Title: (NI Welfare Reform) Impact Assessment: Universal Credit	**Impact Assessment (IA)**
	Date: 8 May 2016
Lead department or agency: Department for Work and Pensions	**Stage:** Final
	Source of intervention: Domestic
Other departments or agencies: Her Majesty's Treasury; Her Majesty's Revenue and Customs; Northern Ireland Office	**Type of measure:** Secondary legislation
	Contact for enquiries: devolution.commsandbriefing@dwp.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: 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?

There are two fundamental problems with the current welfare system in Northern Ireland: poor work incentives and complexity. As a result it hinders rather than helps thousands of individuals on low incomes and facing welfare dependency, at great social and economic cost. For people often reliant on benefits, the incentives to move into work or to increase earnings once in work can be very low. Evidence from GB suggests that the welfare reform package has been successful in increasing moves into work.

This current system provides targeted support to meet specific needs, but the overall effect is a complex array of benefits which interact in complicated ways, creating perverse incentives, penalties, confusion and administrative cost. This has the effect of preventing many in our society from seeing work as the best route out of poverty. It also increases the risk of error and the opportunities for fraud.

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

What are the policy objectives and the intended effects?

The policy will restructure the benefit system, to create one single payment for working-age adults which replaces the current system of means-tested out of work benefits, tax credits and support for housing. It will improve work incentives by allowing some individuals to keep more of their income as they move into work, and by introducing a smoother and more transparent reduction of benefits when earnings increase.
The policy will:

- reduce the number of benefits and the number of agencies that people have to interact with;
- smooth the transition into work;
- make it easier for claimants to understand the system and what they are entitled to;
- make it easier for staff to administer the system;
- leave less scope for fraud and error, and;
- ensure that people sign up to the appropriate activities and conditions in their claimant commitment.

The policy aims to reduce the number of workless households, ensuring that work pays and addressing the financial unsustainability of the current system.

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.	**Micro** No	**< 20** No	**Small** No	**Medium** No	**Large** No	
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A		**Non-traded:** N/A	

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The do nothing option was considered and rejected as this does not:

- provide the increased incentives to move into work and accompanying wider benefits;
- provide increased simplicity and reduced fraud and error
- extend parity on social security across the UK.

The ability to retain this legacy system is also curtailed by Northern Ireland use of UK-wide computer systems which are to become obsolete on full implementation of Universal Credit in GB.

Furthermore the Fresh Start Agreement set out that welfare reform would be implemented in Northern Ireland equivalent to those introduced in GB by the Welfare Reform Act 2012, as well as other measures these regulations would be passed through Westminster.

Will the policy be reviewed? It will not be reviewed. **If applicable, set review date:**

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: Lord Freud Date: 08/05/16

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'

The complexity and lags in the system are reduced by Universal Credit in Northern Ireland which will increase take up of benefits as a result. This will result in some additional cost to the exchequer; however focussing benefits on those most in need will provide an overall reduction in benefit spending from the welfare bill which had become unsustainable.

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

Those transferred by DWP from legacy benefits and tax credits, with no change in their circumstances, will receive transitional protection, to ensure they are not cash losers at the point of change.

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'

There are expected to be savings due to reductions in Fraud and Error once Universal Credit is fully implemented.
There is also anticipated to be an annual reduction of administrative expenditure once Universal Credit has been fully implemented.

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

Universal Credit will lead to an increase in employment due to improved financial incentives, a simpler and more transparent system, and changes to the requirements placed on claimants. The overall increase in employment will lead to direct economic value, as well as having a positive impact on health impacts and crime levels. There would also be an improvement in social welfare from the increased support to those at the bottom end of the income distribution, and the reduction in barriers to work

Key assumptions/sensitivities/risks **Discount rate (%)**

It is difficult to estimate the dynamic impacts of Universal Credit due to the scale of the reform, though we do expect these changes to occur. Figures presented are as calculated specifically for this Impact Assessment using the most recent economic data and include any changes to UC outside of those associated with the Welfare Reform and Work Act 2016. The figures reflect the impact of Universal Credit in Northern Ireland at steady state, when all Transitional Protection has expired.

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 in 2012 and the package of reforms has proved to be successful in increasing moves into employment by those affected.

Welfare Reform and Social Security remain 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

Currently the system of benefits provides targeted support to meet specific needs, but the net effect is a complex array of benefits which interact in complicated ways, creating perverse incentives and penalties, confusion and administrative cost. The incentives to move into work or increase earning once in work can also be very low. This has the effect of preventing many from seeing work as the best route out of poverty. It also increases the risk of error and the opportunities for fraud. As a result the welfare bill has become unsustainable and whole system reforms are required to refocus that support on those who require it most and strengthen work incentives.

Northern Ireland currently operates separate systems for out-of-work and in-work support delivered by different Government departments. A move into work therefore entails a recalculation of entitlement, multiple communications and possible delays and gaps in payment. As a result, this is a disincentive to many as people are not prepared to take the risk of moving into work.

Policy objective

The policy objective is to remove the financial and administrative barriers to work inherent in the current welfare system. The goal of the reform is to ensure that work always pays and to encourage more people to see work as the best route out of poverty. In the longer-term, by providing improved incentives and support to move into work and progress in work, it will reduce the economic costs of worklessness and aims to reduce the number of children and adults living in workless households.

The policy will restructure the benefit system, to create one single payment for working-age adults that replaces the current system of means-tested out of work benefits, tax credits and support for housing. This will consist of a standard allowance with additional amounts for disability, caring responsibilities, housing costs, childcare and children. It will improve work incentives by allowing some individuals to keep more of their income as they move into work, and by introducing a smoother and more transparent reduction of benefits (the single taper rate) when earnings increase. It will reduce the number of benefits and the number of agencies that people have to interact with and smooth the transition into work. Furthermore the dedicated work coaches will support progression in work. It will therefore be easier for claimants to understand what they are entitled to and make it easier for staff to administer the system, leaving less scope for fraud and error. It will ensure that people sign up to the appropriate activities and conditions in their claimant commitment. The policy aims to reduce the number of workless households, ensuring that work pays.

The benefit cap will be applied in Universal Credit. The cap as applied to Housing Benefit in Northern Ireland was considered in the impact assessment presented alongside the Benefit Cap (Housing Benefit) Regulations (Northern Ireland) 2016. This has been published online and can be viewed here: http://www.legislation.gov.uk/nisr/2016/55/impacts. The cap in Universal Credit works in a similar way except that reductions are made to the claimant's total UC rather than just HB payments. Where households work 16 hours or more they will be exempt from the benefit cap. The cap will be initially applied at £26,000 p.a. (£18,200 for single claimants). The benefit cap has applied in Great Britain at these levels since 2013 and has been successful in encouraging more households to look for and to find work.

Universal Credit will offer new support to self-employed claimants where self-employment is the best route for them to become financially independent. Self-employed claimants will need to pass the 'gainful self-employment' test to demonstrate that their business activity is developed, regular and is carried out in expectation of profit. If it is not the claimant will be required to fulfil agreed work search and work availability requirements.

Self-employed claimants will be subject to a Minimum Income Floor (MIF); a minimum amount of assumed income from self-employment. This is aimed at limiting the extent to which Universal Credit subsidises underemployment and long-term low-earning businesses. It will encourage and incentivise individuals to increase their earnings through developing their businesses or to move into paid employment. New businesses will be exempt from the MIF for 12 months, known as the 'start-up period'.

When introduced, Universal Credit will initially apply to new claims. It will be phased in for existing benefit and Tax Credit recipients. For cases that are moved to Universal Credit without a change in circumstances through a managed migration, there will be no cash losers at the point of change, ensuring that no one will see their benefits reduced when they are moved to Universal Credit.

Universal Credit is being implemented in Northern Ireland aligned to provisions in the GB Welfare Reform Act 2012. The Universal Credit Regulations (Northern Ireland) 2016 correspond to the GB Universal Credit Regulations 2013 taking account of amending sets of regulations made in 2013, 2014 and 2015.

Behavioural change

People will respond to the changed incentives in Universal Credit. Work incentives will improve in three ways:

1. by ensuring that support is targeted at those who most need it and benefits are reduced at a consistent and predictable rate, so that people can easily see the financial reward from work and respond to it

2. by ensuring that work pays – now, taking a job for any number of hours will always be worthwhile, and

3. by reducing the complexity of the system, and ensuring that people are supported in and out of work the potential gains of working are clear, and the risks associated with moves into employment are reduced.

The clear financial incentive provided by Universal Credit will be backed up by a strong system of conditionality. Unemployed people with no barriers to work will be required to take all reasonable steps to find and move into employment and those in work will be supported to increase their earnings. Strengthened conditionality will in turn be supported by a new system of financial sanctions, which will incentivise people to meet their agreed responsibilities.

Early evaluation analysis in GB has found that Universal Credit claimants are more likely to be in work than similar JSA claimants and are in work for longer periods earning more[1]. In particular, in the first ten offices between July 2013 and September 2014 we find:

- New UC claimants were about 8 percentage points more likely to have been employed within 270 days of making their claim than matched new JSA claimants in similar areas (71% Vs 63%).
- 270 days after making a claim the proportion of UC claimants employed was 3 percentage points higher than the proportion of matched JSA claimants in work at the same point in time.

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/481827/universal-credit-estimating-early-labour-market-impacts-dec-2015.pdf

- These positive results hold for claims made at different six month intervals, for different age groups, and for both men and women.
- UC claimants had worked an estimated 12 days more than their matched JSA counterparts.
- Positive and statistically significant impacts on earnings, but these impacts are small relative to the estimated impacts on employment.

These results collectively suggest that Universal Credit is encouraging new claimants, and making it more worthwhile and easier for them, to do small amounts of work. These are early impacts for Universal Credit claimants during 2013/14, in a select numbers of offices and it is not known what strength of effect will result from widening the claimant group or geography. We will continue to evaluate what impact Universal Credit is having as it rolls out to more groups and areas and as the policy evolves.

There are two ways that the strength of the impact on work incentives of Universal Credit are estimated to ensure that it pays to work and that every additional hour in work pays. These are:

1. Improvements to Participation Tax Rates (PTRs), increasing the amount of earnings people keep when they move into work. This reflects the incentive to work by considering the amount by which increases in gross income through work are reduced by tax, national insurance and by reduction in benefit payments.

2. Improvements in Marginal Deduction Rates (MDRs), increasing the rate at which net income is increased as gross earnings increase. This measures the incentive to increase earnings, compared to the PTR which measures the incentive to move into work.

Currently the amount of benefit income taken away from a household can be equal to the amount of additional earnings, this is a 100% marginal deduction rate and provides no incentive to work any additional hours. The rate at which benefit income is withdrawn for additional earnings varies hugely under the current system. Under Universal Credit this will remain constant at 65%, or 65p in every additional £1. The simplicity of Universal Credit will make it easier for households to understand the gains from work.

Given the complexity of entitlements under the current system we consider these MDRs and PTRs by equality group later in this document.

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

The move from a system of multiple benefits to one single claim means that household entitlement will be assessed against the new Universal Credit criteria and as a result may be different. Transitional protection will ensure that claimants who are moved on to Universal Credit will not lose out in cash terms while their circumstances remain unchanged.

Where a change in circumstance occurs the household will be re-assessed and will then receive Universal Credit, if entitled. This may result in a higher or a lower award. This is a notional change to entitlement from an underlying change for the household, rather than a cash change where there is no underlying change in circumstance.

Take-up adjusted modelling[2] shows that in Northern Ireland there will be an estimated 310,000 households claiming Universal Credit and as such having strengthened support and work incentives that

[2] See methodology section for detail on this. Modelling is consistent with the approach used to assess the impacts of Universal Credit in GB

will better enable movement into work. However the number may be lower as claimants respond to those incentives.

Simplification of the system will result in one claim rather than many. The take up of benefits is expected to improve under Universal Credit compared to the current system, due to Universal Credit being a simpler, integrated benefit. Where previously individuals may not be aware of all of their entitlement or feel that it is too complex to apply, they will be assessed against all of their entitlements under Universal Credit.

Under 25s will gain access to in-work support in UC. Currently under 25s who are in work are not able to claim Working Tax Credit, however they will be able to claim Universal Credit. In addition, in the current system, lone parents aged under 25 are entitled to the over 25 benefit rate; under Universal Credit they will receive the same rate as a person under 25 without any children, as a component of their total Universal Credit entitlement. This is set alongside strengthened support and conditionality for lone parents with children aged over 3, which is further incentivised by increased support once they have moved into work.

Additional support for childcare will be provided to enable movement into work. Current Tax Credit rules state that childcare is only available to parents who work at least 16 hours per week. Universal Credit will remove this requirement and provide support to parents regardless of how many hours they work. From April 2016 the level of support for eligible childcare costs increased from 70% to 85%., improving entitlement for working families, enabling them to move into work if only for a few hours, or to increase the number of hours worked, right up to working full time.

Restructuring of disability support under Universal Credit leads to both increases and decreases in entitlement. However, transitional protection will ensure that claimants who are moved on to Universal Credit will not lose out in cash terms while their circumstances remain unchanged. This focusses additional support on people who are more severely disabled and have limited capability for work and work related activity. These claimants are not required to search for work or to prepare for work.

In Universal Credit the resources released from reforming and simplifying all the existing disability premiums are refocused to ensure more support is targeted at more severely disabled people. This is achieved through two components: the Limited Capability for Work amount and, for more severely disabled claimants, the Limited Capability for Work and Work Related Activity amount. Eligibility for these is determined following the outcome of a Work Capability Assessment. The support to meet the extra costs of disability through Disability Living Allowance, and subsequently Personal Independence Payment remains outside of Universal Credit and, like Universal Credit, are for those who are in or out of work.

Tax Credits extend higher up the income distribution than Universal Credit. To enable focus on those who most need it, who are at the lower end of the income distribution, there is a reduction in benefit entitlement to those on the relatively higher end of the income distribution. This sits alongside changes to the income tax allowances and the introduction of the National Living Wage, which improve in-work income.

A capital rule will be implemented in Universal Credit. Currently there is no limit on capital under Tax Credits, households may have significant amounts of savings and still receive this in-work benefit income. Under Universal Credit where households have over £6,000 capital, their Universal Credit entitlement is reduced by £4.35 for every additional £250 of capital.. Where households have over £16,000 in capital they will not be entitled to Universal Credit.

Earnings from self-employment are assumed to meet a minimum level; once the self-employment venture has reached a maturity of 12 months a level of income is assumed to be at least that which could be earned though paid employment. The Minimum Income Floor (MIF) has been set at an appropriate level so that claimants become less reliant on benefits. This is deemed to be 35 hours at the National Minimum wage (which includes the National Living Wage from April 2016) minus tax and national insurance. Households affected by the MIF would be supported to either increase earnings or move into paid employment in response.

Implementation

Overall administration of the benefit will be managed by a single delivery agency in one department. As part of the programme of reform to restructure how government works in Northern Ireland, the Social Security Agency will become part of the Department for Communities in May 2016. It will be the Department for Communities which will apply the changes to the welfare system. The aim is to make this simpler than current arrangements where delivery of benefits is administered through the different organisations such as the Social Security Agency, HM Revenue and Customs and NI Housing Executive.

Under Universal Credit, claims will be made individually by single people or jointly by both members of a couple. Most Universal Credit claims will be made online – consistent with the Government's aim to transform our services to claimants by putting digital services at the centre of the business. Over recent years the Northern Ireland Executive has invested heavily in upgrading the telecoms infrastructure to improve the accessibility of broadband.

Universal Credit will be more responsive to changes in income and other circumstances. The new system will adjust payments according to income reported through an upgraded real-time information version of the Pay-As-You-Earn tax system[3]. The system will reduce the need for claimants to inform the Government of changes in their income and will be more responsive to those changes so as to ensure that people receive additional help quickly should their incomes fall; it will tackle the problems people have experienced with the annual, retrospective, calculation of tax credits. As a result claimants will be much clearer about how much they will get under Universal Credit and the effects of increasing their earnings, for example by taking on more hours or overtime.

Claimants with self-employed income (whether they are required to meet work search conditionality requirements or not) will be required to report this to the Department for Communities on a monthly basis. Monthly reporting will allow Universal Credit to be adjusted on a monthly basis, which will ensure that claimants whose income from self-employment falls do not have to wait several months for a rise in their Universal Credit. It should also help claimants to keep simple records which give them a stronger hold on their business finances. In steady state, claimants will be required to report their income using a tool within their personal online account. Claimants will receive messages towards the end of each assessment period alerting them that they will need to make an income report once the assessment period has finished. The reporting tool will be available to the claimant as soon as the assessment period ends. As soon as he/she submits the income report, the household Universal Credit payment will be calculated and payment made.

Methodology

The Policy Simulation Model was developed by the Department for Work and Pensions to model the impact of Universal Credit. It draws on data from the 2012/13 Family Resources Survey. Analysis has been supplied by the Department for Social Development's Analytical Services Unit.

The analysis necessarily uses average amounts across claimant groups in the micro simulation modelling of Universal Credit, individual circumstances will differ around these averages. This modelling provides the best estimate of the impact of Universal Credit on work incentives. However we recognise that there is uncertainty in this modelling for three reasons: 1) it uses survey data, which is based on only a sample of the population 2) there is implicit uncertainty when looking at future circumstances using households observed in the past, economic assumptions are made to enable this which may change; 3) simulating future benefit entitlement does not account for the scale of response to strengthened work incentives.

Whereas the first two types of uncertainty may have positive or negative effects on numbers it is this latter effect that may produce sizeable changes in the estimated caseloads that will skew any caseload figures and hence misrepresent the impacts. Therefore we present the incentives effects and broad numbers affected only in this document.

[3] HM Revenue and Customs has consulted on *Improving the operation of PAYE: Collecting Real Time Information*

This impact assessment covers Universal Credit regulations associated with the Welfare Reform (Northern Ireland) Order 2015. The economic assumptions are consistent with Autumn Statement 2015 however certain policy assumptions have been changed to exclude policies that will be part of the Welfare Reform and Work Act 2016; which are not included within these regulations. However the four year freeze in benefit up-rating has been included in the modelling as this is implicit in the rates paid, rather than discrete changes to policy. This therefore reflects the best estimates of the policy pre-implementation, as the 2012 Impact Assessment did for GB; this is the view of the entire benefit system change. Any subsequent changes to the new system will be scrutinised and assessed as required.

The Take-Up Adjusted Universal Credit modelling has been used which assumes improved take-up due to the claim process being simplified, and claimants automatically receiving all benefits they are entitled to.

All analysis of Participation Tax Rates (PTRs) is based upon the first earner of the household moving into work for ten hours per week at the national living wage for all workless households. Where there are fewer than 10,000 households modelled this is based on too few households in the sample and therefore results are supressed. Caseloads are rounded to the nearest 10,000 and percentages to the nearest percentage point.

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 as it is a radical reshaping of the working age benefits system, which provides support for people who are in or out of work. Overall, those groups who are more likely to be in receipt of the benefits replaced by Universal Credit are more likely to be affected by this policy change. These groups will not see a change in the amount they receive in cash terms when they are moved without a change in circumstances to Universal Credit. However, they will see a change in payments after a subsequent change in circumstance or when they make a new claim. For each of the groups there will be a change in work incentives and a corresponding change in entitlement. Both are looked at in the following section.

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

The two ways that the strength of the impact on work incentives for different groups are estimated, where possible, are:

1. Improvements to ***Participation Tax Rates (PTRs),*** increasing the amount of earnings people keep when they move into work. This reflects the incentive to work by considering the amount by which gross income is reduced by tax and national insurance and by reduction in benefit payments. Broadly speaking a lower PTR provides a higher incentive to work.

2. Improvements in ***Marginal Deduction Rates (MDRs),*** increasing the rate at which net income is increased as gross earnings increase. This measures the incentive to increase earnings, relative to the PTR which measures the incentive to move into work. Akin to the PTR broadly speaking the lower the MDR, the greater the incentive to increase hours worked.

Caseload numbers presented below are in steady state, therefore after transitional protection has worked through the system.

Age

Changes to work incentives

There will be improvements in work incentives across all age groups, as assessed by the age of the head of household or first earner. The incentive to move into work is improved, so we expect that there will be corresponding improvements in employment across age groups in the working age population.

Currently almost half of the 30,000 households under 25 face a PTR of 70-80%, whereas under UC six in ten see their PTR decrease to under 60%. Overall this is an increase in the incentive to move into work for this group, even for a low number of hours. Due to the low sample size it is not possible to assess the incentives to increase hours via the MDR for the under 25s.

For those households with a first earner aged between 25 and 49, the vast majority (87%) have a PTR greater than 70% in the current system. However this is turned around under Universal Credit with an even greater proportion (94%) of households who will have a PTR of less than 70%. Almost 4 in 5 will have a PTR of under 60% so their net increase in income from movement into work will be significantly improved.

Currently of the 90,000 households aged over 50 around six in ten face a PTR of over 70%, one sixth having 90-100%. Under UC 95% of households have a PTR under 70% with 4 in 5 households having a PTR under 60%. This shows large increases in the incentive to move into work again in this age group. Due to the low sample size it is not possible to assess the incentives to increase hours via the MDR for the over 50s.

Caseload affected in steady state

Caseload presented below show the different entitlement for households who do not respond to the stronger incentives to move into employment.

It is estimated that there will be 40,000 Universal Credit claimants aged under 25; a further 170,000 25-49 year olds and 100,000 over 50s. Within each of these groups there are households with higher and lower entitlements dependent on their circumstances. Changes for over 25s are determined by underlying household characteristics rather than age per se; for example whether there are children in the household and hence childcare needs, or whether there are additional support needs due to limited capability for work and work related activity.

Couples with an existing award of Pension Credit, including couples with a partner below the qualifying age for State Pension Credit, are not affected. Such couples remain within the current Pension Credit regime, where their circumstances remain unchanged.

Disability

Within this section the disabled group is based on self-reported disability. This is not defined in Universal Credit as entitlement is based on the additional support that is required through the welfare system rather than the underlying disability or condition. This is a household that contains someone who has difficulty in one or more of the following nine categories: Mobility (moving about), with ability to lift/carry/move objects, manual dexterity (using hands for daily tasks), continence, communication (speech hearing or eyesight), memory/ concentration/ learning/ understanding, understanding when in physical danger, physical co-ordination (e.g. balance), and difficulty in Other area of life.

Changes to work incentives

Universal Credit offers significant opportunities to promote equality for disabled people through improving work incentives and smoothing the transition into work. For example, the fact that Universal Credit is a single system for people who are in or out of work with no permitted work or hours rules, means that it is easier for disabled claimants to enter the labour market even for a few hours, or work fluctuating hours to take account of their medical condition. Claimants determined as having limited capability for work will also be eligible for a work allowance.

A larger proportion of households containing a disabled individual have minimal incentive to work in the current system, but a greater proportion will have an improved incentive under Universal Credit as seen by large improvements to the PTR for this group.

Currently almost one quarter (23%) of disabled households have a PTR of 90-100%; and 83% of disabled households have a PTR of over 70%. This is reversed under Universal Credit as almost all (97%) disabled households will have a PTR of under 70%. Due to the low sample size it is not possible to assess the incentives to increase hours worked via the MDR for households which contain someone who has a disability.

Caseload affected in steady state

Universal Credit will be a radical simplification of current benefits and entails abolition of all existing premiums and additions with the savings used to recycle support to those with limited capability for work and work related activity. Rather than receiving a combination of different disability premiums, eligible claimants will receive one of the two levels of disability support available under Universal Credit. The Government believes that this represents the best allocation of resources to support the most severely disabled people.

There are an estimated 110,000 disabled households that will claim Universal Credit. Those currently in receipt of the benefits who are moved to Universal Credit without a change in circumstances will receive transitional protection so these households will not have a cash reduction as a direct result of the move to Universal Credit providing their circumstances remain the same. Both in and out of work support for additional costs associated with disabilities remain outside of Universal Credit in Disability Living Allowance and subsequently Personal Independence Payment.

Disabled children and carers

The Welfare Reform (Northern Ireland) Order 2015 provides for an additional amount to be payable for any dependent child or young person who is disabled and / or an additional amount to the claimant and their partner if they have limited capability for work and work related activity or substantial caring responsibilities.

For disabled children, the proposal is to mirror the two elements for adults. The higher rate will be based on the child being eligible for the highest rate of the Disability Living Allowance care component (and widened to include children who are certified blind). The lower rate will be based on the child being eligible for the other rates of Disability Living Allowance and would mirror the limited capability for work element for adults. The higher rate disabled child addition aligns with the Working Tax Credit rate. This provides increased financial support for the most severely disabled children. Payments for disabled children and adults need to be aligned as between 2003 and 2010 the up-rating of child payments increased at a faster rate than those of adults.

Carers provide invaluable support for relatives, partners and friends who may be ill, frail or disabled. In recognition of that, there is a Carer component within Universal Credit to support carers on a low income who provide care of 35 hours or more each week for a severely disabled person[4]. Carer's Allowance will continue to exist as a separate benefit outside of Universal Credit and eligibility for the Carer component will not depend on the eligible adult also claiming Carer's Allowance. While Carer's Allowance will be deducted from Universal Credit, the Carer component will be paid in addition to the claimant's standard Universal Credit entitlement.

[4] A severely disabled person is defined as someone receiving the middle or highest rate of the Disability Living Allowance care component, Constant Attendance Allowance, Attendance Allowance, either rate of the Personal Independence Payment daily living component, or the Armed Forces Independence Payment

Within Universal Credit claimants cannot claim the limited capability for work component and also claim as a carer at the same time. However, different members of the household will be able to separately get a limited capability for work component and claim as a carer. Households entitled to either of these elements of Universal Credit or to Carer's Allowance will be exempt from the benefit cap.

The Executive, working together to deliver Programme for Government commitments will aim to improve opportunities for disabled people to move into work. Office of the First Minister and deputy First Minister's "Strategy to improve the lives of people with disabilities 2012 – 2015" states that "Welfare Reform should be supported by programmes that will ensure appropriate and sustainable employment opportunities for people with disabilities." Further, in developing the claimant commitment, account will be taken of individual circumstances, including for example, additional help and/or training required to help smooth the transition into work. The single taper and work allowances for households with a disabled adult will support those disabled who can work a few hours. Further, any household in receipt of Disability Living Allowance / Personal Independence Payment will be exempt from the benefit cap.

Gender

Changes to work incentives

Under the current benefit system an equal proportion of male and female households[5], almost one in five, have virtually no financial incentive to work with a PTR of 90-100%. However a greater proportion of female households have a rate over 70% than male (79% and 70% respectively). Under UC two thirds of male households will have a PTR of under 60% whereas the stronger incentive to move into work will be seen in 85% of female households who have this lowest PTR.

Under UC there will be increased incentives to work for more hours as no households have a MDR over 80%. There are also fewer households who will see a 70-80% MDR, so have a better marginal increase in total income for the additional earnings.

Caseload affected in steady state

We estimate that 80,000 single male households and 140,000 single female households will claim Universal Credit, the remaining households are couples. Additional support provided under Universal Credit does not differentiate between male and female households. For households with children there is additional childcare for working only a few hours.

Religion or belief

We have considered both Labour Force data and the Equality Commission for Northern Ireland (ECNI) publication "Fair Employment Monitoring" (December 2012)[6]. The latest data available shows that the proportion of Roman Catholics in the monitored workforce was 46.3% and the proportion of Protestants was 53.7%. According to the ECNI report, the composition of the monitored workforce now more closely mirrors the available labour force figures. Based on this information it is likely that there will be no adverse differential impact on the basis of religion.

Analysis can only be provided for some of the equality groups. We do not, as a matter of course monitor marriage and civil partnership, racial background, sexual orientation or gender reassignment for the purpose of administering the social security system in Northern Ireland. We are unable to provide any analysis on pregnancy and maternity due to the methodology of our analysis and small numbers affected. 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 2016) 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

[5] Note that work incentives are at the individual level, but caseload data is presented as single female or male households and couple households. All of the households in the caseload analysis may or may not contain children

[6] Fair Employment Monitoring: Composition of Employment (aggregated to NI level) – trends over time December 2012

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).

Universal Credit in Northern Ireland provides clear improvements in both the incentive to work by increasing the financial returns to working and the incentive to increase hours when in work. Previously households may have been no better off by moving into work, but now there are improved incentives to do so. In addition once in work households have a clear incentive to increase the number of hours worked, enabling households to keep 65p in every additional pound earned. These changes aim to increase the number of households in employment and therefore improve the life chances of children who would be living in workless households were these changes not to take place.