

<b>Title</b> Benefit Cap (Housing Benefit) Regulations 2012: Impact assessment for the benefit cap  <b>Lead department or agency:</b> Department for Work and Pensions  <b>Other departments or agencies:</b> Local Authorities	<b>Impact Assessment (IA)</b>
	<b>Date :</b> 16 <sup>th</sup> July 2012
	<b>Stage :</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Primary legislation
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## 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 working-age benefits and tax credits increased by almost 50% in real terms in the ten years to 2011/12. In 2009/10, around £90 billion was paid out in benefit payments to people of working age and their families, about the same as was spent on education, and compared with £38 billion spent on defence and £118 billion on health. The state can no longer afford to pay people disproportionate amounts in benefit each week, 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:

- improve working incentives for those on benefits,
- deliver fiscal savings, and
- 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.

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

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 households in receipt of Disability Living Allowance, the Personal Independence Payment, an Industrial Injuries benefit (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. These reflect the additional care and/or mobility costs of these groups, who will have less ability to alter their spending patterns or reduce their housing costs to reflect a cap in their benefit. 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.

As a measure to ease the transition for families who were recently in work, there will be a grace period whereby the benefit cap will not be applied for 39 weeks to those who have been in work for the 12 months prior to claiming benefit. And the Government will make available up to an additional £120m over 2013/14 and 2014/15 for Local Authorities to make Discretionary Housing Payments to provide short-term relief to families who may have to adapt their circumstances because of the affects of the cap.

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
<b>COSTS (£m)</b>	<b>Total Transition</b> (Constant Price) Years		<b>Average Annual</b> (excl. Transition) (Constant Price)		<b>Total Cost</b> (Present Value)
Low					
High					
Best Estimate			£270m		£470m
<b>Description and scale of key monetised costs by 'main affected groups'</b>					
<p>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, it is estimated that 56,000 households will have their benefits reduced by the policy, losing on average around £93 per week.</p> <p>There will be a transfer from these households of £275m in 2013/14 and £275m in 2014/15 (cash terms) or £270m in 2013/14 and £265m in 2014/15 (2012/13 prices).</p>					
<b>Other key non-monetised costs by 'main affected groups'</b>					
<p>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.</p> <p>These costs do not include the operational cost of implementing the benefit cap. The Department is currently refining the estimate of these costs.</p>					
<b>BENEFITS (£m)</b>	<b>Total Transition</b> (Constant Price) Years		<b>Average Annual</b> (excl. Transition) (Constant Price)		<b>Total Benefit</b> (Present Value)
Low					
High					
Best Estimate			£270m		£470m
<b>Description and scale of key monetised benefits by 'main affected groups'</b>					
<p>Deliver fiscal savings of £275m in 2013/14 and £275m in 2014/15 (cash terms) or £270m in 2013/14 and £265m in 2014/15 (2012/13 prices), these being the benefits transferred to the taxpayer as a result of the policy change.</p>					
<b>Other key non-monetised benefits by 'main affected groups'</b>					
<p>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 weekly wage received by families in work, and will improve working incentives for those on benefits.</p>					
<b>Key assumptions/sensitivities/risks</b>					<b>Discount rate</b>
<p>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.</p>					3.5%
<b>Impact on admin burden (AB) (£m):</b>			<b>Impact on policy cost savings</b>		<b>In scope</b>
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 <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> 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 <sup>1</sup>	YES	Separate publication
<b>Economic impacts</b>		
Competition	NO	
Small firms	NO	
<b>Environmental impacts</b>		
Greenhouse gas assessment	NO	
Wider environmental issues	NO	
<b>Social impacts</b>		
Health and well-being	NO	
Human rights	NO	
Justice system	NO	
Rural proofing	NO	
<b>Sustainable development</b>	NO	

<sup>1</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies.

## 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
<b>Transition costs</b>					
<b>Annual recurring cost</b>				270	265
<b>Total annual costs</b>				270	265
<b>Transition benefits</b>					
<b>Annual recurring</b>				270	265
<b>Total annual benefits</b>				270	265

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<sup>2</sup> can receive in state support. A typical household where both individuals are aged over 18 can receive £111.45 per week in Jobseeker's Allowance. They can also receive £20.30 for their first child and £13.40 for subsequent children per week, and can get up to £10.45 per week in terms of the family element of tax credits and £51.59 per week in terms of the child element of tax credits. Based on these rates a workless family with 6 children could receive around £519 a week in benefits if they are claiming Jobseeker's Allowance, Child Tax Credits, Child Benefit at the 2012/13 benefit rates, and this would sum to around £27,000 a year. A workless family with 4 children could receive around £389 a week in benefits if they also are claiming Jobseeker's Allowance, Child Tax Credits, and Child Benefit at the 2012/13 benefit rates, and this would sum to around £20,000 a year. If the household rents then they might receive Housing Benefit in addition to these benefits.

### What is the change in policy?

2. From April 2013, 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, which is equivalent to £2,167 per month, and to £350 per week for single-person households where no children are present, which is equivalent to £1517 per month.
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. In recognition of the additional financial care and/or mobility needs, households with a claimant, partner or child receiving Disability Living Allowance will be exempt from the cap. This exemption will also apply to households which include someone in receipt of Personal

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<sup>2</sup> Throughout this document, the term "household" is used as shorthand for the formal term "benefit assessment unit", this being a single adult, or a married or cohabiting couple plus any of their dependent children.

Independence Payment or Attendance Allowance, as well as households receiving the Support Component of Employment and Support Allowance (ESA), or an Industrial Injuries benefit and equivalent payments made as part of a War Disablement Pension or the Armed Forces Compensation Scheme. 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<sup>3</sup>.

6. In addition, the Government has announced measures to ease the transition for families who were recently in work: There will be a grace period whereby the benefit cap will not be applied for 39 weeks to those who have been in work for the 12 months prior to claiming benefit.

## **Reason for change in policy?**

7. 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 income tax and national insurance contributions have been deducted. By doing this the policy will:
  - 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**

8. Modelling for this revised assessment was conducted using administrative records held by the Department for Work and Pensions from December 2011. This is a more recent scan than was used in the January 2012 Impact Assessment. All of the following results are based on this new source.
9. The scan 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.
10. The administrative records relate to late 2011, but have been adjusted to reflect the benefit regime of 2013/14. The benefit rates have been updated 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 2012 Budget Report. 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.

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<sup>3</sup> "The Nation's Commitment: Cross-Government Support to our Armed Forces, their Families and Veterans" Cm 7424, July 2008

## Headline savings

11. The new data suggests that the savings from the policy will be £275m in 2013/14 and £275m in 2014/15 (cash terms). In 2012/13 prices, the savings will be £270m in 2013/14 and £265m 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 (2012/13 prices)	2013/14	2014/15
Total saving from household benefit payments capped	270	265

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 56,000 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) and 58,000 in 2014/15. Within these households, and in 2013/14, the number of adults affected is 80,000 and the number of children 190,000. These estimates are lower than suggested by the January 2012 impact assessment. This is primarily because they include the effect of the nine-month grace period; and the lesser effect of now exempting ESA Support Group and Industrial Injuries cases.

15. The key characteristics of the households affected are described by chart 1. However in broad terms 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.

## Location of households affected

16. The scan data allows detailed analysis of the location of affected households:

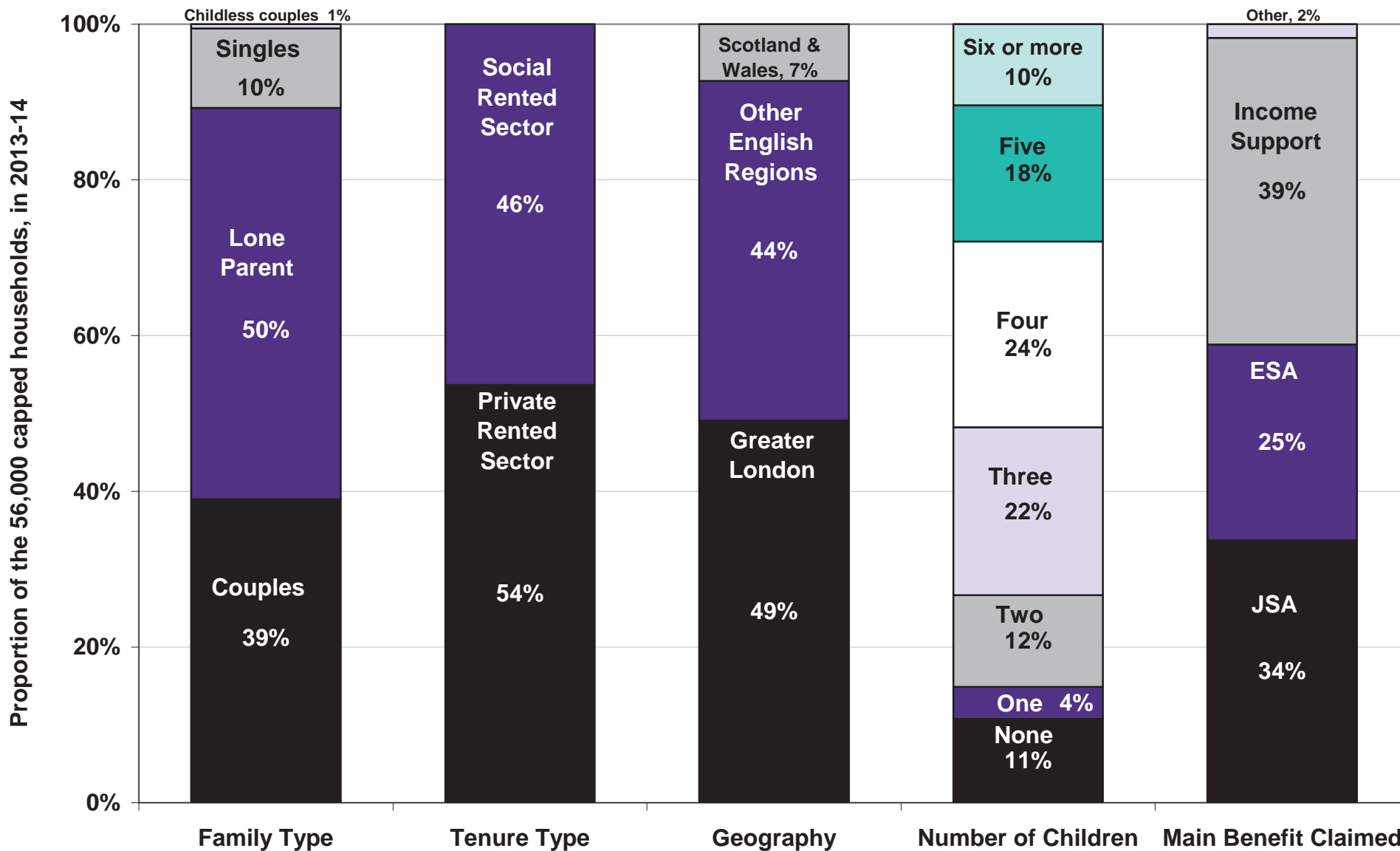
- d. A large majority of households affected (52,000) are in England. Around three per cent of affected households are in Wales (around 1,500); and around four per cent are in Scotland (around 2,500);
- e. By region, 49 per cent of affected households are in Greater London. The shares of other English regions are all less than ten per cent, with the South East having 9 per cent (5,000) and the North West and West Midlands both 7 per cent (4,000) and all other regions less than that;
- f. By local or unitary authority, almost three quarters of areas have fewer than 100 households affected. The local authorities with more than 1,000 households affected (in the year 2013/14) are as follows: Birmingham, Brent, Ealing, Enfield, Hackney, Haringey, Newham, Redbridge, Tower Hamlets, the City of Westminster.
- g. 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 households in Scotland is around 3,500, and the number of children around 7,000.
- e. In Wales, around one in five capped households are in Cardiff, with almost all the remaining areas having fewer than 100 households affected. The number of adults in affected households in Wales is around 2,500, and the number of children around 6,000.

17. Chart 1 shows that Income Support (39 per cent) is the most prevalent income-related benefit, followed by Jobseeker's Allowance and ESA (but not those in receipt of the Support Component of ESA). The percentage on Jobseeker's Allowance (34 per cent) is lower than in the January 2012 impact assessment (39 per cent). This is mainly the effect of the grace period having exempted households most recently in work; these households are more likely to be Jobseeker's Allowance claimants as opposed to other benefits, and therefore are less prevalent now the exemption is included in the modelling.

18. The remaining breakdowns in chart 1 have not changed materially since the January 2012 impact assessment.



Chart 1: Key characteristics of the households affected by the policy<sup>4</sup>



<sup>4</sup> Figures have been rounded to the nearest whole per cent. Parental status is defined by receipt of Child Benefit. Those who are claiming ESA as their main benefit will not include anyone in receipt of the Support Component.

## **Carers**

19. Households with carers are also more likely to contain a DLA recipient, and thus be exempted from the cap altogether. However, of the 56,000 households capped in 2013/14, 5,000 are expected to be in receipt of Carer's Allowance. Over nine tenths of these also claim one of the main income-related benefits, with very few being claimants solely of Carer's Allowance (alongside their Housing Benefit). Their mean reduction in benefit as a result of the cap is £105 per week, and the median reduction is £71 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.

## **Durations on benefit**

20. The data allows estimation of 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 (62 per cent) had been on benefit for longer than two years, with a further 15 per cent having been on benefit for between a year and two years.

## **Amounts of benefit reduced**

21. In 2013/14, the mean reduction in benefit is estimated to be around £93 per week. The median reduction is around £62 per week; this is less because the mean is skewed by a small number of households with large reductions. 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 56,000, whose reduction falls into the £50 per week bands shown. The second bar divides the 56,000 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<sup>5</sup>**



<sup>5</sup> Figures are rounded to the nearest whole per cent.

## 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