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|---|---|
| <b>Title:</b> Impact Assessment: Disability Living Allowance Reform<br><br><b>Lead department or agency:</b><br>Department for Work and Pensions<br><br><b>Other departments or agencies:</b><br>Her Majesty's Treasury<br>Her Majesty's Revenue and Customs<br>Northern Ireland Office | <b>Impact Assessment (IA)</b>   |
|   | <b>Date:</b>  |
|   | <b>Stage:</b> Final   |
|   | <b>Source of intervention:</b> Domestic                                     |
|   | <b>Type of measure:</b> Secondary legislation                               |
|   | <b>Contact for enquiries:</b><br>devolution.commsandbriefing@dwp.gsi.gov.uk |
| <b>Summary: Intervention and Options</b>  | <b>RPC Opinion:</b> Not Applicable  |

| Cost of Preferred (or more likely) Option |                            |  |                              |                      |
|---|----------------------------|--|------------------------------|----------------------|
| Total Net Present Value                   | Business Net Present Value | Net cost to business per year (EANCB on 2009 prices) | In scope of One-In, Two-Out? | Measure qualifies as |
|   | N/A                        | N/A  | No                           | N/A                  |

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

DLA is intended to provide a contribution towards the additional costs associated with long term health conditions or disability to enable individuals to lead full and independent lives. DLA is not affected by an individual's employment status, though it is often incorrectly perceived to be an out of work benefit. The assessment process for DLA is subjective and largely paper based, making it difficult to assess people's needs accurately or consistently. Reviews are rare and infrequent, with most awards set for an indefinite period, meaning that awards may not accurately reflect ongoing needs.

As part of the recent Fresh Start Agreement we agreed with the Northern Ireland Assembly that the current position on welfare was unsustainable and parity across the UK on social security must be restored.

**What are the policy objectives and the intended effects?**

The policy objectives are to create a more active and enabling benefit that better represents a modern understanding of disability and introduces parity between mental and physical conditions. It is designed to support disabled people with the extra costs they face as a result of their disability or health condition; thereby helping them to overcome some of the barriers faced in their leading full and independent lives. PIP is intended to focus support on those with the greatest need and ensure that expenditure is sustainable in the long term.

The assessment for the new benefit has been designed to be more accurate, objective and transparent. Most individuals will now have a face to face assessment with a health professional, with the intent of better capturing an individual's level of need and thereby focusing support most appropriately. Those with the greatest needs will receive the highest levels of support, and the new PIP criteria reflect a more modern understanding of disability; taking better account of mental health conditions to ensure these are now considered equally alongside physical health conditions or disabilities.

Regular award reviews, proportionate to the claimant's condition, will ensure that awards continue to reflect the individual's level of need and that resources are targeted effectively. This reflects PIP's understanding of the fluctuating nature of many health conditions and disabilities and the need to design a system which effectively captures this to ensure individual's are receiving the appropriate award level.

|  |                    |                      |                       |                           |                    |
|--|--------------------|----------------------|-----------------------|---------------------------|--------------------|
| Does implementation go beyond minimum EU requirements?   |                    |                      | N/A                   |                           |                    |
| Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.   | <b>Micro</b><br>No | <b>&lt; 20</b><br>No | <b>Small</b><br>No    | <b>Medium</b><br>No       | <b>Large</b><br>No |
| What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions?<br>(Million tonnes CO <sub>2</sub> equivalent)  |                    |                      | <b>Traded:</b><br>N/A | <b>Non-traded:</b><br>N/A |                    |
| <p><b>What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)</b></p> <p>The do nothing option was considered and rejected as this does not:</p> <ul style="list-style-type: none"> <li>• Provide clarity around the purpose and policy intent of the benefit; emphasising that this is an extra costs benefit which is not related to an individual's employment status;</li> <li>• address issues associated with the assessment and review processes under DLA and;</li> <li>• extend parity on social security across the UK.</li> </ul> <p>Furthermore the Fresh Start Agreement set out that welfare reforms would be implemented in Northern Ireland equivalent to those introduced in GB by the Welfare Reform Act 2012, as well as other measures, and that these regulations would be passed through Westminster.</p> |                    |                      |                       |                           |                    |
| <p><b>Will the policy be reviewed? Yes . If applicable, set review date: Within 2 years of the regulations coming in to force.</b></p>   |                    |                      |                       |                           |                    |

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister: Justin Tomlinson Date: 03/05/16

# Summary: Analysis & Evidence

# Policy Option 1

Description:

## FULL ECONOMIC ASSESSMENT

| Price Base Year | PV Base Year | Time Period Years | Net Benefit (Present Value (PV)) (£m) |                |                |
|-----------------|--------------|-------------------|---------------------------------------|----------------|----------------|
|                 |              |                   | Low: Optional                         | High: Optional | Best Estimate: |

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

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

### 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           | Optional                                |  | Optional   | Optional                      |
| High          | Optional                                |  | Optional   | Optional                      |
| Best Estimate |   |  |  |                               |

### 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. It will also ensure resources are targeted more effectively, thereby potentially reducing knock on spend in other areas of government spend from which individuals may seek support e.g. health or social care.

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

Resources on DLA are poorly targeted and do not provide adequate support for those with non-physical conditions. PIP will activate the DLA caseload; reviewing cases to ensure resources are distributed in an effective and sustainable way, with support going to those with the greatest level of need. Those with non-physical conditions are likely to gain under PIP (As of January 2016 22% receiving enhanced rate Daily Living under PIP vs. 15% higher rate on DLA) thereby representing a wider and more modern understanding of disability. The introduction of Health Professionals and regular reviews will deliver greater accuracy, consistency and sustainability in a way that DLA did not.

### Key assumptions/sensitivities/risks

Discount rate (%)

These are aligned to the risks and sensitivities of the policy implemented in GB.

## BUSINESS ASSESSMENT (Option 1)

|   |           |      |                   |                      |
|---|-----------|------|-------------------|----------------------|
| Direct impact on business (Equivalent Annual) £m: |           |      | In scope of OITO? | Measure qualifies as |
| Costs:  | Benefits: | Net: | No                | N/A                  |

## Introduction

The suite of policy changes are designed to improve work incentives and enhance fairness, whilst ensuring support for the most vulnerable. These were implemented in Great Britain from 2012 and the package of reforms has proved to be successful in increasing moves into employment by those affected.

Welfare Reform and Social Security policy remains devolved in Northern Ireland; however the Northern Ireland (Welfare Reform) Act 2015 enables the UK Government to legislate for welfare reform in NI for a specified period of time. The subsequent Order in Council broadly mirrored the policies in the Welfare Reform Act 2012, with NI specific flexibilities agreed in the Fresh Start Agreement. Both the Northern Ireland (Welfare Reform) Bill and the Order in Council were consented to by the NI Assembly.

Alongside this, mitigations have been assessed and will be put in place by the NI Assembly following the Evason report, published in January 2016.

## The current policy

Disability Living Allowance (DLA) is a cash benefit which provides a contribution towards the extra costs which arise from an impairment or health condition. It is a non-means-tested, non-taxable benefit and is payable regardless of employment status. Although DLA 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 costs<sup>1</sup>. 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.

To apply for DLA, individuals complete a lengthy 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. DLA awards can be decided on the basis of self-reporting of need, and although medical evidence is sought for certain awards, it is not mandatory or routinely provided. At present around half of all award decisions across GB are made without any additional medical evidence<sup>2</sup>, however in Northern Ireland the majority are supported with this evidence. 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. As such awards may not reflect changes in the impact of impairments on a person's needs.

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.

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<sup>1</sup> Office of Population Censuses and Surveys, *The financial circumstances of disabled adults living in private households*, 1988.

<sup>2</sup> DWP ad hoc statistical note 'DLA Award Values and Evidence Use for New Claims in 2010, in Great Britain', 2011.

## **Policy objective**

The policy objective is to create a new, more active and enabling benefit that focuses support on those disabled people who face the greatest barriers to leading full, active and independent lives and consequently that expenditure is sustainable.

The assessment for the new benefit, Personal Independence Payment (PIP), has been designed to assess more accurately, objectively and transparently those people who would benefit most from additional support, taking fair account of the impact of all impairment types on an individual's circumstances. Entitlement will depend on how a person's ability to carry out daily living and/or mobility activities is affected by their condition or disability, and not the condition or disability itself.

The new benefit will have different entitlement criteria to DLA to better reflect today's understanding of disability. The new benefit will have a better balance to take into account the needs of those with mental health, intellectual, cognitive and developmental impairments. Through greater use of evidence, periodic review and reassessment the intention is that the new benefit will enable a more accurate assessment of an individual's on-going needs and hence entitlement to make sure support is reaching those who need it most.

PIP will not be extended to new or existing claims for children or those over 65 at the point of introduction. Individuals already in receipt of PIP will continue to receive the benefit past the upper age limit of 65, provided they continue to meet the eligibility criteria.

There is a requirement for all claimants who are transferring from DLA to PIP to wait 28 days starting with the first pay after the decision to award PIP. To ensure that the system delivers vital support as quickly as possible for claimants who are terminally ill, the 28 day rule has been modified. The change will only apply to PIP claimants transferring from DLA who meet the Special Rules Terminally Ill (SRTI) criteria and are awarded a greater weekly rate than their current DLA weekly rate. For the small number of people who receive less under PIP, the 28 day run on will remain to ensure there are no cash losers as a result of this change. Entitlement to PIP will start at the earliest opportunity, between 1 and 8 days following the decision to award PIP taking into account the different payment cycles of DLA.

Receipt of the higher rate of the mobility component of DLA is a qualifying criteria for the Motability Scheme. Those DLA claimants who are reassessed but are not eligible for the enhanced mobility rate of PIP are no longer eligible for Motability. Motability will apply the same transitional support arrangements in NI as in the rest of the UK, including the £2,000 transitional support payment for affected customers who first joined the Scheme before the end of 2012 and £1,000 for customers who first joined the Scheme during 2013. Motability will also allow customers to retain their vehicles for up to three weeks after their DLA ceases to be paid, meaning that individuals may be able to keep their vehicles for up to 7 weeks in total after losing entitlement.

## **Exchequer Impact**

As a result of not mirroring the measures contained in the Welfare Reform Act 2012, in Northern Ireland the Executive has had to provide 'savings forgone' to HM Treasury. In 2015/16 and prior to the Fresh Start Agreement, these welfare related deductions were estimated to be £114 million and to significantly increase on an annual basis. As a result the non-implementation of welfare reform was putting significant and growing pressure on the Executive's budget.

## **Impact on Households**

DLA reform proposing replacement of the benefit with PIP in GB was initially consulted on between December 2010 and February 2011. Consultations on the assessment criteria and the detailed rules took place in 2012 with a further consultation on the mobility assessment criteria in 2013. PIP has now been implemented in GB. In total over 80 responses to the formal consultations were received in Northern Ireland, including almost 20 from individuals. These responses were shared with the Department for Work and Pensions and considered alongside those they received in Great Britain.

The Government also published policy briefing notes on the Department for Work and Pension's website aimed at providing further information and clarity on its proposals. The elements of the new benefit are:

- Two rates (enhanced and standard) for each component (daily living and mobility); four in total.
- Eligibility based on a qualifying period of 3 months, with the expectation that the entitlement conditions will continue to be satisfied for a further 9 months.
- Moving away from automatic entitlement based on certain conditions to assessments based on individuals' circumstances and the impact of an individual's health condition or impairment.
- The facility to regularly review all awards.
- Maintenance of provisions to fast track claims for people who are terminally ill.

Entitlement to PIP maintains gateways to other forms of support, for example receipt of either rate of the daily living component of PIP will be a gateway for receipt of Carer's Allowance.

Currently there are 125,170 working age DLA claimants in Northern Ireland. In Northern Ireland one in nine of the population are in receipt of DLA, relative to one in twenty in GB. As entitlement to PIP will be based on how a person's condition affects their daily life, not the condition itself, this will vary from person to person. It is therefore not certain who within the DLA population will be assessed as having a differing entitlement.

## **Methodology**

The data is specific to NI provided by the Department for Social Development's Analytical Services Unit.

## **Impact on Income for Protected Groups**

Households that include someone with a protected characteristic (as defined by the Equality Act) will be affected by this policy if they are more likely to be in receipt of Disability Living Allowance. The protected groups according to the Equality Act 2010 are:

- Age
- Disability
- Gender
- Ethnicity
- Gender reassignment
- Pregnancy and maternity
- Sexual orientation
- Religion or belief
- Marriage and civil partnership

## **Age**

PIP will affect working age claimants (aged 16-64 years). As of November 2015, 125,170 working age claimants may be affected by the introduction of PIP in Northern Ireland, however it is not possible to determine their new eligibility as the extent by which their medical condition requires additional support is unknown.

## **Disability**

The new benefit focusses support on those disabled people who face the greatest barriers to leading full active and independent lives. Those who face the greatest barriers are likely to incur the greatest additional costs and, for eligible claimants, PIP will serve as a contribution towards these extra costs. It is likely that disabled people will be impacted and, as PIP focuses on the impact of a condition rather than the diagnosis itself, in some cases an individual with a health condition or disability may not qualify for a PIP award following assessment if their condition does not meet the eligibility criteria for an award.

Analysis can only be provided for some of the equality groups. It is not possible to predetermine the outcome of assessments by gender, although were this to be broadly in line with GB 55% of PIP claimants would be female. We do not, as a matter of course monitor religious belief, political opinion, racial background or sexual orientation for the purpose of administering the social security system in Northern Ireland. However we would not expect claimants to be adversely affected on these grounds.

### **Life Chances**

The new Life Chances legislation (incorporated into the Welfare Reform and Work Act) removed a number of the legal duties and measures set out in the Child Poverty Act 2010 and placed a new duty on the Secretary of State to report annually on children in workless households and the educational attainment of children. This is because evidence shows these to be the two main factors leading to child poverty now and in the future (respectively).

This change supports life chances as it refocuses support on better enabling participation in society, allocating funds on the basis of the impact of the condition rather than the existence of the condition itself. The simpler structure to payments will be clearer to individuals and this more transparent assessment will provide clarity as to their eligibility. Regular reviews will also result in the level of support meeting an individual's needs over time, ensuring where needs change this is reflected in awards granted.