

Title: Welfare Reform and Work Bill: Impact Assessment of the change in conditionality for responsible carers on Universal Credit Lead department or agency: Department for Work and Pensions Other departments or agencies:	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: 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?
	N/A	N/A	No
			Measure qualifies as Two-Out? NA

What is the problem under consideration? Why is government intervention necessary?
The Government is committed to ensuring that all households are able to participate fully in society. Providing additional support for parents to move into work, and conditionality to require them to engage with it, enables them to take financial responsibility for themselves and their children. Employment among lone parents increased as conditionality was extended to those with children aged 5 and over, but it remains low for parents of younger children. Since 2010, over 100,000 additional parents moved into work. Evidence finds that parents who have conditionality are more likely to move into work. Extending this support to parents of younger children aged 3 and 4 will enable many more households to move into work.

What are the policy objectives and the intended effects?
The changes are intended to enable parents to re-enter employment, increasing the speed at which they can do so. The support also ensures that parents who are not expected to move into work immediately are given the additional help to prepare for a return to work in the future or when the child turns 3. There will be a longer term improvement in children's wellbeing and life chances as fewer will grow up in workless households.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
The options in respect of conditionality for responsible carers that were considered were to: 1) do nothing; or 2) place into the All Work Related Requirements group on Universal Credit (though protecting vulnerable groups) responsible carers with a youngest child aged 3 and 4. The second option was selected as this extends the opportunities awarded to parents with older children to parents with children aged 3 and 4. It is estimated that this policy will deliver a significant net benefit with additional parents moving into employment. Furthermore it is considered reasonable to expect responsible carers to take up paid work once their children are older and eligible for 30 hours per week of childcare which is free at the point of use, funded by the Government.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 03/2020					
Does implementation go beyond minimum EU requirements?			No		
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
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A		Non-traded: 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:



Date: 20/07/2015

Summary: Analysis & Evidence

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 15/16	PV Base Year 15/16	Time Period Years 5	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			£40m	

Description and scale of key monetised costs by ‘main affected groups’
For the Government there will be an increase in administrative and support costs to implement the policy and to provide additional support.

Other key non-monetised costs by ‘main affected groups’
N/A

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			£25m	

Description and scale of key monetised benefits by ‘main affected groups’
Parents of children aged 3 and 4 will benefit from increased income through wages. They are also more able to contribute to society as they progress in work and pay taxes.

Other key non-monetised benefits by ‘main affected groups’
There are likely to be other benefits to moving into work including increased wellbeing of individuals who find work and these impacts are not fully captured in our estimate of the health impacts of work. In addition parents moving into work provide increased life chances for their children who are no longer living in workless households.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5%
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(1) the majority of responsible carers are assumed to claim Universal Credit when their Income Support eligibility ends, with the remainder claiming ESA, remaining on Income Support, moving directly into employment or off benefits for another reason; (2) carers claiming Universal Credit are assumed to move off benefit faster than previously on Income Support.

BUSINESS ASSESSMENT (Option 1)

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

Policy Rationale

1. Currently, responsible carers in Universal Credit with a youngest child aged 3 or 4 are allocated to the Work Preparation group. They are expected to take active steps to prepare for work; however they are not required to look for work. An increase in conditionality will ensure parents engage with the support and opportunities available to them to pursue work.
2. The new proposal, announced in the 2015 Summer Budget, is that all responsible carers with a youngest child aged 3 or 4 will be allocated to the All Work Related Requirements group and will be required to look for and be available for work. They will be subject to the general requirements set out in Sections 17 and 18 of the Welfare Reform Act 2012 and will be expected to take reasonable steps or any particular steps as required by the Secretary of State to obtain work.
3. Increased conditionality for responsible carers (Lone Parent Obligations or LPO) has been gradually rolled out since November 2008 lowering the age of the youngest child to 5 and over for responsible carers to which this policy applies. Before then, lone parents with a youngest child up to the age of 16 could claim Income Support as a lone parent and they were not supported to move into work. This threshold age is now 5 in Jobseeker's Allowance for lone parents and for all responsible carers in Universal Credit.
4. The policy will be an extension of the current policy for responsible carers whose youngest child is 5 or older; including the requirements to look and be available for work. Responsible carers with a child aged 2, currently subject to Work Focused Interview requirements, will also now be expected to take steps to prepare for work.

Options

5. The Department has considered two options:
 - Do nothing; and
 - Extending conditionality for responsible carers for 3-4 year olds.
6. The Lone Parent Obligation (LPO) Impact Assessment,¹ published in July 2013, demonstrated that increasing requirements on lone parents to look for and be available for work have demonstrated a positive impact on employment outcomes. The evaluation shows that the change increased employment for carers of 9 year olds by around 10 percentage points more than would have happened otherwise 9 months after the intervention; a pattern that was also seen in further reducing the age of the youngest child. Given this positive effect on work, extending conditionality was chosen as a better option over doing nothing.

Estimating Costs and Benefits

7. According to the quarterly Household Labour Force Survey currently there are just under 2 million lone parents in Great Britain, with 1.2 million lone parents in work. The employment rate for lone parents with a youngest child aged 0-4 is 40.9%, lower than the lone parent employment rate for those with children aged 5-10 which stands at 69.1% following introduction of conditionality for that group.²
8. Based on evidence of historic benefit flows the policy is expected in steady state to affect around 220,000 responsible carers claiming Universal Credit with a youngest child aged 3 or 4. Over 75% of these are lone parents.
9. The impacts presented are based on the following key assumptions:
 - The majority of lone parents are assumed to enter the All Work Related Requirements group when their eligibility ends, with the remainder moving into one of the other Universal Credit groups or moving directly into employment or off benefits for another reason. This is in line with evidence from the previous changes to eligibility for lone parent benefits, adjusted to take account of the possibility that those with younger children might be less work ready;
 - The number of new claims by responsible carers for benefits is similar to past trends;

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211688/rrep845.pdf

² <http://www.ons.gov.uk/ons/rel/lmac/families-in-the-labour-market/2014/index.html>

- Responsible carers in the All Work Related Requirements group are assumed to move off benefit faster than in other groups. It is also assumed that a proportion of those who move into employment move back onto Universal Credit at a later date; and
- 60% of lone parents leaving benefit are assumed to go into paid employment, based on analysis from the Lone Parent Obligations Impact Assessment, the Families and Children Study, New Deal for Lone Parents (NDLP) statistics, and the DWP Destinations Survey. Others choose to make a claim for a new family unit with a partner, go into education or training, or move abroad.

Estimated Costs

10. There will be an increase in work incentives which should result in more parents moving into work, whilst maintaining current benefit rates or entitlement. The change will require claimants to meet additional conditionality requirements. Most of the responsible carers affected are expected to move to other conditionality groups on Universal Credit.
11. The Government will invest in support for parents of children aged 3 and 4. This includes additional Work Focussed Interviews for carers of two year olds prior to full conditionality starting when the child reaches 3. These support costs are estimated to be around £40m per year in steady state.
12. The Government provides 15 hours a week of free childcare for all 3 and 4 year olds and disadvantaged 2 year olds – worth £2,500 per child, per year irrespective of whether parents are working. The Childcare Bill will double the free childcare available to all working parents of 3 and 4 year olds to 30 hours a week (over 38 weeks of the year). This will be available to up to 600,000 families and worth around £5,000 a year – including the £2,500 they can save from the existing free childcare offer. In addition Tax-Free Childcare is being introduced, under which up to 1.8 million families could benefit by up to £2,000 per child per year.
13. The Government has separately proposed investment of around £350m per year to enable provision of up to 85% of eligible childcare costs for working parents claiming Universal Credit from 2016. This is expected to help around 500,000 additional families.

Estimated Benefits

14. Benefit savings from the intervention have been scored by the Office for Budget Responsibility in cash terms; this is set out in the table below. The costs and benefits here are net present values calculated using the DWP social cost-benefit analysis framework; these take into account wage income and net taxes. The OBR in Budget 2015 focused on the direct fiscal impact, looking at the forecast benefit saving in cash (2015/16) terms in each financial year. These savings average £25m per year in constant price terms.

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	-5	-5	+35	+30

15. We estimate that the implementation of the policy could lead to a net increase of 10,000 to 20,000 moving into work and a reduction of around 20,000 to 40,000 in the number of parents on out-of-work benefits. These households will benefit from increases in income from wages as well as improved life chances for responsible carers and their children.

Assumptions

16. The Lone Parent Obligation Impact Assessment showed the effect on lone parents of children aged 7 and over once subject to conditionality and moved from Income Support (IS) to Jobseeker's Allowance (JSA). Over ten percentage points more lone parents were in work after conditionality than before. We would expect the current change to have similar positive employment outcomes and the evaluation impact has fed into our assumption in extending the policy to parents with children aged 3 and 4.
17. There is also positive evidence for increasing Work Focused Interviews. Evaluation of the New Deal for Lone Parents (DWP Research Report 484) looked at the impact that Work Focused Interviews had on the probability of lone parents leaving Income Support. The evaluation found that the effect of this support was typically larger for lone parents with younger children.

Impact on Protected groups

18. This is based on analysis of the number of lone parents claiming Income Support and of those making joint Jobseeker's Allowance claims that have dependent children under 5 – claimants who are broadly analogous to those in Universal Credit who will be affected by the policy.
19. Information from administrative data we have on current Income Support for Lone Parent Claimants shows in November 2014 (the most recent data available) 375,000 or 98% of these claimants are female, while only 7,150 are male.
20. We do not have information on the gender of partners of JSA claimants but in the case where there is a joint JSA claim and a child is aged under 5 the main claimant is male in 29,200 (86%) cases while 4,730 (14%) were female; this would indicate that in a majority of cases the partner will be female. This is quite different from the current JSA population as a whole, where two-thirds are male.
21. As stated, this policy will require responsible carers to meet additional conditionality requirements in order to receive Universal Credit. This conditionality will require carers to look for work. In many cases, it will require carers to arrange formal childcare.
22. The Government currently offers free childcare of up to a maximum of 15 hours per week over 39 weeks per year. We assume that a parent moving into work or off out of work benefit makes full use of the Government's childcare offer for carers of 3-4 year olds of 30 hours a week during term-time for a working carer and 15 hours per week for those looking for work. The 30-hour offer starts in pathfinder areas in September 2016 and rolls out in full in September 2017; outside pathfinder areas carers are assumed to use the current 15 hour offer.
23. 85 per cent of childcare costs in Universal Credit will be covered from 2016, providing additional support above the Government's offer. This will provide further support for moves into work.
24. The system is intended to be flexible. Work Coaches will tailor work-related requirements to an individual's circumstances and caring responsibilities. Where no suitable childcare is available responsible carers will have their requirements appropriately tailored. There is no requirement to use the free childcare available and responsible carers may be able to demonstrate that they can care for their child while looking for work or that they might be able to use informal childcare.
25. Work Coaches will be required to discuss the responsible carer's circumstances and childcare availability with each responsible carer upfront, to ensure that their individual Claimant Commitments are fully tailored. Any requirements will be continually reviewed when the circumstances of the responsible carer change.

Life Chances

26. 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).
27. This policy increases the employment rate for parents with children aged 3 and 4; it therefore provides better life chances for children who no longer live in workless households and where no-one considers work is an option. For example:
 - a. Children in households where neither parent is in work are much more likely to have challenging behaviour at age 5 than children in households where both parents are in paid employment.³
 - b. Growing up in a workless household is associated with poorer academic attainment and a higher risk of being not in education, employment and training (NEET) in late adolescence⁴.

³ Economic and Social Research Council (2012) Parenting Style Influences Social Mobility. Economic and Social Research Council Briefing Paper.

⁴ Barnes, M. et al. (2012) Intergenerational Transmission of Worklessness: Evidence from the Millennium Cohort Study and Longitudinal Study of Young People in England. Department for Education research report 234