Withdrawn

This publication is withdrawn.

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Title: The Universal Credit Bill: Universal Credit Rebalancing **Lead department or agency:** Department for Work and Pensions **Other departments or agencies:** His Majesty's Treasury	**Impact Assessment (IA)** **Date:** July 2025 **Stage:** Final **Source of intervention:** **Type of measure:** **Contact for enquiries:**
Summary: Intervention and Options	**RPC Opinion:**

Cost of Preferred (or more likely) Option			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
	N/A	N/A	

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

People on the Universal Credit Standard Allowance are struggling to get by on the small amount it currently provides. This creates a logical – but perverse - incentive for people to claim the health element too. Once people are on the health element, they no longer get routine support to work, trapping people out of the labour market many of whom want to work. Many people's conditions fluctuate; so someone who cannot work at one point may well be able and keen to work later on, but will have lost the support they need being classed as having Limited Capability for Work and work Related Activity (LCWRA) and therefore not receiving routine support, or receiving little support if they are classed as Limited Capability for Work (LCW).

This is bad for people, bad for businesses and bad for the economy. We know that good work is good for people's mental and physical health – and can therefore reduce pressure on the NHS. It is also the most sure and effective route out of poverty.

The health top-up in Universal Credit is now worth more than the standard allowance for a single person, at £423.27 per month compared to £400.14 per month in the UK. Eligibility for this element therefore more than doubles a single claimant's potential entitlement to £823.41 per month, before other elements such as housing or payments for children.

The number of people on Employment and Support Allowance and the health element in UC (UCHE) is set to rise from 1.9 million in 2019/20 to a forecast of three million by 2029/30. These trends do not represent good outcomes for people – with fewer than 1% of those on the health element in UC entering employment each month.

The Pathways to Work green paper set out government's intention to guarantee anyone who is claiming out of work benefits and is disabled or has a health condition will be able to access specialist work, health and skills support appropriate to their circumstances and needs. This will be fully in place by the end of this decade, but roll out rapidly from 2026, underpinned by additional funding of £1bn a year by 2029/30.

What are the policy objectives of the action or intervention and the intended effects?

To tackle perverse work incentives by rebalancing UC, give people the support they need to get work or get closer to the labour market and protect those with the most severe, lifelong health conditions, who have no prospect of improvement – giving them dignity and security and reducing unnecessary stress. This is done by increasing the basic rate of Universal Credit above inflation each year until 2029/30, reducing the value of the UC health element for non-protected new claims to the UC health element and improving incentives to remain close to the labour market, and protecting existing claimants , and those who meet the Severe Conditions Criteria and/or are near the end of life by increasing their combined standard allowance and UC health element at least in line with inflation. This would benefit people by supporting them on a pathway to work, reducing poverty and improving health. It would benefit society through increased employment, leading to reduced pressure on the NHS. The cost to the economy of working age ill-health that prevents work was £240-£330bn in 2022. A disabled person who is in work is around half as likely to be in poverty as one who is out of work.

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

Option 1: Do Nothing Make no changes to health and disability benefits, leaving the standard rate of UC too low and leaving hundreds of thousands of people trapped out of the labour market without routine support and employment outcomes are very low.

Option 2: Universal Credit (UC) rate changes (and making parallel changes to ESA IR element rates): Increase the UC Standard Allowance above inflation every year until 2029/30 and reduce the rate of UCHE for non-protected new LCWRA claims. Protect existing customers and new customers who meet the Severe Conditions Criteria and/or are near the end of life by increasing their combined standard allowance and UC health element in line with inflation for four years. The LCW element will be frozen. Consequential changes will be made to the ESA Income Related (IR) personal allowance, Work-Related Activity Group/Support Group rates and severe and enhanced disability premia. By increasing the UC standard allowance and decreasing LCWRA for non-protected new customers we remove the incentive for people to declare themselves unable to work in order to improve their incomes while protecting existing LCWRA claimants and those with the most severe, lifelong conditions in real terms for four years. We know that work is the best route out of poverty, and that good work is good for people's physical and mental health, which reduces pressure on the NHS. And it's good for businesses and the economy to have a bigger pool of our country's brilliant talent to draw on.

Is this measure likely to impact on international trade and investment?						
Are any of these organisations in scope?	**Micro**	**Small**		**Medium**	**Large**	
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** N/A			**Non-traded:** N/A	

Will the policy be reviewed? It be reviewed. **If applicable, set review date:** N/A

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 : Kilbendall Date: 07/07/2025

Summary: Analysis & Evidence

Policy Option 2

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**
High	Optional			**Optional**
Best Estimate			£2,060m in 2029/30	

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

Combined impact of UCHE measures (£million, nominal)	2026/27	2027/28	2028/29	2029/30
Impact of changes to UCHE	520	1,150	1,760	2,320
Protection for Severe Conditions and Special Rules for End of Life cases	-40	-110	-170	-220
Freeze to LCW for pre 2017 caseload	10	10	10	10
Scottish Block Grant Agreement impact of UCHE changes on PIP	-10	-20	-30	-50
Total Impact	**480**	**1,030**	**1,570**	**2,060**
Rounded to nearest £10m, positive are savings and negative are costs. Totals may not sum due to rounding.				

The table outlines spending impact of the changes to UCHE and LCW as part of the Bill.

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

Costs here are portrayed as costs to individuals, however welfare payments are a redistribution of income and as such are not true economic costs. Individuals may respond to the additional support and rebalancing of the financial incentives in the system and offset this cost being supported to move into work. This has not yet been monetised but will represent a reduction in costs set out above and a positive impact on economic growth.

Also not monetised is the relative welfare impact of the income redistribution from those who receive higher welfare payments to those who receive lower. This suggests that the marginal value of the funds to those who receive more in the current system will be lower than to those who benefit from the rebalancing where overall income is lower. This would reduce social costs relative to benefits by applying greater weight to those who gain from this policy.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional			**Optional**
High	Optional			**Optional**
Best Estimate			-£1,850m in 2029/30	

Description and scale of key monetised benefits by 'main affected groups'				
Combined impact of UC SA measures (£million, nominal, positive is a saving, negative a cost)	2026/27	2027/28	2028/29	2029/30
Increases to SA - GB	-800	-1,120	-1,470	-1,850
Northern Ireland impact of UC changes to SA and UCHE	-10	-0	-0	-0
Total Impact	**-810**	**-1,130**	**-1,470**	**-1,850**
Rounded to nearest £10m, positive are savings and negative are costs. Totals may not sum due to rounding.				

Around 6.7m households will benefit from the increase in the standard allowance while a fairly small number will not see an increase due to the benefit cap. It is estimated that the increase in the standard allowance will cost almost £1.9bn by 2029/30 and means the standard allowance for a single person 25 or over will be £725 a year higher in cash terms by 2029/30

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

In March we announced in the Pathways to Work Green Paper that we would establish a new guarantee of support for all disabled people and people with health conditions claiming out of work benefits who want help to get into or return to work. This is backed by new funding of £2.2bn from 2026/27 to 2029/30, bringing the Government's total commitment of employment support funding for disabled people and those with health conditions to £3.8bn over this Parliament. This expenditure is not considered within the cost benefit analysis for this IA.
For every 10,000 additional people in full time work, there would be fiscal savings of around £180m per year, with societal savings around £280m per year, (£80m and £150m respectively if in part-time work).

The Department has extensive evidence on what works, which includes the evaluation of Work Choice, a specialist employment programme for disabled people and those with health conditions, that showed people receiving tailored support were 11-14 percentage points more likely to be in work eight years after starting, for inactive claimants on the European Social Fund 7–9 percent points more likely to be in work three years after starting and Additional Work Coach Time – a lower cost intervention (for those in the Universal Credit limited capability for work and work-related activity group) – 3 percentage points more likely to be in work, one year after starting. Our goal is to combine this new investment with existing capacity to establish a big, clear and simple offer of work, health and skills support to disabled people and people with a health condition.

Key assumptions/sensitivities/risks Discount rate (%)	N/A

- Behavioural impacts of the policies are the most uncertain aspects and are set out by the OBR alongside the Spring Statement
- The static costing of the standard allowance increase is based on the department's Policy Simulation Model (PSM) which projects forward incomes of households on UC using survey data from the Family Resources Survey (FRS). The model uses the latest benefit caseload and economic assumptions forecasts (consistent with the Spring Budget 2025 pre-measures forecast) which are subject to change.
- The standard allowance costing includes an estimated behavioural impact of an additional 8,000 households on UC in 2029/30 who take up their entitlement due to the increased financial incentive to do so. There is limited evidence, but the estimate reflects a judgement in the OBR forecast of a behavioural assumption of 8,000. There is a high degree of uncertainty on this estimate.
- The standard allowance costing is also sensitive to changes in the unemployment and earnings growth forecasts.
- The new lower LCWRA rate is assumed to result in 40,000 fewer people going through the Work Capability Assessment (WCA) by 29/30 due to lower financial incentives to do so. A first step in removing the WCA completely.
- There will also be an estimated 30,000 fewer people who are currently in receipt of the LCWRA who leave by 29/30 due to the amount received for returning being lower. There are also additional take up of PIP (50,000) and claims brought forward (30,000)

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:

Costs:	**Benefits:**	**Net:**	0

Evidence Base

Problem under consideration and rationale for intervention

Nearly three million people are not working or looking for work due to ill health, a significant increase of nearly 800,000 since early 2019. As rates of health-related economic inactivity have risen, progress in closing the disability employment gap has stalled at 28 percentage points. Between 2019/20 and 2023/24, the number of disabled working-age people in England and Wales increased by 17%, but the numbers receiving an incapacity or disability benefit increased by double that amount (34%).

The structure of the benefits system maybe a factor contributing to the increase in claims for incapacity and disability benefits. The Office for Budget Responsibility (OBR) associates the rise with “the expansion of conditionality and sanctioning in the non-incapacity parts of the working-age welfare system.” The Institute for Fiscal Studies (IFS) has stated that “falling real incomes caused by high inflation over recent years might mean higher value is placed on additional income, inducing more people to apply for health-related benefits.

These trends do not represent good outcomes for people – with fewer than one in 100 of those on the health element in UC entering employment each month. Average claim durations are long. Of the total Employment and Support Allowance (ESA) and UC health caseload in August 2024, one in four (26%) have been on incapacity benefits for over 10 years.

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

This Impact Assessment presents analysis of administrative data held by the department on the caseloads and benefit awards as well as analysis using the department’s Policy Simulation Model which uses the latest forecasting assumptions available at Spring Statement 2025. These are, where appropriate, in line with the OBR judgements outlined in the Spring Statement 2025. The protections for Severe Conditions Criteria and Special Rules for End of Life and Limited Capability for Work policies are not yet included in official fiscal forecasts, therefore impacts outlined here are not yet finalised, but present the best estimates of these at time of drafting.

Description of options considered

Option 1: Do Nothing

Make no changes to health and disability benefits and retaining the low Standard Allowance rate, allowing the current perverse incentives to remain in the system and shutting people out of routine support to work, who can and want to work. In its October 2024 Welfare Trends Report, the OBR referred to the impact of the benefit freeze and removal of the LCW rate stating that ‘by making the financial distinction between more and less severe incapacity groups sharper, it may have led people, outsourced assessors, and DWP decision-makers to be more likely to conclude that there is a health risk to placing someone in the less severe incapacity group’.

Option 2: LCWRA rebalancing (Preferred Option)

We will start to rebalance payment levels in Universal Credit to support people towards work, address perverse incentives and to start to improve basic adequacy. Benefit changes over the last decade or so have had the effect of making the health element of UC relatively more attractive, despite this being associated with very poor employment outcomes. We know that work is the best route out of poverty, and that good work is good for people’s physical and mental health, which reduces pressure on the NHS.

Independent experts, like the OBR and the IFS, suggest that the current balance of Universal Credit has been a factor in driving higher incapacity benefits claims and therefore trapping people out of the labour market.

The rate of UC for those on the health element is now double that for those on the standard allowance. A series of benefit freezes and benefit increases at a lower rate than inflation has left the real value of the standard allowance at a 40-year low by the early 2020s, contributing to hardship and destitution. The value of the standard allowance (or its pre-UC equivalent) has fallen from around 40% of full-time earnings at the minimum wage at the turn of the century to less than 25% of the same at the National Living Wage today.

LCWRA - reducing the Health Element in UC for non-protected new claims, while maintaining a higher rate for those who will never be able to work, or approaching end of life and so may never work, and increasing the Standard Allowance. Existing recipients of the Health Element in UC will continue to have their award uprated such that the combined value of their Standard Allowance and Health Element rises at least in line with inflation.

Alongside this there is increased employment support and protections for the most vulnerable.

Standard Allowance increase

The standard allowance is the amount that is paid to all households on UC. It is set at different rates depending on whether the household is single or a couple and if the adults in the household are under 25. For 2025/26, the standard allowance is set at £316.98 per month for single households under 25, £497.55 for couple households both under 25, £400.14 for other single households and £628.10 for other couple households.

The rebalancing measure will increase all standard allowance rates above CPI, the first sustained above inflation rise ever, each year between 2026/27 and 2029/30. The new standard allowance rates for a given year will be calculated by:

a) Calculating what the standard allowance rate would have been if it had been uprated by CPI only for every year. Current inflation forecasts are presented in Table 1a:

Table 1a. Uprating based on current CPI Forecasts

	2026/27	2027/28	2028/29	2029/30
Uprating percentage as implied by CPI forecast – OBR Economic and Fiscal Outlook March 2025	3.7%	1.8%	2.0%	2.0%

b) Applying a percentage increases to the CPI-uprated amount for the given year. The increases are set out in the Table 1b. This means the Standard Allowance rates in 2029/30 will be 4.8% higher than they would have been had they been uprated by CPI only.

Table 1b. Increases in Standard Allowance Above Inflation

	2026/27	2027/28	2028/29	2029/30
Above-inflation increase	2.3%	3.1%	4.0%	4.8%

Around 6.7m households on UC are estimated to receive a higher standard allowance by 2029/30 while a fairly small number on UC will not see an increase due to the benefit cap. The standard allowance costing includes a behavioural impact of an additional 8,000 households on UC in 2029/30 due to the increased financial incentive to claim. It also includes some savings due to transitional element payments being eroded quicker by the higher standard allowances.

Table 2. Standard Allowance caseloads

Impacted Caseloads who receive the higher UC Standard Allowance (000s)	2026/27	2027/28	2028/29	2029/30
Already on UC (static)	6,530,000	6,560,000	6,580,000	6,650,000
Newly Entitled to UC (static)	10,000	20,000	20,000	30,000
Additional take-up of UC (behavioural)	0	10,000	10,000	10,000
Total	6,540,000	6,580,000	6,610,000	6,690,000
Caseloads rounded to nearest 10k and may not sum up due to rounding				

Additional protection for single under 25 claimants on UC

Existing recipients of the Health Element in UC will continue to have their UC award uprated such that the combined value of their Standard Allowance and Health Element increases at least in line with inflation up to and including 2029/30. This is achieved by uprating the Health Element by a flat rate, which is calculated factoring in the planned increases to the single person 25 or over Standard Allowance rate described above. As the Standard Allowance amounts vary by household, a further increase is made to the single person under 25 Standard Allowance rate to ensure single persons under 25 are also protected. No additional adjustment is required for couples. The cost of this additional increase to the single under 25 Standard Allowance is set out below in Table 3.

Table 3. Single Under 25 Standard Allowance Increase

	2026/27	2027/28	2028/29	2029/30
Single Under 25 Standard Allowance increase (£m)	-10	-20	-20	-30

Table 4. Total additional spending from increasing the Standard Allowance (£,m)

	2026/27	2027/28	2028/29	2029/30
Above inflation Standard Allowance uplift without Single U25 adjustment (static)	-770	-1,070	-1,410	-1780
Single Under 25 Standard Allowance increase (static)	-10	-20	-20	-30
Behavioural Impact	-20	-30	-40	-50
Total Standard Allowance payments (post-behavioural impacts)	**-800**	**-1,120**	**-1,470**	**-1,850**
Rounded to nearest £10m, positive are savings and negative are costs				

This means that by 29/30 there will be around £1.85bn in additional expenditure from the increase in the UC Standard Allowance.

Changes to the UCHE/LCWRA amount

The reduction in the Health Element is proposed to be achieved by reducing the Health Element to £50 per week for newly determined LCWRA claimants from 6 April 2026. The Health Element amount for existing claimants will be protected and uprated to ensure that the combined Standard Allowance (for a single, over 25 household) and Health Element will increase in line with inflation.

This change also applies to the Employment and Support Allowance (ESA) Income Replacement rates. These individuals are being moved to UC, with WCA outcomes determining receipt of the Health Element, received following an LCWRA outcome. Numbers here therefore include the ESA (IR) group.

Table 5. Average LCWRA caseload over year receiving the Health Element (thousands)

	2026/27	2027/28	2028/29	2029/30
Pre-April 2026 stock	2,410	2,310	2,170	2,090
Post April 2026 flow	210	450	660	840

The total impact of reduced payments of these changes have been assessed and agreed with the OBR. They include changes to claimant behaviour in response to the benefit changes that affect the volume of claims to PIP, the volume of claims awarded the Health Element and the rate at which claimants leave the benefit.

Table 6: Total reduction in spending from UCHE changes (£, m)

	2026/27	2027/28	2028/29	2029/30
Total Impact of UCHE changes	**520**	**1,150**	**1,760**	**2,320**
Rounded to nearest £10m, positive are savings and negative are costs				

The above figures are in line with the OBR Spring statement 2025.

When we factor in the additional cost in protections for the most vulnerable, the impact of the LCW freeze and the interactions with the Scottish Block Grant, which are all set out in the tables below, we see a final savings estimate of £2,060m.

Protections for the most Vulnerable: Severe Conditions and Special Rules for End of Life

Alongside these high-level changes there will be further protections in Universal Credit for those with the highest needs. These are specifically for the Special Rule for End of Life (SREL) and for those who meet the Severe Conditions Criteria (SCC) in the LCWRA. There is no change to entitlements specifically for those under the age of 22 in this Bill.

From April 2026, for any new LCWRA determinations that have SCC or SREL applied the protected LCWRA rate will be awarded, which would provide parity with the protection that existing LCWRA claimants will receive. Existing claimants who have SCC applied, or those who have claimed under SREL will be captured by the financial protection provided for the wider existing LCWRA caseload under the reforms.

Table 7. Protection for people vulnerable people with the highest needs

	2026/27	2027/28	2028/29	2029/30
Severe conditions post 2026 static volumes	10,000	20,000	40,000	50,000
Additional flow cases due to 50% behavioural impact	0	10,000	20,000	20,000
Total post-behavioural severe conditions	**10,000**	**30,000**	**50,000**	**70,000**
Total SREL post 2026 flows	0	10,000	10,000	10,000
Total Protected	**20,000**	**40,000**	**60,000**	**80,000**
Total flows	210,000	450,000	660,000	840,000
% of flows protected	7%	9%	9%	10%
Total Severe conditions protected from reassessments	**170,000**	**180,000**	**190,000**	**200,000**

Offering the new UC Health claims under Severe Conditions Criteria the same protection as those pre 2026 would cost around £130m in 2029/30 if Severe Conditions Criteria outcomes remained at current levels. We have assumed that the added incentives to enter the group would increase outcomes, and have added a 50% behavioural uplift to flows, which takes the cost to **£190m in 2029/30 (cumulative £450m by 29/30)**. The final behavioural uplift at Autumn Budget would be based on OBR judgement and could be significantly different.

There will be people who flow on to the SREL and SCC in the future, Protecting the flow of SREL cases against the higher rate would cost around **£30m in 29/30 (cumulative £80m by 29/30)**. No behavioural effect is assumed because of the strict nature of the existing SREL rules.

Table 8. Total additional spending relative to lower rate (£, m)

	2026/27	2027/28	2028/29	2029/30
Severe Conditions criteria protection	-30	-90	-140	-190
SREL protection	-10	-20	-30	-30
Total protection	**-40**	**-110**	**-170**	**-220**
Rounded to nearest £10m, positive are savings and negative are costs				

The SREL and SCC protections described above affect the volumes expected to be awarded the higher rate of the UC health element and the volumes receiving the new, lower, rate.

Table 9. Total Volumes on the UCHE rates after SCC and SREL protection

	2026/27	2027/28	2028/29	2029/30
Post 2026 flow (post behavioural)	210,000	450,000	660,000	840,000
Total volumes on lower rate	**200,000**	**410,000**	**600,000**	**750,000**
Pre 2026 stock (post behavioural)	2,410,000	2,310,000	2,170,000	2,090,000
SCC and SREL protection volumes	20,000	40,000	60,000	80,000
Total volumes on protected rate	**2,430,000**	**2,350,000**	**2,240,000**	**2,170,000**
Gross reduction in spending due to UCHE changes (£m)	520	1,150	1,760	2,320
Cost of SCC protection (£m)	- 40	- 110	- 170	- 220
Net change from UCHE changes including protections (£m)	**480**	**1,050**	**1,590**	**2,100**
Rounded to nearest £10m, positive are savings and negative are costs				

Those who meet the Severe Conditions Criteria will be exempt from reassessment for UC as a result of this legislation. We estimate that over 200,000 people will be covered by this exemption in 2029/30. This comprises:

- 110,000 people in the ESA Support Group, who have met the SCC as of January 2025, but some will move to UC over the coming years.
- 60,000 people who are existing recipients of the UC Health element, 10,000 of whom are also in receipt of ESA, as of January 25. This number will fluctuate prior to implementation of the policy in April 2026.
- 70,000 people who we expect to flow on to the UC Health element and meet the SCC after April 2026.

Limited Capability to Work element in UC

Claimants awarded LCW before 2017 continue to receive the LCW element in their UC and their ESA awards. The LCW element is currently £156.11 (2024/25) per month and there are approximately 90,000 claimants in receipt of the award. The Bill freezes the LCW element at 2025/26 rates for the stock who still have the element in payment.

Applying an 8% annual low off-flow rate to these cases (reflecting long durations), we get the following reduction in spending on the LCW.

Table 10. Those who receive additional LCW rate and reduced spending

	2026/27	2027/28	2028/29	2029/30
Pre-2017 LCW caseload	76,000	70,000	65,000	60,000
Reduced spending (£m)	10	10	10	10
Rounded to nearest £10m, positive are savings and negative are costs				

Northern Ireland Impact

The following analysis shows the estimated impact of the UC changes proposed on Northern Ireland, provided by the Department for Communities. The impact of the changes to UCHE eligibility and the UC Standard Allowance scored by OBR for GB have been replicated using the same assumptions for Northern Ireland, with the rates of benefit updated to the latest rates used elsewhere in this assessment.

Table 11: UC SA and LCWRA changes, including SCC and SREL protection impacts on Northern Ireland

Impact, £ millions, nominal	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Total impact	-10	-0	-0	-0
Rounded to nearest £10m, positive are savings and negative are costs				

Scotland Block Grant impact

The following analysis shows the impact of the UC changes on the Scotland Welfare Block Grant Adjustment (BGA). The policy will lead to an increase in the amount of expenditure allocated to Scotland through the BGA, as a result of the increased take-up of PIP above, as set out in the agreement between the UK Government and the Scottish Government.[1] .

Table 12: Fiscal impact expected from proposed UC changes for Scotland's BGA, after behavioural effects (£ millions, nominal)

Impact, £ millions, nominal	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Potential future BGA impact	-10	-20	-30	-50
Rounded to nearest £10m, positive are savings and negative are costs				

[1] The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework (August 2023)

High-level equalities analysis

We have conducted an equality impact assessment to show the effect of the main measures. The standard allowance increase will impact on the whole UC caseload while the LCWRA and LCW measures will impact on their respective groups. These will have the following effects on the following protected groups:

- **Age** – UC claimants are more likely to be in the 25-49 age bracket and less likely to be under 25 or over 50 compared with non-claimants. This suggests that the standard allowance changes are more likely to impact those aged 25-49. LCW and LCWRA claimants are more likely to be over 50 and less likely to be 25-49 than non-claimants or UC claimants without this element. This suggests that the changes are more likely to impact on people who are older amongst the working age population.
- **Disability** - People with an Equality Act 2010 defined disability are over-represented in both the overall UC population and are very over-represented in the LCW and LCWRA groups as we would expect. This suggests that both changes are more likely to impact those who are DDA disabled, with the aim to reverse the increasing benefit trends and continue improving the disability employment rate.
- **Race** – People from ethnic minority groups are not expected to be over- or under-represented compared with the rest of UK for the overall UC population. For LCW and LCWRA claimants, there is a slightly higher proportion of UC claimants who are from a non-ethnic minority background compared with the rest of UK.
- **Religion or belief** – We have no reason to believe this change will impact claimants differently on the grounds of religion or belief as UC claimants overall and those in the LCW and LCWRA groups are representative to the rest of UK population on this characteristic.
- **Sex** – UC claimants in general are much more likely to be female than male suggesting they are more likely to be impacted by the standard allowance change. This is also true for UC LCW and LCWRA claimants, although to a lesser extent.
- **Sexual Orientation** – UC claimants in general and those in the LCW and LCWRA group are as likely to be heterosexual and non-heterosexual as the rest of the UK population suggesting that there is little difference in likelihood of being impacted.
- **Marriage and civil partnership** – UC claimants in general and those in the LCW and LCWRA group are more likely to be Not married/ or in a civil partnership compared with the rest of the UK population.

No information is available on **gender reassignment or pregnancy and maternity**, though for pregnant individuals who experience serious risk to their own health or that of the unborn baby they are awarded LCWRA, so this group will be impacted alongside the wider changes. We have no reason to believe that this change will impact claimants differently with these characteristics. This information is from the Policy Simulation Model which uses forecasting assumptions and is based on the Family Resources Survey which relies on self-reporting of some characteristics which may result in under- or over- reporting bias.

Summary and preferred option with description of implementation plan

The Bill would introduce the measure outlined in this Impact Assessment below:

b. Increasing the UC Standard Allowance and changing the rates of the UC Health element. This measure consists of:

i. For existing and protected claimants (Severe Conditions Criteria or Special Rules for End of Life) increasing their combined standard allowance and LCWRA so that is at least rises in line with inflation, every year until 2029/30.

ii. Freezing the LCW element at 2025/26 rate, until 2029/30.

ii. Reducing the LCWRA element for non-protected new LCWRA determinations only, by approximately 50% to the equivalent of £50 pw for 2026/27 (£217.26 pm), and then keeping the element frozen at this rate until 2029/30.

iii. Mirroring the rebalancing measure in UC for income-related Employment and Support Allowance (ESA (IR)) claimants who have not migrated to UC before April 2026.

iv. Increasing the Universal Credit Standard Allowance over and above inflation each year until 2029/30, resulting in a 4.8% higher increase by 2029/30 than if it had been increased in line with prices.

All changes outlined above will commence from April 2026 in line with the uprating timelines.

Direct costs and benefits to business calculations

We do not anticipate these changes will result in any direct costs or benefits for businesses.

Risks and assumptions

<u>Behavioural impacts of the policies are the most uncertain aspects and are set out by the OBR alongside the Spring Statement</u>

The static costing of the standard allowance increase is based on the department's Policy Simulation Model (PSM) which projects forward incomes of households on UC using survey data from the Family Resources Survey (FRS) data. The model uses the latest benefit caseload and economic assumptions forecasts (pre-measures Spring Budget 2025 at the time of estimation) which are subject to change.

The standard allowance costing includes an estimated behavioural impact of an additional 8,000 households on UC in 2029/30 who take up their entitlement due to the increased financial incentive to do so. This reflects a judgement from the OBR on the behavioural effects. As there is no firm evidence for this assumption, there is a high degree of uncertainty with this estimate. A key assumption of the standard allowance costing is the CPI forecast which determines the standard allowance cash amounts. A change in the CPI could impact the standard allowance rates and the costs of implementing. The standard allowance costing is also sensitive to changes in the unemployment and earnings growth forecasts.

The new lower LCWRA rate is assumed to result in 40,000 fewer people going through the Work Capability Assessment (WCA) by 29/30 due to lower financial incentives to do so. There will also be an estimated 30,000 fewer people who are currently in receipt of the LCWRA who leave by 29/30 due to the amount received for returning being lower. There are also additional take up of PIP (50,000) and claims brought forward (30,000).

A full assessment of the labour market impacts of these policies will be assessed by the OBR ahead of Autumn 2025. This will look at the detail of the benefit changes alongside the package of support provided. We will guarantee personalised employment, health and skills support for anyone on out of work benefits with a work limiting health condition or disability who wants it. Catalysed by an additional £1 billion a year by 2029/30 and building on and extending existing provision– from WorkWell, Trailblazers, Individual Placement and Support for those with severe mental illness or substance dependency, Connect to Work and the national jobs and careers service – this will improve returns to work and prevent economic inactivity, as part of rebalancing spending towards work over welfare. The Department has extensive evidence on what works, which includes the evaluation of Work Choice, a specialist employment programme for disabled people and those with health conditions, that showed people receiving tailored support were 40% more likely to be in work eight years later. Our goal is to combine this new investment with existing capacity to establish a big, clear and simple offer of work, health and skills support disabled people and people with health conditions.

Monitoring and Evaluation

The Department is engaging and will continue to engage with disabled people, the organisations that represent them, stakeholder and clinical groups to ensure that protections support those with the highest needs. This includes This includes '**Collaboration Committees**' which will involve bringing together groups of disabled people and other experts for specific work areas to collaborate and provide discussion, challenge, and recommendations. There is routine monitoring of caseloads and Welfare spending. We will also monitor the impact of the changes over time and to monitor feedback through existing channels that claimants can use to provide feedback to the DWP.