Title Impact assessment for the Household Benefit Cap	**Impact Assessment (IA)**
	IA No:
Lead department or agency: Department for Work and Pensions	**Date :** 23/01/2012
	Stage : Final
	Source of intervention: Domestic
Other departments or agencies: Jobcentre Plus, Local Authorities	**Type of measure:** Primary legislation
	Contact for enquiries: universalcredit.policycorrespondence@dwp.gsi.gov.uk

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. In that 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 what someone in work may take home in wages. 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 the average wage for working households.

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, broadly to the level of the average take-home pay of 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) privilege

One option was to apply the cap to all working age benefit recipients; however, the Government 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. The Government 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. The Government has clarified that this exemption will also apply to Personal Independence Payment, which will replace DLA for working age claimants from April 2013, and Attendance Allowance. War widows and war widowers have also been exempted because the Government believes that to support Armed Forces and their families it is at times necessary to offer special treatment in order to recognise their sacrifices. Consideration was given to setting the cap at a different level. 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?	**See Annex 1**

Summary: Analysis and Evidence

Price Base Year 11/12	PV Base Year 11/12	Time Period Years 4	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: £0m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High				
Best Estimate			£260m	£515m

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

The above are the most recent, updated costs which take account of the transfer of benefits away from households affected in Great Britain. At the outset, 67,000 households will have their benefits reduced by the policy, losing on average around £83 per week.

There will be a transfer from these households of £290m in 2013/14 and £330m in 2014/15 (cash terms) or £275m in 2013/14 and £305m in 2014/15 (2011/12 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. 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			£260m	£515m

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

Deliver fiscal savings of £290m in 2013/14 and £330m in 2014/15 (cash terms) or £275m in 2013/14 and £305m in 2014/15 (2011/12 prices), these being the benefits transferred to the taxpayer as a result of the policy change.

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

This measure sits alongside the other measures announced in the 2010 Spending Review to make the system fair and affordable, as workless households will no longer receive more in benefits than the average working family receives 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. They are estimated using the administrative records held by the Department for Work and Pensions on benefit recipients. The source data relates to 2011, but has been up-rated to the relevant year's prices and benefit rates, and in doing so assumptions about future inflation rates have been made. The modelling was carried out under the current benefit system rules.

All of the £m figures above have been rounded to the nearest £5m.

Impact on admin burden (AB) (£m):			Impact on policy cost savings	In scope
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	**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 parts 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

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

Financial year	2010/11	2011/12	2012/13	2013/14	2014/15
Transition costs					
Annual recurring cost				275	305
Total annual costs				275	305
Transition benefits					
Annual recurring				275	305
Total annual benefits				275	305

Figures are rounded to the nearest £5m

* 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. The policy places a limit on the total amount of benefit a household can receive in state support. For working-age households, total household welfare payments will be limited to £500 per week for couple and lone parent households, and to £350 per week for single-person households where no children are present.

3. Initially the intention is that that cap will be delivered by Local Authorities through Housing Benefit payments. Ultimately it will be administered as part of the new Universal Credit system. Before the introduction of Universal Credit, this cap will apply to the combined income from the main out of work benefits, Housing Benefit, and other benefits such as Child Benefit, Child Tax Credit and Carer's Allowance. Once claimants are in receipt of Universal Credit the cap will be applied to their combined income from Universal Credit and benefits such as Child Benefit and Carer's Allowance. One-off payments will be excluded, as will non-cash benefits, passported benefits such as free school meals, and also Council Tax Benefit (further to the localisation of this support by the Department for Communities and Local Government). Additionally, and after the introduction of Universal Credit, the childcare element of Universal Credit will be excluded from benefit cap calculations.

4. Households entitled to Working Tax Credit will be exempt from the cap. This policy is intended to encourage claimants to move into work or increase the hours they work; it 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, furthermore they will also gain from earning once they enter work. Conversely, were recipients of Working Tax Credit to be among those affected by the cap, this would reduce incentives to work.

5. Households with a claimant, partner or child receiving Disability Living Allowance or Constant Attendance Allowance will also be excluded from the cap, in recognition of the additional financial care and mobility needs a disability can bring. This exemption will also apply to households which include someone in receipt of Personal Independence Payment and Attendance Allowance. War widows and war widowers have also been excluded from the cap. This is because the Government believes that to support the Armed Forces and their families, it will at times be necessary to offer special treatment in order to recognise their sacrifices[2].

Reason for change in policy?

6. The objective of the policy is to restrict the total amount of money a non-working household can receive to broadly the level of the average earned income of working households, after tax and national insurance contributions have been deducted. By doing this the policy will:

[2] "The Nation's Commitment: Cross-Government Support to our Armed Forces, their Families and Veterans" Cm 7424, July 2008

- sit alongside the other measures announced in the 2010 Spending Review to make the system fair and affordable as workless households will no longer receive more in benefits than the average working family receives in pay;
- deliver fiscal savings;
- improve working incentives for those on benefits; and
- deliver fairness to the taxpayer in work.

Estimating Costs and Benefits

7. Modelling for this revised assessment was conducted using the administrative records held by the Department for Work and Pensions. As such it supersedes the modelling of the previous Impact Assessment, which was conducted using survey data, within the Department's Policy Simulation Model. All of the following results are based on this new source.

8. The new modelling 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 disability benefits such as DLA. This enables the separation of households into those excluded from the cap, and those which will be subject to it.

9. The administrative records relate to 2011, but have been adjusted to reflect the benefit regime of 2013 and subsequent years. The benefit rates have been uprated to the levels of the relevant years, using a set of inflation rate assumptions which are common to this kind of modelling, and which are consistent with the 2011 Autumn Statement. The modelling takes account of several known changes to the benefit system which are due to come in by 2013; this includes the Local Housing Allowance changes announced in the 2010 Spending Review. However the modelling was carried out within the current benefit system architecture.

Level of cap and headline savings

10. The level of the benefit cap has been set with reference to the median earnings of in-work GB households of working age, net of their income tax and national insurance contributions, as they are estimated to be in the financial year 2013/14.

11. The new data suggests that the savings from the policy will be £290m in 2013/14 and £330m in 2014/15 (cash terms). In 2011/12 prices the savings will be £275m in 2013/14 and £305m in 2014/15.

12. The savings in the years 2013/14 to 2014/15 are summarised in the following table:

Table 1: Summary of AME savings

Summary of savings, £ million, GB (2011/12 prices)	**2013/14**	**2014/15**
Total saving from household benefit payments capped	275	305

Figures are rounded to the nearest £5m

Detail of impacts

13. The impact on those affected will be that they will need to choose between working enough hours to qualify for Working Tax Credit (and the policy strengthens the incentive to do so); reducing their non-rent expenditure; or reducing their rent expenditure, either in situ or by moving elsewhere. The assumption throughout this assessment is that there are none of these behavioural responses to the policy. On that basis, the following paragraphs detail the impact of the policy on different families, localities and sectors of the claimant population.

Numbers of households affected, and family composition

14. The modelling suggests that, in the absence of any behavioural response to the policy, around 67,000 households will have their benefits reduced by the policy in 2013/14 (this is roughly one per cent of the out-of-work benefit caseload)[3] and 75,000 in 2014/15. Within these households, and in 2013/14, the number of adults affected is 90,000 and the number of children 220,000.

15. Broadly this policy affects families who are both out of work, and are either:

    a. Larger than average, in the most part with three or more children, and thereby receiving larger than average Child Tax Credit payments and Child Benefit payments; or

    b. situated in high-rent areas, and thereby receiving large Housing Benefit payments; or

    c. both of these factors combined.

16. The key characteristics of the households affected are described by chart 1 on page 9.

Location, and tenure of households affected

17. The new data allows more detailed analysis of the location of affected households:

    a. A large majority of those affected are in England. Fewer than three per cent of affected households are in Wales (under 2,000); and fewer than five per cent are in Scotland (just under 3,000);

    b. By region, 54 per cent of affected households are in Greater London. The shares of other English regions are all less than ten per cent, with the South East having 9 per cent (6,000) and the North West 6 per cent (4,000) and all other regions less than that;

    c. By local or unitary authority, almost every area has one or more affected households, although in two-thirds of areas fewer than 100 households are affected. The local authorities with more than 1,000 households affected (in the year 2013/14) are as follows:

        Barnet, Birmingham, Brent, Camden, City of Westminster, Croydon, Ealing, Enfield, Hackney, Hammersmith & Fulham, Haringey, Harrow, Islington, Kensington & Chelsea, Newham, Redbridge, Tower Hamlets, Wandsworth;

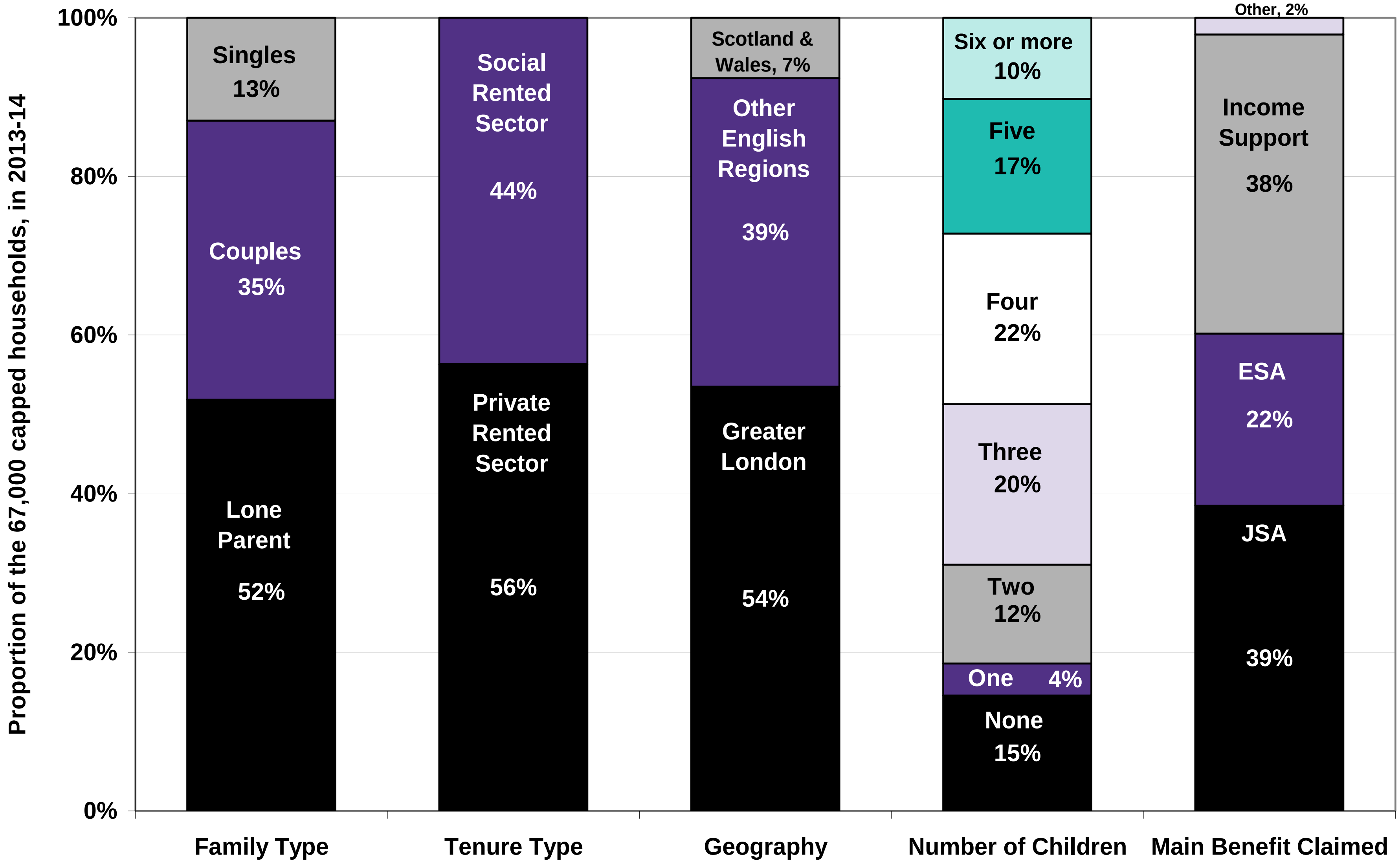
    d. In Scotland, one-third of households affected are in the cities of Glasgow or Edinburgh, with the remaining areas having fewer than 200 households each, and in the majority of cases fewer than 100 households. The number of adults in affected

[3] In statistical terms, this estimate is not significantly different from the previous impact assessment – where the figure quoted was rounded to 50,000 – because the previous figure was derived from a survey sample.

households in Scotland is around 4,000, and the number of children between 7,000 and 8,000; and

e. In Wales, a quarter of households affected are in Cardiff, with the remaining areas having fewer than 200 households each, and in the majority of cases fewer than 100 households. The number of adults in affected households in Wales is around 3,000, and the number of children around 7,000.

Chart 1: Key characteristics of the households affected by the policy[4]



4 Lone Parents are defined by receipt of Child Benefit, with children up to the age of 19 years old.

18. The analysis in this document takes account of the Local Housing Allowance (LHA) cap, which applies to households in private rented accommodation from 2011/12. Where such cases were identified, housing benefit payments were adjusted to the maxima specified under the LHA cap policy. The data suggests that 17,000 of the households subject to the household benefit cap, would also be subject to the LHA cap. The key assumption behind this figure is that the situation of the households will go unchanged, and they will not take any steps to avoid being affected by either of the caps. In reality, many households will react to these changes, and avoid being capped by either working enough hours to qualify for Working Tax Credit, renegotiating their rent in situ, or by finding alternative accommodation. For those who remain subject to the household benefit cap, DWP is actively working with local authorities to address the concern that these households will have to move twice, by (i) identifying those households and (ii) outlining options to them, primarily in terms of moving into work. This advice will be made available several months ahead of the household benefit cap affecting their benefit income.

19. As with the general geographical spread of capped households, there is a clear concentration in Greater London. The 20 local authorities with the most households capped twice are all London Boroughs; in six of these boroughs the number of twice-capped households exceeds 500.

Benefits claimed, and durations on benefit

20. Chart 1 showed which out-of-work benefits the claimants are expected to receive once the cap comes into force. All of these figures reflect relevant policy changes, such as lone parent obligations and the migration of Incapacity-related claims to ESA in the coming years. It follows that of those claiming JSA, a significant proportion will either be former ESA claimants found fit for work after their Work Capability Assessment; or lone parents, whose children are above the qualifying age for Income Support. Additionally, it is expected that of those claiming ESA, virtually all will be in the ESA work-related activity group, as a high proportion of those in the ESA Support Group are also in receipt of Disability Living Allowance, and are therefore exempt from the benefit cap.

Amounts of benefit reduced

21. In 2013/14 prices, the mean reduction in benefit is estimated to be around £83 per week. The median reduction is around £56 per week; this is less because the mean is skewed by a small number of households with large reductions.

22. The distribution of reductions around these average levels is shown by the chart on the following page. The proportions given in the first bar are per cent of the 67,000, whose reduction falls into the £50 per week bands shown. The second bar divides the 67,000 into quintiles, and shows the median pounds per week reduction in each fifth of the population affected, from the smallest reduction to the largest.

Chart 2: Averages of amounts of benefit reduced for households affected by the policy

Carers

23. Households with carers are also more likely to contain a DLA recipient, and thus be exempted from the cap altogether. However, of the 67,000 households capped in 2013/14, 5,000 are expected to be in receipt of Carer’s Allowance. Their mean reduction in benefit as a result of the cap is £87 per week, and the median reduction is £65 per week, both of which are similar to the capped households overall. In terms of the number of children within the household, the composition of carer households is also very similar to that of the capped group as a whole. However carer households are more likely to be part of a couple (45%) than capped households overall.

Durations on benefit

24. Finally, the data allows us to estimate the duration of claim of households who will be capped, in terms of their length of time on benefit, at the time the data was captured in 2011. The majority of cases were on benefit for longer than two years and were on Income Support (some lone parents, but others incapacity-related). For those who were on JSA, the nature of that benefit is such that very few had been on for longer than a year. For the minority who were on ESA, only a small proportion had been on for a duration of over two years (this is at least partly because the benefit was introduced relatively recently).

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