

Title: Disability Living Allowance Reform Lead department or agency: Department for Work and Pensions Other departments or agencies:	Impact Assessment (IA)				
	Date: May 2012				
	Stage: Final				
	Source of intervention: Domestic				
	Type of measure: Primary legislation				
	Contact for enquiries: pip.feedback@dwp.gsi.gov.uk				
Summary: Intervention and Options					RPC Opinion: RPC Opinion Status

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, One-Out?	Measure qualifies as One-Out?
£2950m	£m	£m	No	N/A

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

The current system is not sustainable in the long term. There are now 3.2 million people receiving Disability Living Allowance (DLA) and forecast expenditure on the benefit for 2011/12 is £12.6 billion. In nine years the numbers claiming DLA has risen from just under 2.5 million to 3.2 million – an increase of around a third.

DLA is widely perceived to be an out of work benefit and receiving DLA in itself appears to reduce the likelihood of being in employment, even after allowing for the impact of health conditions. The assessment process for DLA is complex and subjective, making it difficult to assess people's needs on a consistent basis. Reviews can be infrequent and awards may not reflect changes in the impact of impairments.

What are the policy objectives and the intended effects?

To create a new more active and enabling benefit that supports disabled people to overcome the barriers they face to leading full and independent lives.

Ensure that support is focussed on those with the greatest barriers and that expenditure is sustainable.

The assessment for the new benefit has been designed to assess more accurately, objectively and transparently those people who would benefit most from additional support, taking fair account of the impact of all impairment types.

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

- Do nothing. This would do nothing to ensure expenditure is sustainable, improve the assessment process or increase understanding that the benefit is available both in and out of work.
- Reform DLA including a more objective assessment. Reform will help to ensure that expenditure on DLA is sustainable and focused on those most in need of additional support. A new assessment will improve consistency in decisions and through regular reviews ensure that awards remain correct. Replacing DLA with a new benefit that focuses support on disabled people who face the greatest barriers to leading full, active and independent lives will provide an opportunity to improve understanding of the benefit and communicate that support is available both in and out of work.

Will the policy be reviewed? Yes If applicable, set review date: It will be reviewed by April 2015.

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	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible SELECT SIGNATORY: Minister for Disabled People

_____ Date: 4th May 2012

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: -710
2011/12	2011/12	5			

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
			2,950
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	595		

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

Costs of £710m¹ to implement a new benefit and move existing DLA recipients to the new benefit. Net costs to individuals of £2,240m from reduced benefit expenditure over the three year migration period from focussing support on disabled people with greatest needs. Due to forecast growth in working age DLA expenditure, reducing working age DLA expenditure by 20% in 2015/16 means returning working age DLA spending to 2009/10 levels in real terms.

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)
			2,240
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate			

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

Net reductions in benefit expenditure from focussing support on disabled people with greatest needs will lead to benefits for taxpayers and the exchequer.

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

If there is a positive employment impact as a result of this policy there would be the benefit of higher economic output and the subsequent gain in revenue from increased taxation. There are also likely to be individual health benefits if more disabled people move into work.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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¹ These costs remain identical in cash terms to the £675m referred to in the previous iteration of the impact assessment on DLA Reform.

Savings expected to result from this reform are equivalent to 20% of forecast working age DLA expenditure. The Department recently closed a consultation with stakeholders, including groups representing disabled people, to refine the second draft assessment criteria. The Department for Work and Pensions is now considering contributions to its consultation and will publish its response later in the year. Savings estimates will be updated later in the financial year, as further details such as the benefit rates Personal Independence Payment will be set at, become available.

BUSINESS ASSESSMENT (Option 1)

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

Evidence Base

Annual profile of monetised costs and benefits - (£m) 2011/12 constant prices

	2011/12	2012/13	2013/14	2014/15	2015/16
Transition costs	35	60	145	240	115
Annual recurring cost	-	-	380	1,020	1,295
Total annual costs	35	60	530	1,260	1,410
Transition benefits	-	-	-	-	-
Annual recurring benefits	-	-	325	945	1,240
Total annual benefits	-	-	325	945	1,240

Policy Rationale

What is the current policy?

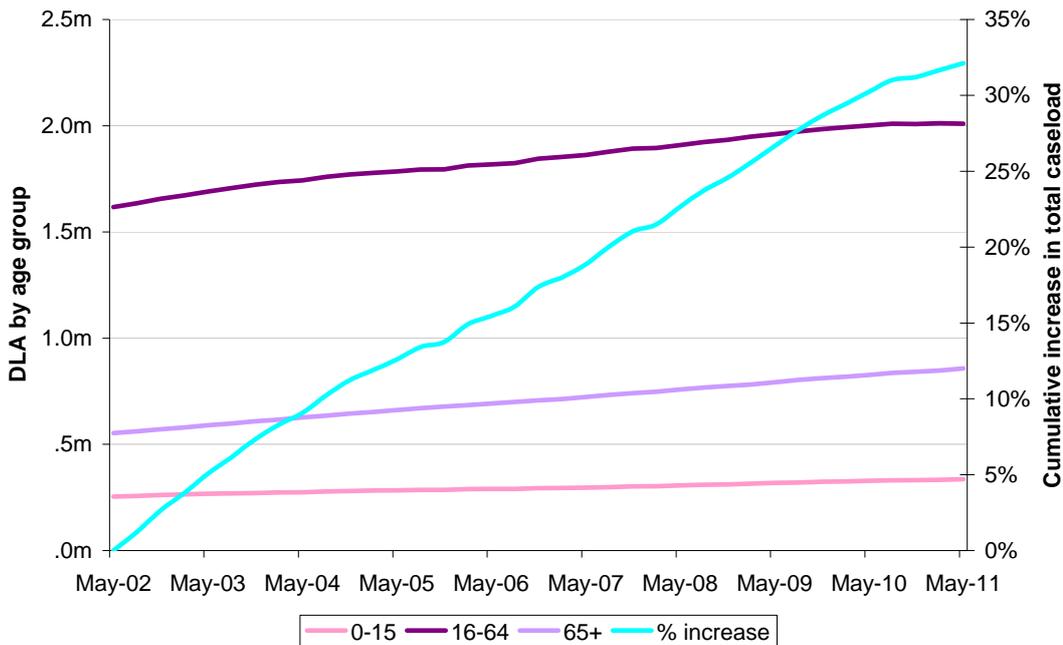
1. Disability Living Allowance (DLA) is a benefit that provides a cash contribution towards the extra costs of needs arising from an impairment or health condition. It is a non-means-tested benefit, and it is payable regardless of employment status. Although DLA is intended to contribute towards extra costs, measuring each individual's expenditure would be administratively complex and expensive. Entitlement and award levels are, therefore, based on proxies – care and mobility – as research at the time of DLA's introduction showed that they were the greatest sources of extra costs¹. The decision about whether to award benefit is not made on the basis of an individual's costs, but on the severity of their care and mobility needs.
2. To apply for DLA, individuals complete a lengthy claim form which requests detailed information about the impact that their impairment or health condition has on their ability to manage their care themselves and/or get around. DLA awards can be decided on the basis of self-reporting of need, and although medical evidence is sought for certain awards, it is not mandatory or routinely provided. At present around half of all award decisions are made without any additional medical evidence². Currently, additional medical evidence is gathered in around half of all cases. The Decision Maker either awards or turns down the claim. Awards are currently payable at two mobility and three care rates leading to a possible eleven different combinations of payable rates of benefit. Awards can be made for any duration, including indefinitely. Awards are reviewed if an individual reports a change, but there is currently no process to systematically review all awards.
3. The current DLA legislation provides automatic entitlements to certain rates on the basis of specific conditions and impairments, or the treatment an individual is receiving. As a result, eligibility for DLA is sometimes based on medical condition rather than the impact of that condition, meaning that support is not always appropriately targeted.
4. There are now 3.2 million people receiving DLA and forecast expenditure on the benefit for 2011/12 is £12.6 billion. In just nine years the number claiming DLA has risen from just under 2.5 million to 3.2 million – an increase of around a third. Around a third of this growth can be attributed to demographic factors, with the remainder due to an increase in receipt per head³.

¹ Office of Population Censuses and Surveys, *The financial circumstances of disabled adults living in private households*, 1988.

² DWP ad hoc statistical note 'DLA Award Values and Evidence Use for New Claims in 2010, in Great Britain', 2011.

³ DWP ad hoc statistical note 'Disability Living Allowance: Growth in the Number of Claimants 2002/03 to 2010/11', 2011.

DLA claimant growth 2002-2011



Source: Work and Pensions Longitudinal Study, 2002-2011

- DLA is widely perceived to be an out of work benefit and receiving DLA in itself appears to reduce the likelihood of being in employment, even after allowing for the impact of health conditions or impairments⁴.

What is the change in policy?

- The Government consulted on DLA reform from December 2010 to February 2011 on the proposal to replace DLA with Personal Independence Payment. The intention is that the new benefit will be introduced from April 2013, in a phased approach, starting with new claims, so that early lessons can be learnt on the implementation of the policy.⁵ The Government recently closed a consultation on the detail of the assessment criteria and is now considering the responses. A consultation on plans for secondary legislation to underpin the Welfare Reform Act opened in March this year. Responses to both consultations will be published later in the year.
- Personal Independence Payment will not be extended to new or existing claims for children or those over 65 from 2013. Individuals already in receipt of Personal Independence Payment will continue to receive the benefit past the upper age limit of 65, provided they continue to meet the eligibility criteria. The experience of reassessing the working-age caseload will be used to inform any future decisions on the treatment of children and those over 65. The Government continues to publish policy briefing notes on the Department's website aimed at providing further information and clarity on its proposals. The proposed elements of the new benefit are:
 - A more objective assessment to deliver more consistent outcomes and greater transparency for individuals.
 - Two components, linked to the activities considered in the assessment. Eligibility for the mobility component will be based on the individual's ability to get around and the daily

⁴ Disability Living Allowance and work: Exploratory research and evidence review, DWP Research Report No. 648

⁵ For more details, please see <http://www.dwp.gov.uk/docs/pip-briefing-high-level-reassessment.pdf>

living component on their ability to carry out other key activities necessary to be able to participate in daily life.

- Two rates for each component (four in total).
 - Eligibility based on a qualifying period of 3 months, with the expectation that the entitlement conditions will continue to be satisfied for a further 9 months.
 - Moving away from automatic entitlement based on certain conditions to assessments based on individuals' circumstances and the impact of an individual's health condition or impairment.
 - The facility to regularly review all awards.
 - Maintenance of provisions to fast track claims for people who are terminally ill.
8. The Government's intention is that the daily living component of Personal Independence Payment will be a gateway for receipt of Carer's Allowance. Carers make a valuable contribution and the Government's intention is that those with the most intensive caring responsibilities will continue to receive the support they need.
9. It is also the Government's intention to retain the current arrangements on income-related benefits, where certain rates of DLA entitle the recipient to additional amounts of benefit, known as 'premia'. The proposal is that these arrangements would remain in place for working age benefits until the introduction of Universal Credit⁶.

Reason for the change in policy?

10. The objectives of the policy are to:

- Create a new, more active and enabling benefit that focuses support on those disabled people who face the greatest barriers they face to leading full, active and independent lives and ensures that expenditure is sustainable.
- Assess more accurately, objectively and transparently those people who would benefit most from additional support.

Rationale for intervention

11. The new benefit will help to ensure that expenditure on DLA is sustainable and resources focused on those most in need of additional support. The new assessment will improve consistency in decisions and regular reviews will ensure that awards remain correct. Replacing DLA with a new benefit that focuses support on those disabled people who face the greatest barriers to leading full, active and independent lives will provide an opportunity to improve understanding of the benefit and communicate that support is available both in and out of work.

Estimating costs and benefits

Estimating costs

12. Our best estimate of the implementation costs is currently £710m. These costs include provision for making changes to the IT systems, training DWP staff, the administrative effort required to manage the transition of existing recipients to the new system and the cost of trained independent assessors undertaking the assessment.

⁶ Details of which benefits will be part of Universal Credit and how the benefit will be structured can be found in 'Universal Credit: welfare that works', Cm 7957, November 2010. For reform to the premia structure under Universal Credit please see <http://www.dwp.gov.uk/docs/ucpbn-1-additions.pdf>

13. There will be net costs to individuals from reductions in benefit expenditure from focussing support on those with greatest needs. These are assumed to be the same as the savings to the exchequer of £2,240m.

Estimated benefits

14. Support in the new benefit will be focussed on those with the greatest barriers to leading full, active and independent lives. An estimate of the benefits to the exchequer relies on the setting of the rates that the new benefit will be set at. However, the Chancellor announced in June 2010 that he anticipated that the overall impact of reform will result in savings equivalent to 20% of forecast working age DLA expenditure⁷. This would result in estimated savings to the exchequer of £2,240m. This estimate is consistent with savings figures published in the June 2010 Budget, but differs from these figures as it includes savings up to 2015/16, takes account of small changes in the working age DLA expenditure and is presented as a Net Present Value in 2011/12 price terms.

15. If the new benefit results in a better understanding of the benefit including that it is available in work then it is possible that this will lead to more disabled people moving into work, resulting in benefits to the economy, individual and also to the exchequer through increased revenue from taxation.

16. Costs and benefits are presented as Net Present Values in 2011/12 prices where indicated and elsewhere in 2011/12 constant price terms.

Number of people affected

17. Details of the numbers of people affected by the transition from DLA to Personal Independence Payment were presented in the consultation document on the assessment criteria, published in January 2012. For context, some of the details are reproduced below⁸.

Table 1: Breakdown of eligible Personal Independence Payment (PIP) caseload by Daily Living and Mobility component combination

2015/16 16-64 PIP rate combination	Forecast caseload under the second draft criteria
Enhanced mobility, enhanced daily living	340,000
Enhanced mobility, standard daily living	190,000
Enhanced mobility, no daily living	230,000
Standard mobility, enhanced daily living	110,000
Standard mobility, standard daily living	250,000
Standard mobility, no daily living	190,000
No mobility, enhanced daily living	90,000
No mobility, standard daily living	250,000
Total	1,700,000

Note: data may not sum due to rounding.

18. The above table shows that by 2015/16, the caseload for Personal Independence Payment is estimated to be around 1.7 million. This compares to a previously forecast scenario of a DLA working age caseload of around 2.2 million in 2015/16⁹.

Table 2: Breakdown of forecast DLA caseload by rate combination

⁷ http://www.hm-treasury.gov.uk/d/junebudget_costings.pdf

⁸ <http://www.dwp.gov.uk/docs/pip-assessment-thresholds-and-consultation.pdf>

⁹ More details can be found about this forecast in 'Disability Living Allowance caseload without reform: 2010/11 to 2015/16', January 2012.

2015/16 DLA 16-64 rate combination	Forecast caseload
Higher Mobility, Higher Care	350,000
Higher Mobility, Middle Care	290,000
Higher Mobility, Lowest Care	270,000
Higher Mobility, No Care	130,000
Lower Mobility, Higher Care	170,000
Lower Mobility, Middle Care	450,000
Lower Mobility, Lowest Care	230,000
Lower Mobility, No Care	50,000
No Mobility, Higher Care	10,000
No Mobility, Middle Care	40,000
No Mobility, Lowest Care	190,000
Total	2,200,000

Note: data may not sum due to rounding.

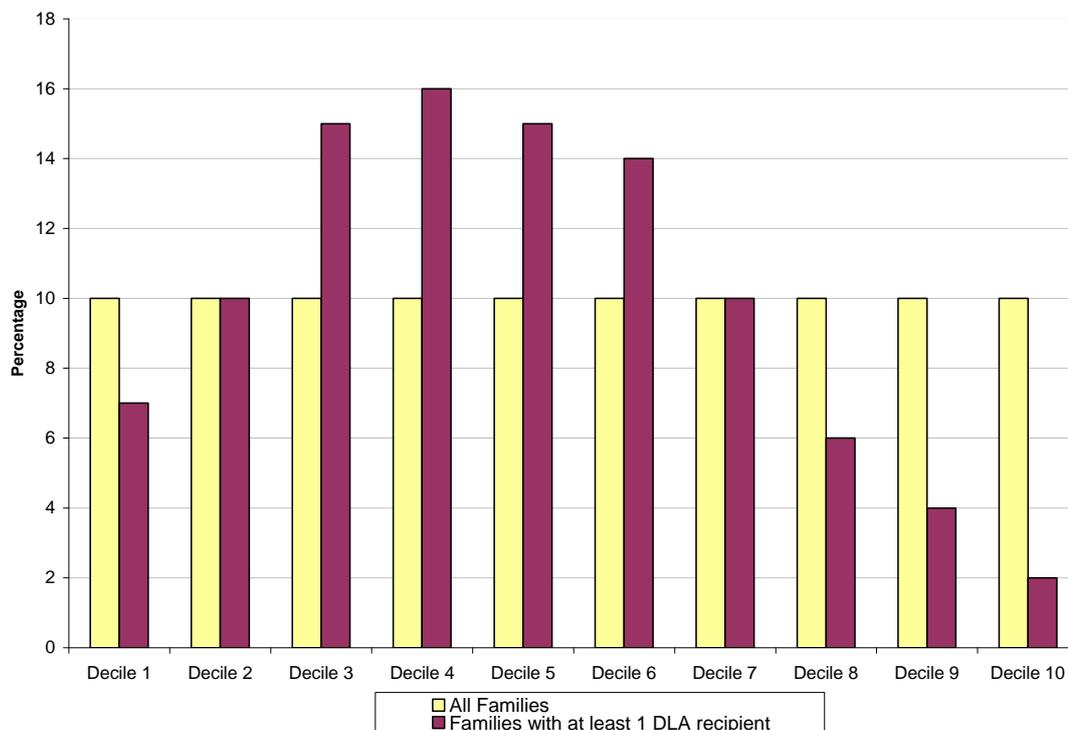
19. Therefore, we expect around 500,000 fewer individuals to be in receipt of Personal Independence Payment by 2015/16 compared to what would have happened under DLA.

Income effects

20. Families with a DLA recipient are more likely to be in the third to sixth income deciles than the rest of the population. Disability benefits such as DLA are included as income because they provide an important cash contribution to disabled people. However, no adjustment is made for additional costs associated with disability. This is because research shows these vary significantly in level and nature, and there is no general agreement on how to measure these costs¹⁰.

Income Distribution of Families with at least 1 DLA (all ages) recipient by decile (Before Housing Costs)

¹⁰ A discussion on the extra costs of disability can be found in the following papers: 'Review of the existing research on the extra costs of disability', 2005, DWP Working Paper 21. 'Review of the international evidence on the cost of disability', 2008, DWP Research Report 542.



Source: Households Below Average Income 2009/10, internal analysis produced on a UK basis¹¹.

Health impacts

21. Income and health are related, with those on low incomes having higher rates of disease, ill health and mortality than those on high incomes. However, evidence is limited as to whether a change in income has an effect on health. DLA is intended to provide a cash contribution to the extra costs associated with disability and complements a range of support available to disabled people, including income replacement benefits for those who are unable to work. It is therefore not expected that reducing one source of support for disabled people with lesser barriers to participation will have an adverse impact on health.

22. It is possible that the policy could have positive impacts on health if it leads to more disabled people moving into work. Health impacts will be considered further as the detail of the policy is developed.

Carers

23. Under the current system, those caring for someone on DLA middle or highest rate care can receive Carer's Allowance. The policy intent is that both the enhanced and standard rates of Daily Living under Personal Independence Payment will passport a carer on to Carer's Allowance¹².

24. Around 1 million people are currently entitled to Carer's Allowance¹³. Unlike DLA, a person is not entitled to Carer's Allowance if their earnings from paid employment exceed £100 a week after deduction of allowable expenses. However, other forms of income have no effect on entitlement to the allowance, as it is not an income-related benefit. Around three-fifths of the caseload receive a benefit payment, whilst the remainder are entitled but not in receipt of a payment.

¹¹ The Households Below Average Income (HBAI) is published annually by DWP. The full report can be accessed at: <http://research.dwp.gov.uk/asd/index.php?page=hbai>

¹² For further details, please see the following policy briefing note: <http://www.dwp.gov.uk/docs/pip-briefing-passporting.pdf>

¹³ This figure includes all entitlements to Carer's Allowance, whether or not that entitlement comes from caring for a DLA recipient.

Table 3: Carer's Allowance caseload by entitlement and receipt of payment

	Caseload	Percentage
Entitled only	451,000	44
Receiving payment	569,000	56
Total	1,020,000	100

Note: data may not sum due to rounding.

Source: Work and Pensions Longitudinal Study, May 2011.

25. Analysis of administrative data shows that around a third of those on Carer's Allowance are entitled to the benefit because they care for someone on DLA middle or highest rate care. Around two-fifths of those receiving Carer's Allowance payments are linked to DLA claims.

Table 4: Carer's Allowance caseload by entitlement and receipt of payment for claims linked to a 16-64 DLA claim

	Caseload	Percentage
Entitled only	94,000	27
Receiving payment	259,000	73
Total	353,000	100

Note: data may not sum due to rounding.

Source: Disability and Carer's Database, May 2011¹⁴

26. We expect that the introduction of Personal Independence Payment will not affect the overall size of the Carer's Allowance population or the level of expenditure on the benefit. However, as Personal Independence Payment will be a new benefit with different entitlement conditions, we would expect some shifts in the DLA caseload as claimants are migrated over to the new system. This would in turn, affect those who have an entitlement to Carer's Allowance.

Income-related benefits

27. Under the current system, Disability Living Allowance also entitles recipients to premia in the income-related benefits. The main benefits are: Income-Based Jobseeker's Allowance (IB-JSA), Income-Related Employment and Support Allowance/Incapacity Benefit (IR-ESA/IB), Income Support, Pension Credit, Housing Benefit and Council Tax Benefit. The premia are not available to those in receipt of contributory JSA or ESA/IB.

28. The policy intent is that prior to the introduction of Universal Credit that the current passporting arrangements would be maintained for disability premia. Pension Credit will not be part of Universal Credit and the intention here is that the current passporting arrangements would be maintained.

29. The table below shows the numbers of those on Disability Living Allowance who are in receipt of a disability premia for IB-JSA and Income Support/Incapacity Benefit.

Table 5: Numbers of DLA recipients receiving premia¹⁵ in JSA and Income Support/Incapacity Benefit

Type of benefit	Caseload
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¹⁴ The Disability and Carer's database links live Carer's Allowance (CA) and DLA/AA claims. This enables analysis to be carried out on linked records. The linking routine is based on information drawn from the same data source that underlies the quarterly Works and Pensions Longitudinal Study benefit statistics.

¹⁵ Note that claimants may receive more than one premia. The premia are: disability premium, enhanced disability premium and severe disability premium. The entitlement conditions for each premia vary.

IB-Jobseeker's Allowance	27,000
Income Support/Incapacity Benefit	615,000
Total	642,000

Note: data may not sum due to rounding.

Source: 5% sample data, May 2011.

30. Caseload information on numbers of claimants in receipt of ESA premia is not available, but we estimate that there around 55,000 premia being claimed¹⁶.

31. It has not been possible to consider Housing Benefit or Council Tax benefits here as administrative data does not identify current disability premia status for the majority of recipients who receive passported awards of Housing Benefit.

32. Initial modelling looking at impacts on the main working age benefits with disability premia shows that we would not expect to see a change in the level of expenditure on the premia as a result of the introduction of Personal Independence Payment but that some caseload movements could be expected as DLA claimants are migrated to the new benefit¹⁷.

¹⁶ ESA premia figures are not available on the 5% or 100% administrative datasets held by the department. The figures have therefore been estimated by DWP Forecasting and are produced on a basis consistent with Autumn Statement 2011.

¹⁷ The modelling is based on a pre-Universal Credit scenario.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p>Basis of the review:</p> <p>The impact of the policy change will be reviewed and monitored regularly as reform is implemented. An evaluation of Personal Independence Payment is planned.</p>
<p>Review objective:</p> <p>To assess whether the policy change meets the objectives set out in the Impact Assessment.</p>
<p>Review approach and rationale:</p> <p>A mixture of approaches will be used including:</p> <ul style="list-style-type: none">• Analysis of internal administrative datasets;• Analysis of survey data such as Family Resources Survey;• Social Research and Customer Insight.
<p>Baseline:</p> <p>Forecasts of DLA caseloads and expenditure and information on administration of DLA before reform is implemented.</p>
<p>Success criteria:</p> <p>Criteria will include indicators such as working age DLA expenditure, impact on the number of people receiving benefit and the different rates of benefit received and information on delivery of the new benefit.</p>
<p>Monitoring information arrangements:</p> <p>It is envisaged that administrative data similar to that currently collected for DLA will be collected to enable monitoring of the new benefit.</p>
<p>Reasons for not planning a PIR:</p> <p>Not applicable.</p>