Title: Social Security Benefits Uprating Order 2013 **Lead department or agency:** Department for Work and Pensions **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** January 2013 **Stage: Final** **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:**

Summary: Intervention and Options

RPC Opinion: N/A

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
			No	N/A

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

Welfare expenditure is a significant driver of public spending, and the Government has made a commitment to deliver a more sustainable welfare system. In the Autumn Statement (2012), it was announced that in light of the national economic situation, certain working-age social security benefits and payments, certain elements of tax credits, and Child Benefit, would be up-rated by 1 per cent rather than by prices (as measured by the Consumer Prices Index ('CPI')) for the tax years 2013/14, 2014/15 and 2015/16.

The Social Security Benefits Uprating Order effects the policy for some of these benefits in 2013/14 only

- The main working-age rates of Income Support, Jobseeker's Allowance, Employment and Support Allowance and Housing Benefit; the work-related activity group component of Employment and Support Allowance;
- Statutory Sick Pay and standard rate elements of, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay; and Maternity Allowance[1].

Furthermore, there are some changes to Pension Credit and Savings Credit compared to the expected baseline.

[1] Maternity Allowance (MA) is not part of the Order but the standard rate of MA is linked in legislation to the standard rate of Statutory Maternity Pay.

What are the policy objectives and the intended effects?

The primary objective is to provide for up-rating of pensions and benefits in light of the Secretary of State's review of the increase in prices over the past year, and of the Coalition commitment to up-rate the basic State pension by the highest of CPI, earnings or 2.5%. The Order provides for CPI up-rating of disability and carers' benefits, and of Additional Pension. These measures meet the Government's commitment to protect the position of those on fixed incomes or with additional-cost needs. Furthermore, the standard minimum guarantee element of Pension Credit is to be increased by 1.9 per cent, which is more than the statutory minimum based on growth in average earnings (1.6 per cent), to ensure that the poorest pensioners see a similar cash gain to pensioners who benefit from the 'triple lock' commitment. The cost of this is off-set by changes to the Savings Credit.

However, the Government also needs to constrain public spending on welfare to contribute to debt reduction, in light of the national economic situation. Therefore, certain working-age social security benefits and payments in 2013/14 will be up-rated by 1 per cent, thereby generating savings to Government of around £0.2bn in 2013/14 in cash terms. These savings will continue in future years and gradually increase in cash terms. In overall cash terms the Up-rating Order will cost around £2.8bn in total; around £0.5bn flowing to working-age households, and £2.3bn to pensioner households.

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

The main alternative was to up-rate in 2013/14 in line with convention (primarily by prices as measured by the CPI). However, this would not generate the expected savings that arise from the option chosen.

A further option, which was put forward by some outside Government, was to up-rate all elements of the social security working-age payments in question by 1 per cent. This would have included personal allowances paid to pensioner recipients of working-age benefits, premia paid to pensioners and disabled recipients of working-age benefits, the Support Group component of Employment and Support Allowance, and elements of tax credits payable to disabled persons. However, in order to protect the most vulnerable, who are least able to increase their incomes (pensioners and disabled persons), the Government has proposed these elements should be up-rated in line with convention (primarily with reference to prices, and in line with the Government's triple guarantee for the basic State Pension).

It would also have been possible for those benefits and payments included in the Order to have been given a zero per cent up-rating - in other words a freeze. To limit the impacts to recipients and provide cash increases where possible, while still securing the savings needed, it was decided that 1 per cent should be used instead.

Will the policy be reviewed? . If applicable, set review date:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: Steve Webb Date: 28 January 2013

Summary: Analysis & Evidence

Policy Option 1

Description: Uprating as in Social Security Benefits Uprating Order 2013

FULL ECONOMIC ASSESSMENT

Price Base Year	**PV Base Year**	Time Period Years	**Net Benefit (Present Value (PV)) (£m)**		
			Low: Optional	**High:** Optional	**Best Estimate:**

COSTS (£m)	**Total Transition** (Constant Price) Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional	Optional	**Optional**
High	Optional	Optional	**Optional**
Best Estimate		£0.2bn in 2013/14	

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

Overall, up-rating the affected benefits by 1 per cent in 2013/14 will result in a smaller increase in aggregate household income in cash terms (by £0.2bn in 2013/14), compared with if benefits had been up-rated by the rate of CPI inflation (2.2 per cent). This change in household income will continue in future years.

It is estimated that around one in eight households will be affected with an average change of around -£0.90 a week compared to CPI up-rating. Households towards the bottom of the income distribution are more likely to be affected and have a slightly higher average change because they are more likely to receive the affected benefits.

For those households receiving Statutory Maternity, Paternity, Adoption pay or Sick pay their employer may cover some or all of the change in income: in this instance the cost would fall on business rather than the household (the total cost remaining unaltered).

Around 1.5 million pensioner households who have a smaller cash increase (an average change of -£0.35 per week) because of the decision to up-rate the standard minimum guarantee in Pension Credit by 1.9 per cent and increase the Savings Credit threshold by 3.1 per cent compared to uprating the standard minimum guarantee by earnings (1.6 per cent) and freezing the Savings Credit threshold.

This change is broadly cost-neutral to Government.

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

BENEFITS (£m)	**Total Transition** (Constant Price) Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional	Optional	**Optional**
High	Optional	Optional	**Optional**
Best Estimate		£0.2bn in 2013/14	

Description and scale of key monetised benefits by 'main affected groups'	
Overall, it is estimated that savings to the Government from up-rating certain benefits by 1 per cent rather than by the CPI inflation rate, will be around £0.2bn in 2013/14. Though benefits will rise in cash terms, the savings to the Government result from smaller increases in benefit than would have been the case if they were up-rated by the CPI. Around 1 million pensioner households will see a higher cash increase by around £0.50 per week because of the decision to up-rate the standard minimum guarantee in Pension Credit by 1.9 per cent and increase the Savings Credit threshold by 3.1 per cent compared to uprating the standard minimum guarantee by earnings(1.6 per cent) and freezing the Savings Credit threshold This change is broadly cost-neutral to Government	
Other key non-monetised benefits by 'main affected groups'	
Key assumptions/sensitivities/risks **Discount rate (%)**	3.5%

BUSINESS ASSESSMENT (Option 1)

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

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	2012 Autumn Statement http://cdn.hm-treasury.gov.uk/autumn_statement_2012_complete.pdf
2	Welfare Benefits Uprating Bill Impact Assessment http://www.dwp.gov.uk/docs/welfare-benefits-up-rating-bill-ia.pdf
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Introduction

1. In cash terms the Up-rating Order has costs of around £2.8bn in total in cash terms (for Great Britain), of which around £0.5bn is in respect of working age households and £2.3bn, of pensioner households

2. This Impact Assessment considers the impact of the Social Security Benefits Uprating Order 2013 compared to an expected baseline: these are the decision to up-rate certain working-age benefits by 1 per cent and changes to Pension Credit and Savings Credit[2]. As these are separate policy decisions to the 1% uprating, affecting different cohorts of households the impact is assessed separately.

Section A) Uprating certain benefits by 1 per cent

3. The Social Security Benefits Uprating Order 2013 sets out the Government's intention that the following working-age benefits will be up-rated by 1 per cent in 2013/14:

- The main working-age rates of Income Support, Jobseeker's Allowance, Employment and Support Allowance and Housing Benefit; the work-related activity group component of Employment and Support Allowance;
- Statutory Sick Pay and standard rate elements of, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay; and Maternity Allowance[3].

4. It will not apply to the premia within the above working-age benefits relating to disability, pensioners, and caring responsibilities, nor to the support group component of ESA.

5. Table 1 sets out the benefit rates in 2013/14 for some of the affected benefits

Table 1: Selected benefit rates affected by uprating decision in 2013/14

(Weekly rates £)	**2012-13**	**2013-14**
EMPLOYMENT AND SUPPORT ALLOWANCE, HOUSING BENEFIT, JOBSEEKER'S ALLOWANCE, INCOME SUPPORT		
Personal Allowances		
Single		
under 25	56.25	56.80
25 or over	71.00	71.70
Lone Parent (18 or over)	71.00	71.70
Couple both over 18	111.45	112.55
Components		
Work-related Activity Group	28.15	28.45
STATUTORY ADOPTION, MATERNITY, PATERNITY (AND ADDITIONAL STATUTORY PATERNITY) PAY; MATERNITY ALLOWANCE - standard rate	135.45	136.78
Statutory Sick Pay - standard rate	85.85	86.70

[2] This Impact Assessment does not include the decision to up-rate the basic State Pension by 2.5 per cent as part of the 'triple lock' commitment, nor does it include the above CPI increase in non dependant deductions (which is covered in a separate assessment, available at http://www.dwp.gov.uk/docs/eia-ndd-2011.pdf)
[3] Maternity Allowance (MA) is not part of the Order but the standard rate of MA is linked in legislation to the standard rate of Statutory Maternity Pay.

Exchequer Impact

6. The 2012 Autumn Statement set out the expected savings from the policy in 2013/14, 2014/15 and 2015/16 for the United Kingdom. Table 2 sets out the equivalent Exchequer savings in cash terms from the 2013 Up-rating Order. Savings continue to be made in future years.

Table 2: Exchequer Savings in cash terms[4]

Measure	2013/14	2014/15	2015/16	2016/17	2017/18
1% uprating of certain benefits in uprating order	**£0.2bn**	**£0.2bn**	**£0.2bn**	**£0.2bn**	**£0.3bn**

*Savings in UK cash terms and rounded to nearest £0.1bn.

Impact on Households

Methodology

7. The Exchequer savings are calculated using administrative sources of data. However, it is not straightforward to use administrative data to calculate the overall change in benefit receipt for a household as households may be in receipt of multiple benefits at any one time. The impacts on households in this assessment are modelled in the DWP Policy Simulation Model which draws on data from the Family Resources Survey allowing us to estimate total household entitlement to any of the benefits included in this policy change and understand the overlaps. The modelled impacts include incomplete take-up of benefit entitlement.

8. The impacts presented below are assessed on the following basis:

- In the absence of policy change all benefits in scope would be up-rated by CPI in 2013/14.
- Impact is assessed in 2013/14 assuming the current benefit and tax credit system is still in place[5], i.e. it does not take into account Universal Credit[6] or Personal Independence Payment.
- All households in Great Britain only[7]

Changes in household income

9. The following sections set out the impacts of this change on different households in 2013/14.

10. Those households which are affected are defined as those households who are in receipt of a benefit affected by this Order: i.e. subject to be up-rated by 1 per cent in the 2013 Up-rating Order. Whilst the rate of these benefits will be up-rated in cash terms, rather than frozen, providing an increase in net income, the change is presented as the difference between up-rating of 1 per cent and up-rating by CPI inflation of 2.2 per cent.

11. Around seven out of eight households will not be affected by the up-rating changes. There are three main reasons for this:

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[4] The savings are modelled consistently with those described in the Autumn Statement policy costings document http://cdn.hm-treasury.gov.uk/as2012_policy_costings.pdf.
This means they cover the whole of the UK.

[5] It does not take into account other policy measures announced at the Autumn Statement either in the baseline or policy change scenario.

[6] Only a small proportion of households currently on legacy benefits will be on Universal Credit in 2013/14.

[7] Unless stated otherwise, the impacts are presented for the household (the technical definition is benefit unit) as a whole who receive the benefits rather than on an individual basis.

- The Government has continued its commitment to protect pensioner benefits including protecting the basic State Pension through the ‘triple lock’ commitment.

- In addition, certain disability and carers benefits such as the Disability Living Allowance (DLA) have been protected and will continue to be up-rated by CPI.

- In addition, those who are not receiving state support are unaffected by this change.

12. Around one in eight households are affected seeing an average change of around -£0.90 from this policy which represents a change of less than -1 per cent of net income. However, many will receive a cash increase in benefits.

13. Table 3 below sets out the number of households who are affected by income decile. It demonstrates that those further down the income distribution are more likely to see a change in income than those further up the income distribution because, unsurprisingly, a greater proportion of households towards the bottom of the income distribution are receiving those benefits covered in the Order.

Table 3 – Changes in household receipt per week across the distribution of equivalised income

	Not Affected (millions)	Affected (millions)	Average change for those affected (£)	Average change for those affected (% of net income)
Bottom Decile	2.4	0.9	-£0.90	-1%
Decile 2	2.3	1.0	-£0.90	<-1%
Decile 3	2.5	0.8	-£0.90	<-1%
Decile 4	2.8	0.5	-£0.90	<-1%
Decile 5	2.9	0.4	-£0.90	<-1%
Decile 6	3.0	0.2	-£0.90	<-1%
Decile 7	3.1	0.2	-£0.90	<-1%
Decile 8	3.2	0.1	-£0.90	<-1%
Decile 9	3.2	0.1	-£1.00	<-1%
Decile 10	3.2	0.0	-£1.00	<-1%
Total	28.5	4.1	-£0.90	<-1%

Source: DWP Policy Simulation Model (based on FRS 2008/09), 2013/14 prices
Numbers rounded to the nearest 10p or 1% or 100,000 as appropriate
Figures may not sum due to rounding.

Family Type

14. Table 4 overleaf sets out those affected and the average change in benefit receipt by family type where there is at least one member of working age.

Table 4 – Changes in household receipt per week by family type for working-age households

	Not Affected (millions)	Affected (millions)	Average change for those affected (£)	Average change for those affected (% of net income)
Working Age/pensioner couples[8]	0.8	<0.1	-£0.80	<-1%
Couple with children	4.6	0.7	-£1.00	<-1%
Single with children	1.0	1.1	-£0.90	<-1%
Couple without children	5.1	0.5	-£1.10	<-1%
Single without children	8.7	1.9	-£0.90	-1%

Source: DWP Policy Simulation Model (based on FRS 2008/09), 2013/14 prices
Numbers rounded to the nearest 10p or 1% or 100,000 as appropriate
Figures may not sum due to rounding.

15. Table 4 shows that families with children are more likely to be affected than families without children. Lone parents are the family type which is most likely to be affected. This is because they have a lower employment rate than average[9]. In contrast, pensioners are the least likely group to be affected, as pensioner benefits are protected

16. However, as a proportion of income, single people without children who are affected see a higher change than those families with children. This is because single people without children who are in receipt of benefit are more likely to be out of work than families with children and so their benefit entitlement accounts for a higher fraction of their total income.

17. There are a very small number of pensioner households affected because they are receiving a benefit not specifically designed for pensioners

Impact on household income for protected groups

18. Households that include someone with a protected characteristic (as defined by the Equality Act 2010) will be affected by this policy if they receive one or more of the affected benefits. Overall, those groups[10] who are more likely to be in receipt of affected benefits are more likely to be affected by this policy change, though these groups do benefit the most from the decision to up-rate by 1 per cent rather than freeze benefit rates.

19. On an individual basis women are more likely to be affected than men with around 12 per cent of women affected compared to 10 per cent of men. This difference is likely to be because around 90 per cent of lone parents are women[11], which is the family type most

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[8] Where one individual in the couple is of working age and the other individual is a pensioner.
[9] Labour Force Survey(household datasets) 2012
[10] The department does not hold information on its administration system on gender reassignment, sexual orientation, marital status or civil partnership status and religion/belief. As for other groups, impacts for these households will be determined by the likelihood of receiving an affected benefit.
[11] Labour Force Survey 2012

likely to be affected: though this group are likely to receive the greatest cash increase in benefits.

20. The Government has taken steps to protect vulnerable groups. The Government has protected Disability Living Allowance, Attendance Allowance, the Support Group component of Employment and Support Allowance (for those not expected to look for work) and disability premia in working-age benefits, by up-rating them by the CPI to provide protection for disabled people.

21. For instance, protecting Disability Living Allowance has meant around 60 per cent of households in receipt of DLA are not affected by this change and those that are affected see a higher increase in benefit payment than would have been the case had DLA not been protected.

22. Nevertheless, despite this protection in those households where someone describes themselves as disabled, (under the DDA[12] definition) some of whom will not be eligible for a disability benefit, are more likely to be affected than those where there is not a person who describes themselves as disabled (22 per cent of households compared to 9 per cent of households). This is because those who report themselves as having a disability are more likely to qualify for those benefits which are affected by the policy change.

23. Furthermore, the Government has continued its commitment to protect pensioner benefits and so pensioners are, as discussed above, much less likely to be affected than those of working age.

Pregnancy and Maternity

24. The 1 per cent uprating of standard rate elements for Statutory Maternity Pay[13], Paternity Pay, Adoption Pay and Maternity Allowance[14] could cause a smaller cash increase (by around £1.60 a week) in income from statutory payments for individuals receiving this support, than if they had been up-rated by the CPI. For some individuals, their employer may cover the additional cost.[15] We estimate that on average around 340,000 women each year receive Maternity Allowance and Statutory Maternity Pay.

25. Another around 215,000 individuals[16] could be affected by the up-rating change on Statutory Adoption Pay and Statutory Paternity Pay per year. For some individuals, their employer may cover the additional cost.

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[12] Disability Discrimination Act (consistent with the Equality Act 2010)
[13] Statutory Maternity Pay is paid for 39 weeks, with the first 6 weeks paid at 90% of average weekly earnings and the next 33 weeks paid at the standard rate or 90% of average weekly earnings which ever is the lowest.
[14] Maternity Allowance is paid for 39 weeks at the standard or 90% of earnings which ever is the lowest.
[15] In 2008(the latest available year), 32% of mothers who worked prior to their maternity leave got SMP combined with additional Occupational Maternity Pay from their employer. This Impact Assessment assumes the impact is on households only.
[16] Information from HMRC.

Section B) Changes to Pension Credit and Savings Credit

26. The statutory minimum increase to the basic State Pension is based on average earnings, but the 'triple lock' commitment means that since the growth in both prices and earnings was below 2.5 per cent, it will be increased by 2.5 per cent in 2013/14.

27. The standard minimum guarantee element of Pension Credit is to be increased by 1.9 per cent, which is more than the statutory minimum based on growth in average earnings(1.6 per cent), to ensure that the poorest pensioners see a similar cash gain to pensioners who benefit from the 'triple lock'. The rate for single people is increased from £142.70 a week in 2012/13 to £145.40 a week in 2013/14, and for couples from £217.90 in 2012/13 to £222.05 a week in 2013/14.

28. The Savings Credit thresholds, the point at which pensioners can receive Savings Credit**,** are increased by 3.1 per cent (instead of being frozen) in order to fund the additional increase in the standard minimum guarantee. The threshold for a single person will increase from £111.80 to £115.30, and the couple's threshold will increase from £178.35 to £183.90.

Impact

29. The table below show the costs of the measure compared to the baseline of increasing the standard minimum guarantee by 1.6 per cent and freezing the savings credit maximum. Estimates include knock-on impacts on Housing Benefit. The policy is broadly cost-neutral. Estimates assume we return to up-rating the standard minimum guarantee by earnings in subsequent years and freezing the Savings Credit maximum (at the new lower rate) for one year in April 2014 onwards (positive numbers represents cost to the Exchequer) before reverting to increasing it in line with prices.

Table 5: Exchequer costs of Pension Credit/Savings Credit decision (positive numbers represent cost to the Exchequer)

UK £m cash terms	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Pension Credit	-3	0	-1	-4	-5
Housing Benefit	1	2	2	2	2
Total cost (nearest £5m)	**0**	**0**	**0**	**-5**	**-5**

30. The actual impact of up-rating on someone's benefit amount depends upon a wide variety of factors, which could lead to their benefit income going up or down. However, no one should be worse off overall in cash terms after up-rating.

- Around 1 million Pension Credit claimants will see a greater cash increase compared with the baseline - an average of £0.50 per week (mostly claimants of the guarantee credit element only, both singles and couples)
- Around 1.5 million Pension Credit claimants will see a smaller cash increase than they would have done compared with the baseline: an average of -£0.35 per week (most claimants of the Savings Credit with or without the guarantee credit element, and both single and couples)

31. This policy will benefit poorer households who are in receipt of guarantee credit element but are less likely to have additional income which would make them eligible for the Savings Credit. These households will see a larger cash increase as a result of this policy (compared to the baseline) and are more likely to include:

- households where the head is from an ethnic minority;
- disabled households;
- younger pensioners; and
- single households. [17]

32. In contrast, households with additional income who are entitled to larger amounts of Savings Credit will see a lower cash increase as a result of this policy. Savings Credit is only available to pensioners over 65; the group receiving this smaller increase is more likely to include older pensioners, who in turn are more likely to be single females.

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[17] The department does not hold information on its administration system on gender reassignment, sexual orientation, marital status or civil partnership status and religion/belief. As for other groups, impacts for these households will be determined by the likelihood of receiving standard minimum guarantee element or Savings Credit.

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:
Review objective:
Review approach and rationale:
Baseline:
Success criteria:
Monitoring information arrangements:
Reasons for not planning a PIR: The Secretary of State for Work and Pensions will review the up-rating of benefits annually in line with statutory requirements. The Impact Assessment for the Welfare Benefits Bill covers proposed changes for 2014/15 and 2015/16.