

<p>Title: <i>Conditionality Measures in the 2011 Welfare Reform Bill (updated for the Social Security (Lone Parents and Miscellaneous Amendments) Regulations 2012)</i></p> <p>Lead department or agency: Department for Work and Pensions</p> <p>Other departments or agencies:</p>	Impact Assessment (IA)
	IA No:
	Date: 13 th February 2012
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary Legislation (updated for secondary legislation)
	Contact for enquiries:

Summary: Intervention and Options

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

Successive governments have recognised that there should be a link between entitlement to benefits and engagement with the labour market. Most people comply with conditions of entitlement, and the majority of unemployed people leave benefit quickly. However others require additional support, and there must be a response in the benefit system for people who do not comply.

Increased conditionality for lone parents has been gradually rolled out since November 2008. Before then, lone parents with a youngest child up to the age of 16 could claim Income Support (IS) as a lone parent. This age threshold now stands at 7. This rollout has provided the implementation experience and evidence base to help support the extension to those with a youngest child aged 5 and 6.

What are the policy objectives and the intended effects?

The intention of these policies is to speed up entries into employment from benefits for those able to work, and ensure that those who are able to prepare for work at a later date are given the right support at the right time. Those who find work benefit from higher income and improved wellbeing. There are also fiscal savings including a lower benefit burden, and wider social benefits. Higher employment levels also lead to reduced adult and child poverty.

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

The options in respect of lone parent conditionality that were considered were to: 1) do nothing; or 2) end entitlement to IS (subject to certain exceptions) for lone parents with a youngest child aged 5 or over. It was decided that the second option should be pursued: the age threshold lowered to age 5. It is estimated that this policy will deliver a significant net benefit. Further it is considered reasonable to expect lone parents to take up paid work once their children are in full-time education.

For the other conditionality measures and couple policy under Universal Credit the main alternative was the 'do nothing' option. In the case of sanctions alternatives were considered as set out in the evidence base. The option to extend hardship loans to all groups was considered but rejected due to the impact that this would have on vulnerable groups.

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 2013 on an ongoing basis.

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: 11/12	PV Base Year:11/12	To March 2015	Net Benefit (Present Value (PV)) (£m)			
			Low:	High:	Best Estimate: £280m	
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Cost (Present Value)	
Low	-		-		-	
High	-		-		-	
Best Estimate	-		-		£870m	
<p>Description and scale of key monetised costs by 'main affected groups' Monetised costs (totals up to March 2015) are estimated for the lone parent measure only. Individuals incur costs through benefit losses and increased tax and NICs expenditure of £500m. Further they will also face in-work costs such as childcare and travel of around £110m. For Government there will be an increase in administrative costs of around £60m and additional spending on tax credits and in-work credit (£200m) for eligible lone parents.</p>						
<p>Other key non-monetised costs by 'main affected groups'</p> <p>At this stage it is not possible to quantify the impact of the behavioural impact of the claimant commitment, changes to the sanctions regime, or changes to hardship payments. Additional flows into employment will result in some costs to the individuals or to government as set out above.</p> <p>There will also be an increase in administrative costs associated with couples having increased conditionality. It is not possible to accurately assess the additional costs until they have been assessed for readiness to work in their own right.</p>						
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Benefit (Present Value)	
Low	-		-		-	
High	-		-		-	
Best Estimate	-		-		£1,150m	
<p>Description and scale of key monetised benefits by 'main affected groups'</p> <p>Monetised benefits (totals up to March 2015) are estimated for the lone parent measure only. Total benefits through increased income from wages for lone parents moving into work will be around £420m. Further lone parents qualifying for tax credits and in-work credit will receive additional benefits of £200m. Benefits to the Exchequer from additional movements into work include reduced expenditure on benefits, increases in tax receipts and National Insurance contributions estimated at £500m. Taking into account wider benefits to society (estimated at £30m), the total benefits over the Spending Review period are £1,150m. Overall the policy is expected to have net benefits of around £280m.</p>						
<p>Other key non-monetised benefits by 'main affected groups'</p> <p>There are likely to be other benefits to work including increased wellbeing of individuals who find work and these impacts are not fully captured in our estimate of the health impacts of work. In addition, if a parent moves into work, potentially lifting the family out of poverty, providing a better lifestyle which may result in an increase in their child's welfare. There will be similar benefits for couples. The behavioural impact of the claimant commitment, changes to the sanctions regime, or changes to hardship payments have not been quantified.</p>						
Key assumptions/sensitivities/risks					Discount rate	3.5
<p>The lone parent impacts presented are based on the following key assumptions:</p> <p>(1) the majority of lone parents are assumed to claim JSA when their IS eligibility ends, with the remainder claiming ESA, remaining on IS, moving directly into employment or off benefits for another reason; (2) lone parents claiming JSA are assumed to move off benefit faster than previously on IS. It is also assumed that a proportion of those who moved into employment move back onto JSA at a later date; and (3) 60% of lone parents leaving benefit go into paid employment. All estimates are sensitive to the assumptions used.</p>						

Impact on admin burden (AB) (£m):			Impact on policy cost savings		
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?			May 2012 onwards		
Which organisation(s) will enforce the policy?			N/A		
What is the annual change in enforcement cost (£m)?			Nil		
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?					
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	

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.

Sustainable development	NO	
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Evidence Base - References

No Legislation or publication

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- 1 Universal Credit: welfare that works, November 2010
- 2 Impact Assessment for Universal Credit, November 2010
- 3 Equality Impact Assessment for Universal Credit, November 2010
- 4

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

	2011/12	2012/13	2013/14	2014/15
Transition costs				
Annual recurring cost				
Total annual costs	0	150	330	390
Transition benefits				
Annual recurring				
Total annual benefits	0	200	440	520

* Important note: These figures relate to the increase in lone parent conditionality only.

* Figures have been rounded to the nearest £10m.

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

Evidence Base

Introduction

1. DWP expects claimants to do everything that can reasonably be expected of them to find work or prepare for work in the future as a condition of receiving support. DWP will introduce important changes to the existing regime to ensure that claimants are subject to appropriate conditions of entitlement and that they meet these responsibilities. DWP will begin making these changes in the existing benefit system which will be carried forward under Universal Credit (see also the Universal Credit Impact Assessment).
2. The changes cover the following measures:
 - Lone parent conditionality
 - Introduction of the claimant commitment for JSA, ESA and IS
 - Reform to sanctions for JSA, ESA and IS
 - Hardship
 - Couple policy under Universal Credit

} Grouped below as 'Other conditionality measures'
3. Measures which involve changes to sanctions or conditionality will elicit behavioural responses which are difficult to predict with certainty. For example, the proposed model of sanctions could lead to longer sanctions for some claimants, particularly claimants who have repeatedly failed to meet their responsibilities. For other claimants – those who fail to meet lower level requirements – sanctions could be shorter depending on how quickly they re-engage. The overall effect on benefit costs will depend on the response of claimants to the proposed sanctions system. If – as is the policy intent – claimants are encouraged to comply in the first place and re-engage more quickly where they do fail to meet their responsibilities, there are unlikely to be any savings in comparison with the current system as a result of more sanctions being imposed. However, there could be savings from people moving off benefit more quickly as a result of greater compliance with the system. At this stage it is not possible to quantify the impact of the behavioural impact of the changes.
4. The measures set out in this impact assessment are subject to parliamentary approval. In some instances the detail of the policy will be set out in regulations and not in the Bill. In these cases this document sets out the policy intention and the current thinking as to how this will be achieved.

Conditionality for lone parents with youngest child aged five and six

Policy Rationale

5. Income Support (IS) is currently the main income-replacement benefit for lone parents and only requires six-monthly attendance at a Jobcentre Plus, in contrast to the more active job search requirements for Jobseeker's Allowance (JSA) or more intensive work focussed interview (WFI) regime under Employment and Support Allowance (ESA). Increased conditionality for lone parents (Lone Parent Obligations) has been gradually rolled out since November 2008. Before then, lone parents with a youngest child up to the age of 16 could claim IS as a lone parent. This threshold age now stands at 7. The June 2010 Budget announced that this will be further reduced to lone parents with children aged 5 and over. Once that age is reached, lone parents without other income may claim JSA, or ESA if they are disabled or have a health condition, subject to medical assessment. Those claiming Carers Allowance or those with a child receiving the middle or higher rate care component of Disability Living Allowance may continue to claim IS.
6. For most people, work is the best route out of poverty. DWP believes that it is important that people who can take up paid employment are given help and encouragement to do so. An increase in conditionality will ensure lone parents engage with the support and opportunities available to them.

Estimating Costs and Benefits

7. Currently there are 1.9 million lone parents in Great Britain, with 1.1 million lone parents being in work. The employment rate for lone parents with a youngest child aged 5 and 6 is 53.0%, lower than the lone parent employment rate for lone parents with children aged 7 to 15 which stands at 68.5%². There are around 100,000 lone parents claiming IS with a youngest child aged 5 or 6³. Based on evidence of historic benefit flows the policy is expected to affect around 75,000 lone parents per year in steady state.
8. The impacts presented are based on the following key assumptions:
 - the majority of lone parents are assumed to claim JSA when their IS eligibility ends, with the remainder claiming ESA, remaining on IS, moving directly into employment or off benefits for another reason. This assumption draws on evidence from the previous tightening of eligibility for lone parent benefits, adjusted to take account of the possibility that those with younger children might be less work ready;
 - the number of new claims by lone parents for benefits are similar to past trends, although the equivalent to a 10 per cent reduction in claims is assumed because of the stricter requirements for JSA or ESA;
 - lone parents claiming JSA are assumed to move off benefit faster than previously on IS. It is also assumed that a proportion of those who moved into employment move back onto JSA at a later date;
 - 60% of lone parents leaving benefit are assumed to go into paid employment, based on analysis from the Family and Children Study, New Deal for Lone Parents (NDLP) statistics, and the DWP Destinations Survey. Destinations other than employment include re-partnering, education or training, moving abroad or unknown destination;⁴
 - this change is assumed to affect more lone parents in 2012/13 than in subsequent years due to those with youngest child aged five and six losing their IS eligibility within that year; and
 - estimates have taken into account the fact that lone parents are more likely than other groups to work part-time and that their average earnings are likely to be lower.

Estimated Costs

9. From the individual perspective moving lone parents off benefit and into work incurs costs through benefit losses and increased spending on taxes (income tax and indirect taxes) and National Insurance contributions (NICs). These costs to individuals will be around £500m over the Spending Review Period to March 2015. Further there will be around £110m of in-work costs to individuals such as childcare and travel over the Spending Review Period to March 2015.
10. For Government there will be an increase in administrative costs associated with transferring lone parents onto the more intensive JSA and ESA regimes and additional Work Focussed Interviews prior to transfer. It is estimated that the increase in costs will be around £60m over the Spending Review period to March 2015. As many lone parents will be eligible for tax credits and in-work credit⁵ the Exchequer will also incur additional costs of around £200m.
11. The overall costs including transfers therefore will be £870m over the Spending Review period.

² DWP analyses of the Household Labour Force Survey, Quarter 2 2011. They cover men aged 16-64 and women aged 16-64 in Great Britain, and are not seasonally adjusted.

³ Work and Pensions Longitudinal Study, May 2011.

⁴ Some individuals moving into unknown destination will have moved into employment, including individuals moving to self employment and low paid work.

⁵ In-Work Credit (IWC) is designed to help lone parents cope with the financial aspects of the transition from benefits to work. To be eligible lone parents must have been on IS, JSA or ESA for 52 weeks or more and move in to work of 16 hours or more a week. It is paid for a maximum of 52 weeks at £60 a week in London and £40 a week in other parts of the country.

Estimated Benefits

12. DWP current estimates are that the implementation of the policy as set out above could lead to a net reduction of around 30,000 to 35,000 in the number of lone parents on out of work benefits. This reflects reductions in the number of lone parents on IS, combined with increases in the number of lone parents on JSA and ESA.
13. Lone parents moving into work will benefit through increased income from wages. The total additional annual in-work gross earnings gained by lone parents over the Spending Review period to March 2015 are estimated at £420m. Further lone parents eligible for tax credits and in-work credit will benefit in total by £200m over the Spending Review Period.
14. For additional lone parents moved into work, there are fiscal benefits generated by reduced spending on out of work benefits (IS/JSA, Housing Benefit, Council Tax Benefit), extra taxes (income tax and indirect taxes) and NICs. Over the Spending Review period to March 2015 these benefits will be £500m.
15. Taking into account wider benefits to society (e.g. reduction in health care costs), the policy is expected to result in extra benefits of around £30m over the Spending Review period to March 2015.
16. The overall benefits including transfers therefore will be £1,150m over the Spending Review period. Hence, the net benefits of this policy option over the Spending Review period are around £280m.
17. It is estimated that the change will result in 20,000 to 25,000 extra lone parents in work, which in turn could impact on child poverty. Compared to a child of a lone parent who is not working, a child of a lone parent that works part-time is almost three times less likely to be living in poverty and a child of a lone parent that works full time is five times less likely to be living in poverty.⁶
18. There are likely to be other benefits to work including increased wellbeing of individuals who find work and these impacts are not fully captured in our estimate of the health impacts of work. In addition, if a parent moves into work, potentially lifting the family out of poverty and providing a better lifestyle, this may result in an increase in their child's welfare.

⁶ Households Below Average Income 2009/10. Comparisons based on 60% of median income Before Housing Costs.