

| <b>Title:</b> Amendments to payments on account provision (Budgeting Advances)<br><b>Lead department or agency:</b><br>Department for Work and Pensions<br><b>Other departments or agencies:</b> | Impact Assessment (IA)                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
|                                                                                                                                                                                                  | <b>IA No:</b>                               |
|                                                                                                                                                                                                  | <b>Date:</b> October 2011                   |
|                                                                                                                                                                                                  | <b>Stage:</b> Final                         |
|                                                                                                                                                                                                  | <b>Source of intervention:</b> Domestic     |
|                                                                                                                                                                                                  | <b>Type of measure:</b> Primary Legislation |
|                                                                                                                                                                                                  | <b>Contact for enquiries:</b> Karl Olsen    |

## Summary: Intervention and Options

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

People who have been in receipt of income-related benefits for 26 weeks or more have limited access to commercial credit. Budgeting on a low income without access to affordable credit is difficult for many claimants. Those people who currently access the Social Fund are more likely to have little or no savings compared to benefit recipients who do not apply to the Social Fund (The Use of the Social Fund by Families with Children. Finch and Kemp 2004). Social Fund Budgeting Loans are currently administered separately from the benefit system. This adds to administrative complexity and cost. The current system runs on ageing IT systems and the move to a new IT platform for Universal Credit (UC) offers an opportunity to modernise the system.

The wider welfare reforms also mean that the qualifying benefits for Budgeting Loans will come to an end, to be replaced by Universal Credit.

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

It is proposed that Budgeting Loans will be replaced in Universal Credit by Budgeting Advances. The intended effect is that there is a straightforward advance of benefit scheme available to claimants on the lowest incomes to support financial management. It is expected that this change will also make the process more efficient and cost effective.

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

1. Leaving the scheme as it is currently.
2. Allow Universal Credit claimants to have an advance of their benefit.

Option 2 is likely to result in a simpler scheme that is easier for claimants to understand and have greater transparency over what can be borrowed and the terms of repayment. It is expected to reduce admin costs.

|                                                                                                                                    |                                                    |
|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| <b>When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?</b>  | <b>We have no plans at this stage for a review</b> |
| <b>Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?</b> | <b>Yes</b>                                         |

### **SELECT SIGNATORY Sign-off** For consultation stage Impact Assessments:

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 SELECT SIGNATORY:**..... **Date:** .....

## Summary: Analysis and Evidence

## Policy Option 1

### Description:

| Price Base Year | PV Base Year | Time Period Years | Net Benefit (Present Value (PV)) (£m) |                |                |
|-----------------|--------------|-------------------|---------------------------------------|----------------|----------------|
|                 |              |                   | Low: Optional                         | High: Optional | Best Estimate: |

| COSTS (£m)    | Total<br>(Constant Price) | Transition<br>Years | Average<br>(excl. Transition) | Annual<br>(Constant Price) | Total<br>(Present Value) | Cost |
|---------------|---------------------------|---------------------|-------------------------------|----------------------------|--------------------------|------|
| Low           | Optional                  |                     | Optional                      |                            | Optional                 |      |
| High          | Optional                  |                     | Optional                      |                            | Optional                 |      |
| Best Estimate |                           |                     |                               |                            |                          |      |

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

It is not expected that there will be any additional costs to the Department or individuals as a result of this policy as existing customers will have similar facilities that are available under the new system. Any changes will be monitored during the development of UC.

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

| BENEFITS (£m) | Total<br>(Constant Price) | Transition<br>Years | Average<br>(excl. Transition) | Annual<br>(Constant Price) | Total<br>(Present Value) | Benefit |
|---------------|---------------------------|---------------------|-------------------------------|----------------------------|--------------------------|---------|
| Low           | Optional                  |                     | Optional                      |                            | Optional                 |         |
| High          | Optional                  |                     | Optional                      |                            | Optional                 |         |
| Best Estimate |                           |                     |                               |                            |                          |         |

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

We expect there to be benefits to the Exchequer as a result of this policy as administrative costs will be reduced. However we are unable to calculate these until the detail of the UC is finalised. Any changes will be monitored during the development of UC.

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

| Key assumptions/sensitivities/risks | Discount rate |
|-------------------------------------|---------------|
|                                     |               |

|                                   |    |          |                               |                      |        |
|-----------------------------------|----|----------|-------------------------------|----------------------|--------|
| Impact on admin burden (AB) (£m): |    |          | Impact on policy cost savings |                      | In     |
| New AB:                           | AB | savings: | Net:                          | Policy cost savings: | Yes/No |

## Enforcement, Implementation and Wider Impacts

|                                                                                                                           |       |      |               |        |             |
|---------------------------------------------------------------------------------------------------------------------------|-------|------|---------------|--------|-------------|
| What is the geographic coverage of the policy/option?                                                                     |       |      | Great Britain |        |             |
| From what date will the policy be implemented?                                                                            |       |      | 01/04/2013    |        |             |
| Which organisation(s) will enforce the policy?                                                                            |       |      | DWP           |        |             |
| What is the annual change in enforcement cost (£m)?                                                                       |       |      |               |        |             |
| Does enforcement comply with Hampton principles?                                                                          |       |      | Yes/No        |        |             |
| Does implementation go beyond minimum EU requirements?                                                                    |       |      | Yes/No        |        |             |
| What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions?<br>(Million tonnes CO <sub>2</sub> equivalent) |       |      | Traded:       |        | Non-traded: |
| Does the proposal have an impact on competition?                                                                          |       |      | No            |        |             |
| What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?            |       |      | Costs:        |        | Benefits:   |
| Annual cost (£m) per organisation<br>(excl. Transition) (Constant Price)                                                  | Micro | < 20 | Small         | Medium | Large       |
| Are any of these organisations exempt?                                                                                    | No    | No   | No            | No     | No          |

## 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    |
|----------------------------------------------------------------------------------------------------------------|--------|-----------------------|
| <b>Statutory equality duties<sup>1</sup></b><br><a href="#">Statutory Equality Duties Impact Test guidance</a> | Yes    | separate publications |
| <b>Economic impacts</b>                                                                                        |        |                       |
| <b>Competition</b> <a href="#">Competition Assessment Impact Test guidance</a>                                 | No     |                       |
| <b>Small firms</b> <a href="#">Small Firms Impact Test guidance</a>                                            | No     |                       |
| <b>Environmental impacts</b>                                                                                   |        |                       |
| <b>Greenhouse gas assessment</b> <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>                | No     |                       |
| <b>Wider environmental issues</b> <a href="#">Wider Environmental Issues Impact Test guidance</a>              | No     |                       |
| <b>Social impacts</b>                                                                                          |        |                       |
| <b>Health and well-being</b> <a href="#">Health and Well-being Impact Test guidance</a>                        | No     |                       |
| <b>Human rights</b> <a href="#">Human Rights Impact Test guidance</a>                                          | No     |                       |
| <b>Justice system</b> <a href="#">Justice Impact Test guidance</a>                                             | No     |                       |
| <b>Rural proofing</b> <a href="#">Rural Proofing Impact Test guidance</a>                                      | No     |                       |
| <b>Sustainable development</b><br><a href="#">Sustainable Development Impact Test guidance</a>                 | No     |                       |

<sup>1</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 (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

### References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

| No. | Legislation or publication |
|-----|----------------------------|
| 1   |                            |
| 2   |                            |
| 3   |                            |
| 4   |                            |

### Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy.

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

|                       | Y <sub>0</sub> | Y <sub>1</sub> | Y <sub>2</sub> | Y <sub>3</sub> | Y <sub>4</sub> | Y <sub>5</sub> | Y <sub>6</sub> | Y <sub>7</sub> | Y <sub>8</sub> | Y <sub>9</sub> |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Transition costs      |                |                |                |                |                |                |                |                |                |                |
| Annual recurring cost |                |                |                |                |                |                |                |                |                |                |
| Total annual costs    |                |                |                |                |                |                |                |                |                |                |
| Transition benefits   |                |                |                |                |                |                |                |                |                |                |
| Annual recurring      |                |                |                |                |                |                |                |                |                |                |
| Total annual benefits |                |                |                |                |                |                |                |                |                |                |

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

# Evidence Base (for summary sheets)

## Problem

1. The current Budgeting Loan scheme offers interest free loans to benefit recipients who have been on a qualifying benefit (income based Jobseeker's Allowance, Income Support, Pension Credit and income related Employment and Support Allowance) for 26 weeks. The maximum loan amount depends on the family circumstances of the applicant and their current Social Fund debt levels. A single person without children can currently receive a maximum amount of £348 (called the baseline amount), a couple without children will receive 4/3 of the baseline amount and a single person or couple with children will receive 7/3 of the baseline amount. The baseline amount can be increased or decreased in order to manage the limited budget available.

## Rationale for intervention

2. As other elements of the discretionary Social Fund are replaced by local welfare assistance the Budgeting Loan scheme would need to remain as an in-house product due to the greater administrative costs associated with running a similar scheme outside of the benefit system. With the introduction of Universal Credit it will be more cost effective to introduce Budgeting Advances within Universal Credit to replace Budgeting Loans. This will allow for modernisation of the IT and administration and reduce administration costs. The new system will be simpler for claimants to understand and easier to access.

## Policy objective

3. The policy objective is to replace the current Budgeting Loan scheme with the simple Budgeting Advances rather than retain a separate loan scheme. Budgeting Advances will make available payments on account of Universal Credit. It will be available subject to similar controls as current Budgeting Loans. Advances will primarily be repaid through benefit and will not attract any interest charges. The amount of benefit advanced will be based on a reasonable expectation of recovery, subject to a maximum amount dependent on family composition.

## Options considered (including do nothing)

4. The option to do nothing will mean a change to the qualifying benefit rules once Universal Credit is introduced and additional work to ensure that we have the right information to make the correct decision on an application.
5. The proposed option to replace Budgeting Loans with Budgeting Advances will simplify the current system and will allow decisions to be made on a more automatic basis as the payments will be coming from the same system as the benefit. This will make applications cheaper to administer.

## Costs and benefits

6. The policy details have not been fully scoped yet and so detailed analysis of the costs and benefits have not been assessed. We intend that the scheme will continue to be available to those in similar circumstances to Budgeting Loans.

## Risks and assumptions

7. Universal Credit is currently planned to only cover working age people. In 2009/10 7.2% of the total expenditure for Budgeting Loans went to people in the Pensioner client group. This group will need to continue to have access to an interest free loans scheme or an advance of benefit scheme. A parallel scheme will be introduced for Pension Credit although the precise timing of introduction has not yet been decided.

## Wider impacts

## Summary and preferred option (with description of implementation plan)

8. The preferred option is to replace Budgeting Loan provision with an advance of benefit, known as Budgeting Advances, delivered through the new Universal Credit IT system. The system will become operational in conjunction with Universal Credit and the current scheme. Budgeting

Loans will then be abolished for working age applicants once all existing income-related benefit claimants have been migrated to Universal Credit. Budgeting Loans will continue to be available throughout the transitional period, for any claimants who have not transitioned to Universal Credit.

## Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

### 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><br><br>The impact of the policy change will be reviewed and monitored regularly as roll out takes place. All analysis in the review will be subject to the ongoing availability of the underlying datasets.          |
| <b>Review objective:</b><br><br>To assess whether access to the provision is straightforward and that the system is cost efficient and effective.                                                                                                |
| <b>Review approach and rationale:</b><br><br>A mix of approaches will be used primarily focusing on internal administrative datasets.                                                                                                            |
| <b>Baseline:</b><br>The benefit caseloads and eligible population will                                                                                                                                                                           |
| <b>Success criteria:</b><br><br>Criteria will include indicators such as number of Budgeting Advances paid, the number of Budgeting Advances collected and access to the advance by particular groups.                                           |
| <b>Monitoring information arrangements:</b><br><br>It is anticipated that the new information provided by the Universal Credit systems will form the basis for this analysis however and this approach will be assessed as the reform continues. |
| <b>Reasons for not planning a PIR:</b> Not applicable                                                                                                                                                                                            |