



Department
for Work &
Pensions

The benefit cap: a review of the first year

Presented to Parliament
by the Secretary of State for Work and Pensions
by Command of Her Majesty
December 2014

Cm 8985





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Executive summary

The policy rationale

- The benefit cap was one of the policies announced by the Government in the 2010 Spending Review as part of its strategy to reform welfare for people of working age.
 - Work is the best route out of poverty. Income is important, but poverty is about more than income alone; it is also about a lack of opportunity, aspiration and stability. Encouraging benefit dependency does not break intergenerational cycles of disadvantage.
 - Results from the evaluation reports of the benefit cap show evidence of behavioural change. The movement into work for those households affected by the benefit cap is higher than movement into work by a comparable group of households not affected by the cap.
- The benefit cap policy aims to strike the right balance across the main objectives of increasing incentives to work, introducing greater fairness and making financial savings while continuing to protect vulnerable claimants for whom work is not currently a viable option.

People with protected characteristics

- Our assessment of the impact of the policy on people with one or more protected characteristics has been a continuous process. After our review of the benefit cap equality impact assessment in July 2012, we extended (prior to implementation) exemptions and support arrangements for potentially capped claimants. The Equality and Human Rights Commission¹ noted as good practice the introduction of mitigations as a result of assessments made of the impacts of the policy on protected groups.

¹ Equality and Human Rights Commission – Fair Financial Decision-Making: 2014 Progress Report.

- The estimates we made in our 2012 impact assessments² of the characteristics of households that would be affected by the cap are broadly in line with the characteristics of those found to be **actually** affected by the benefit cap since its introduction (to August 2014). The mitigations we put in place based on these estimated characteristics are having the desired outcome.

Public support

- The benefit cap is a popular policy with strong public support for the cap both in principle and on understanding the detail of the policy. A survey carried out by Ipsos MORI³ in May/June 2013 shows that the vast majority of the public believe the welfare system was not previously working effectively; with over half stating that politicians should do more to reduce the amount of money paid out in benefits.

Implementation of the benefit cap

- Jobcentre Plus and local authorities (LAs) started working with potentially capped households one year before implementation of the benefit cap to enable benefit claimants to take action before the cap took effect. Evidence shows that some of the households that were notified of the forthcoming benefit cap were already moving into work prior to its launch, and throughout implementation we saw this trend increase.

Impact of the Cap

- Evaluation of the benefit cap following its first year of operation shows consistent evidence of employment-focused behavioural change. The movement into work for those households affected by the benefit cap is higher when compared to the numbers moving into work from similar households not affected by the cap.
 - This behavioural change is also evident for sub-groups such as those in receipt of Carer's Allowance, larger families with three or more children and lone parents (irrespective of the age of the youngest child).
- Greater movement into work is seen for those capped by larger amounts and for households in London.
 - Where households have not yet moved into work they are coping with the cap by budgeting and using support services in the short term while making plans to return to work in the longer term. They are also undertaking more job-seeking activity than previously and are more encouraged to find work. Only a minority of capped households are not doing anything in response, these households tend to be those capped by lower amounts.
- Barriers to moving into work for capped households include the logistics of childcare for multiple children, lack of language skills and limited qualifications.
- Additional funding for Discretionary Housing Payments (DHPs) has been provided to ensure those who were not able to make a behavioural change immediately were supported over a transitional period. Evidence suggests DHPs are working; households are seeing them as a temporary solution and receipt of DHPs has not reduced off flow from the benefit cap into work.

² Benefit Cap Impact Assessment and Equality Impact Assessment, July 2012.

³ <https://www.gov.uk/government/publications/benefit-cap-public-attitudes-before-and-after-its-introduction>

6 Executive summary

- The majority of claimants that were capped have not built up rent arrears. There is evidence that those who had built up arrears and subsequently moved into work were able to make steps to pay those arrears back, as four in five of those no longer affected were up to date with rent.
- Only small numbers of capped claimants are actually moving house and moves that are taking place are generally over short distances. Claimants are, by and large, adjusting to the benefit cap in ways other than moving, such as through finding work or adjusting their budgets. There is some evidence of claimants successfully renegotiating their rent with landlords.
- Benefit cap caseloads are lower than originally estimated with over 51,000 households capped since the introduction of the benefit cap in April 2013 (up to August 2014). In making our original estimates for the number of households that would be capped we did not fully appreciate the scale of the positive benefits of the cap and the motivation it would give to claimants to move into employment. The cap is likely to lead to wider savings from lower benefit receipt amongst those who have moved into employment. Of far greater significance though are the wider benefits of moving towards work for claimants, for their families and for society.

Introduction

1

The benefit cap sets a limit on the total amount of benefits that working-age households can receive so that, broadly, households⁴ on out-of-work benefits will no longer receive more in welfare payments than the average weekly wage. In most cases the benefit cap is currently operated via the administration of Housing Benefit (HB) but increasingly will be administered through Universal Credit (UC).

The Government's specific aims in introducing the benefit cap were to:

- increase **incentives to work** by limiting the amount of benefit that households on out-of-work benefits can receive so that they will be better off on entering work;
- introduce **greater fairness** in the welfare system between those receiving out-of-work benefits and taxpayers in employment by preventing households on out-of-work benefits from receiving a greater income from benefits than the average weekly wage; and
- make **financial savings** where the benefit cap applies and, more broadly, help make the system more affordable by incentivising behaviours that reduce long-term dependency on benefits.

The Government committed to a full evaluation of the benefit cap to explore its effectiveness. Linked to this the Minister for Employment announced to Parliament on 1 February 2012 that the Department for Work and Pensions would publish a review of the cap after its first year of operation.

This review explores the progress from policy development to implementation and delivery. It reviews the story so far against the three specific aims in introducing the benefit cap, following its first year of operation. The review sits alongside and should be read in conjunction with the evidence in the evaluation documents published at the same time.

⁴ A household is defined as one or two adults (living together as a couple) plus any dependent children they are living with.

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Evidence for the review draws on a range of different sources including:

- **Benefit cap official statistics**⁵ – the latest information on the number of households who have been affected by the benefit cap.
- **Benefit cap: Analysis of outcomes of capped claimants** – analysis of administrative data conducted by Departmental analysts and peer-reviewed by the Institute for Fiscal Studies.
- **Benefit cap: public perceptions and pre-implementation effects**⁶ – Findings of public attitudes to the benefit cap and early effects on some claimants who had got additional support before the cap was introduced.
- **Post-implementation effects of the Benefit Cap (wave 1)**⁷ – An Ipsos MORI longitudinal telephone survey of capped households conducted in February 2014.
- **Post-implementation effects of the Benefit Cap (wave 2)** – An Ipsos MORI longitudinal telephone survey of capped households conducted in August/September 2014.
- **In-depth interviews with people affected by the Benefit Cap** – A report based on interviews with 50 households affected by the Benefit Cap.
- **Supporting households affected by the Benefit Cap: Impact on Local Authorities, local services and social landlords** – This report draws on work in ten case study LAs; a survey of social landlords; and consultation with major lenders to the Housing Association sector.

Further details on the evaluation and the different sources of information used can be found in Annex A.

⁵ <https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-august-2014>

⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249005/rrep850.pdf

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/303102/benefit-cap-headline.pdf

The benefit cap

2

The benefit cap is one of the Government's key reforms to welfare. It is intended as a work incentive and limits the amount of benefits working-age households can receive; currently to **£500 per week** (£26,000 per year) for couples with or without children and lone parents; and an equivalised amount of **£350 per week** (£18,200) in the case of single people without children, or whose children do not live with them.

There was a phased implementation of the benefit cap from 15 April 2013 in four LAs. Using the learning from the first phase the remaining LAs accurately and safely applied the cap between 15 July 2013 and the end of September 2013. Households identified as being appropriate to be capped were capped by the end of September 2013. As the benefit cap is administered through Housing Benefit (HB) and Universal Credit (UC), any household which is not in receipt of one of those benefits is not in scope for the cap.

Benefits taken into account

Benefits and tax credits (with the exception of Working Tax Credit and HB for those living in supported exempt accommodation) that provide an out-of-work income for adults or support for children and housing are taken into account for the purposes of applying the cap.

Where a household's total amount of benefit income exceeds the cap, the LA will reduce the household's entitlement to housing benefit by the amount of the excess.

Benefits not taken into account

Legislation specifically excludes State Pension and Pension Credit, reflecting that the policy is primarily a work incentive aimed at people of working age. Also excluded are one-off payments, non-cash benefits (such as Free School Meals) and payments not made by government, such as Statutory Sick Pay (which, in any event, would be paid while someone was in employment and so exempt from the cap).



10 The benefit cap

Exemptions

Certain benefits and payments such as Working Tax Credit and some disability-related benefits will result in exemption from the cap to maximise its impact on promoting work whilst continuing to protect vulnerable claimants for whom work is not currently a viable option.

See Annex B for more details.



Policy

3

Introduced as part of a package of welfare reforms, the benefit cap should be seen in the context of the budget deficit and the reductions in public expenditure that the Government is making to tackle it. Over the ten years to 2011/12, spending on working-age-benefits and Tax Credits increased by almost 50 per cent in real terms. In 2009/10, around £90 billion was paid out in benefit payments to people of working age and their families, about the same as was spent on education, compared with £38 billion spent on defence. It was no longer affordable or fair to pay excessive amounts in benefit to households each week, sometimes considerably in excess of what someone in work might take home in wages.

The objective of the policy is to restrict the total amount of welfare a household can receive, broadly to the level of the average take-home pay of working households. By doing this the policy will improve working incentives for those on benefits; deliver fiscal savings, improve public confidence in the welfare system and sit alongside the other measures to make the system fair and affordable.

Policy development of the benefit cap focused on finding a balance between meeting the main aim of restricting the amount of benefits that a working-age household could receive to broadly that of the average working family, whilst continuing to protect vulnerable claimants for whom work was not currently a viable option.

The benefit cap policy was subject to considerable debate and scrutiny during the passage of the Welfare Reform Act 2012. Assessments of impacts on people sharing different protected characteristics continued throughout the process. Our review of the equality impact assessment in July 2012 extended exemptions and support arrangements prior to implementation and was noted as good practice by the Equality and Human Rights Commission.

Policy design – extension of exemptions and support arrangements.

- Exemptions for some disability-related benefits in recognition of the additional financial costs that can arise from disability.
- Widening the types of accommodation for which HB is excluded from the cap in recognition of the additional costs faced by those fleeing domestic violence.
- Introducing a grace period of nine months for households which include someone who had worked for 50 out of the previous 52 weeks to ensure that there was no penalty for simply moving between jobs.
- Providing additional transitional funding of up to £65 million in 2013/14 and up to a further £45 million in 2014/15 for DHPs in response to concerns about the potential impact of the benefit cap. LAs are able to use these funds to provide short-term, transitional support.

More recent comparisons show that the estimates we made in our 2012 impact assessments are broadly in line with the characteristics of households that have been actually affected by the benefit cap since its introduction (up to August 2014).

The mitigations that were put in place based on the estimated characteristics are having the desired outcome of supporting people to change their circumstances and providing exemptions for claimants for whom work is not currently a viable option.

See **Annex C** for further details on those impacted and mitigations.

The latest official statistics published in November 2014 show over 51,000 households have been subject to the benefit cap.

- Forty-six per cent of households affected by the benefit cap were in London.
- Of the 27,200 households capped in August 2014, 80 per cent of households were capped by £100 or less a week.
- Since the introduction of the cap, 47 per cent who had previously been capped are no longer subject to the cap. Of these, 40 per cent or 9,600 households had moved into work⁹.

⁸ As defined by an open Working Tax Credit claim.

Public perception

4

The benefit cap is a popular policy with strong public support both in principle and on understanding the detail of the policy. An Ipsos MORI survey⁹, carried out on behalf of the Department for Work and Pensions (DWP), shows that the vast majority of the public believed the welfare system was not previously working effectively; with over half stating that politicians should do more to reduce the amount of money paid out in benefits.

There is strong public support for the benefit cap policy.

- Survey results show more than seven in ten (73 per cent) support the benefit cap in principle.
- Over three-quarters (77 per cent) of the public agree it is fair for households with no-one working to receive no more in benefit than the average amount working households receive in pay after tax.
- Almost three in five (58 per cent) agree politicians need to do more to reduce the amounts spent on benefits overall.
- Two-thirds (65 per cent) felt households should be prepared to move to a cheaper property and half (51 per cent) that they should be prepared to move to a similar sized property in a cheaper area.
- Four in five (80 per cent) felt those affected by the benefit cap should find ways of reducing their living costs and bills.

Even amongst those who were capped there was a good understanding of, and general agreement to, the principle of the benefit cap, despite them often feeling their own circumstances made it hard for them personally to cope with being capped.

⁹ <https://www.gov.uk/government/publications/benefit-cap-public-attitudes-before-and-after-its-introduction>



14 Public perception

How to respond to the benefit cap and any shortfall it might create in the household's income is for individuals to decide. But making those decisions, as working households have to, is exactly the behaviour that the Government wants to encourage, and the public agree with this approach.

The public felt the benefit cap should encourage people to move into work.

- Seven in ten (70 per cent) said those affected by the benefit cap should be prepared to find new or alternative work or work more hours.



Implementation of the benefit cap

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There were two separate stages to the cap's implementation:

- **Stage 1 from April 2012:** Jobcentre Plus and LAs provided support to those households on out-of-work benefits that would be impacted by the benefit cap, before it was introduced;
- **Stage 2 from April 2013:** implementation of the benefit cap on the existing benefits system via HB;

Stage 1 – Pre-cap implementation support for claimants

Prior to, and during, implementation of the benefit cap a number of measures were put in place to ease the transition for the families affected by the policy. Existing claimants potentially affected by the cap were given early notice to ensure they were aware that, if their circumstances didn't change, their benefits would be capped from April 2013. We also notified affected claimants of the support available to help them back into work or, if work was not an option, other ways in which we could help them.

Jobcentre Plus and LAs started working with potentially capped households one year before the cap was implemented to prepare them for the cap so that they were better able to make necessary changes. We provided additional funding for early entry to the Work Programme and additional Jobcentre Plus support for all claimants identified as potentially capped.

Awareness of the benefit cap was raised through several mailshots across 2012/13. Support was also offered face-to-face through co-location of Jobcentre Plus resource with LAs in areas with large numbers of potentially capped households. This support took the form of targeted case management of households who were due to be capped by large amounts and innovative piloting of new ways of working.¹⁰

¹⁰ <http://policyinpractice.co.uk/wp-content/uploads/2013/07/Policy-in-Practice-Benefit-Cap-White-Paper.pdf>

16 Implementation of the benefit cap

Evidence shows behavioural effects before implementation.

- Fourteen per cent of households in scope for the cap in May 2012 (a year before implementation) moved into work after a year, compared to around 11 per cent for similar uncapped households.
- Of those who entered work prior to implementation; over three in five people (62 per cent) of those who took action said they looked for a job after being notified they would be affected by the cap.

Stage 2 – Implementation

The benefit cap was implemented from 15 April 2013 in four LAs in London – Bromley, Croydon, Enfield and Haringey. These were chosen as London has the highest percentage of potential benefit cap claimants and a diverse cross-section of residents. This approach allowed all three of the main types of LA IT systems to be tested.

National implementation followed in two tranches. LAs with lower caseloads implemented the policy from 15 July with the remaining LAs implementing the cap from mid-August. All appropriate households were capped by the end of September 2013. The phased approach informed best practice and ensured safe roll-out for national implementation. A two-stage checking process was introduced to ensure that no household was capped incorrectly.

Throughout the initial phased implementation stage, regular senior level meetings were held between managers from the four LAs, London Councils, the Local Government Association, the Department for Communities and Local Government and the DWP. The joined-up approach enabled open discussions on practical operational issues, such as the specification of letters to claimants informing them that they had been capped, and ensured the policy was administered effectively by LAs.

During the phased implementation, daily contact calls ensured that cases were tracked from identification as potentially capped right through to actual capping. This meant that each stage of the process was quality assured. LAs were allocated named DWP single points of contact for operational discussions. Queries on specific households were cleared within agreed timescales under the terms of a memorandum of understanding.

Additional support accessed through Jobcentre Plus, local authorities and landlords – before and after implementation of the benefit cap.

- Eighty-five per cent of households in scope for the cap in May 2012 were identified for Jobcentre Plus advisers to work with them. The total estimated number of letters sent to households in scope for the cap was over 200,000, with some households receiving an initial notification and follow-up reminders.
- Around £12m in extra funding was provided to LAs to meet costs related to administering the cap, including more funding for housing options advice and budgeting advice to support households through implementation.

Post-implementation

The Government continues to provide support to help people move into work, manage their housing needs and budget.

In response to concerns about the potential impact of the benefit cap on particular groups, the Government provided additional transitional funding of up to £110m over two years (2013/14 and 2014/15) for DHPs. These additional payments made an important contribution to managing the transition for claimants whilst they made the necessary changes to adapt to the application of the benefit cap.

Support continues post-implementation.

- In-depth interviews carried out with 50 households affected by the Cap, found half reported that they had looked harder for work, broadened the type of work they were willing to accept, tried to increase their hours of work, or started to look for work in response to the cap.
- More than one-third of people in the Wave 2 survey cohort are using, or have used, employment services such as Jobcentre Plus more frequently as a result of being affected by the benefit cap.
- There is some evidence of LAs supporting claimants in lowering their rent, with some negotiating on behalf of tenants.

The three key aims of the benefit cap

6

1. Incentives to work

Aim: to increase incentives to work by limiting the amount of benefit households on out-of-work benefits can receive.

The Government is committed to reducing unemployment through promoting growth and incentivising work. The benefit cap is one of the reforms introduced to make the benefits of work clearer and the path back to work easier to navigate. When introducing the benefit cap we combined the changes to benefit rules with a massive drive to provide practical support.

Work remains the best route out of poverty. Income is important but poverty is about more than income alone; it is also about a lack of opportunity, aspiration and stability. We need to tackle benefit dependency to break intergenerational cycles of disadvantage.

Results from the evaluation of the benefit cap are showing evidence of behavioural change. The movement into work for those households impacted by the benefit cap is higher when compared to a similar group of households not affected by the cap.

The same behavioural change is evident for the sub-groups identified in the impact assessments. These groups, which are also showing significant increases in movements into work include: households in receipt of Carer's Allowance, larger families with three or more children and lone parents irrespective of the age of the youngest child.

There is also evidence of differences in behavioural change for those capped by larger amounts and for those living in London.

The benefit cap has increased the proportion of households moving into employment.

- Nineteen per cent of capped households in the May 2013 cohort were in work after a year compared to 11 per cent for a similar uncapped group.
- After controlling for a range of observable difference between the groups (for example number of children) capped households were 4.7 percentage points (41 per cent) more likely to enter employment compared to similar uncapped households.
- The greater the amount by which the benefits received were reduced by, the greater the proportion moving into employment. Over 30 per cent of those capped by more than £200 per week moved into work after a year.
- Nearly a quarter of capped households in London entered work after a year. This compares with around 13 per cent for those households with benefits entitlement just under the cap level.
- After controlling for a range of observable difference between the groups, London households in scope for the cap in May 2013 were 9.5 percentage points (70 per cent) more likely to flow into work after a year than similar uncapped households.
- Lone parents in scope for the cap were 4.9 percentage points (51 per cent) more likely to enter employment after a year compared to similar uncapped households when controlling for a range of observable characteristics. The proportion of lone parents moving into employment was over 16 per cent compared to less than ten per cent for those with a benefit entitlement just under the cap level.
- Fifteen per cent of the May 2013 cohort of households in scope for the cap claiming Carer's Allowance entered work after a year compared to five per cent for those with a benefit entitlement just under the cap level.

It is up to individuals to decide how they choose to respond to the benefit cap and any shortfall it might create in the household's income. But making those decisions is exactly the kind of behaviour that the Government wants to encourage. Taking personal responsibility for these important decisions can result in greater independence and freedom.

Even where households have chosen short-term responses other than work, **work is still their longer term goal** and there is strong evidence of additional activities being undertaken to support movement into work.

Evidence suggests that over time short-term budgeting gives way to increased job search and intentions to move into work.

- Spending less and looking for paid work remained the most common responses to the benefit cap recorded in the wave 2 survey of the post implementation effect of the benefit cap (conducted in August 2014). These were also the most common responses in the wave 1 survey six months earlier in February 2014.
- Respondents in wave 2 of the survey in August 2014 took the following actions: spent less on household essentials (as defined by the respondent), (35 per cent), spent less on non-essentials (30 per cent) and looked for a job (28 per cent).
- While 32 per cent who responded in the wave 1 survey said they had spent less on essentials, only ten per cent planned to continue doing this over the next 12 months. Likewise of the 24 per cent who said they responded by reducing expenditure on non-essentials, only eight per cent said they planned to continue to do this for the next 12 months.

20 The three key aims of the benefit cap

- In February 2014 (wave 1), a quarter of those affected by the benefit cap stated they had looked for work (24 per cent). Many more were planning to look for work over the next 12 months (45 per cent). 85 per cent of those who were intending to look for work in February 2014 said in August 2014 (wave 2) that they **had** looked for work.
- In August 2014 (wave 2), 38 per cent of capped claimants stated they were doing more job seeking, 35 per cent were using employment services more often, 32 per cent were submitting more job applications and 20 per cent were going to more interviews.
- In-depth interviews carried out with 50 households affected by the cap, showed those already looking hard for employment (before the benefit cap) reported no change in their job search effort in response to the benefit cap. The remainder reported they looked harder, broadened the type of work they were willing to accept, tried to increase hours of work or started to look for work in response to the cap.

Qualitative interviews with households affected by the benefit cap found that for those who were looking for work the main barriers were language skills, qualifications and caring responsibilities, predominantly for young children.

Barriers to work include childcare, language skills and qualifications.

- Around two-thirds of those affected by the benefit cap perceive considerable barriers to employment. More than two in five (43 per cent) mentioned the availability/cost of childcare. This was followed by health (27 per cent) and caring responsibilities (24 per cent).
- A sizeable minority have, however, taken some actions to overcome these barriers including help with training/qualifications, job-searching and childcare.

Of those interviewed in-depth who had moved into work most were in part-time employment. For lone parents especially this was seen as sufficient. However, a few hadn't been able to work the required number of hours to qualify for the Working Tax Credit exemption and were still capped. Nevertheless they were financially better off as the amount they were capped by reduced and they received earnings from employment. There was also some movement into self-employment, such as cleaning or taxi driving.

Some households who had moved into work were much better off, with most being at least as well off as they had been before the benefit cap. Where interviewees had built up debts they were yet to feel the financial benefit of work as they were paying these debts off. However, being in work has additional and wider benefits, for example to health and wellbeing, and these positive aspects were also reported by those households who had moved into work. Statements from previously capped households show that where parents had found work, despite the new challenges faced, their self-esteem increased and they found pleasure in being able to provide small treats for their children. The evaluation showed that the wider benefits of being in work, such as those benefits for health and family life were acknowledged by most.

In-depth interviews with claimants affected by the benefit cap found that most people said they were aware the cap was coming, but some were still surprised at the extent of the reduction. There was also some confusion initially over the impact of the Local Housing Allowance and the impact of the benefit cap. But some indicated that the cap had given them the push they needed to find work.

2. Fairness in the system

Aim: to introduce greater fairness in the welfare system between those receiving out-of-work benefits and taxpayers in employment.

The Benefit Cap sets a fair limit to what people can expect to get from the welfare system, ensuring that people on benefits can no longer receive more from the state than the average wage of a hardworking family.

People who do the right thing and move into work will not be affected by the benefit cap, and we have ensured vulnerable people will continue to receive the right support. We have been working closely with claimants since April 2012 to help them prepare for the introduction of the benefit cap.

Benefit Cap caseload and composition

The total caseload of the benefit cap (around 27,000 currently capped) represents a very small proportion of the overall benefit caseload (there are five million HB recipients). The estimated number of households in scope for the cap has fallen by around 50 per cent since March 2010 and by 40 per cent since March 2012. This may partly be due to changes made by the households and partly due to other welfare reform measures aimed at reducing the benefit spend.

The benefit cap caseload demographics are broadly in line with those identified in the Impact Assessment July 2012 – see **Annex C** for further details.

The benefit cap caseload represents a very small proportion of the overall benefit caseload.

- Households affected by the benefit cap represent less than one per cent of the total claimant caseload.
- Over 51,000 households have been capped between the introduction in April 2013 and August 2014.
- The latest available data, August 2014, shows 27,200 households are capped. The monthly caseload has remained stable since November 2013.
- Of households capped in August 2014, 59 per cent had between one and four children; 61 per cent were lone parents; and 80 per cent were capped by £100 or less.

Our focus throughout the development of the benefit cap policy has been on finding the right balance between introducing greater fairness between those receiving out-of-work benefits and with taxpayers in employment, whilst continuing to protect vulnerable claimants for whom work was not currently a viable option.

Mitigations were put in place to protect vulnerable groups, including households where someone is claiming a disability-related benefit.

There was no specific evidence found on the effects of the policy on victims of domestic violence, however, it is worth noting that DHPs are aimed at a number of groups, including individuals or families fleeing domestic violence.

Using the ‘before housing costs measure of poverty’, only couples with five or more children or lone parents with six or more children are judged to be in poverty at the current cap level. Therefore less than one-third of capped households would be judged to be in poverty.

22 The three key aims of the benefit cap

Additional funding for DHPs was provided to ensure that those who face a variety of challenges and are unable to make immediate changes were provided with short-term, temporary support to help manage the transition. Evidence suggests DHPs worked well; households are seeing them as a temporary solution and they have not reduced off-flow from the benefit cap into work. Some LAs have attached work focused conditionality to receipt of DHPs.

Additional funding was provided to support households affected by the benefit cap.

- £65m in 2013/14 and £45m in 2014/15 was provided to LAs through DHPs to support households affected by the benefit cap.
- Only £26m of the 2013/14 DHP allocation was spent on capped households. The caseload was approximately half of that estimated at the time of the allocation. Households moving out of scope may be possible reasons for reduced demand.
- Awareness of DHPs is high amongst capped households. Of those who responded to the February 2014 survey (wave 1), 57 per cent were aware of DHP's and 55 per cent of those had received them. In August 2014 (wave 2), 59 per cent of those surveyed had applied for DHP.
- Evidence shows DHP receipt is not seen as a long-term option. Twelve per cent of respondents in February 2014 (wave 1) mentioned spontaneously they had applied for DHPs but only four per cent said they intended to do so in the next 12 months.
- Just under half of those interviewed for the qualitative evaluation said that they had not heard of DHPs, even when they were described by the interviewer. The majority of these were outside London and capped by lower amounts. The vast majority of those who had heard about DHPs had applied and all were at least partially successful with most people awarded DHP to cover the entire shortfall.
- In-depth interviews with claimants showed they were aware DHPs were temporary and a short-term solution. Conditionality, through seeking work or increasing hours, was applied by some LAs.

Impact and response to the benefit cap

Moving house is not seen as the first choice for most capped claimants, financial issues such as lack of affordable properties/property prices and the supply of suitable housing locally are given as the main barriers to moving (although DHPs may be provided to cover such costs). However, family and social networks and children are the main reasons given for not wanting to move longer distances and for prioritising rent payments to enable households to remain in their current home.

Relatively small numbers are actually moving house and generally this is short distances (within the same LA); those who stated they were looking to move were only currently taking small steps toward this. There is some evidence of claimants successfully renegotiating rent to allow households to remain in their current home, a similar response occurred to Local Housing Allowance reforms¹¹.

Whilst our data has not found large numbers of additional households moving, there has been a marginal increase in numbers moving from outer London to outside London. Stakeholder interviews reported that there has been a dynamic of households in the private rented sector finding their own accommodation outside London and much smaller numbers were assisted by the LA.

¹¹ <https://www.gov.uk/government/publications/local-housing-allowance-monitoring-the-impact-of-changes>

Evidence suggests the benefit cap has not led to significant increases in the proportion of capped households moving house.

- After 12 months, around 14 per cent of those in scope for the cap in May 2013 had moved house, compared to around 11 per cent for a group with benefit entitlement just under the cap level – this two to three percentage point difference has historically been observed between the two groups. This suggests the benefit cap has not led to significant increases in households moving.
- The benefit cap may, however, have led to an increase in the probability of moving amongst a small subset of capped households who lost a relatively large amount of benefit income as a result of the cap (who were disproportionately in London).
- There has been a small increase in the proportion of households in scope for the cap moving from Outer London to outside London, but this represents a very small number of households.
- In February 2014 (wave 1 survey respondents), 42 per cent of affected households said they were looking to move, with just over half of this group (52 per cent) stating it was mainly because of the changes to benefits resulting from the benefit cap. However, very few indicated spontaneously that they had looked at moving house as the main response to the cap.
- In August 2014 (wave 2), lower proportions were looking to move house (36 per cent compared to 42 per cent six months before).
- By August 2014 (wave 2), one in ten surveyed had moved to another property since February 2014 (wave 1), with around three in five (62 per cent) doing so at least in part because of being affected by the benefit cap.
- The evidence shows that the benefit cap has led to little, if any homelessness. LAs indicated that the few capped households who have had to leave their home had pre-existing issues and failed to engage with services, and as such were determined to be voluntarily homeless.
- Households who identified barriers to moving house indicated that financial considerations and the absence of any cheaper available housing in the area were factors.
- In-depth interviews with claimants indicated that those who did not want to move stated it was mainly because they believed they were in the cheapest available housing locally.
- Another barrier to moving was financial; for example the cost of a deposit or rent arrears resulting in not being able to get the deposit back. Households did recognise the importance of paying rent and staying in their home.
- There was also a reluctance to move long distances due to children being settled and a lack of knowledge about other parts of the country. Support networks were also mentioned in the context of coping with the cap.

The claimants with whom in-depth interviews were conducted had tight budgets and most of them had some debts. Those who were affected by the benefit cap had developed coping strategies including budgeting and accessing support services. Budgeting strategies included choices such as spending less on telephones or buying non-branded goods. Less sustainable solutions included not paying bills or borrowing from lenders.

Households reported prioritising rent payment and carefully budgeting to ensure they were not at risk of losing their home. Evidence of this strict budgeting is found across the evaluation.

24 The three key aims of the benefit cap

The majority of households were up-to-date with rent.

- The majority of households, around three-in-five respondents in August 2014 were up-to-date with rent. There has been a slight decrease in the proportion of households in arrears from February 2014 (wave 1 survey) to August 2014 (wave 2 survey) (41 per cent to 39 per cent).
- A large proportion of claimants have not built up arrears; more than two-in-five (42 per cent) have not been in arrears at either the time of the wave 1 survey (February 2014) or wave 2 (August 2014).
- A greater proportion of households moved out of arrears than went into arrears in the six months between the wave 1 and wave 2 surveys (18 per cent and 13 per cent respectively). Households were taking action to get out of arrears: 41 per cent of those in arrears had agreed a repayment plan with landlords. Smaller proportions had budgeted by spending less on essentials and non-essentials. The vast majority (79 per cent) of those who were no longer capped were up-to-date with rent.

A small group of claimants have done nothing in response to the benefit cap, but are generally those capped by a smaller amount. Evidence shows that those capped by less than £25 per week were significantly more likely to state that they had done nothing compared to those capped by over £100 per week.

Most households are responding to the benefit cap.

- The relatively small group of claimants who stated that they had done nothing in response to the cap in February 2014 (wave 1) and August 2014 (wave 2) (17 per cent and 21 per cent respectively) were more likely to be capped by small amounts.
- Of those who stated in February that they intended to do nothing in response to the cap, when we revisited them in August most (63 per cent) had taken some action.

3. Benefit savings

Aim: to make financial savings where the benefit cap applies and, more broadly, help make the system more affordable by incentivising behaviours that reduce long-term dependency on benefits.

The benefit cap was announced in the 2010 Spending Review and alongside other policies will make the system fair and affordable. Recent estimates are for Annually Managed Expenditure savings of £85m in 2013/14 and £140m in 2014/15.

It is important to note that these estimates simply represent the total amount of benefit capped; they do not include any savings from changes in behaviour as a result of claimants having been capped. For example, households moving into work (who will see benefit eligibility reduced and may start to become taxpayers). Households downsizing, or moving to cheaper locations, will receive lower HB. These types of behavioural changes would generate additional savings for the taxpayer over and above those found by direct reductions in household benefit income.



Since the introduction of the benefit cap in April 2013 to August 2014, 23,900 households (47 per cent) who have previously been capped are no longer subject to the cap. Of these, 9,600 had moved into work¹² which is 40 per cent of those no longer subject to the cap.

There is strong evidence the benefit cap is leading to more claimants looking for and finding work. In February 2014, one-quarter of capped claimants stated they looked for a job in response to the cap and in August/September 2014, 38 per cent of capped claimants stated they were doing more job seeking. Households in scope for the benefit cap in May 2013, after controlling for a range of observable characteristics, were over 40 per cent more likely to enter work after a year compared to similar uncapped households.

¹² As defined by being exempt from an open Working Tax Credit claim.



Conclusion

7

Evaluation findings following the first year of the operation of the benefit cap suggest it is working as intended.

The benefit cap is acting as an incentive to work, with results from the evaluation of the benefit cap showing evidence of behavioural change. The movement into work for those households affected by the benefit cap is higher when compared to the numbers moving into work from similar households not affected by the cap.

The public support and understanding of the policy provides a good indication that it is working in terms of introducing greater fairness into the welfare system between those who are receiving out-of-work benefits and taxpayers in employment.

Early evidence and data suggests that the balance between meeting the main aim of restricting the amount of benefits that a working-age household could receive whilst continuing to protect vulnerable claimants for whom work is not currently a viable option is about right. We will keep this under review.

Most households affected by the benefit cap are making choices about how to respond to the benefit cap and any shortfall it might create in their household's income. These are similar choices to those faced by hardworking taxpayers in employment.

Whilst headline savings from capping households is lower than previously estimated this is driven by fewer cases than expected having been capped; as a result of their behaviour changing in response to the policy and other welfare reform policies. These positive behavioural changes will generate additional gains to the taxpayer, both from lower welfare payments and, potentially, additional tax revenue.

Annex A

Benefit cap evaluation

This document is **The Benefit Cap Review**. The review is published in line with the statement by the Minister for Employment on 1 February 2012. This document draws on the suite of evaluation material published alongside it. It also makes reference to the official statistics: <https://www.gov.uk/government/collections/benefit-cap-statistics> and evidence previously published by the Department: <https://www.gov.uk/government/publications/benefit-cap-public-attitudes-before-and-after-its-introduction> It should be read in conjunction with the other reports, these are:

1. **Benefit Cap: analysis of outcomes for capped claimants.** Analysis of administrative data carried out by departmental analysts and peer reviewed by the Institute for Fiscal Studies. This document examines the historical estimates of those in scope for the Cap and effects of the Benefit Cap by comparison of outcomes of capped claimants and comparable groups. Evidence is presented on movement into work (proxied by Working Tax Credit exemption), moving house and movement out of scope for the cap.
2. **Post-implementation effects of the benefit cap.** An Ipsos MORI longitudinal telephone survey of capped households identified from the October 2013 Single Housing Benefit Extract (SHBE). The first wave of the survey was carried out with 1,200 claimants in February 2014, and the second in August/September 2014 with 468 of the same claimants. This work examines the behavioural change over time on employment, finances and housing.
3. **In-depth interviews with people affected by the benefit cap.** A Cambridge Centre for Housing and Planning Research (CCHPR) report based on interviews with 50 households affected by the Benefit Cap. These households were identified from the same source as the Ipsos MORI surveyed claimants. This work explores coping strategies of households and changes in behaviour around work and wellbeing, mobility and household structure, income and wellbeing, and beliefs and expectations. It provides contextual information around themes explored in the survey.



4. **Supporting households affected by the benefit cap: Impact on Local Authorities, local services and social landlords.** This report by CCHPR draws on work in ten case study LAs; a survey of social landlords; and consultation with major lenders to the Housing Association sector. A variety of LA staff were interviewed in May/August 2013 and again in September 2014 in case study areas; 26 landlords were interviewed in 2013 and again after one year in these areas alongside 47 local agencies (including CAB and voluntary organisations); and variety of lenders were interviewed and provided written responses to the consultation in October 2013 and 2014. It provides information on how local services have been affected and how they are working with capped claimants.



Annex B

Benefit cap details

From April 2013 the Government introduced a cap on the total amount of benefit that working-age people can receive so that, broadly, households on out-of-work benefits will no longer receive more in welfare payments than the average weekly earnings for working households.

The cap has been set at £500 per week for a couple (with or without children) and single parent households; and at £350 per week for single adult households without children.

The benefit cap was introduced on the 15 April 2013 in Croydon, Bromley, Enfield and Haringey LAs. National implementation of the cap began on 15 July 2013. The benefit cap was successfully rolled out to all LAs across the country by the end of September.

Benefits taken into account

Benefits and tax credits (with the exception of working tax credit) that provide an out-of-work income for adults or support for children and housing are taken into account for purposes of applying the cap.

The cap applies to the combined income from:

- Bereavement Allowance
- Carer's Allowance
- Child Benefit
- Child Tax Credit
- Employment and Support Allowance except where the support component has been awarded
- Guardian's Allowance
- Housing Benefit
- Incapacity Benefit

- Income Support
- Jobseeker's Allowance
- Maternity Allowance
- Severe Disablement Allowance
- Widowed Parent's Allowance
- Widow's Benefit

Currently, where the total amount of welfare benefits exceeds the cap, the LA will reduce a claimant's entitlement to HB by the amount of the excess, but increasingly the benefit cap will be administered through UC.

Benefits not taken into account

Legislation specifically excludes State Pension and Pension Credit, reflecting that the policy is primarily a work incentive aimed at people of working age. Also excluded are one-off payments, non-cash benefits and those not paid by government, such as Statutory Sick Pay (which, in any event, would be paid while someone was in employment and so exempt from the cap).

Exemptions

Entitlement to Working Tax Credit reflects the main aim of the policy, which is to increase the incentive to work. This includes households who are working sufficient hours to qualify for Working Tax Credit but whose earnings are at a level that means they have been awarded a 'nil entitlement.'

Receipt of Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Industrial Injuries Benefits (and equivalent payments made as part of a War Disablement Pension or the Armed Forces Compensation Scheme) or the support component of Employment and Support Allowance recognise the additional financial costs that can arise from disability and that disabled people will have less scope to alter their spending patterns or reduce their housing costs, or adjust their circumstances to improve their employment prospects

War widows and widowers receiving a pension paid under the relevant parts of the War Pension Scheme, Armed Forces Compensation Scheme or analogous schemes are exempt to reflect commitments to support the aim of the Armed Forces Covenant to recognise the sacrifice of those seriously injured or killed in the service of their country.

Grace period provides a fixed period of protection for those with a consistent work history whose employment has ended or those who have been forced to leave work due to a change in their circumstances during which they can adapt to their position and look for alternative employment. The grace period will be for a set 39 weeks, and if applicable it will remain in place irrespective of any reportable change of circumstances made by the claimant during the 39 weeks.

Disregards

In addition some payments are disregarded for purposes of the benefit cap. Housing costs paid in respect of '**supported exempt accommodation**' (e.g. some refuges, hostels) are not included in the benefit cap calculation.

Annex C

Benefit cap – people with protected characteristics – impacts/mitigations

Numbers capped

Over 51,000 households have been capped since the introduction of the benefit cap up to August 2014¹³. The monthly caseload has remained stable since November 2014 at around 27,000. Historical estimates have shown a 50 per cent reduction of those in scope for the cap since March 2010.

Mean reduction

80 per cent of capped households were capped by £100 or less as shown below. The mean amount capped was £62.79 in August 2014 and over the entire time period averaged £65.79

Number of capped households	27,241
Up to £50	14,658
£50.01 to £100	7,258
£100.01 to £150	3,190
£150.01 to £200	1,090
£200.01 to £250	501
£250.01 to £300	274
£300.01 to £350	130
£350.01 to £400	95
£400.01 and above	51

¹³ <https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-august-2014>

Family type

95 per cent of capped households in August 2014 contained children. Sixty-one per cent of capped households constituted a single parent with child dependents and 34 per cent were couples with children.

Family size

36 per cent of capped households had five or more children in August 2014. Five per cent of households had no children with the remaining 59 per cent having between one and four children.

Gender

Around 61 per cent of capped households were single females (either lone parents or single-member households) and four per cent were single males (either lone parents or single-member households). The remaining households were either couples or the gender of the households was unknown.

Age

Most households (90 per cent) were aged between 25 and 49-years-old. Two per cent were under 25-years-old and eight per cent were over 50-years-old. As those under 25 tend to receive less benefit, and are less likely to have children, this will explain the disparity. The cap will only apply to working-age benefits and will not impact on single people or couples who have both reached the qualifying age for Pension Credit. In HB, the cap will not apply to most couples where one partner has reached the qualifying age for Pension Credit.

Disability

Households where someone is in receipt of Disability Living Allowance (or its replacement, Personal Independence Payment), Attendance Allowance, Industrial Injuries Benefit or the support component of Employment Support Allowance are exempt from the benefit cap.

Ethnicity

We can not precisely quantify the amount of capped households where a member is from an ethnic minority. A large proportion of those affected by the benefit cap are larger families. Those from cultural backgrounds with a high prevalence of large families and households from certain ethnic minorities that tend to have a higher proportion of large families are more likely to be affected. A large proportion of the caseload is also in London which, relative to the rest of the country, has a more diverse population. An indicative proportion can be taken from the Ipsos MORI survey of affected claimants which found that 37 per cent of households sampled in the cohort were from a black or minority ethnic background.

Geography

Forty-six per cent of households affected by the benefit cap since the introduction of the policy were in London. Of the top 20 LAs with the highest number of households affected by the benefit cap, only two were outside London – Birmingham and Manchester. Three per cent of affected households were in Wales and around four per cent were in Scotland.

Sexual orientation

The Department does not hold information on its administrative systems on the sexual orientation of claimants. The Government does not envisage an adverse impact on these grounds.

Pregnancy and maternity

The Department only holds information on pregnancy and maternity on its administrative systems where it is the primary reason for incapacity. It cannot therefore be used to accurately assess the equality impacts. The Government does not envisage an adverse impact on these grounds.

Religion or belief

The Department does not hold information on its administrative systems on religion or belief of claimants. The Government does not envisage an adverse impact on these grounds.

Gender reassignment

The Department does not hold information on its administrative systems on gender reassignment. The Government does not envisage an adverse impact on these grounds.

Marriage and civil partnership

The Department does not hold information on its administrative systems on the marital or civil partnership status of claimants. The Government does not envisage an adverse impact on these grounds.

Carers

Modelling suggests around 1,400 households with at least one Carer's Allowance claimant are currently subject to the benefit cap. Around 98 per cent of households in receipt of Carer's Allowance who have a benefit income above the cap level are exempt from the cap, in most cases because the person they care for is in receipt of an exempting disability related benefit and lives in the same household. Carers in scope for the cap in May 2013 exhibit similar characteristics to the capped group as a whole; around 50 per cent are in London, around 28 per cent had five or more children, and around 75 per cent were female.

Behavioural responses

There is strong evidence the benefit cap is leading to more claimants looking for and finding work. In February 2014, one-quarter of capped claimants stated they looked for a job in response to the cap and in August/September 2014, 38 per cent of capped claimants stated they were doing more job-seeking. Households in scope for the cap in May 2013, after controlling for a range of observable characteristics, were 4.7 percentage points (over 40 per cent) more likely to enter work after a year compared to similar uncapped households. This was greater for households in scope for the cap in London.

After 12 months, around 14 per cent of households in scope for the cap had moved house relative to around 11 per cent for a similar group just under the cap level. However, a two or three percentage point difference was also present prior to implementation. There were also no large-scale moves out of London found; four-in-five of those in scope for the cap in inner London who moved within 12 months, moved to another property in Inner London.

Mitigations

We also have a number of measures in place to ease the transition for families affected by the policy. Our strategy is based on the principle of providing mainstream services that are flexible enough at the point of delivery to deal with the needs of individual customers. Most of the obstacles to labour market participation faced by our customers are very similar, whatever their background. Barriers that may exist, such as lack of confidence, poor educational achievement, low skill levels or disabilities are universal. Where impediments are specific to a person's ethnic origins, such as lack of fluency in English, these can be addressed within the mainstream programmes.

Employment support

There is a wide range of help available including employment support offered by Jobcentre Plus, the Work Programme, the Work Choice programme and Access to Work. The Department works intensively with claimants explaining and identifying the support available locally and how they can look at other options if appropriate.

Childcare costs

Support for childcare costs for those in work is currently provided through Working Tax Credit and households in receipt of Working Tax Credit are exempt from the cap. Under UC childcare support will be paid via an element within UC and will be available to all lone parents and couples, where both members are in work, regardless of the number of hours they work. Payments to support childcare costs through UC will not be affected by the cap and will continue to be received in full. This will help mitigate the impacts of the cap for parents whilst maintaining the work incentive effects of providing support for the costs of childcare for those in employment.

Exemptions

Certain benefits and payments will result in exemption from the cap. Exemptions will apply for:

- **Entitlement to Working Tax Credit:** In order to increase the incentive to find a job or increase hours worked, all benefit households which are entitled to Working Tax Credit (WTC) are excluded from the cap. This includes households who are working sufficient hours to qualify for Working Tax Credit but whose earnings are at a level that means they have been awarded a 'nil entitlement.'
- **Households in receipt of the following benefits will be exempt from the cap:**
 - Disability Living Allowance;
 - Personal Independence Payment;
 - Attendance Allowance;
 - Industrial Injuries Benefits (and equivalent payments made as part of a war pension or the Armed Forces Compensation Scheme);
 - the support component of Employment and Support Allowance; and
 - the limited capability for work and work related activity element of UC.

This is in recognition of the additional financial costs that can arise from disability and that disabled people will have less scope to alter their spending patterns or reduce their housing costs.

- **War widows and widowers:** An exemption will apply to any war widow or widower who is in receipt of a pension paid under the relevant parts of the War Pension Scheme, Armed Forces Compensation Scheme or analogous schemes. This supports the aim of the Armed Forces Covenant to recognise the sacrifice of those seriously injured or killed in the service of their country.

Grace period

Application of the benefit cap will be deferred for 39 weeks (nine months) for those claimants who have been in work for the previous 12 months and find that their circumstances have changed because their job has ended. This allows people time to find alternative employment or consider other options to avoid the impacts of the cap. The 39-week grace period will apply to a new claim for benefit where a claimant or their partner has been in work continuously for 50 weeks out of the previous 52 weeks (12 months) and during the period(s) of employment they were not in receipt of out-of-work benefits. We have allowed for up to two weeks between periods of employment when assessing a continuous 12-month period as this offers protection to people who may have moved employment in this period and who have had a short break between employers/contracts. A claimant will be allowed to have claimed an out-of-work benefit in these two weeks.

The grace period is for a set 39 weeks beginning on the day following the last day of employment. Where a grace period is applicable it will remain in place irrespective of any reportable change of circumstances made by the claimant during the 39 weeks.

Discretionary Housing Payments

DHPs¹⁴ make an important contribution to managing the transition for various customers whilst they make the necessary changes to adapt to the application of the benefit cap. Resources are available to provide short-term, temporary relief to families who may face a variety of challenges. DHPs can also help families manage their move into more appropriate accommodation. Each case is considered on its own merits rather than on predefined criteria. An additional £65 million was provided for this purpose in 2013/14 and a further £45 million in 2014/15. In circumstances where the HB weekly payment would reduce to below £0.50 – a weekly amount of £0.50 remains in payment to enable access to the DHP Scheme and passported benefits.

¹⁴ DHPs provide claimants with further financial assistance, in addition to any welfare benefits, when an LA considers that help with housing costs is required.





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