Title: Impact Assessment to remove the ESA Work-Related Activity Component and the UC Limited Capability for Work Element for new claims.	**Impact Assessment (IA)**
	Date: July 2016
	Stage: Final
	Source of intervention: Domestic
Lead department or agency: Department for Work and Pensions	**Type of measure:** Secondary Legislation
Other departments or agencies: Her Majesty's Treasury	**Contact for enquiries:** devolution.commsandbriefing@dwp.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: NA

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**
	NA	NA	No	NA

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

The Government is committed to ensuring that disabled people are able to participate fully in society, and has set out its ambition to halve the disability employment gap. Most people with disabilities and health conditions want to work, including the majority of Employment and Support Allowance claimants, where 56 per cent want to work, and specifically for the Work-Related Activity Group where 61 per cent said they wanted to work[1]. This measure is intended to provide the right incentives and support to enable those who have limited capability for work, but who have some potential for work to move closer to the labour market and when they are ready, back into work. Aligning the rate of benefit paid to new claims for Employment and Support Allowance and Universal Credit with limited capability for work with the standard rate paid to claimants who are capable of work from April 2017 will remove the financial incentives that could otherwise discourage claimants from taking steps back to work. In addition the Budget 2016 provides new funding for additional practical support for Employment and Support Allowance and Universal Credit claimants, rising from £60m in 2017/18 to £100m a year in 2020/21.

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[2].

[1] A survey of disabled working age benefit claimants, July 2013, DWP https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224543/ihr_16_v2.pdf

[2] https://www.northernireland.gov.uk/sites/default/files/publications/nigov/a-fresh-start-stormont-agreement_0.pdf

What are the policy objectives and the intended effects?

The proposed change is intended to align the Employment and Support Allowance (ESA) Work-Related Activity Group (WRAG) component and the Universal Credit (UC) Limited Capability for Work (LCW) element with Jobseekers Allowance (JSA) for new claims and the standard rate of UC for those without limited capability for work. The Work-Related Activity Group component was introduced in ESA, as part of the reform of the Incapacity Benefit (IB) regime in 2008 and subsequently carried forward into Universal Credit as the Limited Capability for Work element. The policy will further improve work incentives for those on benefits;

Support for the most vulnerable includes:

- The ESA Support Group rate/UC Limited Capability for Work and Work Related Activity rate which will continue to be paid to those with the most severe work-limiting health conditions and disabilities;
- Personal Independence Payment (PIP) which replaces Disability Living Allowance (DLA) and is the benefit that helps to meet some of the extra costs incurred by having long-term ill health or a disability;
- Continued uprating of disability and carer benefits by inflation (including DLA, PIP, the Support Group component of ESA and Carer's Allowance); and
- Exemption from the Benefit Cap for those on PIP/DLA or in the ESA Support Group.

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

Two options were considered: (1) No change; (2) Removing the ESA WRAG component and the UC LCW element for new claims. Option 1 will not improve incentives to move closer to the labour market.

Option 2 will further improve work incentives for those on benefits;

There is a large body of evidence showing that work is generally good for physical and mental wellbeing and that, where their health condition permits, sick and disabled people should be encouraged and supported to remain in or to (re)-enter work as soon as possible. We have, however, created a number of incentives which can prolong the length of time an individual is out of work. The longer an individual remains out of work, the more likely 'out of work' behaviours are to become ingrained, unconscious 'habits' and become a factor hindering an individual's return to the labour market. While UC helps to address some of these issues through its inbuilt work incentives, the disparity in financial payments could discourage claimants with potential to work from making the most of opportunities to help them move closer to the labour market. We therefore want to remove these disincentives while at the same time providing additional practical support to such claimants to help them move closer to employment. From April 2017, we also plan to remove the 52 week permitted work limit to improve the work incentives for people on ESA.

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 and Work Act 2016.

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

Does implementation go beyond minimum EU requirements?			NA		
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:** NA	**Non-traded:** NA	

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: ______________ Date: 04/07/16

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2016/17	PV Base Year 2017/18	Time Period Years 4	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate:**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant	**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 households affected are defined as those in Northern Ireland in receipt of the Work-Related Activity component in Employment and Support Allowance or in receipt of the Limited Capability for Work element in Universal Credit. The change is presented as the difference between the Work-Related Activity component and Limited Capability for Work element components at the rates presented in Table 1 and the components/elements reduced to £0.

None of the current ESA caseload will be affected by this change as it will only apply to new claims made after commencement (in April 2017). In addition all those in the ESA Support Group and UC LCWRA Group will be unaffected. This is because those in receipt of the Support Group component in Employment and Support Allowance and Limited Capability for Work Related Activity element in UC are not affected by a reduction in the Work-Related Activity component and Limited Capability for Work element.

No current claimants will be affected by these changes. Instead those who may be affected will be those claiming ESA from April 2017 who are found to have limited capability for work from September 2017. The numbers affected are expected to build up to around 5,530 individuals by March 2021. The notional loss to each family is expected to be £29.05 a week of the ESA WRAG premium, presented in 2016/17 prices. In UC the Limited Capability for Work element is £126.11 a month. These notional losses represent a maximum cost to individuals and assume no behaviour change. The impact would be mitigated through behaviour change – e.g. someone moving into work could, by working around 4-5 hours a week at National Living Wage, recoup the notional loss of the Work-Related Activity component or Limited Capability for Work element.

Those further down the income distribution are more likely to be in receipt of the ESA WRAG component or the UC LCW element, as a result those in the lower half of the income distribution are the more likely to see a notional change in income compared to those in the higher half of the income distribution.

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

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant	**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'

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

This measure sits alongside the other measures in the package to continue to make the welfare system fair and affordable and increase incentives for those claimants with potential to work to move closer to the labour market.

Key assumptions/sensitivities/risks **Discount rate**

Methodology: Impacts have been estimated using using DfC Micro-Simulation ESA model forecasts from the March Budget 2016. Business rules have been applied to new claims from April 2017 to identify customers in receipt of WRAG, and the WRAG entitlement is removed for the relevant financial year for these customers, whilst they remain on the benefit as a WRAG customer. **Inflation:** In line with the benefit rate freeze the Work-Related Activity Group component is frozen from 2015/16 to 2019/20 and uprated by CPI in 2020/21 at 2.1 per cent.

Universal Credit gateway: It is expected affected ESA new claims will enter the Universal Credit gateway.

Start date of policy: Policy impacts and savings are modelled to start from 3rd April 2017.

Impact of appeals: To account for potential change in the rate of requests for mandatory reconsiderations and appeals an assumption of increased prevalence has been used to adjust the figures.

Behavioural change: The policy is designed to further improve work incentives for those on benefits; more claimants may choose to not apply for ESA, stay on JSA or UC standard rate and seek employment. No behavioural change has been assumed in the impacts outlined below however someone moving into work could, by working around 4-5 hours a week at National Living Wage, recoup the notional loss of the Work-Related Activity Group component or Limited Capability for Work element.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs:	**Benefits:**	**Net:**	No	NA

Introduction

The Welfare Reform and Work Act 2016 in Great Britain incorporates a number of policy changes designed to improve work incentives and enhance fairness, whilst ensuring support for the most vulnerable. This aligns Northern Ireland to the rest of the UK.

In the Fresh Start Agreement, the Northern Ireland Executive agreed an approach to implementing welfare reform in NI. The deal reached included agreement for the Government to legislate for welfare reform in NI reflecting the Welfare Reform Act 2012 and the changes in the then Welfare Reform and Work Bill, which has now become an Act. Consistent with that Agreement, this Order will implement the welfare aspects of the Welfare Reform and Work Act 2016, as well as allowing for NI Ministers to implement mitigation schemes agreed by the NI Executive, from within their own budget.

Alongside this mitigations have been assessed and will be put in place following the Evason report, January 2016[1].

Current policy

The Government is committed to ensuring that disabled people are able to participate fully in society, and has set out its ambition to halve the disability employment gap. Most people with disabilities and health conditions want to work, including the majority of Employment and Support Allowance claimants, where 56 per cent want to work, and specifically for the Work-Related Activity Group where 61 per cent said they wanted to work[2].

Policy objective

This measure is intended to provide the right incentives and support to enable those who have limited capability for work, but who have some potential for work to move closer to the labour market and when they are ready, back into work. Aligning the rate of benefit paid to new claims for Employment and Support Allowance and Universal Credit with limited capability for work with the standard rate paid to claimants who are fully capable of work from April 2017 will remove the financial incentives that could otherwise discourage claimants from taking steps back to work.

The Welfare Reform and Work Act 2016[3] sets out the intention to remove the ESA WRAG component and the UC LCW element and align the rate of benefit for those with limited capability for work with Jobseeker's Allowance for new claims to ESA/UC who are entitled to the WRAG/LCW components from April 2017. This document outlines the impact of the policy in Northern Ireland.

Table 1: Benefit rates in to 2020/21 after the impact of the benefit uprating freeze

Weekly rates £	**2017/18**	**2018/19**	**2019/20**	**2020/21**
EMPLOYMENT AND SUPPORT ALLOWANCE				
Personal Allowances				
Single				
under 25	£57.90	£57.90	£57.90	£59.10
25 or over	£73.10	£73.10	£73.10	£74.65
Couple both over 18	£114.85	£114.85	£114.85	£117.25
Components				
Work-Related Activity Group component/Limited Capability for Work element[4]	£29.05	£29.05	£29.05	£29.65

[1] https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/ofmdfm/welfare-reform-mitigations-working-group-report.pdf

[2] A survey of disabled working age benefit claimants, July 2013, DWP https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224543/ihr_16_v2.pdf

[3] http://www.parliament.uk/documents/impact-assessments/IA15-006B.pdf

[4] This equates to £126.11 per month in Universal Credit

The Work-Related Activity Group and the Work Preparation Group and their associated conditionality will continue despite the lack of any additional entitlement above the personal allowance.

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 pay HM Treasury £2m per week to cover additional welfare payments (including the cost of not removing the ESA WRAG and UC LCW additional payments). This is unsustainable and parity with GB needs to be restored, including implementation of measures out lined in the Welfare Reform and Work Act 2016.

Table 2 sets out the Exchequer savings in cash terms from the change to the WRAG and LCW components from 2017/18 to 2020/21. These estimates are based on the forecast inflows multiplied by the amount of the premiums, the UK estimates take account of the benefit interactions and are scaled up from GB using the Barnett formula. Savings continue to be made in future years and are expected to increase to around £600m (in 2017/18 terms) by steady state which is beyond the timetable of Table 2. Impacts shown in table 2 below are consistent with those published at the March Budget 2016 and are for the UK alongside the estimates for Northern Ireland provided by DfC Northern Ireland shown in table 3.

Table 2: UK Exchequer Savings in cash terms for policy covering 2017/18 to 2020/21 only

	2017/18	2018/19	2019/20	2020/21
Reduction of the Work-Related Activity Group and Limited Capability for Work element to £0	£30m	£180m	£345m	£450m

Table 3: NI Exchequer Savings in cash terms for policy covering 2017/18 to 2020/21 only

	2017/18	2018/19	2019/20	2020/21
Estimated impact of the Reduction of the Work-Related Activity Group and Limited Capability for Work component to £0	*	£5m	£5m	£5m

Note: Savings in tables 2 and 3 are rounded to the nearest £5m, * denotes a non-zero number that rounds to zero.

Impact on Households

The following sections set out the impacts of this change on different individuals in March 2021 i.e. as an estimate of the steady state impacts of the policy. No current claimants will be affected by these changes as they only apply to new claimants from April 2017, losses detailed below are notional in terms of the entitlement claimants would have been eligible for had the policy not been changed rather than claimants losing income they had already been receiving.

Although the proposed policy changes involve a notional reduction in Employment and Support Allowance and Universal Credit payments, the Government believes they are a means of achieving the policy aim of incentivising claimants to enter or return to work.

Whilst there may be an estimated 5,530 individuals in Northern Ireland being notional losers following this change, it is the Government’s view that work and having working parents is beneficial to families and children and that this change will in fact amount in the long term to a positive impact on families and children. Helping these claimants back into work will help increase family income and improve life chances for any children.

No current claimants will be affected by these changes. Instead those who may be affected will be those who claim ESA from April 2017 and found eligible for the WRAG component or LCW element. However, someone moving into work could, by working around 4-5 hours a week at National Living Wage, recoup the notional loss of the Work-Related Activity component or Limited Capability for Work element.

Methodology

The Exchequer savings are calculated using DfC Micro-Simulation ESA model forecasts from the March Budget 2016. Business rules have been applied to new claims from April 2017 to identify customers in receipt of WRAG, and the WRAC entitlement is removed for the relevant financial year for these customers, whilst they remain on the benefit as a WRAG customer with the relevant conditionality.

The impacts presented below are assessed on the following basis:

- The baseline for the impacts assumes that the primary legislation for 2015/16 is passed so that the Work-Related Activity component and Limited Capability for Work element will be reduced to £0 for the new benefit claims from April 2017.
- Impact is assessed in 2019/20 assuming the current expectation of the caseload on both Universal Credit and Employment and Support Allowance.

Impact on Income for Protected Groups

Households that include someone with a protected characteristic (as defined by the Equality Act 2010) will be affected by this policy if they receive the ESA Work-Related Activity component or UC Limited Capability for Work element. Overall, those groups who are more likely to be in receipt of affected benefits are more likely to see notional impacts from this policy change. These groups will not see a change in benefit income in cash terms. 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

There is no evidence to suggest that individuals of a certain age are more likely to be affected. The policy proposals will apply to all ESA and UC claimants. Estimates show that around half of those affected are over 45 and half under.

Gender

On an individual basis an equal number of men and women are likely to be affected as estimates show around half are female and the remaining are male.

Disability

The Government has taken steps to protect vulnerable groups. The Government has maintained the additional component for those in the Support Group in ESA and LCWRA group in UC, i.e. for those not expected to look for work. In addition disability premiums in working-age benefits, and the disabled elements of Tax Credit have been up-rated by CPI.

The majority of those affected are in families where someone describes themselves as disabled, (under the Equalities Act 2010 definition). This is because those who report themselves as having a disability are more likely to qualify for those benefits which are affected by the policy change. Disability status on the survey is self-reported and so does not necessarily compare directly to benefit eligibility but is the best evidence available in the context to assess the impact on disabled people.

Furthermore, the Government has continued its commitment to protect pensioner benefits and so pensioners are, as discussed before, much less likely to be affected than those of working age.

Ethnicity

Northern Ireland do not hold data on ethnicity of customers, therefore we are unable to provide estimates of impacts for ethnic groups. However, the policy proposals will apply to all ESA and UC claimants regardless of their race and we do not envisage an adverse impact on these grounds.

Analysis can only be provided for some of the equality groups. 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 Welfare Reform and Work Act 2016 places a 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).

Removing the ESA WRAG component and the UC LCW element for new claims is supportive of the Life Chances legislation in that this policy will gradually build the incentive for people to make the choice to move into work. Removing the ESA WRAG component and the UC LCW element for new claims will increase the gains from moving into employment as the difference between the potential income from earnings and income from benefits grows. In this way the number of children living in workless households could fall over time.