

<b>Title:</b> Abolition of concessionary Employment and Support Allowance (ESA) 'youth' National Insurance qualification conditions.  <b>Lead department or agency:</b> Department for Work and Pensions.  <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>
	<b>IA No:</b>
	<b>Date:</b> 16 February 2011
	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Primary Legislation
<b>Contact for enquiries:</b>	

## Summary: Intervention and Options

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

At present, special arrangements apply which allow certain young people to qualify for contributory ESA under the ESA 'youth' provision, without having to satisfy the National Insurance contribution conditions which apply to all other claimants. Abolishing this concession from April 2012 puts those previously eligible for ESA 'youth' on an equal footing with others who have to satisfy the relevant National Insurance conditions before they qualify for contributory ESA, which will create a simpler system. Government intervention is necessary to ensure entitlement to contributory ESA applies consistently to all customers.

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

1. Simplifies the benefit system by abolishing an easement where the majority of claimants would be entitled to income-related ESA which is paid at the same or a higher rate for many.
2. To align treatment of ESA 'youth' with other groups claiming contributory ESA and to create consistency in the run up to the introduction of Universal Credit.
3. Entitlement to income-related ESA will help to ensure that these customers automatically qualify for passported benefits, such as free NHS prescription charges, instead of having to make a separate claim.

### What policy options have been considered? Please justify preferred option (further details in Evidence Base)

1. Do nothing - continue to allow certain young people to qualify for contributory ESA without having to satisfy the usual National Insurance contribution conditions.
2. Abolish the ESA 'youth' provisions so these customers satisfy the same contribution conditions as other groups.

Option 2 will simplify the benefits system and ensure consistent treatment for all groups.

### When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?

It will be reviewed after 2012.

### Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?

Yes, see Annex 1.

## Summary: Analysis and Evidence

Price Base Year 10/11	PV Base Year 10/11	Time Period Years 3	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: £0m
<b>COSTS (£m)</b>	<b>Total Transition</b> (Constant Price) Years		<b>Average Annual</b> (excl. Transition) (Constant Price)		<b>Total Cost</b> (Present Value)
Low	0				
High					
Best Estimate					
<b>Description and scale of key monetised costs by 'main affected groups'</b> 1. There is a one off cost of £0.1 million involved in changing the IT system to disable the functionality currently used to administer ESA 'youth' cases. 2. Some of the individuals affected will see a reduction in their benefit / net income compared to what they would have otherwise received netting out at around £11 million per annum overall.					
<b>Other key non-monetised costs by 'main affected groups'</b> 1. People may change their behaviour as a result, for example, by spending their capital to make them eligible for income-related ESA once their contributory ESA is withdrawn, which would reduce savings, 2. There will be more people subject to means-testing which involves a small administrative cost. 3. Some people may become eligible for passported benefits such as free school meals and free prescriptions; these have not been quantified.					
<b>BENEFITS (£m)</b>	<b>Total Transition</b> (Constant Price) Years		<b>Average Annual</b> (excl. Transition) (Constant Price)		<b>Total Benefit</b> (Present Value)
Low	0				
High					
Best Estimate					
<b>Description and scale of key monetised benefits by 'main affected groups'</b> 1. Reduced benefit expenditure as a result of fewer people on ESA or people receiving a reduced amount of ESA provides a benefit to the Exchequer and taxpayer of around £11 million per annum (net).					
<b>Other key non-monetised benefits by 'main affected groups'</b> There may be a positive employment impact as a result of this policy but this very difficult to quantify in advance. If so, there would be the benefit of higher economic output from additional employment and the subsequent gain in revenue from increased taxation. In addition there is good evidence to show that work is generally good for physical and mental health and wellbeing, including for disabled people and people with health conditions, and may help to promote recovery. Being out of work often leads to poorer health as well as other negative outcomes. <sup>1</sup>					
<b>Key assumptions/sensitivities/risks</b>					<b>Discount rate</b> 3.5%
The administrative data does not currently enable us to distinguish claimants currently qualifying under ESA 'youth' conditions for contributory ESA. However, we are able to distinguish IB claimants qualifying under the IB 'youth' provisions, which replicate the ESA rules, and this have been used as a proxy for ESA 'youth' claimants.					
<b>Impact on admin burden (AB) (£m):</b>			<b>Impact on policy cost savings</b>		
<b>New AB:</b>	<b>AB savings:</b>	<b>Net:</b>	<b>Policy cost savings:</b>	<b>In</b>	

<sup>1</sup> Waddell G and Burton A (2006) *Is work good for your health and wellbeing?* (London: The Stationery Office)

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			April 2012		
Which organisation(s) will enforce the policy?			Jobcentre Plus		
What is the annual change in enforcement cost (£m)?			Nil		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: 0	Non-traded: 0	
Does the proposal have an impact on competition?					
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: 100%	Benefits: 100%	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A	N/A

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties <sup>2</sup>	YES	Separate publication
<b>Economic impacts</b>		
Competition	NO	
Small firms	NO	
<b>Environmental impacts</b>		
Greenhouse gas assessment	NO	
Wider environmental issues	NO	
<b>Social impacts</b>		
Health and well-being	NO	
Human rights	NO	
Justice system	NO	
Rural proofing	NO	
<b>Sustainable development</b>	NO	

<sup>2</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

## Evidence Base

### Annual profile of monetised costs and benefits\* - (£m) constant prices

	2010 /11	2011 /12	2012 /13	2013 /14	2014 /15
<b>Transition costs</b>	0	0	0	0	0
<b>Annual recurring cost</b>	0	0	55	80	85
<b>Total annual costs</b>	0	0	55	80	85
<b>Transition benefits</b>	0	0	0	0	0
<b>Annual recurring</b>	0	0	55	80	85
<b>Total annual benefits</b>	0	0	55	80	85

\* For non-monetised benefits please see summary pages and main evidence base section

## Evidence Base

### Current Policy

1. At present, special arrangements apply which allow certain young people known as ESA 'youth' to qualify for contributory ESA without having to satisfy the National Insurance contribution conditions which apply to all other claimants. ESA 'youth' claimants are disabled people who:
  - are aged 16-19 inclusive, or satisfy the age exception rule if aged between 20 and under 25 (which revolves around rules for education or training);
  - have at least 28 weeks' continuous medical evidence to support a claim for ESA;
  - are not in full-time education;
  - have been resident and present in Great Britain for 26 weeks out of 52 weeks prior to the claim; and
  - do not meet the normal National Insurance contributions requirements.

### Rationale for intervention

2. Abolition of the current provision, known as ESA 'youth', that allows those aged 16-20 (or 25 if in education) to qualify for contributory ESA without meeting the normal National Insurance conditions will simplify the benefits system and ensure a consistency of treatment for those claiming ESA.

### Policy Objective

- Abolishing the provision puts this group on the same contributory footing as everyone else claiming contributory ESA.
- This change will simplify the benefits system as part of the Government's plans to make it simpler and easier prior to the introduction of the Universal Credit.
- The one year time limit for contributory ESA work-related activity group cases will also apply to ESA 'youth' from April 2012. Placing them on the same contributory footing as everyone else will ensure consistency for all groups whilst simplifying ESA conditionality. Income-related ESA will continue to be available to those who do not meet the contribution tests.

## Options considered

1. Do nothing - continue to allow certain young people to qualify for contributory ESA without having to satisfy the National Insurance contribution conditions.
2. Abolish the ESA 'youth' provisions so these customers satisfy the same contribution conditions as other groups. This option will simplify the benefits system and ensure consistent treatment for all groups.

## Costs and benefits

3. The net fiscal impact of this policy is around £11 million per annum. This is made up of:
  - One-off administrative costs of £0.1m to change the IT;
  - Fiscal benefit savings from contributory ESA for those no longer able to qualify. These are estimated at around £40m per year on average;
  - Fiscal benefit costs of paying income-related ESA for those who are eligible. These are estimated at around £30m per year on average. The costs are less than the savings because some people will not be eligible for income-related ESA, or will receive a lower amount of income-related ESA than they would have otherwise received on contributory ESA.
  - The fiscal costs and benefits are exactly offset by the economic costs to the individuals affected as their income will be reduced.

## Numbers affected

4. By 2015/16, the abolition of ESA 'youth' provisions will affect approximately 15,000 people who would have been claiming contributory ESA. The numbers reach this steady state a year after the implementation of the policy. There are three main groups of people affected:
  - Those with no other income (an estimated 20%) will get exactly the same amount of income-related ESA that they would have got under the 'Youth' provisions.
  - It is estimated a further 70% will qualify for income-related ESA either at the same rate as they would get on contributory ESA, or at a lower rate due to having some other income brought to account. Initial estimates suggest that on average this group are expected to receive around £25 per week less than they would have otherwise received under the 'youth' provisions. However, they may become entitled to 'passported' benefits such as free school meals and free prescriptions.
  - The remaining 10% are not expected to qualify for income-related ESA because they either have, a partner in full time work, capital over £16,000 or other income taking them above the applicable amount.

## Risks and assumptions

5. These monetary estimates are based on several assumptions. If these assumptions change over time there will be a knock-on effect on the estimated savings.
6. This policy requires primary legislation. It has been assumed the earliest legislation could be in place is April 2012.
7. The administrative data for ESA does not currently distinguish claimants currently qualifying under ESA 'youth' conditions from other contributory ESA customers. However, it is possible to distinguish IB claimants qualifying under the IB 'youth' provisions so this have been used as a proxy

8. It is estimated that 10% of all ESA 'youth' cases will not be able to claim income-related ESA. This is based on a combination of analyses using the Family Resources Survey to determine the number of cases with other income or circumstances, such as a working partner, so that they would not be able to qualify for income-related ESA. As it is not possible to identify ESA 'youth' cases on the Family Resources Survey data this analysis looked at (i.) people aged under 25 in receipt of contributory incapacity benefits, and (ii.) all people aged 18 to 21, as a proxies. Part (i.) produced an initial estimate of the proportion of claimants not qualifying for income-related ESA with most not qualifying because of a working partner. This was then adjusted to reflect the relatively low proportion of people with partners from part (ii.) producing a combined estimate of 10%.
9. It is assumed that ESA 'youth' cases assessed to be in the Work Related Activity Group would be time limited to 1 year, so only a maximum of 1 year's worth of benefit savings for these cases is included to avoid double counting savings with the ESA time limiting policy. Those assessed to be in the Support Group are excluded from the time limiting policy so savings continue to accrue beyond 1 year. It has been assumed that income-related ESA will remain available until its eventual replacement by the Universal Credit.

## **Wider impacts**

10. There may be an increased movement into work from people on ESA due to the change in emphasis towards ESA being a shorter-term benefit and targeted at the most vulnerable. The scale of this effect is very difficult to estimate at this stage.

## **Summary and preferred option**

11. The preferred option is to abolish the 'youth' provisions for new claims from April 2012.

## 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.

<b>Basis of the review:</b> The impact of the policy change will be reviewed after it is introduced.
<b>Review objective:</b> To verify the policy is working as intended and to evaluate any deviation from the anticipated effects described in the Impact Assessment and Equality Impact Assessment
<b>Review approach and rationale:</b> Internal administrative datasets will be used to estimate the effect of the policy.
<b>Baseline:</b> Current estimates of costs, savings and caseloads projected to 2014/15.
<b>Success criteria:</b> Comparison of the effect after the implementation of the policy with that forecast before the policy was introduced.
<b>Monitoring information arrangements:</b> Estimates of the effect will be made using the Department's detailed administrative data that give information on the number and type of ESA claimants and total expenditure.
<b>Reasons for not planning a PIR:</b> N/A