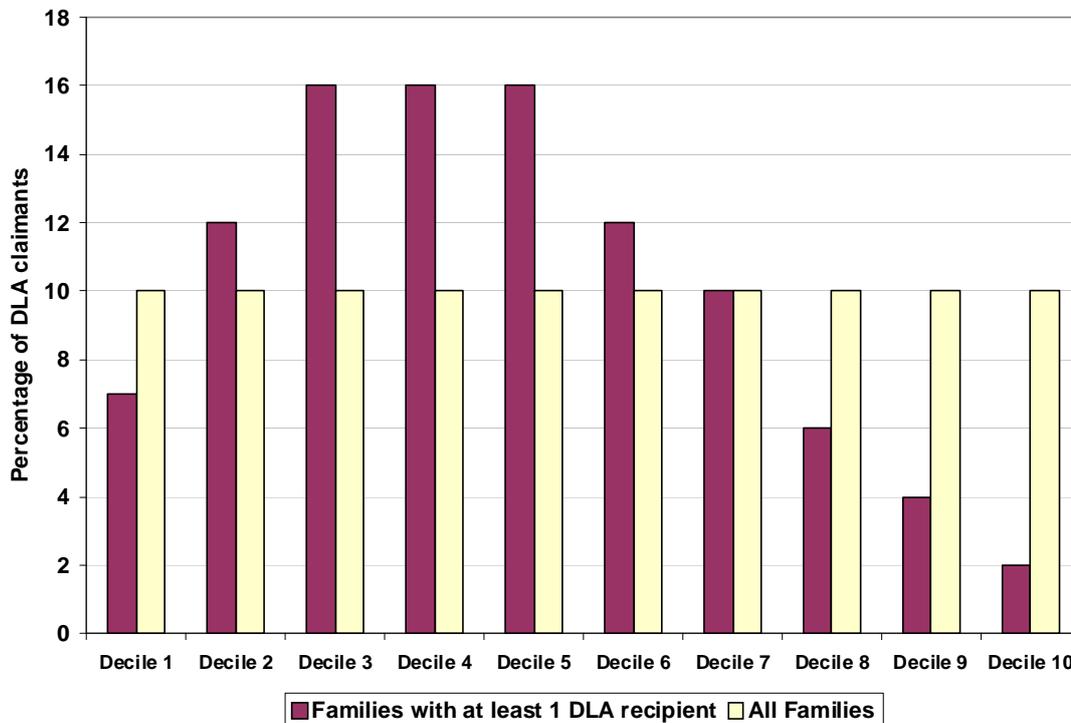
Source: Department for Work and Pensions Longitudinal Survey, May 2010

17. Families with a DLA recipient are more likely to be in the second to sixth income deciles than the rest of the UK population⁵. Disability benefits such as DLA are included as income because they provide an important cash contribution to disabled people. However, no adjustment is made for additional costs associated with disability. This is because research shows these vary significantly in level and nature, and there is no general agreement on how to measure these costs.

Income Distribution of families with at least 1 DLA recipient (Before Housing Costs)⁶

⁵ The 10 percent of households with lowest incomes are in decile 1 and the 10 per cent of households with highest incomes are in decile 10.

⁶ Figures here are presented on a Before Housing Costs (BHC) basis – income of families before deducting any housing costs.



Source: Households Below Average Income data, based on the Family Resources Survey

Health Impacts

18. Income and health are related, with those on low incomes having higher rates of disease, ill health and mortality than those on high incomes. However, evidence is limited as to whether a change in income has an effect on health⁷. DLA is intended to provide a cash contribution to the extra costs associated with disability and complements a range of support available to disabled people, including income replacement benefits for those who are unable to work. It is therefore not expected that reducing one source of support for disabled people with lesser barriers to participation will have an adverse impact on health.
19. It is possible that the policy could have positive impacts on health if it leads to more disabled people moving into work. Health impacts will be considered further as the detail of the policy is developed.

⁷ Gunasekara, K. Carter, K. Blakely, T. and Liu, I (2009) Determining the effect of change in income on self-rated health using regression models – ordered, linear, fixed or random? http://www.iser.essex.ac.uk/files/conferences/bhps/2009/abstracts/Fiona_Imlach_Gunasekara.pdf

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.

<p>Basis of the review:</p> <p>The impact of the policy change will be reviewed and monitored regularly as reform is implemented.</p>
<p>Review objective:</p> <p>To assess whether the policy change meets the objectives set out in the Impact Assessment.</p>
<p>Review approach and rationale:</p> <p>A mixture of approaches will be used including:</p> <ol style="list-style-type: none">1) Analysis of internal administrative datasets,2) Analysis of survey data such as Family Resources Survey3) Work with external organisations,4) We will consider whether to undertake research with people receiving DLA or Personal Independence Payment and staff at appropriate stages in the implementation of reform.
<p>Baseline:</p> <p>Forecasts of DLA caseloads and expenditure and information on administration of DLA before reform is implemented.</p>
<p>Success criteria:</p> <p>Criteria will include indicators such as working age DLA expenditure, impact on the number of people receiving benefit and the different rates of benefit received and information on delivery of the new benefit.</p>
<p>Monitoring information arrangements:</p> <p>It is envisaged that administrative data similar to that currently collected for DLA will be collected to enable monitoring of the new benefit.</p>
<p>Reasons for not planning a PIR:</p> <p>Not applicable.</p>