1). Description of policy, including any assumptions necessary to allow the commitments to be costed:

Question: How much would it cost to increase contributory Jobseeker's Allowance by £20 - £30 a week for those who have made NI contributions for 5 years or over?

- By raising the threshold from two to "four or five" years, how much would this save, and how many people would lose how much?

Relevant quotations from the opposition:

"The IPPR have today announced that they will be looking at options and costings for increasing the initial rate of Jobseeker's Allowance paid to those who have built up a sufficient record of contribution.

If this can be done in a cost neutral way by extending the period people need to be working and paying national insurance to qualify for contributory JSA it would be a very valuable step forward.

For example, a higher rate of Jobseeker's Allowance paid for the first six weeks of unemployment to those who have lost their jobs after perhaps four or five years in work could be a big help in cushioning the immediate financial impact of redundancy and give them a better chance of getting back into work and back on their feet sooner."

Speech by Rachel Reeves (Labour MP for Leeds West), Monday 20th January 2014.

Following the speech quoted above Ms Reeves was quoted as saying the higher rate of Jobseeker's Allowance would be an additional £20 per week:

"I would like to see that if someone who has contributed for four or five years, for example, in the first few weeks – perhaps in the first six weeks as with statutory maternity pay – they might get a bit more."

"Perhaps in the order of £20. Before I make a firm commitment we need to make that the sums add up. Ed Balls has been very clear that any commitments have to be cost-neutral. We won't be spending any more on day to day spending."

Rachel Reeves, quoted in the Guardian, Monday 20th January 2014.

However, this policy has subsequently been updated in a Labour press release from the 18th June 2014:

"Labour plans to offer a higher rate of contributory JSA by extending the period of time people have to be in work to become eligible. For instance, if we raised the point of eligibility from two to five years we would be able to increase the level of contributory JSA by around £20-£30 a week. This would make a huge difference to older people who need to sustain their homes, cars and connections as they seek to get back into work."

This costing therefore assumes that the increase in JSA(C) will be either £20 or £30 per week. Both variations are presented below.

As above, Ms Reeves had stated that the higher rate of JSA(C) would apply for the first six weeks of a claim. Subsequently, Chris Leslie was quoted as saying that there would be no change to the period for which people were eligible for JSA(C):

*“**Martha Kearney**: But isn't it the case at the moment that people get the higher contributory rate of JSA for 6 months, and you seem to be suggesting that they could get it indefinitely.*

***Chris Leslie:** Well look, <u>we’re not proposing to change the time periods for which people are able to be on those particular allowances</u> but what we are saying is that we can tilt the system in favour of those who have been contributing for a longer period”.*

Chris Leslie, BBC World at One, 19 June 2014.

Therefore this costing assumes that claimants would be eligible for the higher rate of JSA(C) for six months, although not all claims last this long.

The costing also assumes that the £20-£30 increase will apply to all eligible claimants under any new rules (and does not vary by age group).

At present, the eligibility conditions for contributory JSA(C) are:

To satisfy the first contribution condition

a) The claimant must have paid Class 1 contributions in respect of one (“the base year”) of the last two complete tax years before the beginning of the relevant benefit year; and

b) Class 1 contributions must have been paid before the week that the claimant claims JSA; and

c) The claimant must have had relevant earnings for the base year on which the Class 1 contributions have been paid or treated as paid of at least 26 times the lower earnings limit (LEL) for that tax year.

To satisfy the second contribution condition

a) The claimant must have paid Class 1 contributions or been credited with earnings for the last two complete tax years before the beginning of the relevant benefit year; and

b) The earnings factor from the earnings on which primary Class 1 contributions have been paid or treated as being paid or credited must be at least 50 times the LEL for each of those last two complete tax years.

JSA(C) is currently set at £72.40 per week for those aged 25 and over, and £57.35 for those aged 16-24.

On the information provided, we have understood that this opposition policy would introduce, for the duration of a claim, an increase in the rate of JSA(C) of £20 - £30 for those who have made Class 1 contributions for four or five years. It is proposed that this could be paid for by extending the period that people need to have paid Class 1 contributions to be eligible for JSA(C) – see the conditions above for the current rules.

The analysis used to cost this policy was generated by the Department of Work and Pensions, by matching data of new JSA(C) claimants in 2011/12 to a 1 per cent sample of the National Insurance Recording System from the Lifetime Labour Market Database, to examine the contributions and credits that have built up a claimants' entitlement to JSA(C). The matching was undertaken using encrypted national insurance numbers. Using inflow forecasts to contributory JSA in 2014/15, the number meeting the revised conditions and the numbers not meeting the revised conditions were then estimated.

Net financial impacts presented may differ to those presented as this analysis:

a) does not account for the JSA linked period rules. These mean for example, that a person that has been receiving ESA immediately before claiming JSA would be assessed on the basis of the tax years preceding the ESA award. This analysis looks at the years preceding the JSA claim;

b) is based on inflows to contributory JSA claimants between April 2011 and March 2012; it assumes these inflows are representative of inflows in a 12 month period; and

c) makes no assumptions regarding any behavioural changes in contributory JSA or potential contributory JSA claimants as a result of changes in the contribution conditions or the impact on other income- related benefits.

It is important to note that some contributory only JSA claimants may also have entitlement to income-related benefits. Recent analysis of the Family Resources Survey (FRS) 2011/12 estimated that approximately 69 per cent of those on contributory JSA only could have some entitlement to the income related component of JSA or other income related benefits such as Housing or Child Benefit or tax credits (all benefits going into Universal Credit). This was estimated by examining the resources and circumstances of contributory JSA claimants on the FRS, specifically to reflect the capital limits and income limits/disregards in place for income related benefits. Where a household had exceeded the capital or income limits then it was assumed they would have no entitlement to income related benefits.

The FRS is a large annual survey that has been running since 1992, the survey currently comprises returns from around 20,000 private households in the UK providing information on their incomes and circumstance. Outputs based on data collected for the FRS have been designated as National Statistics.

In addition, claimants who were claiming both contributory and income-related JSA were excluded from this analysis.

2). Information required on distributional effects of the policy:

3). Answer

A number of complicating factors that will influence the magnitude of costs and savings that could be made as a result of the opposition policy should be noted. Most importantly, some contribution only JSA claimants may also have entitlement to income related benefits, meaning that any change to the JSA(C) eligibility conditions could drive people to receive more in income related benefits. For the same reason, people claiming both JSA(C) and income related benefits could get little or no financial advantage from an increase in the rate of JSA.

An additional complicating factor lies in the two JSA(C) contributory conditions. For the purpose of this costing the most relevant parts of these conditions are:

First Contribution Condition

a) The claimant must have paid Class 1 contributions in respect of one of the last two complete tax years before the beginning of the relevant benefit year.

Second Contribution Condition

a) The claimant must have paid Class 1 contributions or been credited with earnings for the last two complete tax years before the beginning of the relevant year end.

If a policy to change JSA(C) eligibility rules or increase benefit depending on years of contributions were made, a decision would need to be reached on how to treat the first condition. It is not clear from the quotation above how to approach this. Therefore in carrying out the analysis, DWP have considered the impact of varying the second condition only, and both conditions.

As the opposition policy is tentative, it is unclear exactly how many years people would have had to have made Class 1 contributions for in order to be eligible for JSA(C) and for which group the additional £20-£30 per week would apply. DWP therefore provide estimates of cost and savings generated for a variety of scenarios, varying the first and second conditions above as follows. The scenarios have been chosen to reflect the question as far as possible, within the constraint that it is not possible to test all options:

A1 - Retain existing first condition, extend second condition to 3 years
A2 - Retain existing first condition, extend second condition to 4 years
A3 - Retain existing first condition, extend second condition to 5 years
B1 - First condition 2 of 4 tax years, extend second condition to 4 years
B2 - First condition 3 of 5 tax years, extend second condition to 5 years
B3 - First condition 5 of 5 tax years, extend second condition to 5 years

Analysis

The analysis presented in the tables below is based on forecast 2014/15 JSA(C) inflows using the INFORM model. Claimants receiving both JSA contributory and income related JSA components were excluded. The inflow figures were used to develop estimates of the number of annual inflows under different eligibility conditions.

Table 1 below shows the impact of changing the JSA(C) eligibility conditions, without increasing payments made to those still eligible. Estimated offset costs are calculated on the basis that 69 per cent of those no longer meeting the JSA(C) eligibility conditions will take up income related JSA for the same duration as they had on JSA(C).
After taking into account these offset costs, the net financial impact is a saving of £40m - £65m per year, depending on scenario.

Table 1

Scenario	Estimated annual Inflows onto JSA(C)*	(a) Annual expenditure on JSA(C)** (cost)	Reduction in current expenditure** (saving)	Estimated offset costs**	Net saving**
		£m			
No change	557,000	-540			
A1	435,000	-420	120	-80	40
A2	392,000	-380	160	-110	50
A3	350,000	-340	200	-140	60
B1	393,000	-380	160	-110	50
B2	351,000	-340	200	-135	65
B3	339,000	-330	210	-145	65
*Rounded to the nearest 1,000. **Rounded to the nearest £5 million.					

Tables 2a and 2b below show the increase in annual expenditure associated with giving those meeting the more robust conditions set out under scenarios A1 - B3 an additional £20-£30 per week for the duration of their claim – up to a maximum of 6 months where the time limit applies.

It is important to note that there may be additional offsetting savings arising from the cost of any increase in JSA(C) amount as this will be partly offset by reductions in income-related benefits amounts for those claimants. The offset for JSA(C) claimants also in receipt of Housing Benefit is included here and assumes a 65% taper for those that would be above the income threshold. It is important to note that under Universal Credit tapering and threshold rules will be different to the current rules. It should also be noted that there may be further income-related benefits that are affected that are not included in these calculations, for instance Tax Credits which may increase the offsetting savings.

The increase in annual expenditure associated with giving an additional £20-£30 per week for the duration of a claim without any changes in eligibility conditions is £150 - £225 million, with an offsetting saving from Housing Benefit of £15 - £20 million, giving a net increase in annual expenditure of £135 - £205 million.

Table 2a

Increase by £20	Additional cost in JSA(C) £m**	Estimated HB offset savings**	(b) Net additional cost £m**
No change	-150	15	-135
A1	-115	10	-105
A2	-105	10	-95
A3	-95	10	-85
B1	-105	10	-95
B2	-95	10	-85
B3	-90	5	-85
** Rounded to the nearest £5 million.			

Table 2b

Increase by £30	Additional cost in JSA(C) £m**	Estimated HB offset savings**	(b) Net additional cost £m**
No change	-225	20	-205
A1	-175	15	-160
A2	-155	15	-140
A3	-140	15	-125
B1	-160	15	-145
B2	-140	15	-125
B3	-135	10	-125
** Rounded to the nearest £5 million.			

Tables 3a and 3b below combine the analysis presented in Tables 1 & 2a / 2b to incorporate the additional costs associated with an increase in weekly JSA(C) of £20-£30 for the duration of a claim with the impact of changing JSA(C) eligibility conditions. After taking into account offset costs, the net financial impact ranges from a cost of £20m to a cost of £120m per year. This shows that savings generated by introducing more robust JSA(C) contributory conditions do not offset the cost of increasing JSA(C) by £20-£30 per week for those meeting the new conditions.

Table 3a

Increase by £20	Estimated annual Inflows*	(a + b) Annual expenditure on JSA(C) ** (cost)	Financial impact**	Estimated offset costs**	Net financial impact**
		£m			
A1	435,000	-525	15	-80	-65
A2	392,000	-475	65	-110	-45
A3	350,000	-425	115	-140	-25
B1	393,000	-475	65	-110	-45
B2	351,000	-425	115	-135	-20
B3	339,000	-415	125	-145	-20
*Inflows are rounded to the nearest 1,000. ** Rounded to the nearest £5 million. Current expenditure is £540m.					

Table 3b

Increase by £30	Estimated annual Inflows*	(a + b) Annual expenditure on JSA(C) ** (cost)	Financial impact**	Estimated offset costs**	Net financial impact**
		£m			
A1	435,000	-580	-40	-80	-120
A2	392,000	-520	20	-110	-90
A3	350,000	-465	75	-140	-65
B1	393,000	-525	15	-110	-95
B2	351,000	-465	75	-135	-60
B3	339,000	-455	85	-145	-60
*Inflows are rounded to the nearest 1,000. ** Rounded to the nearest £5 million. Current expenditure is £540m.					

The answer

Based on 2011/12 JSA(C) inflow of claimants and inflow forecasts for 2014/15 DWP estimate that increasing the JSA(C) eligibility conditions could raise £40-65m, after taking into account offset costs, as shown in Table 1 above.

It would cost £85-160m to increase JSA(C) by £20-£30 per week for the duration of a claim for those who have made NI contributions for an extended period, as set out in Tables 2a and 2b above. It would cost £135-205m to increase JSA(C) with no change in the eligibility conditions.

Combining these analyses, Tables 3a and 3b do not set out any broadly cost neutral positions under these scenarios (see net financial impact column).

4). Distributional effects (if none requested, any significant):

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5). Comparison with current system (if applicable):

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6). Other comments (including other Departments consulted):

DWP provided and signed off the analysis to answer this opposition costing.

To be completed by the Permanent Secretary's Office. Date costing signed off:	18 July 2014
[If applicable] Date revised costing signed off:	