

Title: Time limit Contributory Employment and Support Allowance to one year for those in the Work-Related Activity Group Lead department or agency: Department for Work and Pensions Other departments or agencies:	Impact Assessment (IA)
	IA No:
	Date: 20/04/2011
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary Legislation
Contact for enquiries:	

Summary: Intervention and Options

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

Expenditure on Employment and Support Allowance (ESA) and other incapacity benefits is forecast to be £11bn per year by 2014/15. People can presently qualify for years of benefit up to state pension age on the basis of a small amount of National Insurance paid. It was never intended that ESA for those in the Work Related Activity Group (WRAG) should be paid for an unlimited period to people who, by definition, are expected to move towards the workplace with help and support. Government intervention is required to help ensure that ESA is paid for a temporary period for those placed in the WRAG, thereby encouraging a return to work and stopping people being trapped on benefits for a lifetime.

What are the policy objectives and the intended effects?

1. To ensure that ESA is paid for a temporary period thereby creating a culture that does not allow people to stay permanently in the WRAG, that they are expected to move towards work or into the Support Group if there is deterioration in their functional impairment.
2. Simplification of the benefit system, better alignment of contributory ESA rules with contributory Jobseeker's Allowance in the run up to the introduction of Universal Credit.
3. Reductions in social security spending to ensure that money is targeted on those most in need will help the UK's challenging fiscal position.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

1. Do nothing. Continue to allow people in the WRAG to claim contributory ESA without a time limit.
2. Time limit contributory ESA for those in the WRAG to one year. This would apply to: (i) all new ESA claims from the point of change after one year in the WRAG, including the 13 week assessment phase; and (ii) existing ESA claimants in the WRAG at the point of change with benefit duration of one year or more, including Incapacity Benefit (IB) claimants who are reassessed for ESA and placed in the WRAG. After the time limit is applied customers will be able to receive income-related ESA if they are eligible.

Options around the coverage and length of the time limit were considered. One year was selected as the best balance between providing people claiming contributory ESA in the WRAG with enough support and reducing the cost of contributory ESA. It was decided to exclude customers in the ESA Support Group on the basis that they are the most severely disabled or terminally ill and therefore least likely to move into work.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?

It will be reviewed after 2013

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?

Yes, see Annex 1

Summary: Analysis and Evidence

Price Base Year 10/11	PV Base Year 10/11	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -
					- £200m

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	-		-	-
High	-		-	-
Best Estimate	-		-	£8,100m

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

1. Depending on their individual circumstances concerning income and capital, some people moving off contributory ESA will be eligible for income-related ESA and other related benefits.
2. There will be additional administrative costs resulting from the change to departmental processes, including IT changes and additional appeals.
3. From the claimant's perspective, most contributory ESA claimants in the WRAG will see a reduction in their benefit / net income when they pass the 12 month claim duration time limit.

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

1. People may change their behaviour as a result, for example, the partner of someone affected may reduce their working hours to make the household eligible for income-related ESA once their contributory ESA is withdrawn, which would reduce some of the cost to individuals.
2. Those moving from contributory to income-related ESA may become eligible automatically to passported benefits such as free prescriptions and free school meals. The cost of this has not been included in the figures above due to uncertainty over the likely take-up of these benefits for the group affected.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-		-	-
High	-		-	-
Best Estimate	-		-	£7,900m

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

1. Reduced benefit expenditure as a result of fewer people on contributory ESA for more than 1 year will provide a benefit to the Exchequer and tax payer.

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

1. Possible indirect effect of increasing movement back into work for those affected, along with other associated knock-on benefits such as higher economic output from additional employment and the subsequent gain in revenue from increased taxation. However, this effect is uncertain and has not been quantified.
2. There may also be some positive health benefits as a result of customers going into work.

Key assumptions/sensitivities/risks

Discount rate 3.5%

1. Number of people moving onto ESA through IB reassessment that are placed in the WRAG. Current assumption is nearly 900,000 over 3 years; this estimate may change.
2. Assume around 90% of people in the WRAG on contributory ESA will be time limited in the longer term.
3. Assume around 60% of those affected will be able to claim income-related ESA.
4. Primary legislation in place by April 2012.

Impact on admin burden (AB) (£m):			Impact on policy cost savings		In
New AB:	AB savings:	Net:	Policy cost savings:		

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	Great Britain				
From what date will the policy be implemented?	April 2012				
Which organisation(s) will enforce the policy?	Jobcentre Plus				
What is the annual change in enforcement cost (£m)?	Nil				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: 0		Non-traded: 0		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs: 100%		Benefits: 100%		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A	N/A

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹	YES	Separate publication
Economic impacts		
Competition	No	
Small firms	No	
Environmental impacts		
Greenhouse gas assessment	No	
Wider environmental issues	No	
Social impacts		
Health and well-being	No	
Human rights	No	
Justice system	No	
Rural proofing	Yes	14
Sustainable development	No	

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base - Annual profile of monetised costs and benefits* - (£m) constant prices

	2010/11	2011/12	2012/13	2013/14	2014/15
Transition costs	0	0	0	0	0
Annual recurring cost	0	0	1,700	3,050	4,250
Total annual costs	0	0	1,700	3,050	4,250
Transition benefits	0	0	0	0	0
Annual recurring	0	0	1,650	3,000	4,150
Total annual benefits	0	0	1,650	3,000	4,150

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base

Current Policy

1. ESA is presently structured into contributory and income-related benefits. If a person does not satisfy the National Insurance Contribution conditions for ESA, they can claim income-related ESA provided they satisfy the eligibility criteria.
2. ESA is paid at different rates depending on an individual's circumstances and where they are in the claim process. During the initial 13 week assessment phase, before the Work Capability Assessment (WCA) is undertaken, ESA is paid at a standard rate - the 'basic allowance' or 'assessment phase' – currently £65.45 per week. If a person is then assessed by the WCA as having limited capability for work, s/he receives an additional amount on top of the basic allowance which depends on whether that person is in the Work Related Activity Group (WRAG) - an additional £25.95 per week, or the Support Group for the most severely ill and disabled - an additional £31.40 per week. The amount received is the same for both contributory and income-related claims but income-related claimants may also receive additional support such as the Enhanced Disability Premium, Carers Premium and mortgage interest if they meet the eligibility criteria. Claims in the WRAG and Support Group are regularly reviewed for eligibility between 3 months and 3 years after initial assessment, based on the prognosis given at the previous WCA.
3. Currently ESA, claimed on either basis, can be paid until State Pension age, providing claimants continue to have limited capability for work assessed through the WCA and in the case of income-related ESA if they continue to meet the financial eligibility criteria.

Rationale for intervention

4. Annual expenditure on ESA and incapacity benefits is forecast to be in the region of £11bn in 2014/15². ESA for those in the WRAG was never intended to be a long-term benefit except for the most severely ill or disabled people for whom work is not a viable option. Those people are being protected and are not affected by this measure.
5. People can presently qualify for unlimited contributory ESA on the basis of a small amount of National Insurance paid³. This change supports a move towards simplification of contributory benefits and a fairer benefit system.
6. Government intervention is required to underline the principle that those claiming contributory ESA, who are placed in the WRAG are expected to move towards work with the right support. ESA is intended to be a short-term benefit for the majority of claimants.

² Source: DWP Benefit Expenditure Tables, excluding the effects of time limiting ESA to 1 year for those in the Work Related Activity Group

³ There are two contribution conditions for contributory ESA. To satisfy the first condition, a claimant must have paid contributions on earnings of at least 26 times the Lower Earnings Limit (£97 per week 2010/11) in one of the previous two tax years. To satisfy the second condition, people must have paid, or been credited, with Class 1 or Class 2 contributions on earnings of 50 times the Lower Earnings Limit during each of the previous two tax years.

Policy objective

7. To reduce overall spend on incapacity benefits whilst still providing support for those that need it in the short term by:
 - Embedding a culture that ESA is a temporary benefit for the majority of claimants;
 - Ensuring support is targeted at the poorest and most severely disabled people;
 - Simplifying the benefit system by aligning contributory ESA more closely with contributory Jobseeker's Allowance in the run up to the introduction of Universal Credit.
 - In light of the UK's challenging fiscal position, some elements of social security spending are being reduced to ensure that money is targeted on those most in need.

Options considered (including do nothing):

- Do nothing.
 - Time limit contributory ESA for those in the WRAG to one year. This would apply to:
 - (i) all new ESA claims from the point of change after one year in the WRAG, including the 13 week assessment phase, and;
 - (ii) existing claims - people in the WRAG already receiving contributory ESA as at April 2012 will have the period of time already spent on that benefit before April 2012 taken into account in calculating the 1 year period. Those who have already received a year or more contributory ESA as at April 2012, will see their entitlement cease immediately;
 - Customers will be able to receive income-related ESA if they fulfil the conditions of entitlement - otherwise they will move off ESA. Those in the Support Group will be unaffected. Income-related ESA will not be time limited.
8. Other time limiting options were considered, for example, using a different period, such as 6 months to align with contributory JSA, and/or phasing the time limit in over different periods. However, option 2 presents the best balance between providing people claiming contributory ESA and placed in the WRAG with enough support and allowing sufficient time for those with illnesses or disabilities to adjust to the new regime.

Costs and benefits

9. The proposal to time limit contributory ESA as set out above is expected to generate net benefit savings building up to around £1.0bn per annum by 2014/15. These are fiscal savings; there would also be equal and opposite economic costs to the individuals affected. This consists of the following elements:
 - gross fiscal savings from ceasing contributory ESA for those affected (£2.6bn in 2014/15);
 - gross fiscal costs to income-related ESA for those that qualify (£1.3bn in 2014/15); and
 - gross fiscal benefit costs due to increases to Pension Credit, Housing Benefit, Council Tax Benefit and Tax Credit payments for those whose income brought to account decreases as a result of the change. There will also be a small reduction in taxation revenue from those who lose their (taxable)

contributory ESA. In total this is expected to generate a cost of £300m in 2014/15.

10. There will also be administrative costs associated with the policy. These occur from the following:
- one-off costs of changing the IT to facilitate the policy (£0.5m in 2011/12);
 - recurring costs of closing contributory ESA claims and either starting or amending an income-related ESA claim for those who qualify (approximately £30m in 2014/15); and
 - recurring costs of processing possible extra appeals (up to £30m in 2014/15).

Gainers and Losers

11. The caseload estimates in this section are derived from the Department's Policy Simulation Model (PSM) which uses information on household income from the Family Resources Survey to model income-related benefit receipt under a variety of policy scenarios. The underlying data source is different from the official administrative caseload data. The reason for using the PSM is that it gives a full picture of the offsets to other benefits and overall changes in incomes.
12. Table 1 below gives the projected numbers of ESA contributory claimants in the WRAG who will be affected by time limiting. The numbers shown are the average annual difference in the ESA contributory caseload with and without time limiting. These are estimates based on the DWP's official caseload forecasting model. It shows that an anticipated 700,000 will be affected by time limiting by 2015/16. These estimates will continue to be updated as more information becomes available.

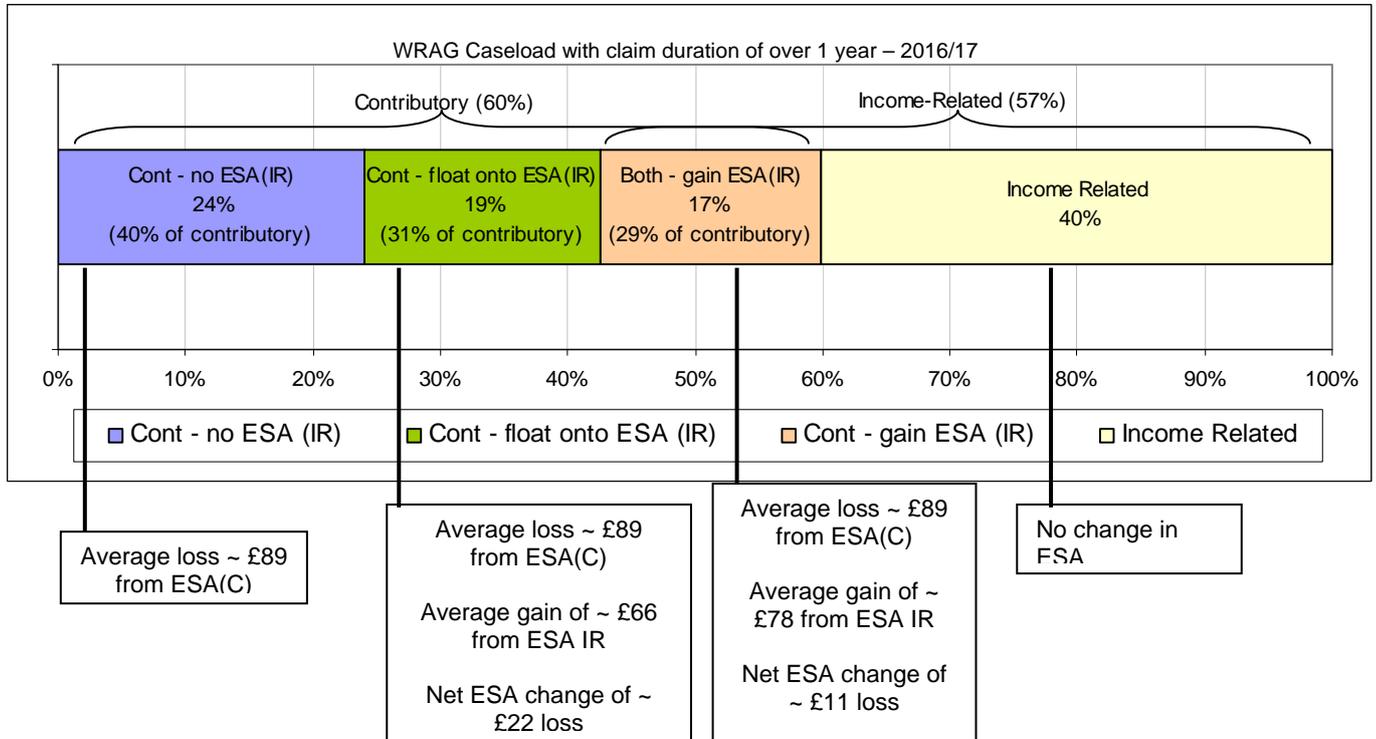
Table 1: Forecast of contributory ESA claimants affected by time limiting

Caseloads	2011/12	2012/13	2013/14	2014/15	2015/16
People losing their contributory ESA	0	200,000	400,000	550,000	700,000

13. The diagram below shows the WRAG caseload with duration of over 1 year that are, therefore, eligible for the time limiting policy. It shows the WRAG caseload split between income-related and contributory claimants and the average effect on ESA payments of time limiting for the different groups. It shows that 60 per cent of ESA claimants receiving contributory ESA, of which 29 per cent receive income-related ESA as well. This information is based on analysis using the DWP's Policy Simulation Model.

14. In summary, there are three main groups of people affected:
- Around 30% are expected to be claiming both income-related and contributory ESA, so when the time limit applies they will continue to receive income-related ESA. For the majority there will be no change in the total amount of ESA received.
 - A further 30% are expected to become entitled to income-related ESA when their contributory ESA is removed. This will either be at the same rate or a lower rate depending on their other income. They may also be 'passport' to other benefits such as full Housing Benefit and Council Tax Benefit and free prescriptions.

- The remaining 40% are not expected to qualify for income-related ESA because they have other income, including that from a partner. These people will no longer receive ESA benefit payments, but will be able to retain National Insurance credits by becoming an ESA credits-only claimant. They may also see increases in other benefits such as tax credits and Housing Benefit.



15. The effects on other benefits are more complicated. Table 2 below gives the net change in total benefit receipt for all contributory ESA claimants in the WRAG affected by time limiting.

Table 2: Net change in total benefit receipt for WRAG ESA(C) claimants (amounts in 2010/11 prices)

Benefit	Proportion of all claimants affected by time limiting	Average amount lost	Average amount gained
Contributory ESA	100%	£88.85	£0.00
Income-related ESA	60%	£0.00	£75.45
Housing Benefit	7%	£0.00	£23.35
Council Tax Benefit	19%	£0.00	£6.90
Tax Credits	8%	£0.00	£28.80
Pension Credit	4%	£0.00	£69.45
Average change in net income – for all		£36.00 loss	
Average change in net income – for those who see a loss		£51.85 loss	

16. Table 2 above shows that the average loss in net income for all those affected is £36 per week (in 2010/11 prices) but this includes people who do not see any

loss because other income related benefits fully offset the change. The average loss is around £52 per week for those who see a loss.

17. It is estimated that 40% of those affected by the time limit will not be able to claim income-related ESA. However, they will still be able to claim ESA on a 'credits only' basis so they can maintain their National Insurance contribution record and access the support offered from the Work Programme. Table 3 below details why these claimants will not be able to claim income-related ESA, as estimated using the DWP's Policy Simulation Model.

Table 3: Reason contributory ESA claimants affected by time limiting are not eligible for income-related ESA

Reason not eligible for income-related ESA	
Partner earning, capital under £16,000	62%
Partner earning, capital over £16,000	9%
Partner not earning, capital over £16,000	8%
Capital more than £6,000 and taken into account	7%
Partner's Retirement Pension taken into account	3%
In receipt of occupational / personal pension	6%
Other reasons	5%

18. The main reason for not being eligible is that their partner is working more than 24 hours a week. This is the case for 71% of those not floating on to income-related ESA.
19. It is estimated that 17% of those not eligible to income-related ESA have capital over £16,000, but 9% already don't qualify because of the partner's hours worked. There are a further 7% who have capital between £6,000 and £16,000 which, combined with other income, means they don't qualify.
20. A further 9%, not already included in the groups above, either have income from their, or their partner's, occupational, personal or state pension taken into account which means they don't qualify. The remaining 5% have combinations of other income, including earnings from doing less than 16 hours of work per week.

Distributional Analysis

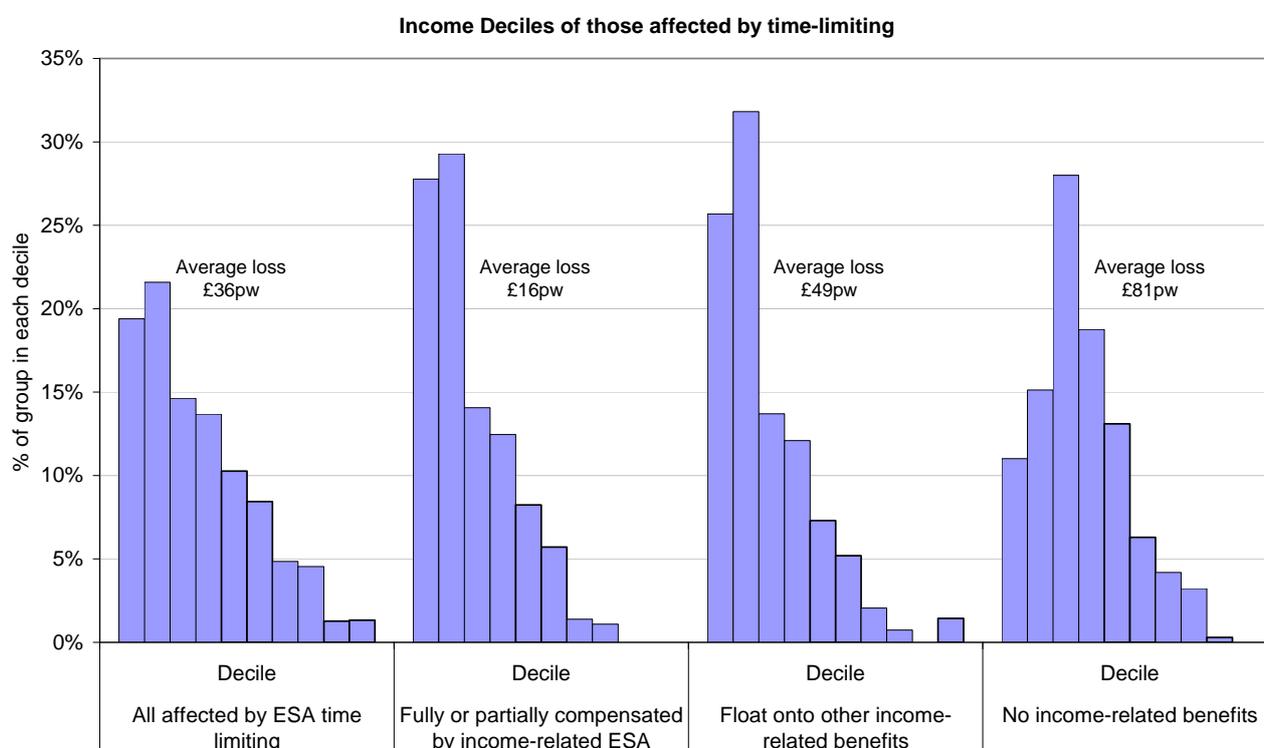
21. The net effect of the policy on those affected is shown in Table 4 below. It shows the income distribution of those affected, with a split for those who actually see a loss in net income. This shows that around half of all those affected are in the bottom two deciles. However, the income distribution for those who actually see a loss is more spread with around half in the bottom 3 deciles, but with 10% in the top 3 deciles. This represents the steady-state situation, after IB reassessment⁴ is complete and uses income deciles for the population as a whole.

⁴ IB Reassessment is a programme to reassess some 1.5 million people on old style incapacity benefits to see if they are eligible for ESA using the WCA between Spring 2011 and March 2014.

Table 4: Impact of time limiting contributory ESA by income decile

Income decile	Distribution of all those affected	Distribution of people worse off by decile
1	24%	18%
2	27%	19%
3	14%	14%
4	14%	13%
5	9%	10%
6	6%	8%
7	3%	7%
8	2%	6%
9	0%	2%
10	1%	2%
Total	24%	100%

22. The income distributions are shown in more detail in the charts below. This shows the proportion in each income decile split by whether or not they receive income-related ESA or other income-related benefits after the time limit. The charts show that although a high proportion of people affected are in the lowest income deciles, these will tend to be either fully, or partially compensated by income-related ESA; and those who will not be eligible for income-related benefits are typically in the middle or higher deciles.



23. The average change in weekly net income for households by income decile is around £36 per week, or £52 per week for those who see a loss (in 2010/11 prices). A split by income decile is shown in Table 5 below. This shows that the amounts lost are typically lower for those in the bottom deciles.

Table 5: Average change in weekly benefit amount for those affected by income decile

Income decile	Average change in weekly income (£/wk) for all affected	Average change in weekly income (£/wk) for those who see a loss
1	-£23	-£35
2	-£24	-£37
3	-£29	-£44
4	-£36	-£55
5	-£42	-£60
6	-£49	-£73
7	-£68	-£73
8	-£72	-£81
9	-£71	-£71
10	-£69	-£69
Total	-£36	-£52

Non-monetised costs and benefits

24. The main non-monetised costs relate to behavioural changes resulting from the policy change:

- There is a risk that people who have been time limited on contributory ESA, who are not eligible for income-related ESA due to other income or capital, may choose to spend their capital or give up other income in order to become eligible for income-related ESA. For example, a partner may give up their employment. This would reduce the benefit savings since more people will receive income-related ESA than currently estimated. The scale of this change of behaviour is very difficult to estimate at this stage, although the risk of people spending their capital to qualify for income-related ESA is mitigated by the deprivation of assets rule which is designed to eliminate this behaviour. Overall, those with the most incentive to give up work are partners earning less than £150 per week, as their net income could potentially only be a few pounds less if they gave up work. Indicative analysis shows that 10% of all partners are in this position and if they all gave up work, the net savings would reduce by around 3% or £30m in 2014/15. This may become less of a risk once Universal Credit is introduced.

25. There are other possible non-monetised benefits from this policy including:

- Encouraging a more work-focussed culture for those on ESA, possibly leading to more people moving into work over time, which may result in the wider benefits associated with employment.
- Simplifying the benefit system by aligning ESA more closely with Jobseeker's Allowance in the run up to Universal Credit.

Risks and assumptions

26. The monetary estimates are based on several assumptions, many of which are data driven. These assumptions are subject to change over time as further information becomes available, and if so there will be a knock-on effect on the estimated savings:

- This policy requires primary legislation. It has been assumed the earliest legislation could be in place is April 2012.
- It is estimated that around 90 per cent of contributory ESA customers of duration greater than 3 months and in the work-related activity group will be affected by a one-year time limit. This is based on the durations for IB customers as the ESA caseload has not yet reached steady state. However, these proportions are very similar to those from the latest ESA forecasts.
- People may object to being placed in the WRAG due to the time limit. As a result, the number of appeals against being placed in the WRAG rather than the Support Group may increase. In line with the latest forecasts it is assumed that 50 per cent of those affected by time limiting will attempt to appeal their WRAG decision, and 20 per cent will be successful and moved to the Support Group. This increases administrative costs from processing these additional appeals and reduces overall numbers of people in the WRAG, and therefore benefit savings from this policy compared to earlier estimates. The scale of this change of behaviour is very difficult to estimate prior to the policy being brought in, so there is a risk that these estimates will change as more evidence becomes available.
- The costings are based on a steady-state year where IB reassessment has been completed. It is assumed that nearly a quarter of existing IB cases will move off incapacity benefits during the reassessment process.
- The underlying assumptions are aligned as far as possible with the latest official ESA forecasts, but these are continually being assessed in line with the latest data. Therefore, the numbers affected by this policy and consequential financial implications are subject to change as more information becomes available.
- We currently assume that the potential behavioural changes are small as described above.

Wider impacts

27. There may be an increased movement into work from people on ESA due to the change in emphasis towards ESA being a shorter-term benefit. The scale of this effect is very difficult to estimate at this stage.

Summary and preferred option

28. The preferred option is to time limit contributory ESA to one year for those people in the WRAG. Existing ESA claimants at the time of the policy change will be time limited immediately if they have been in the WRAG for one year or more. People moving to the WRAG through IB reassessment will be given one year from the date they switch before they are time limited.

Rural impact assessment

29. It is estimated that in England around 14 per cent of ESA customers live in rural areas⁵ which is substantially less than the proportion for the population as a whole. However, receipt of contributory ESA varies across regions. For example, only around 20-30 per cent of ESA claimants receive contributory ESA in most of London, Manchester and Birmingham compared to around 55-65 per cent in some less populated areas. However, it is unlikely that there will be a disproportionate impact on people from rural areas because overall numbers in rural areas is small. For example, in England, 17 per cent of contributory ESA claimants are in rural areas compared to 12 per cent for people receiving income-related ESA or credits only.
30. In mitigation to any possible impact on people in rural areas, income-related ESA will act as a safety net to support those who have no means of supporting themselves. It is expected that overall 60 per cent of people losing their contributory ESA will be wholly or partially compensated by income-related ESA. Those who are not eligible for income-related ESA will see a loss in income but generally either have a working partner or capital over £16,000 so will not be left without income.

⁵ Based on internal analysis using the Work and Pensions Longitudinal Study, May 2010, with 'rural' defined as local authorities where at least 50 percent but less than 80 percent of their population in rural settlements and larger market towns.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: The impact of the introduction of ESA time limiting will be reviewed and monitored as it is introduced.
Review objective: To verify the policy is working as intended and to evaluate any deviation from the anticipated effects described in the Impact Assessment and Equality Impact Assessment.
Review approach and rationale: This will be done by analysis of internal administrative datasets.
Baseline: Current estimates of costs, savings and caseloads projected to 2014/15.
Success criteria: Comparison of actual caseload and expenditure to that forecast before the policy is introduced.
Monitoring information arrangements: The Department has detailed administrative data giving information on the number and type of ESA claimants and total expenditure. This information is updated regularly and will allow timely monitoring of the effect of the policy.
Reasons for not planning a PIR: N/A