Title: Welfare Benefits Up-rating Bill	# Impact Assessment (IA)
Lead department or agency: Department for Work and Pensions	**Date:** January 2013
	Stage: Bill: House of Commons
	Source of intervention: Domestic
Other departments or agencies: Her Majesty's Treasury; Her Majesty's Revenue and Customs	**Type of measure:** Primary legislation
	Contact for enquiries:

Summary: Intervention and Options

RPC Opinion: N/A

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**
			No	N/A

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

Welfare expenditure is a significant driver of public spending, and the Government has made a commitment to deliver a more sustainable welfare system. In the Autumn Statement (2012), it was announced that in light of the national economic situation, certain working-age social security benefits and payments, certain elements of tax credits, and Child Benefit, would be up-rated by 1 per cent rather than by prices (as measured by the Consumer Prices Index ('CPI')) for the tax years 2014/15 and 2015/16.

Under current legislation, up-rating is an annual process. Therefore, to give financial markets, the public, and recipients themselves certainty in up-rating for 2014/15 and 2015/16, primary legislation will be brought forward.

What are the policy objectives and the intended effects?

The primary objective is to deliver savings to Government that contribute to efforts to bring down public spending on welfare, in light of the national economic situation. The measure is time-limited to the tax years 2014/15 and 2015/16. Key vulnerable groups have been protected through the proposal to up-rate certain working-age benefit personal allowances and premia, and certain elements of tax credits, as expected for the years in question.

The proposal for up-rating in 2014/15 and 2015/16 is expected to result in savings of £1.1bn in cash terms in 2014/15 and £1.9bn in 2015/16 in cash terms. These savings will continue in future years and gradually increase in cash terms.

As a consequence, total Government spending on social security benefits and tax credits is forecast to increase from around £210bn in 2013-14 to around £218bn rather than £220bn in 2015/16.

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

The main alternative was to up-rate in 2014/15 and 2015/16 as expected (primarily by prices as measured by the CPI). However, this would not have resulted in the expected savings that arise from the option taken.

A subsidiary option which was put forward by some outside Government was to up-rate all elements of the social security working-age payments in question by 1 per cent. This would have included personal allowances paid to pensioner recipients of working-age benefits, premia paid to pensioners and disabled recipients of working-age benefits, the Support Group component of Employment and Support Allowance, and elements of tax credits payable to disabled persons. However, on consideration of this, and in order to protect the most vulnerable (pensioners and disabled persons) as much as can be afforded, these elements should be up-rated in the expected way (primarily with reference to prices) in 2014/15 and 2015/16.

Similarly, it would have been possible for those benefits and payments included in the Bill to have been given a zero per cent up-rating - in other words a freeze for two years. To limit the impacts to recipients and provide cash increases where possible, while still securing the savings needed, it was decided that 1 per cent should be used instead.

Will the policy be reviewed? . **If applicable, set review date:**

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 Minister: .... Date: 8 January 2013

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:**

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		£1.9bn in 2015/16	

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

Overall, up-rating the affected benefits by 1 per cent in 2014/15 and 2015/16 will result in a smaller increase in aggregate household income in cash terms (by £1.1bn in 2014/15 and by £1.9bn in 2015), compared with if benefits had been up-rated by the rate of CPI inflation. This change in household income will continue in future years.

It is estimated that around 30 per cent of all households will be affected. The majority of working-age households in receipt of state support will be affected by this policy, with an average change of around -£3 a week compared to CPI up-rating. Households towards the bottom of the income distribution are more likely to be affected and have a slightly higher average change because they are more likely to receive the affected benefits.

For those households receiving Statutory Maternity, Paternity, Adoption pay or Sick pay their employer may cover some or all of the change in income: in this instance the cost would fall on business rather than the household (the total cost remaining unaltered). This is difficult to estimate but is likely to be less than £0.1bn per year.

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)
Low	Optional	Optional	**Optional**
High	Optional	Optional	**Optional**
Best Estimate		£1.9bn in 2015/16	

Description and scale of key monetised benefits by 'main affected groups'	
Overall, it is estimated that savings to the Government from up-rating certain benefits by 1 per cent rather than by the CPI inflation rate, will be around £1.1bn in 2014/15 and £1.9bn in 2015/16 in cash terms. These savings will continue into the future and gradually increase in cash terms. Though benefits will rise in cash terms, the savings to the Government result from smaller increases in benefit and tax credits payments than would have been the case if they were up-rated by CPI.	
Other key non-monetised benefits by 'main affected groups'	
Key assumptions/sensitivities/risks **Discount rate (%)**	3.5%
The level of CPI inflation – the savings have been costed using the latest economic assumptions. If inflation is higher than forecast then savings will be higher; if inflation is lower than forecast then savings will be lower. However, this policy change reduces the risk to Government spending forecasts, as they will be less sensitive to changes in the rate of inflation	

BUSINESS ASSESSMENT (Option 1)

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

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	2012 Autumn Statement http://cdn.hm-treasury.gov.uk/autumn_statement_2012_complete.pdf
2	
3	
4	
5	
6	

Introduction

1. The Welfare Benefits Up-rating Bill sets out the Government's intention that the following benefits, tax credits and payments will be up-rated by 1 per cent[1] in 2014/15 and 2015/16[2].

    - The main rates of Income Support, Jobseeker's Allowance, Employment and Support Allowance and Housing Benefit; the work-related activity group component of Employment and Support Allowance;
    - The couple and lone parent elements of Working Tax Credit (WTC), and the child element of Child Tax Credit.
    - the corresponding elements of Universal Credit; and
    - Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay; and Maternity Allowance.
    - Child Benefit (CB)

2. It will not apply to the premia within these benefits relating to disability, pensioners, and caring responsibilities, the support group component of ESA, or the disability elements in tax credits, which will be up-rated as usual.

3. Table 1 sets out the indicative benefit rates in 2014/15 and 2015/16 for some of the affected benefits, assuming they are up-rated by 1% in 2013-14.

Table 1: Indicative benefit rate in 2014/15 and 2015/16

(Weekly rates £) except Tax Credits (Annual)	**2013-14**	**2014-15**	**2015-16**
EMPLOYMENT AND SUPPORT ALLOWANCE, HOUSING BENEFIT, JOBSEEKER'S ALLOWANCE, INCOME SUPPORT			
Personal Allowances			
Single			
under 25	56.80	57.35	57.90
25 or over	71.70	72.40	73.10
Lone Parent (18 or over)	71.70	72.40	73.10
Couple both over 18	112.55	113.70	114.85
Components			
Work-related Activity	28.45	28.75	29.05
STATUTORY ADOPTION, MATERNITY, PATERNITY (AND ADDITIONAL STATUTORY PATERNITY) PAY; MATERNITY ALLOWANCE - standard rate	136.78	138.18	139.58
Statutory Sick Pay - standard rate	86.70	87.55	88.45
Child Benefit- first child	20.30	20.50	20.70
Child Benefit – second and subsequent child	13.40	13.55	13.70
Annual rates**(£)**			
Working Tax Credit - basic element	1,920	1,940	1,960
Child Tax Credit - child element (per child)	2,720	2,750	2,780

[1] If CPI was to fall below 1% in either year the Bill allows for uprating by the rate of CPI
[2] The primary legislation which this Impact Assessment supports only legislates for the up-rating of the above benefits in 2014/15 and 2015/16. A separate Impact Assessment covering the impacts of the 2013/14 up-rating policy will be published to support the Up-rating Order.

4. The table shows that, for example, an out of-work lone parent with two children receiving Income Support, Child Tax Credit and Child Benefit would see a cash increase of around £4 a week over the two years covered by this Bill.

Exchequer Impact

5. The Autumn Statement sets out the Office for Budget Responsibilities forecast for Government spending and key economic determinants. In the absence of policy change the previous September's CPI rate would be used to up-rate benefits i.e. benefits in 2014/15 would have been up-rated by the September 2013 CPI rate (forecast of 2.6%).

Table 2: OBR Economic assumptions and forecasts[3]

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
CPI(September)	2.2%	2.6%	2.2%	2.0%	2.0%	2.0%
Welfare Expenditure assuming policy change						
Social security benefits(£bn)	182.6	179.8	183.5	187.9	192.3	196.6
Tax Credits (£bn)	30.3	30.3	30.0	30.5	31.5	32.4

6. The 2012 Autumn Statement set out the expected savings from the policy in 2013/14, 2014/15 and 2015/16 for the United Kingdom. Table 2 sets out the equivalent Exchequer savings in cash terms from the up-rating change in 2014/15 and 2015/16 only. Savings continue to be made in future years.

Table 3: Exchequer Savings in cash terms for policy covering 2014/15 and 2015/16 only[4]

Measure	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Working -age discretionary benefits and tax credits up-rate by 1% from 2014/15	**£0.9bn**	**£1.7bn**	**£1.7bn**	**£1.8bn**
Child Benefit up-rate by 1% from 2014/15	**£0.2bn**	**£0.3bn**	**£0.3bn**	**£0.3bn**
Total	**£1.1bn**	**£1.9bn**	**£2.0bn**	**£2.2bn**

*Savings in UK cash terms and rounded to nearest £0.1bn. Numbers may not sum due to rounding

7. As a consequence, total Government spending on social security benefits and tax credits is forecast to increase from around £210bn in 2013-14 to around £218bn rather than £220bn in 2015/16.

Impact on Households

Methodology

8. The Exchequer savings are calculated using administrative sources of data. However, it is not straightforward to use administrative data to calculate the overall change in benefit receipt for a household as households may be in receipt of multiple benefits at any one time. The impacts on households in this assessment are modelled in the DWP Policy Simulation

[3] http://budgetresponsibility.independent.gov.uk/wordpress/docs/December-2012-EFO-fiscal-supplementary-tables4.xls tables 2.8 (negative tax), 2.15 (social security) and 2.16 (tax credits, excluding company tax credits)
[4] The savings are modelled consistently with those described in the Autumn Statement policy costings document http://cdn.hm-treasury.gov.uk/as2012_policy_costings.pdf.
This means they cover the whole of the UK.

Model which draws on data from the Family Resources Survey allowing us to estimate total household entitlement to any of the benefits included in this policy change and understand the overlaps. The modelled impacts include incomplete take-up of benefit entitlement.

9. The impacts presented below are assessed on the following basis:

    - The baseline for the impacts assumes that the secondary legislation for 2013/14 is passed so that the benefits described in paragraph 1 will be up-rated by 1 per cent (unless previously announced as frozen).
    - In the absence of policy change all benefits in scope would be up-rated by CPI in 2014/15 and 2015/16.
    - Impact is assessed in 2015/16 assuming the current benefit and tax credit system is still in place[5], i.e. it does not take into account Universal Credit or Personal Independence Payment.
    - All households in Great Britain only[6]

Changes in household income

10. The following sections set out the impacts of this change on different households in 2015/16 i.e. after both years covered by the scope of the Bill.

11. Those households which are affected are defined as those households who are in receipt of a benefit affected by this Bill: i.e. subject to be up-rated by 1 per cent. Whilst the rate of these benefits will be up-rated in cash terms, rather than frozen, providing an increase in net income, the change is presented as the difference between up-rating of 1 per cent and up-rating by CPI inflation (see Table 2)

12. Around 70% of households will not be affected by the up-rating changes. There are three main reasons for this:

    - The Government has continued its commitment to protect pensioner benefits including protecting the basic State Pension through the triple lock.

    - In addition, certain disability and carers benefits such as the Disability Living Allowance (DLA) have been protected and will continue to be up-rated by CPI.

    - In addition, those not receiving state support are unaffected by this change.

13. Around 30 per cent of households are affected seeing an average change of -£3 from this policy which represents a change of around -1 per cent of net income. Although many will receive a cash increase

14. Table 4 overleaf sets out the number of households who are affected by income decile.

15. Table 4 demonstrates that those further down the income distribution are more likely to see a change in income than those further up the income distribution because, unsurprisingly, a greater proportion of households towards the bottom of the income distribution are receiving benefits. Those not affected in the bottom two deciles are predominantly pensioners and single people without children, of whom around half are under 25.

[5] It does not take into account other policy measures announced at the Autumn Statement either in the baseline or policy change scenario.

[6] Unless stated otherwise, the impacts are presented for the household[6] as a whole who receive the benefits rather than on an individual basis.

Table 4 – Changes in household receipt per week across the distribution of equivalised income

	Not Affected	Affected	Average Change for those affected(£)	Average Change for those affected (% of net income)
Bottom Decile	1.9m	1.4m	-£4	-2%
2nd Decile	1.7m	1.6m	-£5	-1%
3rd Decile	1.8m	1.5m	-£5	-1%
4th Decile	2.1m	1.2m	-£3	-1%
5th Decile	2.2m	1.1m	-£3	-1%
6th Decile	2.3m	1.0m	-£2	<-1%
7th Decile	2.5m	0.8m	-£2	<-1%
8th Decile	2.7m	0.6m	-£1	-1%
9th Decile	3.0m	0.3m	-£1	<-1%
10th Decile	3.2m	0.1m	-£2	<-1%
Total	**23.4m**	**9.6m**	**-£3**	**-1%**

Source: DWP Policy Simulation Model (based on FRS 2008/09), 2015/16 prices
Numbers rounded to the nearest £1 or 1% or 100,000 as appropriate
Figures may not sum due to rounding.

16. In addition, the average change for those households in lower deciles is higher than those in higher deciles. This is because they currently receive a higher level of benefit payments and so they are impacted more from the same percentage change in benefit. Those in higher deciles who are affected may only receive Child Benefit[7]: the rates of which are considerably lower than the benefit levels which families on lower incomes are entitled to and so are likely to have a smaller impact.

Family Type

17. Table 5 below sets out those affected and the average change in benefit receipt by family type where there is at least one member of working age.

Table 5 – Changes in household receipt per week by family type for working-age households

	Not Affected	Affected	Average Change for those affected(£)	Average Change for those affected (% of net income)
Working age and pensioner couples	0.8m	0.1m	-£2	-1%
Couple with children	0.9m	4.4m	-£3	-1%
Single with children	0.1m	2.0m	-£5	-1%
Couple without children	5.2m	0.7m	-£3	-1%
Single without children	8.5m	2.2m	-£2	-2%

Source: DWP Policy Simulation Model (based on FRS 2008/09), 2015/16 prices
Numbers rounded to the nearest £1 or 1% or 100,000 as appropriate
Figures may not sum due to rounding.

18. Table 5 shows that families with children are more likely to be affected than families without children. Lone parents are the family type who are most likely to be affected and also have the highest average change (-£5 per week). This is because they have a lower employment

[7] Those families where one individual earns over £60,000 are not eligible for Child Benefit from January 2013

rate than average[8] and also often qualify for in-work support. In contrast, pensioners are the least likely group to be affected, as pensioner benefits are protected. There are a small number of pensioner households affected because they are receiving a benefit not specifically designed for pensioners – such as Child Tax Credit if they are responsible for a child.

19. However, as a proportion of income, single people without children who are affected see a higher change than those families with children. This is because single people without children who are in receipt of benefit are more likely to be out of work than families with children and so their benefit entitlement accounts for a higher fraction of their total income.

Impact on household income for protected groups

20. Households that include someone with a protected characteristic (as defined by the Equality Act 2010) will be affected by this policy if they receive one or more of the affected benefits. Overall, those groups[9] who are more likely to be in receipt of affected benefits are more likely to be affected by this policy change, though these groups do benefit the most from the decision to up-rate by 1% rather than freeze benefit rates.

21. On an individual basis women are more likely to be affected than men with around a third of women (33 per cent) affected compared to 29 per cent of men. This difference is likely to be because around 90 per cent of lone parents are women[10], which is the family type most likely to be affected: though this group are likely to receive the greatest cash increase in benefits.

22. The Government has taken steps to protect vulnerable groups. The Government has protected Disability Living Allowance, Attendance Allowance, the Support Group component of Employment and Support Allowance(for those not expected to look for work), disability premia in working-age benefits, and the disabled elements of Tax Credit by up-rating them by CPI to provide protection for disabled people.

23. For instance, protecting Disability Living Allowance has meant around half of households in receipt of DLA are not affected by this change and those that are affected see a higher increase in benefit payment than would have been the case had DLA not been protected.

24. Nevertheless, despite this protection in those households where someone describes themselves as disabled, (under the DDA[11] definition) some of whom will not be eligible for a disability benefit, are more likely to be affected than those where there is not a person who describes themselves as disabled (34 per cent of households compared to 27 per cent of households). This is because those who report themselves as having a disability are more likely to qualify for those benefits which are affected by the policy change.

25. Furthermore, the Government has continued its commitment to protect pensioner benefits and so pensioners are, as discussed before, much less likely to be affected than those of working age.

Pregnancy and Maternity

26. The 1 per cent uprating of Statutory Maternity Pay, Paternity Pay, Adoption Pay and Maternity Allowance could cause a smaller cash increase (by around £4 a week) in income

[8] Labour Force Survey(household datasets) 2012
[9] The department does not hold information on its administration system on gender reassignment, sexual orientation, marital status or civil partnership status and religion/belief. As for other groups, impacts for these households will be determined by the likelihood of receiving an affected benefit.
[10] Labour Force Survey 2012
[11] Disability Discrimination Act

from statutory payments for individuals receiving this support, than if they had been up-rated by CPI. For some individuals, their employer may cover the additional cost.[12]. We estimate that on average around 340,000 women each year receive MA and SMP.

27. Another around 215,000 individuals[13] could be affected by the up-rating change on SAP and SPP per year. For some individuals, their employer may cover the additional cost.

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[12] In 2008(the latest available year), 32% of mothers who worked prior to their maternity leave got SMP combined with additional Occupational Maternity Pay from their employer. This Impact Assessment assumes the impact is on households only.

[13] Information from HMRC.

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.

Basis of the review:
Review objective:
Review approach and rationale:
Baseline:
Success criteria:
Monitoring information arrangements:
Reasons for not planning a PIR: The legislation is in place for two years after which the Secretary of State for Work and Pensions will review the up-rating of benefits annually in line with statutory requirements. In a similar way Government will consider the up-rating of Tax Credits and Child Benefit at appropriate fiscal events, Budgets, Autumn Statements etc.