

<b>Title:</b> Impact Assessment Universal Credit, changes to Child Element and Family Element  <b>Lead department or agency:</b> Her Majesty's Treasury / Department for Work and Pensions  <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> July 2016		
	<b>Stage:</b> Final		
	<b>Source of intervention:</b> Domestic		
	<b>Type of measure:</b> Secondary Legislation		
<b>Contact for enquiries:</b> 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
£0m	£0m	£0m	No   NA

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

The Government has made clear its objective of tackling the deficit and rebalancing the welfare state. Welfare expenditure is a significant driver of public spending and the Government is committed to delivering a more sustainable welfare system, to put the system on a more sustainable footing. The current benefits structure, adjusting automatically to family size, removes the need for families supported by benefits to consider whether they can afford to support additional children. This is not fair to families who are not eligible for state support or to the taxpayer.

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

The objective of these policies is to reform Universal Credit to make it fairer and more affordable. The policy will ensure that the benefits system is fair to those who pay for it, as well as those who benefit from it, ensuring those on benefits face the same financial choices around the number of children they can afford as those supporting themselves through work. Encouraging parents to reflect carefully on their readiness to support an additional child could have a positive effect on overall family stability. The changes are part of a package which will deliver a more sustainable welfare system. 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 policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

Two options were considered:


- 1) Whether the measures should apply as flow measures (in line with current GB policy); or
- 2) Do nothing.

The do nothing option is not sustainable and does not return Northern Ireland to parity with the rest of the UK. Option 1 is the preferred option as it ensures families would not have cash losses from the policy at the point of change. Entitlement will remain at the level for two children for households who make the choice to have more children, in the knowledge that they will not receive additional benefits through Universal Credit. Similar changes have been made for Child Tax Credit. This will result in fairness to claimants and to the taxpayer. 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.

<b>Will the policy be reviewed?</b> It will/will not be reviewed. If applicable, set review date: Month/Year						
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> No	<b>&lt; 20</b> No	<b>Small</b> No	<b>Medium</b> No	<b>Large</b> No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A		<b>Non-traded:</b> N/A	

***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:

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by a vertical stroke and a horizontal flourish.

Date: 04/07/16

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** Tax Credits and Universal Credit, changes to Child Element and Family Element

## FULL ECONOMIC ASSESSMENT

<b>Price Base Year</b> 2016	<b>PV Base year</b> 2016	<b>Time Period Years</b> 5	<b>Net Benefit (Present Value (PV)) (£m)</b>		
			<b>Low:</b> Optional	<b>High:</b> Optional	<b>Best Estimate:</b> £0

<b>COSTS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>	<b>Total Cost (Present Value)</b>
<b>Low</b>	Optional		Optional	<b>Optional</b>
<b>High</b>	Optional		Optional	<b>Optional</b>
<b>Best Estimate</b>			N/A	<b>£160</b>

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

The main affected groups will be those in receipt of Universal Credit who choose to have a first or a third or subsequent child after April 2017.

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

The assessment is only carried out over the period to 2020/21, transition will continue beyond this period and costs and benefits will continue to accrue beyond the period.

<b>BENEFITS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>	<b>Total Benefit (Present Value)</b>
<b>Low</b>	Optional		Optional	<b>Optional</b>
<b>High</b>	Optional		Optional	<b>Optional</b>
<b>Best Estimate</b>			N/A	<b>£160</b>

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

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

The assessment is only carried out over the period to 2020/21, transition will continue beyond this period and costs and benefits will continue to accrue beyond the period.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

A range of factors will determine the precise level of savings achieved from these measures, in particular the assumed level of new births and future family sizes. The rate of earnings growth amongst the affected groups will also play a role in determining the size of the overall claimant population.

## BUSINESS ASSESSMENT (Option 1)

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>In scope of OITO?</b>	<b>Measure qualifies as</b>
<b>Costs:</b> 0	<b>Benefits:</b> 0	<b>Net:</b> 0	No	NA

## Introduction

The Welfare Reform and Work Act 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. The Government has made clear its objective of tackling the deficit and rebalancing the welfare state. Welfare expenditure is a significant driver of public spending, and the Government is committed to delivering a more sustainable welfare system which is fair to those who pay for it, as well as those who benefit from it, to put the system on a more sustainable footing.

In the Fresh Start Agreement<sup>1</sup>, 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<sup>2</sup>.

## Current policy

The current benefits structure, adjusting automatically to family size, removes the need for families supported by benefits to consider whether they can afford to support additional children. This is not fair to families who are not eligible for state support or to the taxpayer.

## Policy objective

These policies are intended to reform Universal Credit to make it fairer and more affordable. They will ensure that the benefits system is fair to those who pay for it, as well as those who benefit from it, ensuring those on benefits face the same financial choices around the number of children they can afford as those supporting themselves through work. The changes are part of a package which will deliver a more sustainable welfare system.

## Do nothing option

1. The do nothing option is unfair to families who are not eligible for state support and to the taxpayer, and does not return welfare spending to a sustainable level.
2. Delivering welfare savings is a vital part of the government's deficit reduction plan. Without significant welfare savings, steeper reductions in public service spending would have been required – or higher borrowing and debt, or higher taxes.
3. Entitlement will remain at the level for two children for households who make the choice to have more children, in the knowledge of the policy. In the case of new claims to Universal Credit it will apply to families who have been outside of the Universal Credit and tax credit benefit systems for the previous 6 months. This will result in fairness to both claimants and to the taxpayer.

The following reforms to the child elements of UC return Northern Ireland to parity with the rest of the UK:

- Retain the same level of support provided for families through tax credits with 2 children, who then choose to have a third child or subsequent children. To achieve this, births of third or subsequent children after April 2017 will no longer trigger increased entitlement to the Child Element of CTC;

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<sup>1</sup> [https://www.northernireland.gov.uk/sites/default/files/publications/nigov/a-fresh-start-stormont-agreement\\_0.pdf](https://www.northernireland.gov.uk/sites/default/files/publications/nigov/a-fresh-start-stormont-agreement_0.pdf)

<sup>2</sup> <https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/ofmdfm/welfare-reform-mitigations-working-group-report.pdf>

- An equivalent change in the applicable amount of Housing Benefit to ensure consistency between both benefits;
- Providing the same level of support provided for families with 2 children receiving Universal Credit to those families with three or more children and who make a new claim after April 2017. To achieve this, third or subsequent children born after April 2017 will no longer trigger entitlement to additional support within Universal Credit. This will also apply to families who make an entirely new claim to Universal Credit from April 2017;
- For households starting a family after April 2017 UC first child premium will not be available;
- In Housing Benefit, the increase in benefit entitlement for the family premium ceases for new claims from September 2016;

Changes to Housing Benefit do not require primary legislation and will be made through separate secondary legislation relating to the Social Security and Benefits Act (1992). This change is part of the wider package presented to remove the increased financial awards for households who choose to have children.

In order to protect vulnerable households the support provided to families with disabled children through the disability elements of CTC and the amount for a disabled child or qualifying young person in Universal Credit will not be affected by the changes.

The following groups will be exempt and will not be considered a new claim:

- those moving from tax credits to UC;
- those claiming UC within 6 months of a previous claim to tax credits or UC; or
- a lone parent already on UC forming a couple with a single claimant not on UC.

The Government has announced that it will continue to provide support for third and subsequent children where s/he is:

- I. part of a multiple birth where there were previously fewer than two children in the household
- II. adopted as part of a sibling group where there were previously fewer than two children in the household;
- III. living long term with friends or family who is unable to live with their parents and could otherwise be at risk of entering the care system;
- IV. conceived as a result of rape

These exceptional circumstances will be set out in secondary legislation

The changes will not impact on the childcare element of Working Tax Credit or Universal Credit. In addition, Child Benefit will not be affected by the reforms. Families will still get Child Benefit in respect of every child and a higher amount for the first child. This is because the Government wants to ensure a fair start in life for children in all families.

## **Methodology**

The impacts are based on static modelling transposing the policy change on to a population that is modelled based on the current benefit system and caseload. There are no cash losers from this change, the differences are in entitlement under the new policy in the future.

Given that families are aware of the policy they may make the choice not to have (further) children. Therefore the numbers of families affected by the policy relates to this notional loss and is uncertain as behaviours may change to alter this number.

The impact of applying the policy to the flow of new claims in Universal Credit and new births under Child Tax Credit is estimated using analysis of historic Tax Credit administrative data as well as the Policy Simulation Model<sup>3</sup>. Analysis of historic benefit data was used to estimate the number of new awards to

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<sup>3</sup> The Policy Simulation Model is a static micro-simulation model based on the Family Resource Survey, this model is used to simulate the impact of changes to the Tax and Benefit system. The Department for Work and Pensions have developed a bespoke version of the model for the analysis of policy changes in Northern Ireland.

Universal Credit with 3 or more children and the number of births in Child Tax Credit households from April 2017 onwards.

These estimates are uncertain due to potential behavioural change and represent the households who will no longer see an increase in entitlement that they would have prior to this policy change.

For the purposes of consistency with published impact assessments on the analogous measures as applied in Great Britain the analysis below includes the impact of the policies on tax credits which are a reserved matter.

### **Impact on Households**

Families who have a third or subsequent child will not see the increase in benefit from a child element for that child. Cases of multiple births which breach the limit (e.g. a family with one child who has twins) are treated as a single birth for the purposes of the limit.

The maximum notional entitlement in the child element is £2780 per child per year, for each third and subsequent child. Benefits will not increase by that amount as they previously have.

Also households who would have previously had an increase in benefit from a new award of family element of Child Tax Credit will not see this happen from 2017-18 onwards. The maximum notional entitlement is £545 per year per family. That is the amount by which benefits will not increase by due to this policy change.

The estimated maximum annual number of households impacted by these changes is set out in Table 1. The extent of the change in entitlement depends on the number of children that households have over and above those for which they receive additional benefit income for. This is a static estimate and does not account for any behavioural change of households.

**Table 1 - Caseload impacted (in Northern Ireland)**

Caseload ('000s)	2017/18	2018/19	2019/20	2020/21
Two child limit	5	10	14	20
Removal of the Family Premium/First Child Premium	12	24	31	34

### **Longer term impact**

If households continue to make the same choices about whether to have a family and the size of their family as they do currently it is estimated that, once the policy is fully rolled out, approximately 123,000 households will have a lower rate of payment than would otherwise have been the case. This represents the entire estimated Universal Credit caseload with a family in Northern Ireland, at steady state.

These are notional losses as changes will only apply to children born after 6 April 2017, and in Universal Credit where there are families making a new claim after this date. No one will see a fall in the cash they are receiving as a benefit payment as a result of these changes.

### **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. This is unsustainable and parity with GB needs to be restored, including implementation of measures outlined in the Welfare Reform and Work Act 2016.

Savings to the taxpayer are estimated to be up to £50m in cash terms in 2020/21 from limiting support to two children. These savings will continue to rise in the future. The savings to the taxpayer from removal of the family premium is up to £20m in total by the same year. Across both measures this totals £70m.

**Table 2 - Exchequer savings from limiting child elements and removing the family element / first child premium**

£m	2016/17	2017/18	2018/19	2019/20	2020/21
Limit child element to 2 children		10	20	30	50
Remove family element/first child premium	*	10	20	20	20
Total	*	20	40	50	70

Note: the HB element of this change is forthcoming through subsequent regulations. Figures rounded to nearest £10m, \* represents a non-zero number, which rounds to zero

There are complex interactions between these savings from these measures and other measures in the Welfare reform package. The savings estimates assume that the uprating freeze and the benefits cap have already been implemented, but the other measures announced have not. The order in which policy measures are assumed to be implemented has been determined by methodological reasons.

The measures also interact with other policies such as existing HMRC operational measures, tax credits debt recovery and the existing Housing Benefit policy regime. The costs of these interactions have been calculated and are included in the figures below. The savings below and the caseloads from the preceding table are not on a directly comparable basis due to the complex nature of the interactions.

### Behavioural assumptions

The primary purpose of the Government’s welfare policies is to help people move into sustained employment, whilst ensuring the system is fair to both recipients and non-recipients. The policy which limits Universal Credit to two children means that families on benefits will have to make the same financial decisions as families supporting themselves through work. In practice people may respond to the incentives that this policy provides and may have fewer children. There is no evidence currently available on the strength of these effects although the Institute for Fiscal Studies found a relationship between support for children in the benefit system and childbearing<sup>4</sup>.

### Distributional analysis

The policy has the impact of redistributing income from Universal Credit recipients to the Exchequer (i.e. society as a whole). The policy therefore has distributional impacts.

**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 one or more of the affected benefits. Overall those groups who are more likely to be in receipt of affected benefits are more likely to be affected by this policy change. 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

<sup>4</sup> <http://www.ifs.org.uk/wps/wp0809.pdf>

Analysis can only be provided for some of the equality groups. We do not, as a matter of course monitor religious belief, political opinion, 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.

### **Gender**

The Universal Credit payment is made to the benefit unit, however on an individual basis women may be more likely to be affected than men. Around 90% of lone parents are women, and a higher proportion of this group are in receipt of CTC. Therefore they are more likely to be affected, in the absence of behavioural change.

### **Disability**

Of households currently in receipt of any welfare benefit those which contain someone with a disability are less likely to have children, relative to those households which do not. Therefore of households in receipt of welfare those containing someone with a disability are less likely to be affected.

### **Ethnicity**

Ethnic minority households may be more likely to be impacted by these changes. This is because they are, on average, more likely to be in receipt of these benefits, and on average have larger families.

### **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).

The proposed changes enhance the life chances of children as they ensure that households make choices based on their circumstances rather than on taxpayer subsidies. This will increase financial resilience and support improved life chances for children in the longer term.