Title: Support for Mortgage Interest Public Call for Evidence **IA No:** **Lead department or agency:** Department for Work and Pensions **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 06/12/2011 **Stage:** Call for Evidence **Source of intervention:** Domestic **Type of measure:** Other **Contact for enquiries**: Tim Roscamp 020 7449 5344

Summary: Intervention and Options

RPC Opinion: RPC Opinion Status

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**
£m	£m	£m	No	NA

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

Government are consulting on ideas around how future help may be provided towards mortgage interest payments - Support for Mortgage Interest (SMI) - which was paid to 239,000 recipients and an estimated cost of around £400m in 2011/12.

The government pays SMI to avoid household repossessions as far as is possible. However the Government believes that SMI should be reformed so that future support is more cost-effective, simpler to administer, provides better value for money for the taxpayer, and strengthens work incentives.

What are the policy objectives and the intended effects?

The policy objectives are to simplify the help provided towards mortgage interest payments, in line with the principles of Universal Credit and fairness to taxpayers.

The main impacts will be on SMI recipients, however some of the options might have an secondary or indirect impact on business if introduced, but this will depend on the eventual design of any new policy. A full Impact Assessment will be competed if any options are taken forward.

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

SMI in its current form would be a poor fit with Universal Credit principles of simplification, cost-effectiveness, providing robust work incentives and ensuring value for money for taxpayers. There are seven key issues relating to SMI covered by the call for evidence. These vary in terms of their potential impact on cost-effectiveness, administrative simplicity and value for money, and the current stage of policy development. The issues likely to have the greatest impact are at the early stages of policy development where views of stakeholders and other interested parties are being sought.

Some of the issues have policy options related to them and are as described in the call for evidence document. These options represent current thinking but they could change or develop in the future and will be influenced by responses received to the call for evidence. This Impact Assessment follows BIS guidance on proportionality.

Will the policy be reviewed? It will/will not be reviewed. **If applicable, set review date:** 04/2012

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:**	**Non-traded:**	

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: 5 December 2011

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				

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

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

Detailed cost figures on the options in the call for evidence will depend on key design questions. Some options impose costs on individual SMI recipients (e.g. charge on a property option). There are no direct impacts on business from any of the options. There are potential indirect impacts on lenders via repossessions from some of the measures (e.g. mortgage interest direct). There might be impacts on the public sector in terms of delivery of some options (e.g. charge on a property).

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				

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

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

Detailed benefit figures depend on the key design questions which will be informed by responses to this call for evidence. The key benefits are to the exchequer and therefore the taxpayer from options such as placing a charge on the property, standard interest rate, the treatment of home improvement loans and linking rule. There are also benefits to the public sector from improved delivery, for example the treatment of home improvement loans and mortgage interest direct options.

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

Many of the issues in this call for evidence are at an early stage of development. Detailed impacts and monetised costs and benefits depend on the key design questions which will be informed by responses to this call for evidence. In addition, data on some of these issues is limited, making assessing the impacts problematic. As part of the call for evidence, we welcome the submission of any available evidence that will assist us to determine the future direction of these policies.

BUSINESS ASSESSMENT (Option 1)

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

Evidence Base (for summary sheets)

Overview of Support for Mortgage Interest

Overview of Support for Mortgage Interest

1. Claimants who receive Income Support (IS), income-based Jobseeker's Allowance (JSA), income-related Employment and Support Allowance (ESA), or Pension Credit (PC) may be entitled to help towards their mortgage costs. This is known as Support for Mortgage Interest (SMI). This covers eligible interest on loans taken out to purchase a home, up to prescribed capital limits, and on certain home improvement loans.
2. In light of the introduction of Universal Credit from 2013, the Government is calling for evidence on a number of ideas and future policy options for reforming SMI in the medium to longer term, to ensure that this support is cost-effective, simple to administer and provides value for money for the taxpayer.

SMI Data

3. The table below shows that at May 2011 there were 205,200[1] recipients of SMI, the majority of whom receive their SMI as part of PC and have the lowest average award. People receiving SMI as part of JSA account for only 15% the caseload, with the highest average weekly award.

Table 1: DWP administrative data: SMI Caseload and Average weekly Award[2]

	Jobseeker's Allowance	Income Support	Pension Credit	All
Caseload	30,000	66,400	108,700	205,200
Caseload (% of total)	15%	32%	53%	100%
Average Weekly Award	£50.98	£36.01	£20.24	£29.84

Source: DWP Quarterly Statistical Enquiry, May 2011

4. The average weekly SMI award in May 2011 stood at £29.84, however, please note that award data presented does include other housing costs. Average weekly SMI awards for JSA and IS recipients increased with the increase in the capital limit for new, and some repeat and existing, working age claims from £100,000 to £200,000 from January 2009. May 2011 average weekly awards are significantly lower compared to previous figures, due to the decrease in the standard interest rate (SIR) used to calculate SMI from 6.08 per cent to 3.63 per cent in October 2010.

[1] Source: DWP Quarterly Statistical Enquiry, May 2011. Data does not include those receiving SMI as part of ESA due to a lack of National Statistics data series for SMI ESA data.

[2] Please note that award data includes other housing costs.

5. Tables 2 and 3 show the departmental back series and forecasts of SMI caseload and expenditure. Please note that the forecast series include information on ESA SMI cases, whereas the administrative data in table 1 does not.

Table 2: DWP Forecasts: SMI Caseload back series and projections[3]

Breakdown of SMI caseload across benefits	2007/8 Outturn	2008/9 Outturn	2009/10 Outturn	2010/11 Estimate	2011/12 Forecast	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast
Pension Credit	120,000	119,000	121,000	120,000	118,000	115,000	112,000	109,000	106,000
IS Incapacity Benefit related	57,000	53,000	51,000	45,000	35,000	20,000	8,000	-	-
IS Lone Parent	19,000	17,000	17,000	17,000	12,000	10,000	9,000	8,000	8,000
IS Carer	7,000	7,000	7,000	7,000	7,000	8,000	9,000	9,000	9,000
IS Other	3,000	3,000	3,000	2,000	3,000	3,000	3,000	3,000	2,000
ESA	-	1,000	7,000	12,000	22,000	32,000	48,000	55,000	57,000
JSA	8,000	9,000	29,000	44,000	42,000	42,000	37,000	34,000	31,000
Total	**215,000**	**208,000**	**235,000**	**247,000**	**239,000**	**230,000**	**226,000**	**217,000**	**213,000**

Source: DWP Quarterly Statistical Enquiry, and Budget 2011 forecasts.

6. Since the recession and the introduction of the more generous temporary measures – particularly the shorter waiting period - in January 2009, there has been a gradual increase in the SMI caseload. In particular, we have seen a large increase in the number of SMI recipients claiming through JSA, increasing from around 8,000 in 2007/08 peaking at 44,000 in 2010/11. The numbers receiving SMI with IS (on the grounds of incapacity for work) and IS (for lone parents) have declined with the introduction of ESA and the implementation of the Lone Parent obligation, with the corresponding increase in the numbers receiving SMI with ESA. Going forward the SMI caseload is declining. The numbers receiving SMI through PC are forecast to decline over the period due to the general trend of rises in pensioner incomes. Numbers claiming through JSA reduce as the economy recovers and the temporary measures cease at 2013.

[3] Please note that caseloads have been rounded to the nearest 1,000; Any changes from previous forecasts are due to updates in modelling methodology and data

Table 3: DWP Forecasts: SMI Expenditure back series and projections[4,5]

Breakdown of SMI expenditure across benefits (£m)	2007/8 Outturn	2008/9 Outturn	2009/10 Outturn	2010/11 Estimate	2011/12 Forecast	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast
Pension Credit	182	190	194	184	125	127	129	133	137
IS Incapacity Benefit related	134	130	122	91	58	37	15	-	-
IS Lone Parent	63	61	68	63	42	39	33	32	34
IS Carer	16	17	18	16	14	17	20	21	23
IS Other	8	7	7	6	5	6	6	6	6
ESA	-	1	28	42	54	66	98	124	142
JSA	23	25	124	147	103	125	118	113	112
Total	**426**	**430**	**560**	**546**	**402**	**418**	**419**	**430**	**453**

Source: DWP statistical and accounting data, and Budget 2011 forecasts

7. Trends in SMI expenditure are largely driven by the reduction in entitlement to the underlying benefits, some recovery in interest rates, and a gradual rise in the average capital involved. The large drop in expenditure between 2010/11 and 2011/12 can be largely attributed to the fall in the SIR from 6.08% to 3.63% in October 2010, but expenditure remains stable in real terms going forward.

Reasons for Government Intervention

8. Historically, the State provided the homeownership safety net for the small proportion of borrowers who experienced risk of repossession when unable to make mortgage payments (see Annex A in the call for evidence document – "Brief history of SMI").

9. The contemporary safety-net system is one of both multiple and sequenced provision. In intent, responsibility for initial safety-net provision lies with the individual borrower in the form of the availability of resources to manage the deferral periods until private insurance is available. Typically, early insurance then pays out for a period of time for the minority of borrowers who take out such products. Finally, State support can be accessed (against eligibility

[4] Please note that expenditure has been rounded to the nearest £1m; Any changes from previous forecasts are due to updates in modelling methodology and data.

[5] http://research.dwp.gov.uk/asd/asd4/all_tables_budget_2011_2.xls tables 3a and 3b

criteria) after serving a waiting period, or after insurance expires. There is also a significant role for lender forbearance, not least to manage any deferral periods, arrears or shortfalls.

10. Research[6] in the early years of the last decade showed that for many the mortgage safety-net provided only partial cover and suffered from poor take up. A combination of factors, including high premiums, inappropriate policies, policy exclusions and the growth of duel income borrowing lead to a situation of market failure and a fear that the safety-net provision would fail if it came under pressure. Temporary measures were introduced in the face of the credit crunch and subsequent recession to prevent a major wave of mortgage defaults and repossessions.

11. In addition, there are obvious private costs to a given individual of the loss of their home, but there are also costs that fall on wider society. An important one being the additional cost of Housing Benefit (HB) as it currently costs significantly more than SMI per family housed, although this obviously depends on individual circumstance and current historically low interest rates. The average weekly SMI award stood at £29.84[7] in May 2011, this compares to an average weekly Housing Benefit award of £87.46[8]. The current maximum possible SMI award is £139 per week for working age recipients with an eligible mortgage of £200,000.

12. The Government is committed to continue providing SMI in future to avoid repossessions as far as possible. In light of the introduction of Universal Credit, reforming SMI is essential to ensure that future support is cost-effective, simple to administer, provides value for money for the taxpayer and strengthens work incentives.

Issue One: Putting a charge on property

13. The issue under consideration is whether to recoup SMI payments (plus costs) by putting a charge on a recipient's property for new claims. The key aim of the option is to achieve fairness to taxpayers in the current fiscal climate.

Why the Government is proposing to intervene

14. As set out in the "Overview of Support for Mortgage Interest" section, expenditure on SMI is significant – estimated at around £400m[9] in 2011/12.

15. There is a clear rationale for the Government to intervene to provide support for homeowners in the case of a significant unexpected drop in income, but this intervention does not have to be in the form of a grant from taxpayers' money. The policy objective of this proposal is to move away from the present system, where SMI may be received as a grant for many years or decades with nothing paid back to the State in respect of the help provided to help recipients remain in their homes. This is unfair to taxpayers, many of whom are struggling to service their own mortgages or cannot afford to become owner occupiers.

16. It is reasonable to assume that most SMI recipients would be able to meet at least some of their SMI obligations out of the equity in their property, with the majority being able to meet them in full.

The main proposal

17. The Government is proposing to recoup the SMI paid through a charge on the property, plus interest to cover costs to government from the equity in their property, for new claims. This would be recouped on the death of the recipient or the sale of that property or alternatively the recipient could choose to pay off the charge at any point.

18. It is important to note that this is a major policy initiative, but is at an early stage of development and the call for evidence document is seeking views on key design questions such as who the charge should apply to, and from which point the charge should apply.

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[6] Ford J, Quilgars, D., Burrows, R. and Rhodes, D. (2004) Homeowners, Risk and Safety-Nets: Mortgage Payment Protection Insurance.

[7] Source: DWP Quarterly Statistical Enquiry, May 2011. Please note that award data includes other housing costs. Data does not include those receiving SMI as part of ESA due to a lack of National Statistics data series for SMI ESA data.

[8] Source: Single Housing Benefit Extract (SHBE), May 2011 http://research.dwp.gov.uk/asd/index.php?page=hbctb

[9] DWP statistical and accounting data, and Budget 2011 forecasts http://research.dwp.gov.uk/asd/asd4/all_tables_budget_2011_2.xls tables 3a and 3b

Impacts of new policy

19. The impacts of the policy will depend on the final design of the policy. The following section outlines some of the high level, possible impacts which could occur. A full Impact Assessment will be developed as the details of this proposal are developed.

Private Sector

20. It is envisaged that mortgage lenders would not be involved in the administration of a charging scheme other than to perhaps agree to a charge being placed on the property – they would continue to receive SMI as they do presently (depending on the current call for evidence around Mortgage Interest Direct) – so there should be no direct impact on business from this proposal.

21. Depending on the exact design of the scheme, there might be secondary impacts on mortgage lenders, for example if an individual decides to opt out of the SMI charging scheme and this results in a repossession.

Public sector

22. Depending on how the scheme is delivered, there will be impacts on the chosen delivery authority. The scale of these impacts will depend on the key design questions this call for evidence document is seeking views on, and the vehicle for administration which is still to be decided. Government will seek to minimise these impacts by exploiting synergies with existing delivery mechanisms. It is envisaged that the costs of running any charging scheme will be passed on to the SMI recipients participating in the scheme.

23. Depending on the design of the scheme, there might be direct and/or indirect impacts on the Courts and Land Registry as there is the potential for additional burdens from running an SMI charging scheme.

24. There are a number of other public sector organisations who either currently operate, or might consider operating similar charging regimes to that proposed here. Depending on the design of the scheme, there could be impacts on the charging regimes operated by other public sector bodies.

Individuals

25. Who the charge should apply to is one of the questions in the call for evidence document. Departmental forecasts estimate there are some 239,000[10] recipients of SMI in 2011/12, of which;

- 118,000 (49%) receive SMI as part of PC;
- 42,000 (18%) receive SMI as part of JSA; and
- 79,000 (33%) receive SMI as part of the other working age benefits (IS and ESA).

26. The duration after which the charge should apply is also one of the questions in the call for evidence document. Departmental administrative data shows the duration of the claim for the underlying benefit (JSA, IS, PC) with which SMI is received.

Table 4: Underlying benefit durations for SMI recipients[11]

	Total		IS		JSA		PC	
	Number	**Percent**	Number	Percent	Number	Percent	Number	Percent
Under 1 year	**32,600**	**16%**	6,500	10%	19,200	64%	7,000	6%
1 to 2 years	**28,100**	**14%**	7,500	11%	7,200	24%	13,400	12%
2 to 5 years	**55,000**	**27%**	20,900	31%	3,300	11%	30,800	28%
Over 5 years	**89,500**	**44%**	31,500	47%	300	1%	57,700	53%

Source: DWP Quarterly Statistical Enquiry, May 2011

[10] DWP Quarterly Statistical Enquiry, and Budget 2011 forecasts

[11] Source: DWP Quarterly Statistical Enquiry, May 2011. Data does not include those receiving SMI as part of ESA due to a lack of National Statistics data series for SMI ESA data.

27. Table 4 shows that, with the exception of those receiving SMI with JSA, most SMI recipients remain on their underlying benefit for more than two years:

- Of all those receiving SMI as part of an income-related benefit, around 70% have a duration on their income-related benefit of greater than two years;
- Of those receiving SMI as part of IS, around 80% have a duration on IS of greater than two years;
- Of those receiving SMI as part of JSA, around 10% have a duration on JSA of greater than two years; and
- Of those receiving SMI as part of PC, around 80% have a duration on PC of greater than two years.

28. The design of the scheme is still to be decided and will be influenced by stakeholders' responses to this call for evidence document, but it is envisaged currently that the broad outline of the scheme will be as follows: SMI recipients will continue to receive SMI as they do now, but that some, or all, of these payments plus interest to cover the cost of the scheme will be recouped via a charge on their property. This charge could be redeemed by the recipient at any time, or redeemed on sale of the property.

29. This means that there would be little or no impact on SMI recipients covered by the scheme whilst they remained in their property, but on sale of the property some (or in some cases all) of the equity would go towards redeeming this charge and/or the principal loan. It is reasonable to assume that many SMI recipients would be able to meet their SMI obligation in full from the equity in the property, and have equity remaining. They could choose to redeem the charge at any time should personal circumstances allow.

30. As an illustrative example, an individual receiving £20 worth of SMI per week with their PC would receive just over £1,000 worth of SMI over the course of a year. If they remained on SMI for five years before deciding to downsize, they would have received £5,200 in SMI payments. Under the current SMI scheme, they would receive this as a grant. However under a charging regime, they would repay the sum they received by way of SMI plus interest to cover costs to government from the equity in their property. The level of interest charged to cover the cost to Government of providing SMI is a crucial design question still to be answered, however, as an illustration, if the Government charged an interest rate of 5.63 (current SIR plus a premium to cover costs), then:

- SMI received over a 5 year period: £5,200;
- Interest accrued and calculated weekly over a 5 year period: £800; and
- Total amount to be repaid from equity in the property: £6,000

31. It is important to note that if SMI was not paid at all, it is likely that these recipients would not be able to sustain their housing tenure and would have to either move, or be repossessed.

Exchequer

32. There will be cost savings to the exchequer from recouping SMI payments via a charge on a property which have the potential to be significant. These cost savings will come from the cost of the charge to those who would have otherwise received SMI continuously as a grant from taxpayers' funds, without having to repay anything back.

33. Again the levels of cost savings will depend on key design questions which this call for evidence document is seeking views on, such as who the charge should be applied to, and from what point the charge should apply.

34. From departmental forecasts it is estimated that in 2011/12 expenditure on SMI is estimated to be £402m[12], of which;

- £125m (31%) is on SMI paid as part of PC;
- £103m (26%) is on SMI paid as part of JSA; and
- £173m (43%) is on SMI paid as part of the other working age benefits (IS and ESA).

[12] DWP statistical and accounting data, and Budget 2011 forecasts http://research.dwp.gov.uk/asd/asd4/all_tables_budget_2011_2.xls tables 3a and 3b

35. Combining this forecast expenditure with the duration information in table 4, it is estimated that in 2011/12, around £251m - or just under 63% of the total - expenditure on SMI is on cases with a duration on underlying benefit of over two years;

- £102m (25% of all SMI expenditure) is on SMI paid with PC cases with a duration of over two years;
- £12m (3% of all SMI expenditure) is on SMI paid with JSA cases with a duration of over two years; and
- £137m (34% of all SMI expenditure) is on SMI paid with the other working age benefit (IS and ESA) cases with a duration of over two years;

36. There will be costs of administering a charging scheme, but as set out in the public sector impacts it is envisaged these will be recouped from SMI recipients.

Issue Two: Standard Interest Rate

37. The current policy position is to retain the method of calculating the SIR that was introduced in October 2010. The call for evidence document is not putting forward concrete options for consideration, but instead consulting on principles, and seeking views on whether there may be another method of calculating the SIR which better reflects the mortgage interest costs faced by SMI recipients, or evidence that supports using another system.

38. We will complete a full Impact Assessment if an appropriate cost-neutral option is developed for future introduction.

Why the Government is proposing to intervene

39. Analysis supplied by the Council of Mortgage Lenders suggests that the current SIR of 3.63% accurately reflects the average mortgage rates paid by SMI recipients: The Council of Mortgage Lenders conducted a survey of SMI recipients in March 2011[13] which suggested that the (mean) average mortgage rate for all recipients is 3.62% - very close to the current SIR of 3.63%.

40. The mortgage rates paid by individual SMI recipients are distributed around this mean, so at the SIR of 3.63% approximately equal numbers of SMI recipients are receiving awards in excess of their eligible[14] mortgage interest outgoings, as are incurring shortfalls.

Table 5: Distribution of mortgage rates for SMI recipients

	% of SMI customers	No. SMI customers
Below		
1.63%	11%	21,900
2.13%	13%	26,800
2.63%	38%	78,100
3.13%	45%	91,300
3.63%	47%	97,300
4.13%	59%	120,500
4.63%	76%	156,200
5.13%	85%	174,000
5.63%	89%	182,600
5.63%+	100%	205,200

Source: CML survey, March 2011 and DWP Quarterly Statistical Enquiry, May 2011

[13] Based on a randomly drawn CML survey of more than 8,300 cases where the borrower was in receipt of SMI payments in March 2011. CML's survey therefore represents 4% of the total number of current SMI cases. A reasonably wide cross-section of lenders – 26 in total - participated in this exercise.

[14] For example, if a recipient's outstanding mortgage or loan was £100,000, but of this only £80,000 was eligible for SMI, then £20,000 of the recipient's outstanding loan would be omitted from this analysis.

41. CML analysis in table 5 shows that at the current SIR of 3.63%, 47% of SMI recipients will receive awards in excess of their eligible mortgage interest outgoings. However, recipients in this position do not necessarily receive SMI payments in excess of their full housing costs where part of their mortgage is ineligible (taken out for some purpose other than purchasing the property or making certain home improvements). Conversely, 53% of SMI recipients will receive awards equal to or less than their eligible mortgage interest outgoings.

Table 6: The proportion of eligible Mortgage Interest covered under a standard interest rate of 3.63%

	% of SMI customers	No. SMI customers
>100%	47%	97,300
>90%	58%	119,900
>80%	76%	155,600
>70%	85%	174,800
>60%	96%	196,400
60% or less	100%	205,200

Source: CML survey, March 2011 and DWP Quarterly Statistical Enquiry, May 2011

42. The CML analysis in table 6 shows that at the current SIR, around 75% of SMI recipients have at least 80% of their eligible mortgage interest outgoings covered.

43. The current policy position is to retain the method of calculating the SIR that was introduced in October 2010, as it has proved to be fairer than the previous fixed interest rate of 6.08% which resulted in the vast majority of people (over 90%) getting more than their contractual mortgage interest liability, which is not the intention of SMI. The current SIR reflects the purpose of SMI, which is to provide a reasonable level of help for homeowners rather than meet the full costs in all cases. Retaining a SIR is also more straightforward and efficient than the previous method that was used prior to 1995, where paying actual interest rates (where recipients report changes to their interest rates to the department) resulted in significant levels of Fraud and Error, and additionally incurred an annual operating cost for reassessing cases of £9m[15].

The main proposal

44. The Government believes that the current formula for the SIR works well, so is not proposing specific options in this call for evidence document. Nevertheless it welcomes views on the principles and purpose of the SIR, and alternative methods for calculating the SIR, with supporting evidence where respondents are able to provide this.

Impacts of new policy

Private Sector

45. Any move away from a SIR could, depending on the exact design of the scheme, result in administrative burdens to lenders from collecting and passing onto DWP information about SMI recipient's interest rates.

46. Also, any change to the size of the SMI award received could have secondary impacts on mortgage lenders through impacts on repossessions. The relationship between SMI and repossessions is complex, with many different elements which makes quantifying impacts difficult. It is also important to note that SMI is only paid on eligible capital, and so an SMI recipient's outstanding mortgage could exceed this, or a recipient could be in substantial arrears with their mortgage before they claim SMI.

47. We will complete a full Impact Assessment if an appropriate cost-neutral option is developed for future introduction.

Public sector

[15] Appendix 3, paragraph 4 of Command Paper Cm 2905.

48. Any move away from a SIR is highly likely to have an adverse impact on DWP delivery of SMI. Before October 1995, the recipient's actual interest rate was used to calculate mortgage interest payments. However this system led to very significant levels of fraud and error, for example, where recipients failed to report reductions in their contractual interest rates. The mortgage scrutiny exercise in the early 90s recovered many millions in overpayments and also refunded some underpayments. Using the actual interest rates reported by individuals adds administrative complexity, increases the likelihood of errors and overpayments and increases costs.

Individuals

49. Any change to the SIR would affect all SMI recipients which departmental forecasts estimated at 239,000[16] in 2011/12. Any cost or cost savings from changing the SIR will depend on the nature of the change, which is one of the key design questions that this call for evidence document is seeking views on.

50. Any move towards more accurately calculated mortgage interest costs faced by recipients would involve a loss for the 47% of SMI recipients currently receiving an excess payment, and a gain for the 53%[17] receiving awards equal to or less than their eligible mortgage interest outgoings.

Exchequer

51. Analysis provided by the CML suggests that if DWP adopted an SMI regime that was identical to the current one in all respects except that the interest rate paid was the actual rate charged, then this would result in an annual saving to Government of around £25 million pa in SMI payments. Should DWP nuance the regime further, by paying the actual interest rate charged, but subject to a maximum cap, of say 1.5% above the current SIR, CML estimate that applying the cap might potentially save Government an extra £12 million pa in SMI payments[18].

52. There might be additional administration costs to Government of paying SMI according to the actual rate charged by lenders to recipients.

Issue Three: Mortgage Interest Direct

53. Currently Mortgage Interest Direct (MID) arrangements – where SMI is paid directly to the mortgage provider – are in place for 96%[19] of the 121,000[20] working age SMI recipients.

54. Government intend to continue MID for pensioners who receive PC as this measure is aimed at working age families, and intended to ensure that the experience of Universal Credit claimants mirrors that of other families who are in work as far as possible, in order to make the move into work and off benefits as smooth as possible. The volume of MID transactions in 2011/12 were estimated to be around 2.7m for which the mortgage lenders were charged a fee of 43 pence per transaction across the whole SMI caseload, of which working age accounts for just under half.

55. The Government is considering a move away from the automatic MID scheme to paying SMI direct to recipients. Recipients would be responsible for budgeting and paying their mortgage to their lenders, as any person in work with a mortgage would.

Why the Government is proposing to intervene

56. With the move to Universal Credit, the Government wants to ensure that the experience of working age claimants mirrors that of other families who are in work as far as possible. The policy objective is to support work and independence, and move away from MID to allow recipients to manage their own budgets in the same way that households in work do.

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[16] DWP Quarterly Statistical Enquiry and Budget 2011 forecasts.

[17] Source: CML survey, March 2011.

[18] CML modelling using information on SMI recipients' current mortgage rate collected in their March 2011 survey.

[19] Source: DWP Quarterly Statistical Enquiry, May 2011. Data does not include those receiving SMI as part of ESA.

[20] Source: Budget 2011 forecasts for 2011/12.

The main proposal

57. The Government is considering a move away from automatic MID to paying SMI direct to recipients, except where they are vulnerable, and for them to take responsibility for transferring their mortgage payments to their mortgage lenders.

58. The alternative is to carry forward the current MID scheme.

Impacts of new policy

Private Sector

59. Currently there are MID arrangements in place for 96%[21] of the 121,000[22] working age SMI recipients. There are 1,315 lenders on the Qualifying Lenders Register, on which lenders have to be in order to receive MID payments.

60. As the mortgage lenders currently pay a fee to DWP to cover the cost of administering the MID scheme (43 pence per transaction in 2011/12), there will be a modest cost saving to businesses from moving away from MID.

61. Although we are not introducing an additional burden on business (indeed there will be a small direct cost saving), this proposal could have a secondary, or indirect, impact on the mortgage lenders if SMI recipients fail to pass on their SMI to the lender.

62. However evidence about direct payment and arrears from the research the department has done around Local Housing Allowance shows that tenants on low incomes prioritise paying their rent in the significant majority of cases[23]. This suggests that householders with mortgages receiving SMI would in the main use this source of income to meet their mortgage commitments whether or not the benefit was paid direct to the lender or the householder. Previous departmental SMI research[24] also supports the importance that mortgage holders give to meeting their commitments. As mortgage holders are likely to be experienced in budgeting and financial management and allowing for the effects of the income shock that will have lead them to claiming SMI in the first place, direct payment of SMI should not change this.

Public Sector

63. Moving away from MID would reduce administrative burdens for DWP. The mortgage lenders currently pay a fee to DWP to cover the cost of administrating the MID scheme (43 pence per transaction in 2011/12).

Individual

64. Moving away from MID would impact on the 96%[25] of the 121,000[26] working age SMI recipients for whom MID arrangements are currently in place. This would involve these recipients taking on the responsibility for paying their mortgage to their mortgage lenders. This would mean that SMI recipients would be managing their own budgets in the same way as households in work. This should reduce a perceived barrier of making the move into work. There is a risk that if these recipients fail to pass on their SMI to their mortgage provider, this could result in a rise in repossessions for this group but the Government is looking carefully at what arrangements would be needed to make payments direct to lenders for vulnerable people.

Exchequer

65. As this proposal relates only to the mechanism for paying SMI, it will be cost neutral in terms of the SMI payments.

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[21] Source: DWP Quarterly Statistical Enquiry, May 2011. Data does not include those receiving SMI as part of ESA due to a lack of National Statistics data series for SMI ESA data.

[22] Source: Budget 2011 forecasts for 2011/12.

[23] Local Housing Allowance Final Evaluation: The qualitative evidence of claimants' experience in the nine Pathfinder areas, Tenants' and Advisers' Early Experiences of the Local Housing Allowance National Rollout.

[24] DWP Report 711: An evaluation of the January 2009 arrangements for SMI.

[25] Source: DWP Quarterly Statistical Enquiry, May 2011. Data does not include those receiving SMI as part of ESA due to a lack of National Statistics data series for SMI ESA data.

[26] Source: Budget 2011 forecasts for 2011/12.

66. There have been concerns raised about the possibility of the removal of MID resulting in a rise in repossessions if SMI recipients fail to pass on the SMI to their mortgage lender. Although the evidence drawn from LHA direct payments suggests this is unlikely, it could be costly to both mortgage lenders, and the Government in terms of re-housing costs. Should this measure be taken forward, in light of call for evidence responses there will be a further assessment of these potential impacts.

Issue Four: The treatment of home improvements loans

67. Simplification of the administration of Home Improvement Loans has the potential to make significant administrative savings and could considerably ease the burdens on both recipients and front-line decision makers deciding claims. However, data on this issue is poor, making assessing the impacts problematic. Subsequently, the Government is seeking evidence.

Why the Government is proposing to intervene

68. Evidence from the Bank of England relating to new approvals for lending secured on dwellings[27] suggests that around 25% of SMI recipients might have mortgages including additional sums for a Home Improvement Loan.

69. The current rules around home improvement loans are difficult and time-consuming to apply, and need to be simplified.

The main proposal

70. SMI is already subject to both an overall capital limit of either £100,000 or £200,000 and an 'excessive housing costs' limit, so that if the overall outgoings are excessive in relation to the needs of the family or the costs of alternative suitable accommodation, SMI can be limited. Current legislation also prohibits existing recipients from taking out new loans that can be met by SMI, other than in certain limited circumstances.

71. The Government is proposing to simplify the administration of Home Improvement Loans.

72. The policy objective of this proposal is to move away from the current complicated system of rules about Home Improvement Loans, which take up far too much administrative time, and cause confusion for both front-line staff and recipients. The Government is proposing to reform the rules by moving towards a simplified approach, allowing all loans for housing-related expenses, subject to exclusions. The aim will be to keep the changes cost neutral by placing a cap on the amount payable, equivalent to a percentage of the eligible home improvement loan(s) in each case – say 70% or 80%.

73. The alternative would be to keep treatment of Home Improvement Loans as it currently is.

Impacts of new policy

Private Sector

74. Simplifying the treatment of Home Improvement Loans has no direct impact on lenders. There are potential beneficial secondary impacts if Mortgage Lenders have fewer enquiries on behalf of SMI recipients or decision makers trying to gather evidence to fulfil the current, complicated evidence requirements.

Public Sector

75. There will be administrative savings to DWP from simplifying the treatment of Home Improvement Loans. Given the lack of data, these savings are difficult to quantify, but can be significant for individual cases.

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[27] http://www.bankofengland.co.uk/statistics/li/2011/mar/lending%20to%20individuals.pdf
Bank of England Statistical Release, "Lending to Individuals: March 2011", Table C. Please note that this data does not specifically focus on home improvement loans, instead 'Other lending' relates to when existing borrowers increase the size of their current mortgage, with the same lender. This includes any loan secured on residential property which is used for home improvement, car purchase etc.

Individuals

76. This proposal could potentially impact those in receipt of SMI from the date of introduction.

77. The aim is to keep the policy cost neutral, therefore the Government will wish to design the scheme such that the amount of SMI received remains unchanged overall.

78. There will be gainers and losers compared to the current rules. A recipient who would have had most of their housing-related loans excluded under the current rules is likely to find more of their loans included in future and the application of the cap could still leave them in a better position than the current rules (e.g. someone who took out a loan to install a central heating system, or install solar panels, which aren't currently allowed). However, a recipient who would have had largely eligible loans under the current system may find that the application of the cap leaves them in a worse position. It is not possible to quantify the extent and the scale of these gains/losses without detailed data, however the Government is also proposing to bring these new rules in for new claims only, so current recipients are unaffected.

Exchequer

79. As any change will be designed to be cost neutral, there will be no savings to the Government from reduced SMI payments. There will be savings to the exchequer from lower administration costs.

Issue five: Linking rules

80. The current linking rules create complexity and the Government are considering removing some of these rules as a simplification measure.

Why the Government is proposing to intervene

81. There are currently a number of rules for those on working age benefits that link waiting periods or receipt of SMI. The policy objective of this proposal is to reduce the administrative complexity in the future.

The main proposal

82. The Government is proposing to remove two of the linking rules mainly related to receipt of Mortgage Payment Protection Insurance (MPPI). These are:

- The 26 week linking period for recipients who leave benefit because their income from an MPPI policy exceeds the amount of benefit to which they are entitled; and
- The rule that may allow recipients to be treated as entitled to IS, JSA or ESA for periods of more than 26 weeks where the recipient or their partner is participating in certain training or attending certain courses, or where they have income from a MPPI which exceeds their applicable amount.

83. The alternative would be to carry these linking rules into Universal Credit.

Impacts of new policy

Private Sector

84. There will be no direct impact on lenders from removing these linking rules.

Public Sector

85. There could be modest administrative savings to DWP from removing these linking rules.

Individuals

86. Removing these rules would primarily impact on those recipients who leave benefit because their income from a MPPI policy exceeds the amount of benefit to which they are entitled. The effect of the change is that, once an MPPI expires, a recipient would need to serve a waiting period before becoming entitled to SMI.

87. Turning to the impact of removing the linking rule that may allow recipients to be treated as entitled as entitled to IS, JSA or ESA for periods of more than 26 weeks where the recipient or their partner is participating in certain training or attending certain courses. Many recipients remain entitled to benefit while doing employment-related training, so the abolition of this rule would have no effect on them. But if people do leave benefit to do such training, we intend to protect them by making appropriate amendments to the 52 week linking rule.

88. The Government also intends to remove the 104 week linking period for work and training beneficiaries from October 2013. Under this rule, the recipient or their partner would currently return to the same level of benefit if they become incapable of work again within 104 weeks of starting work. The removal of this linking rule is likely to have only a minimal impact on recipients, as ESA recipients entering work and losing SMI would come under the 52 week linking rule which would be retained. This would continue to provide a work incentive for ESA recipients.

Exchequer

89. There may be some small savings from the removal of linking rules, but data on numbers impacted and costs savings is not available.

Issue six: Time limiting

90. From 5 January 2009, a two year time limit was introduced on payment of SMI for new recipients on income-based JSA. Once these recipients have received SMI for two years, either through a continuous claim or through a series of linked claims, SMI will stop.

91. The removal of the exemption of the two year time limit for those moving across to JSA from IS/ESA, would mean that everyone deemed fit for work would be treated equally.

Why the Government is proposing to intervene

92. Currently, anyone who moves onto JSA from IS or ESA within 12 weeks of their claim ending (mainly lone parents or people found fit for work) are not subject to the two year limit and can receive SMI indefinitely. Forecasts estimate that in 2011/12 there will be approximately 79,000[28] IS/ESA recipients in receipt of SMI. However, we believe that the numbers in receipt of SMI moving from IS/ESA to JSA are very small, and the numbers who would subsequently reach the two year limit are smaller still. Data is not available to make a robust estimate, but the data in table 4 shows that only 3,600[29] (around 10% of the total) of the current stock of individuals receiving SMI as part of JSA have a duration of over two years. Only a small proportion of these will have moved across from IS or ESA.

93. The Government believes that the two-year limit is the right policy as it ensures that recipients are clear about the need to return to work, and the policy provides an incentive to do so.

94. When time limiting in SMI was introduced, this exemption was in place to protect individuals furthest away from the labour market – i.e. those moving on to JSA from ESA/IS rather than from work. However, in light of the Universal Credit principles of making work pay and simplification, the policy objective of this change is to apply JSA conditionality consistently to all recipients receiving income-based JSA and the equivalent group in Universal Credit, including strong work incentives such as the two year rule for SMI. Under the proposal, these recipients would be treated in the same way as other recipients on JSA, and would need to move into work in order to maintain their housing tenure in the longer-term.

The main proposal

95. The Government is proposing to remove the exemption from time-limiting for those recipients moving onto JSA (or the equivalent within Universal Credit) from IS or income-related ESA.

96. The alternative would be to leave the exemption in place.

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[28] Source: DWP Budget 2011 forecasts for 2011/12.

[29] Source: DWP Quarterly Statistical Enquiry, May 2011.

Impacts of new policy

Private sector

97. There will be no direct impact on lenders as a result of extending the two year time limit to those transferring on to JSA. However, there may be secondary impacts if those reaching the two year limit result in repossessions.

Public sector

98. There is no direct impact on the public sector as a result of this measure.

Individuals

99. An individual moving across to JSA from IS/ESA will only be entitled to a maximum of two years SMI for periods of time spent on JSA, whether through continuous or linked claims. Previously, they would have received SMI indefinitely.

100. Although in theory this change could impact on all 79,000[30] SMI recipients currently forecasted to be in recipient of SMI with ESA or IS in 2011/12, only a small proportion of these are expected to move across to JSA, and a smaller proportion again would go on to reach the two year limit. Data is not available to make a robust estimate, but the data in table 4 shows that only 3,600[31] (around 10% of the total) of the current stock of individuals receiving SMI as part of JSA have a duration of over two years. Only a small proportion of these will have moved across from IS or ESA.

Exchequer

101. For those individuals reaching the two year time limit, there will be cost savings from the reduced SMI payments potentially offset by an increase in Housing Benefit payments for those moving out of owner occupied property into the rented sector.

102. There is not sufficient data available to make a robust estimate of any costs/cost savings. Given it is expected that the numbers involved will be small, and given the offsetting nature of the cost and cost savings, overall this measure expected to be cost neutral.

Issue seven: Waiting period and capital limit

103. The Government intends to retain a capital limit and a waiting period for help with housing costs in SMI. The call for evidence document is seeking views about the capital limit/waiting period in future, with the overarching aim of remaining cost neutral. The nature of potential impacts will depend on the suggestions that are made for change by respondents.

Why the Government is proposing to intervene

104. A number of temporary changes to SMI were introduced for new working age claims (income-based JSA, income-related ESA, and IS) by the previous Government from 5 January 2009 including:

- A shorter waiting period before SMI is paid of 13 weeks; and
- An increased capital limit on which mortgage interest can be met of £200,000.

105. The Government has extended funding for the reduced waiting period and increased capital limit until January 2013. The baseline position is to return to a 39 week waiting period, (or 8/26 weeks in certain cases), and the £100,000 capital limit.

106. Two external qualitative evaluations of the January 2009 arrangements for SMI (including the SIR freeze not under consideration here) were published by DWP.

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[30] Source: DWP Budget 2011 forecasts for 2011/12.

[31] Source: DWP Quarterly Statistical Enquiry, May 2011.

107. The first[32], published in November 2010, amongst other things assessed the impact of the current temporary arrangements. It found:

- SMI helps to prevent repossession and may avoid arrears from developing where interest only mortgages do not exceed a specified level. Compared to earlier housing market downturns, the temporary measures have lead to less mortgage arrears and fewer borrowers facing court actions;
- Not many of the sample could have bridged a longer wait period; and
- The temporary measures do not act as a work disincentive, most borrowers eagerly anticipated a return to work. SMI effectively buys time for respondents to reconnect with the labour market.

108. The second[33], published in May 2011, amongst other things explored the responses of lenders, money advisors, Jobcentre Plus (JCP) staff and key policy stakeholders to the January 2009 changes. It found:

- From January 2009 to October 2010, SMI was highly effective. As a result of the changes some borrowers avoided arrears. Others accumulated arrears more slowly. The SMI changes underpinned lenders' willingness, and ability, to forbear and not seek possession. Lenders were more prepared to consider conversion to interest only mortgages thus ensuring the maximum impact of SMI.

109. The Government is seeking views about the capital limit and waiting period and combinations of these two elements, with the aim of remaining cost neutral. Respondents should note however that the baseline position is to return to a 39 week waiting period, (or 8/26 weeks in certain cases), and the £100,000 capital limit.

110. Any change to the waiting period and capital limit would impact on all new working age recipients from the date of introduction. Forecasts estimate that in 2011/12 there will be 121,000[34] working age SMI recipients.

The main proposal

111. The Government is seeking views about the capital limit/waiting period in future, with an aim of ensuring any change remains cost neutral.

Impacts of new policy

Private Sector

112. The nature of the impacts will depend on the change which is one of the key questions which this call for evidence document is seeking views on. It is unlikely that any change would have a direct impact on business.

113. However, any change might have secondary impacts on mortgage lenders through impacts on repossessions. The relationship between SMI and repossessions is complex, with many different elements which makes quantifying impacts very difficult. It is also important to note that SMI is only paid on eligible capital, and so an SMI recipient's outstanding mortgage could exceed this, or the recipient could be in substantial arrears before they claim SMI. We welcome views on how changes could impact on repossessions.

Public Sector

114. There may be a small impact on DWP administration from change depending upon the design of any new approach.

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[32] "An evaluation of the January 2009 arrangements for Support for Mortgage Interest" http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep711.pdf

[33] "An evaluation of the January 2009 and October 2010 arrangements for Support for Mortgage Interest:
The role of lenders, money advice services, Jobcentre Plus and policy stakeholders "http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep740.pdf

[34] Source: Budget 2011 forecasts for 2011/12.

Individuals

115. The nature of the impacts will depend on the change which is one of the key questions which this call for evidence document is seeking views on. However, it is important to note that a reversion to the baseline position represents a removal of the temporary easements put in place in 2009.

Exchequer

116. Any cost/cost savings from changing the waiting period/capital limit will depend on the nature of the change, which is one of the key design questions which this call for evidence document is seeking views on. However, any change will have the aim of being cost neutral.

Annex A: Equality Impacts

117. The equality impacts of the policy proposals and discussion set out above will crucially depend on the detailed policy development which will be carried out after the call for evidence is concluded. The information below sets out analysis of those currently in receipt of SMI, by the key equality groups where data is available.

I) Monitoring and evaluation

118. The material in this equality impact section covers the equality groups currently covered by the equality legislation, i.e. age, disability, gender, gender reassignment, ethnicity, religion, sexual orientation, pregnancy/ and maternity and marriage and civil partnerships. DWP is committed to monitoring the impacts of its policies and we will use evidence from a number of sources on the experiences and outcomes of the protected groups.

- This equalities impacts section uses administrative datasets – specifically the Department for Work and Pension's Quarterly Statistical Enquiry (QSE) – to monitor the level and distribution of SMI recipients in the protected groups. This administrative data will provide robust material for age and gender and provide an approximation for disability (further detail in paragraph 128). However, it will not as a rule, provide information for the other protected groups. Where it is practical we will endeavour to incorporate information for the other protected groups, and will seek views from stakeholders as part of the call for evidence.
- Administrative data is supplemented with the use of survey data – specifically the Family Resources Survey (FRS) - to assess the level of SMI recipient in the protected groups not covered by the administrative data. Therefore, we will use FRS data on disability and ethnicity; but the FRS does not collect information on the other protected groups not covered by administrative data. The FRS is known to under-report benefit receipt, for example, the SMI sample undercounts the SMI population as a whole and the FRS particularly undercounts PC recipients. See table M.6 within chapter seven of the publication at http://research.dwp.gov.uk/asd/frs/2009_10/frs_2009_10_report.pdf for more details. Due to the small SMI sample size the estimates provided are based on a three year average and should be treated with caution.
- Qualitative research and feedback from stakeholder groups help assess whether there are unintended consequences for the protected groups, and whether the policy is likely to result in adverse consequences for particular groups.

119. There is currently no administrative or survey data which enables a robust assessment of impacts on changes to SMI covering; Gender Reassignment, Sexual Orientation, Religion or Belief, Marriage and Civil Partnerships, or Pregnancy/Maternity, but the Department is currently exploring what information it can collect on the additional protected characteristics.

II) Equalities Data

120. This section does not include data for individuals receiving SMI with Employment Support Allowance due to a lack of National Statistics data series for SMI ESA data. Administrative data will underestimate proportion of SMI caseload who are disabled, so we have supplemented this with survey data.

121. SMI is paid alongside any of the qualifying benefits (IS, income-based JSA, income-related ESA and PC) across all age groups and for both new claims and existing recipients.

Table 7: SMI recipients and eligible benefits

		Working Age		Pension Age
	Total (not including ESA)	**JSA**	**IS**	**PC**
Caseload	205,200	30,000	66,400	108,700
% of Total	100%	15%	32%	53%

Source: DWP Quarterly Statistical Enquiry, May 2011

Age

122. Table 8 shows the age profile of SMI recipients in receipt of working age benefits, IS and JSA, and those over pension age in receipt of PC.

Table 8: SMI recipients by age – Proportion of SMI Caseload

		Working Age			Pension Age
Age	**All**	**All**	**IS**	**JSA(IB)**	**PC**
18-24	0%	0%	0%	0%	0%
25-29	1%	3%	3%	3%	0%
30-34	3%	7%	6%	9%	0%
35-39	6%	12%	11%	14%	0%
40-44	8%	17%	16%	20%	0%
45-49	10%	20%	19%	24%	0%
50-54	9%	20%	21%	16%	0%
55-59	9%	18%	21%	12%	0%
60-64	15%	3%	3%	2%	27%
65+	39%	0%	0%	0%	73%
All	100%	100%	100%	100%	100%

Source: DWP Quarterly Statistical Enquiry, May 2011

123. Over half of SMI recipients are over 60 (54%) and only 10% are under the age of 40. SMI in the lowest age band, 18 to 24, is negligible.

124. Table 9 shows the average payments to SMI recipients by age.

Table 9: Average SMI payment by age of recipients (£ per week) [35]

		Working Age		Pension Age
Age	**All**	**IS**	**JSA(IB)**	**PC**
18-24	61	66	50	0
25-29	61	63	58	0
30-34	60	61	59	0
35-39	54	53	57	0
40-44	45	40	55	0
45-49	41	34	52	0
50-54	33	29	45	0
55-59	27	23	38	0
60-64	26	23	37	26
65+	18	0	0	18

Source: DWP Quarterly Statistical Enquiry, May 2011

125. Overall average payments generally decrease as the age of the recipient increases; from around £60 per week in the 25 to 34 group, which equates to an average eligible outstanding balance of around £85,000[36], to around £30 nearer retirement age, and then £18 per week for the 65 and over group, which would equate to an average eligible outstanding balance of around £25,000 for those of pension age.

126. This evidence suggests that SMI recipients are more like to be of pension age, but they receive a lower average award.

Disability

127. The definition of disability for the purposes of equality impact assessment is now that contained in the Equality Act 2010, and was previously that defined by the Disability Discrimination Act.

128. In some ways, administrative data provides better coverage of the SMI population than survey data, but the measure of disability available on administrative data (SMI recipient also in receipt of AA/DLA) is a poor proxy for the Equality Act measure. The Family Resources Survey offers a more robust estimate of Equality Act disabled people. In addition, the administrative data does not include those in receipt of SMI via ESA, the vast majority of whom would be Equality Act disabled. However, as set out above there are issues with the FRS SMI sample size, and the FRS disability measure covers all those in the household with a disability. In comparison, the administrative disability measure covers the SMI beneficiaries specifically. As such, disability results from the FRS and administrative data should be treated as indicative, treated with caution, and interpreted in conjunction with each other.

129. The numbers of disabled SMI recipients have been derived from the DWP administrative data using receipt of Disability Living Allowance (DLA) or Attendance Allowance (AA) as a proxy for disability, as shown in table 10.

Table 10: SMI recipients in receipt of DLA/AA – Proportion of SMI Caseload

	All	**Working Age**			**Pension Age**
		All	**IS**	**JSA(IB)**	**PC**
In receipt of AA/DLA	39%	32%	46%	1%	45%
Not in receipt of a disability benefit	61%	68%	54%	99%	55%
All	100%	100%	100%	100%	100%

Source: DWP Quarterly Statistical Enquiry, May 2011

[35] Please note that award data includes other housing costs.

[36] Calculated as SMI award/Standard Interest Rate.

130. Around 40% of SMI recipients are in receipt of DLA/AA; of these most are in receipt of IS or PC rather than JSA.

131. Survey data presented below indicate that a much higher proportion - around 70% - of all households with at least one SMI recipient also contain a disabled adult. As expected, this is higher than the disability of the proxy used on the administration data (SMI recipient also in receipt of AA/DLA). Due to small sample sizes the estimates provided are based on a three year average and should be treated with caution.

Table 11: SMI recipients by household disability status group[37]

Proportion of households in receipt of SMI			
Disability Status	**All**	**Working Age**	**Pension Age**
Household contains disabled adult(s)	72%	71%	74%
Household does not contain any disabled adults	28%	29%	26%
All	100%	100%	100%

Source: Family Resources Survey based on an average of results from 2007/08, 2008/09 and 2009/10

132. Table 12 gives DWP administration data on the average weekly award of SMI received by disabled and non-disabled recipients.

Table 12: Average SMI payment by disability benefit status of recipient (£ per week) [38]

		Working Age		Pension Age
	All	**IS**	**JSA(IB)**	**PC**
In receipt of AA/DLA	22	29	38	18
Not in receipt of a disability benefit	35	42	51	22

Source: DWP Quarterly Statistical Enquiry, May 2011

133. Average awards for SMI recipients also in receipt of Attendance Allowance or Disability Living Allowance are £22 per week, and this is £13 per week less than the average awards for recipients not in receipt of a disability benefit (£35 per week).

134. SMI recipients are more likely live in households with a disabled person, and around 40% are also in recipient of AA/DLA. However, SMI recipients also in receipt of DLA/AA receive a lower average award than those who are not.

Gender

135. The gender split of the overall SMI caseload is approximately 50 per cent male and 50 per cent female, as shown in Table 13.

Table 13: SMI recipients by gender

Gender	All	Working Age			Pension Age
		All	**IS**	**JSA(IB)**	**PC**
Male	48%	47%	39%	65%	49%
Female	52%	53%	61%	35%	51%
All	100%	100%	100%	100%	100%

Source: DWP Quarterly Statistical Enquiry, May 2011

136. In the working age group there is an equal gender split, but within this there is a big difference in the eligible benefit populations; more females in receipt of IS (61:39) but significantly more males in

[37] All FRS data presented is broken down by working age and pension age. Working age refers to a household where the household reference person is under 60, and pension age to a household where the household reference person is 60 or over.

[38] Please note that award data includes other housing costs.

receipt of Job Seeker's Allowance (65:35). For the pension age group there is an equal split of male and female SMI recipients.

137. Average SMI payments, shown in Table 14, are slightly higher for male recipients than for female recipients. However, within IS it is women who received higher awards by around £8 per week. For Job Seeker's Allowance, the payments are around £5 per week higher for men; for recipients over pension age it is also men who have higher payments by around £5 a week.

Table 14: Average SMI payment by gender of recipient (£ per week) [39]

Gender		Working Age		Pension Age
	All	IS	JSA(IB)	PC
Male	31	31	53	23
Female	29	39	48	18

Source: DWP Quarterly Statistical Enquiry, May 2011

138. Although the gender split is approximately equal across the SMI caseload, men have slighter higher average awards than women.

Ethnicity

139. The Departmental administrative data does not have reliable information on ethnicity so the Family Resources Survey has been used to estimate the impact within the white and ethnic minority groups. Due to small sample sizes the estimates provided are based on a three year average and should be treated with caution.

Table 15: SMI recipients by ethnic group of Household Reference Person [40,41]

Proportion of households in receipt of SMI			
Ethnic Group	**All**	**Working Age**	**Pension Age**
White	83%	78%	93%
Ethnic Minority	17%	22%	7%
All	100%	100%	100%

Source: Family Resources Survey based on an average of results from 2007/08, 2008/09 and 2009/10

140. Based on ethnicity data on the household reference person, around 17 per cent of households in receipt of SMI are from an ethnic minority group. However, please note that table 15 above is based early indicative analysis and the figures relate to the ethnicity of the household reference person, therefore ethnicity may not be representative of the SMI recipient.

Other protected groups

141. There is currently no administrative or survey data which enables us to robustly assess impacts on changes to SMI covering; Gender Reassignment, Sexual Orientation, Religion or Belief, Marriage and Civil Partnerships, or Pregnancy/Maternity, but the Department is currently exploring what information it can collect on the additional protected characteristics.

142. We welcome responses to the call for evidence on how the proposed changes might impact on these groups.

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[39] Please note that award data includes other housing costs.

[40] All FRS data presented is broken down by working age and pension age. Working age refers to a household where the household reference person is under 60, and pension age to a household where the household reference person is 60 or over.

[41] The highest income householder, without regard to gender. The full definition of a household reference person can be found at http://research.dwp.gov.uk/asd/frs/2009_10/glossary.pdf

III) Summary of protected groups represented in SMI

143. The administrative and survey data suggests for the whole SMI caseload:

- SMI recipients are more likely to be of pension age, but they receive a lower average award;
- SMI recipients are more likely live in households with a disabled person, and around 40% are also in recipient of AA/DLA. However, SMI recipients also in receipt of DLA/AA receive a lower average award than those who are not.
- The gender split is approximately equal across the SMI caseload, men have slighter higher average awards than women; and
- Around 17 per cent of households in receipt of SMI are from an ethnic minority group.

144. The administrative and survey data suggests for the working age SMI caseload:

- There are proportionally more older SMI recipients, but average payments generally decrease as the age of the recipient increases;
- SMI recipients are more likely live in households with a disabled person, and around 30% are also in recipient of AA/DLA. However, SMI recipients also in receipt of DLA/AA receive a lower average award than those who are not;
- The gender split is approximately equal across the SMI caseload, for those receiving SMI with IS women have higher average awards, and for those receiving SMI with JSA men have higher average awards; and
- Around 22 per cent of households in receipt of SMI are from an ethnic minority group.