Title:	Impact Assessment (IA)
Welfare Reform and Work Bill: Impact Assessment of the Benefit rate freeze	**Date:** July 2015
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
Lead department or agency: Department for Work and Pensions **Other departments or agencies:** Her Majesty's Treasury Her Majesty's Revenue and Customs	**Contact for enquiries:**

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?

The Government has made clear its objective of tackling the deficit and rebalancing the welfare state, whilst sharpening work incentives and supporting the vulnerable. Government has announced that the rates of certain working-age benefits, certain elements of tax credits and Child Benefit will be frozen at their 2015/16 levels for four years between 2016/17 and 2019/20. Legislation to freeze benefits is expected to achieve Royal Assent within the current tax year. Until then, the current legislation applies, so the Secretary of State will conduct a review of price increases in the autumn and make a decision for 2016/17 in accordance with the obligations in force at the time.

What are the policy objectives and the intended effects?

The primary objectives are to deliver savings to Government that contribute to a reduction in spending on welfare to tackle the deficit, increase work incentives and contribute to the suite of policies designed to re-balance the welfare state to support the vulnerable. This policy will gradually build the incentive for people to make the choice to move into work. Freezing benefit rates for four years will increase the gains from moving into employment as the difference between the potential income from earnings and income from benefits grows. There is no direct effect on business of the policy but could be an increase in labour supply as a result of claimants responding to incentives to move into employment.

This measure is time-limited to the tax years 2016/17 to 2019/20 and there are no cash losers. Key vulnerable groups have been protected through the proposal to up-rate pensioner benefits, as well as benefits and premia designed to reflect the additional costs of disability, as expected for the years in question.

The four year freeze of benefit rates is expected to save £3.5bn in 2019/20. These savings will continue in future as increases will be from a lower base level and savings will increase in cash terms.

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 main alternative is to uprate the benefit rates in question as expected (primarily by prices as measured by the CPI). However this would result in a cost in cash terms to the welfare budget and so not provide the expected savings that arise from the option proposed.

A second option is to include all elements of the social security working-age payments in question in the rate freeze. This would include premia paid to pensioners and disabled recipients of working-age benefits, the Support Group component of Employment and Support Allowance and elements of tax credits payable to disabled persons. However, in order to protect the most vulnerable, who are least able to increase their incomes through work (pensioners and disabled persons), the Government has proposed these elements should be up-rated in line with convention (primarily with reference to prices, and in line with the Government's triple guarantee for the Basic State Pension). Including these groups in the benefit rate freeze would undermine the foundations of the welfare state by failing to protect those who are least able to help themselves and so this option has not been chosen on the basis of the fairness of the system as a whole.

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: ______________________ Date: 20/07/2015

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			£3.5bn in 2019/20	

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

Overall, freezing the rates of the affected benefits for four years from 2016/17 will result in unchanged household incomes in cash terms, where people do not respond to the growing incentives and make the choice to move into employment and increase income. Compared to CPI uprating of benefits, the notional loss to household income will be £3.5bn in real terms in 2019/20 after the four years of the benefit rate freeze.

Around 70% of households will be unaffected by the benefit rate freeze. It is estimated that only around 30% of households[1] will experience changed future benefit entitlement from the policy. Benefit income would have been increased by CPI up-rating, however this will not occur under the policy change. The average difference between pre-change entitlement is around -£6 a week compared to CPI up-rating. The majority of working-age households in receipt of state support will be affected by this policy. Households towards the bottom of the income distribution are more likely to be affected, were they not to choose to move into employment and have a slightly higher average change because they are more likely to receive more of the affected benefits. These effects are based on a static model and therefore do not account for any possible behavioural change resulting from the policy. If an individual foresees the notional loss to income they would incur and moves into work or increases their hours then their difference in entitlement may be significantly smaller or not occur at all. This behavioural effect is however uncertain and not possible to quantify.

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

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate			£3.5bn in 2019/20	

[1] A household is defined here as a single adult or a couple living as married, together with any dependent children.

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

Overall, it is estimated that savings to the Government from freezing the rates of certain benefits at their 2015/16 levels rather than uprating by the CPI inflation rate, will be around £3.5bn in 2019/20. These savings will continue into the future, as increases will be from a lower base. Cash savings gradually rise over the long term.

Though benefits will remain unchanged in cash terms, the savings to the Government result from the difference between these flat rates and the increases in benefit that would have been the case if they were up-rated by the CPI.

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

We have not been able to quantify possible behavioural effects of the policy as these initially are low. However over time there will be an increased incentive to move into work as the relative income gain increases. The notional average loss from the benefit rate freeze is £6 per week in 2019/20 – less than the value of one hour's work at the National Living Wage. People may choose to respond to the benefit rate freeze by moving into work or increasing their hours of work and so some people could recoup all of their notional loss by working less than an hour a week extra at the National Living Wage. Individuals may choose to move into employment and there will be overall benefits that are known to be associated with employment including increased life chances for children in working households.

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

The level of CPI inflation - The savings from this policy derive from the difference between the forecast benefits expenditure using CPI uprating and benefit expenditure assuming the rates are frozen as described. These have been costed using the latest economic assumptions from the Office of Budget Responsibility, the relevant CPI forecasts (from Summer Budget 2015) are given in Table 1. If inflation is higher than forecast in any year covered by this bill then savings will be higher; if inflation is lower than forecast then savings will be lower.

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

Part of the Welfare Reform and Work bill sets out the Government's intention that the following benefits and tax credits be frozen at their 2015/16 levels between 2016/17 and 2019/20 inclusive.

- The main working-age rates of Income Support, Jobseeker's Allowance, Employment and Support Allowance and Housing Benefit; the work-related activity group component of Employment and Support Allowance.
- The basic, second adult, lone parent and 30 hour elements of Working Tax Credit (WTC) and the individual element of Child Tax Credit.
- The corresponding elements of Universal Credit.
- Child Benefit.

It will not apply to the premia within the above working-age benefits relating to disability, pensioners, and caring responsibilities, nor to the support group component of ESA. Neither will it apply to statutory payments such as Statutory Maternity Pay or Maternity Allowance. This ensures that key vulnerable groups, who are least able to increase their incomes through earnings, are protected.

Table 1: Selected Benefit rates in 2016/17 and 2019/20

(Weekly rates £)	**2015/16**	**2016/17**	**……**	**2019/20**
EMPLOYMENT AND SUPPORT ALLOWANCE, HOUSING BENEFIT, JOBSEEKER'S ALLOWANCE, INCOME SUPPORT				
Personal Allowances				
Single				
under 25	57.90	57.90	…..	57.90
25 or over	73.10	73.10	…..	73.10
Lone Parent (18 or over)	73.10	73.10	…..	73.10
Couple both over 18	114.85	114.85	…..	114.85
Components				
Work-related Activity Group	29.05	29.05	…..	29.05
Child Benefit – first child	20.70	20.70	…..	20.70
Child Benefit – second and subsequent child	13.70	13.70	…..	13.70
Universal Credit - standard allowance (single, 25+)	73.10	73.10	…..	73.10
Universal Credit - standard allowance (couple)	114.85	114.85	…..	114.85
Working Tax Credit – basic element (annual rate £)	1,960	1,960	…..	1,960
Working Tax Credit – second adult element (annual rate £)	2,010	2,010	…..	2,010
Working Tax Credit – lone parent element (annual rate £)	2,010	2,010	…..	2,010
Working Tax Credit – 30 hour element (annual rate £)	810	810	…..	810
Child Tax Credit – individual element (per child, annual rate £)	2,780	2,780	…..	2,780

Exchequer Impact

The Summer Budget 2015 sets out the Office for Budget Responsibility's forecast for Government spending and key economic determinants. In the absence of policy change the previous September's CPI rate would be used to up-rate benefits, for instance benefits in 2016/17 would be uprated by the September 2015 CPI rate (forecast at 0.0%) and in 2017/18 would be up-rated by the September 2016 CPI rate (forecast at 1.2%).

Table 2: OBR Economic assumptions and forecasts from Summer Budget 2015

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Relevant CPI level for up-rating	1.2%	0.0%	1.2%	1.7%	1.8%	1.9%
						Welfare Expenditure
Social security benefits (£bn)		188.5	190.2	192.1	194.7	199.1
Tax credits (£bn)		25.3	26.3	27.3	27.5	28.2

Table 2 above shows the overall scale of welfare spending in the UK and the relevant CPI rates which would be used to up-rate the affected benefits in the absence of the policy change. Table 3 below gives the savings to the exchequer of the four year benefit rate freeze.

Table 3: Exchequer savings in cash terms of the four year benefit rate freeze

	2016/17	2017/18	2018/19	2019/20	2020/21
Working-age discretionary benefits frozen at 2015/16 levels for 4 years (£bn)	0.0	0.2	0.6	1.1	1.1
Elements of working and child tax credits and Child Benefit frozen at 2015/16 levels for 4 years (£bn)	0.1	0.6	1.5	2.4	2.5
Total from the benefit rate freeze (£bn)	0.1	0.9	2.1	3.5	3.6

Totals may not sum due to rounding

These total savings are at a UK level but differ from those in the 4 year benefit freeze costing note published at Summer Budget 2015 because they exclude the savings from the freeze of LHA rates which is not part of this bill.

The small savings in 2016/17, despite 0% headline inflation, are due to tax credits being uprated in a different way to DWP benefits by rounding CPI to different levels. Inflation is forecast to be low for the first two years of the freeze and after the end of the freeze in 2020/21, up-rating is assumed to return to convention of CPI.

Impact on Households

Methodology

There are no cash losers as a result of this policy, households can accept the changed benefit entitlement in the future or move into work and out of scope from these changes. The differences in pre-policy future entitlement and the changes are notional in that they are currently not in payment. People have a choice as to how they respond to the policy announcement and may choose to move into work or increase their hours and so mitigate or never experience the notional loss at all. Over time the financial incentive to move into employment will grow and we are likely to see people responding to this. It is not possible to take possible behavioural changes into account in the modelling of the impacts of the policy as they are uncertain and inherently linked to individual choice and reaction. The following impacts are therefore based on static modelling transposing the policy change on to a population that we model based on the current benefit system and claimants.

The Exchequer savings are calculated using administrative sources of data. However, it is not straightforward to use administrative data to calculate the overall change in benefit receipt for a household over a large number of households. Households may be in receipt of multiple benefits at any one time and there are many combinations of this. 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 impacts presented below are assessed on the following basis:

- The baseline for the impacts assumes that in the absence of this policy, benefits will be uprated by their legislative baseline, normally CPI. The economic assumptions such as the forecast of CPI are updated to the latest OBR forecasts of Summer Budget 2015.
- Impacts are assessed in 2019/20 incorporating the current migration profile of legacy benefits to Universal Credit and all policy decisions as of March Budget 2015.
- The modelled impacts include incomplete take-up of benefit entitlement.
- All households in Great Britain only.[2]

Changes in Household Income

The following sections set out the impacts of this change on different households in 2019/20 i.e. after the four years of the freeze.

Around 70% of households will not be affected by the up-rating changes in this bill. There are three main reasons for this:

The Government has continued its commitment to protect pensioner benefits including protecting the Basic State Pension through the ‘triple lock’ commitment.

In addition, certain benefits reflecting the additional costs of disability such as the Disability Living Allowance (DLA), the Support Group component of Employment Support Allowance and the Personal Independence Payment (PIP) have been protected and will continue to be up-rated by CPI. This is also the case for statutory payments such as Statutory Maternity Pay and Maternity Allowance.

In addition, those who are not receiving state support are unaffected by this change.

The households which are affected are defined as those households who are in receipt of a benefit affected by this Bill. Whilst freezing the rates of these benefits will lead to unchanged household incomes in cash terms, the notional change is in real terms, presented as the difference between freezing benefit rates and up-rating them by CPI inflation between 2016/17 and 2019/20.

Around 30% of households are affected seeing an average notional change of -£6 a week in real terms in 2019/20 as they do not receive the cash increase in their benefit income which would be the case if benefits were up-rated in line with CPI. This notional loss represents a change of just over -1 per cent of weekly net income. However, no households will see a change in their benefit income in cash terms from this policy and this impact does not account for any possible mitigating behavioural change. The notional average loss of £6 per week in 2019/20 is less than the value of one hour’s work at the National Living Wage. People may choose to respond to the benefit rate freeze by moving into work or increasing their hours of work and so some people could recoup all of their notional loss by working less than an hour a week extra at the National Living Wage.

[2] Unless otherwise stated, the impacts are presented for the household as a whole who receive benefits rather than on an individual basis.

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, though 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
- Race
- Gender reassignment
- Pregnancy and maternity
- Sexual orientation
- Religion or belief
- Marriage and civil partnership

The impacts on households in this assessment are modelled in the DWP Policy Simulation Model which draws on data from the Family Resources Survey (FRS). Information from the FRS is not published for sexual orientation, marital status or civil partnership status and religion/belief and is not collected for gender reassignment, pregnancy and maternity so these are not presented here. As for other groups, impacts for these households will be determined by the likelihood of receiving an affected benefit.

Age

Younger households are likely to lose the most as a proportion of their income from this policy with households where the head is under 30 years old losing an average of £3 per week. As a proportion of the population, it is households where the head is between 30 and 50 years old who are most affected. Over 50% of households in this bracket are affected by the policy. These are the age groups most likely to include children in the household and will therefore be affected by the changes to child related benefits. There are unlikely to be many households affected by this policy where the head is over 70.

Disability

This benefit freeze excludes the following and so, assuming they are up-rated with CPI, these benefits will maintain their real value: Disability Living Allowance, Personal Independence Payment, Attendance Allowance, the Support Group component of Employment and Support Allowance (for those not expected to look for work), disability premia in working-age benefits and the disabled elements of tax credits. This provides protection for those facing the additional cost of disability.

Gender

On an individual basis women are more likely to be affected than men with a third (33 per cent) of women affected compared to 29 per cent of men but neither group experience cash losses. This difference is likely to be because around 90 per cent of lone parents are women, which is the family type most likely to claim the benefits under the scope of this change.

Race

As a proportion of the total population households where the head reports themselves as Black / African / Caribbean / Black British are most likely to be affected by this benefit rate freeze. However Asian / British Asian people and Other Ethnic Groups are likely to see the highest notional losses. The change in weekly income is broadly similar across all racial groups and no group will experience a cash loss. It's important to note that smaller ethnic groups exhibit year-on-year variation in the survey source and so these results should be treated with caution.

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).

The benefit rate freeze 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. Freezing benefit rates for four years 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.