

Title: Welfare Reform and Work Bill: Impact Assessment to remove the ESA Work-Related Activity Component and the UC Limited Capability for Work Element for new claims. Lead department or agency: Department for Work and Pensions Other departments or agencies: Her Majesty's Treasury	Impact Assessment (IA)	
	Date: July 2015	
	Stage: Final	
	Source of intervention: Domestic	
	Type of measure: Primary Legislation	
	Contact for enquiries:	

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 work¹. This measure is intended to provide the right incentives and support to enable those who have limited capability, 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. In addition the Budget 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.

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 Support Group.

There will be no direct impact on business. Businesses however may gain from increased labour supply.

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

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.

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: 20/07/2015

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 1718	PV Base Year 1718	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		£640m in 2020/21	

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

The households affected are defined as those in receipt of the Work-Related Activity component in Employment and Support Allowance or in receipt of the Limited Capability for Work component in Universal Credit. The change is presented as the difference between the Work-Related Activity and Limited Capability for Work components at the rates presented in Table 1 and the components 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 addition all those in the ESA Support Group and UC LCWRA Group will be unaffected; currently around 70 per cent of the ESA caseload. 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 families will see a cash loss as a result of the policy. Instead those who may be affected will be those claiming ESA from April 2017 and have limited capability for work. The numbers affected are expected to build up to around 500,000 families in the longer term, using the current stock of 500,000 WRAG claimants as a proxy for the affected population. The notional loss to each family is expected to be around £28 a week, which represents around a -10 per cent notional change in net income, presented in 2019/20 prices. 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		£640m in 2020/21	

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

Overall it is estimated that savings to the Government will reach £640m by 2020/21. In addition the Budget provides new funding for additional help for ESA/UC claimants to make the move towards and into work, rising from £60m in 2017/18 to £100m a year in 2020/21.

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

This measure sits alongside the other measures announced in the Welfare Reform and Work Bill 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 DWP benefit caseload and expenditure forecasts from the March Budget 2015. The modelling was carried out taking into account a 4 year benefit uprating freeze starting in 2016/17. All of the £m figures have been rounded to the nearest £5m.

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 100 per cent of affected ESA new claims will enter the Universal Credit gateway.

Start date of policy: Policy impacts and savings are modelled to start from 1st 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 component or Limited Capability for Work element.

BUSINESS ASSESSMENT (Option 1)

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

Evidence Base

Introduction

The Welfare Reform and Work Bill sets out the Government's 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.

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.

Table 1: Benefit rates in 2017/18, 2018/19, 2019/20 and 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 to Work element	£29.05	£29.05	£29.05	£29.65

Exchequer Impact

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. Savings continue to be made in future years and are expected to increase to around £900m (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 July Budget and are for the UK.

Table 2: 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 component to £0	£55m	£225m	£445m	£640m

Impact on Families and life chances

Methodology

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 ESA claimants, where 56 per cent want to work, and specifically for the WRAG where 61 per cent said they wanted to work¹. This measure is intended to provide the right incentives and support to enable those who have limited capability, 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 ESA/UC with limited capability for work with the standard rate

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

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. In addition the Budget provides new funding for practical support for ESA/UC claimants to make the move towards and into work, rising from £60m in 2017/18 to £100m a year in 2020/21.

The Exchequer savings are calculated using DWP benefit caseload and expenditure forecasts from the April Budget 2015. However, it is not straightforward to use administrative data to calculate the overall change in benefit receipt for a household as households may be in receipt of multiple benefits at any one time. The impacts on households in this assessment are modelled in the DWP Policy Simulation Model which draws on data from the Family Resources Survey allowing us to estimate total household entitlement to any of the benefits included in this policy change and understand the overlaps. The modelled impacts include incomplete take-up of benefit entitlement.

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.

Changes in family income

The following sections set out the impacts of this change on different families in 2019/20 i.e. as an estimate of the steady state impacts of the policy. There are no cash losers as a result of the policy, 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, we believe they are a means of achieving the policy aim of incentivising and helping those claimants with some potential for work to return to work.

Whilst there may be an estimated 500,000 families being notional losers following this change, it is our 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 families will see a cash loss as a result of the policy. 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. In steady state around 500,000 families could be affected with a notional loss of around £28 a week. This represents around a -10 per cent notional change in net income, presented in 2019/20 prices. 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.

Impact on family 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.

On an individual basis an equal number of men and women are likely to be affected. However men are likely to notionally lose a slightly higher weekly amount (£22 for men and £20 for women) and proportion of their net weekly income (7 per cent for men and 6 per cent for women). This is probably because there is a larger number of single men in receipt of the benefit who live in families with fewer other income sources like earnings or other state support, as such the notional impact reflects a larger proportion of their net family income.

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.

Sample size limitations mean 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.

The department does not hold information on its administration system on gender reassignment, sexual orientation, marital status or civil partnership status and religion/belief.

The Department only holds information on its administrative systems on those who apply to the benefit on the basis of Pregnancy and Childbirth but it doesn't hold information on the whole population on the benefit by pregnancy and maternity status. Of those who apply to the benefit on the basis of Pregnancy and Childbirth (including the 6 week period following birth) only a small group are in the Work-Related Activity group (66,000 as of the quarter ending November 2014). As for other groups, notional impacts for these households will be determined by the likelihood of receiving an affected benefit.

Life Chances

The new Life Chances legislation (incorporated into the Welfare Reform and Work Bill) proposes to remove a number of the legal duties and measures set out in the Child Poverty Act 2010 and to place 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).

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.