Title: Earnings disregard for residential care charging. **IA No:** 7011 **Lead department or agency:** Department of Health **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 18/02/2013 **Stage:** Secondary **Source of intervention:** Domestic **Type of measure:** Secondary legislation

Summary: Intervention and Options

RPC Opinion: NA

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**
NQ	NQ	NQ	No	NA

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

People in employment who are supported by local authorities in residential care currently have all of their earned income charged to pay for care. This creates a disincentive for individuals to take up employment since the individual is financially no better off working than not working. Government intervention is required to remove the current legislative barriers to people in residential care taking up employment. This would support more disabled people to take up employment and pursue their desired goals.

What are the policy objectives and the intended effects?

By removing earned income from the financial assessment for residential care, individuals will be able to realise monetary gains from working. This should act as an incentive for disabled people to take up employment where possible. This will enable them to live independent lives in line with stated government policy.

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

Changing the regulations to allow individual to keep their earned income , and leaving the system as it is (do nothing) are the only options that have been considered. There is no way to achieve this policy change except through regulations.

Will the policy be reviewed? It will not be reviewed.

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:** 0	**Non-traded:** 0	

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 Minister: Date: 27/2/2013

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	0		0	**0**
High	0.02	1	5.6	**47**
Best Estimate	0.01		2.8	**23**

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

Cost to local authorities of lost income £2.67 million per year in the first year of implementation. This will rise with demographic pressures averaging £2.8 million over the 10 year time period.

There are no implementation costs though there may be a very small transition cost transition cost from reading and applying the new rules. These have been estimated at £20 - £40 per record that needs to be amended.

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		0	**0**
High	Optional		5.6	**47**
Best Estimate			2.8	**23**

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

Transfer from Local Authorities to the individuals currently undertaking work of around £2.8 million this is by definition equal to the money lost to local authorities.

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

Increase in number of individuals working as a result of the improved financial incentives to undertake work . No reliable estimates of the number of people in care homes who would undertake work if allowed to retain their earning is available.

These individuals could benefit from improved quality of life, and reduced healthcare needs as a result of their employment.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

hat the marginal value of income is equal between local authority and individual spending.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0	**Benefits:** 0	**Net:** 0	No	NA

Evidence Base (for summary sheets)

Scope of this Impact Assessment

1. This impact assessment is concerned with the impact of allowing individuals receiving residential care under the National Assistance Act 1948 (as amended) to keep their earnings.
2. Uprating the Personal Allowance is routine matter and is not considered by this impact assessment.

Background

Summary

3. People supported by local authorities in residential care who could work would currently have all of their earned income charged to pay for care. This creates a barrier for individuals to take up employment since the individual is no better off financially working than not working. This reduces their life chances.

4. By removing the barrier to employment, individuals will be better incentivised to take up employment, since their earnings would then increase the 'money in their pocket'. This could see a few more disabled adults in employment, with the state working with them to pursue their desired goals.

External Interest

5. There have been calls from stakeholder groups such as Disability Rights UK to consider changing the treatment of earned income, and the Joint Committee on Human Rights (JCHR) who stated in their recent report that:

6. "*There appears to be an anomaly in the charging policy for residential care which creates a significant work disincentive, thus impeding access to independent living. The Government also appear not to recognise the extent to which people living in residential care are able to engage in paid work. We urge the Government to take action to remove this disincentive as soon as possible.*"[1]

7. The recommendation from the JCHR came from evidence provided by LA supported residents who stated they have had offers of employment, but they lack the incentive to take them up due to the treatment of earned income.

Government Attitude towards Disability Employment

8. The Government's current intention is to support those into employment who are able to work. This is characterised by the movement towards Universal Credit, which ensures individuals are monetarily better off working than on out-of-work benefits by ensuring their income does not decrease as a result of working. There has also been work carried out by the Inter-ministerial Group on Disability Employment. A recent response by the Department for Work and Pensions to the Sayce Review stated

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[1] Joint Committee on Human Rights, *Implementation of the right of Disabled People to Independent Living,* 1st March 2012, London: The Stationary Office ltd

"…the Government is absolutely committed to removing barriers to enable disabled people to fulfil their potential and have the opportunity to play their full role in society. Central to this is our commitment to supporting disabled people to reach their aspirations for fulfilling employment. We want to realise the aim of independent living, and work is integral to this."[2]

9. The move is supported by the Department of Health. The Department committed to personalised care in their Vision for Adult Social Care[3], a vision that includes supporting individuals to achieve their desired outcomes. This should extend to employment possibilities, and the aligning of incentives to work. Additional developments in policy which will also add to employment include portability, which will enable individuals to pursue employment and careers which requires moving across local authority borders.

10. In conclusion, current rules on charging for individuals in residential care does not provide adequate incentives for individuals to take up employment. The current extent of those who work in residential care is limited, not only by their ability to work but also by the charging policy. Core Government policy is to support individuals into employment wherever possible, and the current reforms of social care is to create a coherent, streamlined framework with the right incentives to promote high quality outcomes. Therefore changing charging regulations is in accordance with these aims.

[2] Department for Work and Pensions, *Disability employment support: fulfilling potential*, 2012 http://www.official-documents.gov.uk/document/cm83/8312/8312.pdf, (accessed 26/03/12)

[3] Social Care Policy DH, *A Vision for Adult Social Care: Capable Communities and Active Citizens*, 2010

Rationale for Government intervention

Why intervention is required

11. As set out above, the current charging rules in residential care discourage individuals from taking up employment so inhibiting their life chances. This barrier can only be removed by Government who set these charging rules.

Proposed Policy and intended effects

Summary

The proposed policy is to exempt earned income from the financial assessment for residential care. This will remove a barrier to employment faced by individuals who receive residential care. As a result, we expect that some individuals in residential care will take up some level of employment, improving their life chances, and those currently working will retain their earnings.

Fuller narrative

12. By maintaining the status quo, care home residents will continue to face a disincentive to work.. This will continue to impede their access to employment as part of independent living. The regulations unfairly disadvantage disabled working age adults in residential care who may wish to seek employment, but see little benefit in doing so.

13. By removing earned income from the financial assessment for residential care, individuals will see monetary gains from working. Individuals who would have not seen increases in the money in their pocket will now see it increase through working. This should act as an incentive to take up employment where possible.

14. Recipients of residential care are likely to have severe disabilities, which may prevent them from taking up employment. However, we have heard about people in residential care who are able to take up employment and have had offers of employment, but chose not to because of the treatment of earned income. Changing their incentives will improve the quality of their lives if they choose to take up employment.

15. This increase in employment is likely to benefit both their health and social care related quality of life as well as potentially leading to a reduction in NHS spending.

Options considered

16. Two policy options were considered ;

- Policy Option 1 – Do nothing/counterfactual
- Policy Option 2 – Allow individuals resident in care homes to retain their earnings

Policy Option 1 – Do nothing

- This represents the status quo where individuals have no financial incentive to work while in care homes.
- Local authorities would continue to require individuals working in care home to contribute their earning towards the cost of their care.

Policy Option 2 – Allow individuals resident in care homes to retain their earnings

- There will be additional costs to local authorities where they no longer take into account the earned income of those individuals currently working in charging for residential care costs.

Costs

17. A survey carried out by Disability Rights UK estimated that 1% of working age adults in residential care currently work. Since there are around 54,000 people aged 18-64 in residential care, this corresponds to around 500 individuals currently working.
18. These individuals who are requiring residential care due to their disability yet are still able to undertake paid work are atypical therefore there is a lack of information both on how much they work and their wage rates.
19. Given this lack of information we have assumed they work 20 hours a week, at a median wage of £11 per hour, based on discussions with Disability Rights UK. Individuals are allowed to keep £22.60 per week out of their earned income (this will rise to £23.50 in cash terms in 2013 - this analysis was completed using 2011 data). as their Personal Expenses Allowance (PEA). Therefore, the financial loss to the local authority as a result of this policy change is the individual's wage minus PEA. Taking into account demographic pressures, this gives an upper estimate of an additional cost £5.64 of million per year (on average over the 10 year period) to local authorities.
20. However, conversations with local authorities suggest the amount of charges received from earned income is currently limited. Few individuals earn more than £22.60, so there is no significant income from earnings for local authorities. Therefore, the lower range of the estimate is nil.
21. Our range of cost estimates is therefore from nil to £5.64 million, giving us a central estimate of £2.82 million costs in the first year of implementation, 2013/14. Costs will rise over the years due to demographic pressures.
22. As this is a transfer of resources from local authorities to working residential care recipients, the costs to local authorities correspond exactly to the benefits that would be realised by those currently working in residential care.
23. We believe there will be some small administration costs to local authorities as a result of financial assessors changing protocol and updating charging arrangements for those currently earning. Individuals already have their care package and financial situation reviewed on a regular basis. The application of the change to charging rules can be applied at no additional cost to the local authority during these reviews. There may be some small fixed cost to local authorities to learn and understand the new rule and how to apply it. We have assumed this cost to be in the range of £20 - £40 per record which needs to be amended.

Monetised Benefits

24. The monetised benefit of this policy is the money transferred from working individuals from local authorities.
25. This benefit accrues to individuals who are currently working in residential care and contribute their earnings towards their care. The cost to the local authorities estimated above would be the exact benefit to those currently working in residential care. Therefore, it is a transfer from local authorities to working residential care recipients.

26. Monetised costs and benefits per year are outlined below, based on upper estimates calculated and excluding any transfer between local authorities and DWP. Because we envisage individuals taking up employment as a result of the proposal, there will always be a positive net benefit.

Table 1: Estimate of initial year costs and benefits

	Current Earnings	
	Loss to the local authority	Gain to the individual
Exempt all earnings	£2.67m	£2.67m

27. The assumptions underlying these costs are to illustrate the maximum loss and gain. Despite these assumptions, the resulting costs identify the small scale and distribution of impacts. For simplicity, we have used a central estimate of costs and benefits in summary analysis.

Table 2: **Annual monetised costs and benefits of the policy (2012/13 prices)**

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Cost to local authorities	-£2.7m	-£2.7m	-£2.7m	-£2.8m	-£2.8m	-£2.8m	-£2.9m	-£2.9m	-£2.9m	-£2.9m
Benefit to individuals currently working in residential care	£2.7m	£2.7m	£2.7m	£2.8m	£2.8m	£2.8m	£2.9m	£2.9m	£2.9m	£2.9m

28. Non-monetised impacts

29. Given the change in incentives – which means that individuals will receive a financial reward for undertaking paid work - it is expected that more individuals will take up paid work as a result of these changes.

30. The significant non-monetised benefit is to those taking up employment as a result of the legislative barrier being removed. This may be those currently working increasing their level of employment, or those not working taking up a job. These benefits are varied, including social interaction, purpose and mental agility. They can be summarised through measuring social wellbeing, which finds that employed individuals have on average higher social wellbeing than the unemployed. .[4]

31. These are also potential health benefits from employment both in terms of improved health outcomes (reference) and reduced healthcare costs to the state. For disabled people these benefits are estimated in the region of £1000 per year.[4]

32. However there are no reliable estimates of the number of individuals expected to take up work therefore these benefits cannot be qualified. Individuals taking up work would be financially better off from their wage. They would also likely be healthier, wealthier and have a higher quality of life.

33. There is a complex interaction between individuals taking up employment, local authority charges and the benefit liability of Department for Work and Pensions. Individuals who choose to take up employment may see their benefits decrease as a result, although this should be limited through the introduction of Universal Credit.

34. When earned income is exempt, local authorities will still take account of income from benefits. If this decreases as a result of taking up employment, the local authority receives less income but DWP saves the same amount in less benefit payments. The total amount of this transfer between DWP and councils cannot be estimated reliably since it will depend on individual circumstances.

[4] The Department for Work and Pensions Social Cost-Benefit Analysis framework Methodologies for estimating and incorporating the wider social and economic impacts of work in Cost-Benefit Analysis of employment programmes (2010)

Rationale and evidence that justify the level of analysis used in the IA (proportionality approach);

35. The level of analysis within this impact assessment is proportionate to the policy under consideration. Under the preferred options, there is a very small impact on local authorities.

Sensitivity Analysis;

36. The evidence in this impact assessment relies on estimates of the number of individuals working at present and who will undertake additional work as a result of this policy.
37. Since the loss of income to local authorities is equal to the income gained by individuals from existing work then the policy will have a positive net present value so long the benefits - financial, health and social – of individuals taking on additional work are greater than the administration costs.
38. Therefore so long as the value of additional work people take on – as a result of this policy is greater than 0.02 million then the policy has a positive NPV.
39. This means that while it would not be proportional to monetise this benefit we can be satisfied that the benefits of this policy – when the non monetised benefits are fully considered outweigh the costs.

New Burdens Process;

40. Disregarding earnings for care home residents reduces local authorities income from charges on residents they support. The new burdens process has been followed according to the Department for Communities and Local Government Guidance and additional funding has been allocated to local authorities to off-set the burden

Direct costs and benefits to business calculations (following OIOO methodology);

41. There are no costs to business as a result of this change it only affects private individuals and public sector organisations.

Health Impact Assessment

Will the proposal have a direct impact on health, mental health and wellbeing? For example, would it cause ill health, affecting social inclusion, independence and participation? You should consider whether any socioeconomic or equalities groups* will be particularly affected.	Introducing the regulations would not directly impact on health, mental health and wellbeing there may be indirect impacts if more people undertake paid employment as a results of the changes.
Will the policy have an impact on social, economic and environmental living conditions that would indirectly affect health? For example would it affect housing, transport, child development, education, good employment opportunities, green space or climate change? You should consider whether any socioeconomic or equalities groups* will be particularly affected.	Yes – through increasing the income of individuals in residential care they will be able to improve their living conditions. This benefit will accrue entirely to disabled individuals.
Will the proposal affect an individual's ability to improve their own health and wellbeing? For example will it affect their ability to be physically active, choose healthy food, reduce drinking and smoking? You should consider whether any socioeconomic or equalities groups* will be particularly affected.	Yes – through incentivise individuals to undertake paid work this will help individuals to be both mentally and/or physically active.

Will there be a change in demand for or access to health and social care services? For example: Primary Care, Hospital Care, Community Services, Mental Health and Social Services? You should consider whether any socioeconomic or equalities groups* will be particularly affected.	Yes – this may potentially reduce demand for healthcare services if people undertaking paid work have a lower demand for healthcare services.
Will the proposal have an impact on global health?	No – the framework applies only to england and wales.

***Equalities groups such as race, gender, health, disability, sexual orientation, age, religion or belief.**

Competition and Small Firms impact

1. There will be no impact of these reforms on firms of any size – these changes only affect individuals and local authorities. The impact of any additional workers upon the labour market will be negligible.

Micro organisations

2. (As above)