

<b>Title:</b> Impact Assessment: Sanctions and hardship  <b>Lead department or agency:</b> Department for Work and Pensions  <b>Other departments or agencies:</b> Her Majesty's Treasury Her Majesty's Revenue and Customs Northern Ireland Office	<b>Impact Assessment (IA)</b>
	<b>Date:</b> 26/05/16
	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary legislation
	<b>Contact for enquiries:</b> devolution.commsandbriefing@dwp.gsi.gov.uk
<b>Summary: Intervention and Options</b>	<b>RPC Opinion:</b> Not Applicable

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, Two-Out?	Measure qualifies as
	N/A	N/A	No	N/A

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

Successive governments have recognised that there should be a link between entitlement to benefits and engagement with the labour market. Most people comply with conditions of entitlement, and the majority of unemployed people leave benefit quickly. However, others require additional support, and there must be a requirement to take responsibility for taking up this support, with a response in the benefit system for people who do not do so. The current JSA sanctions regime does not work effectively. It is too complex, sanctions for some failures are set at too low a level and claimants are not always clear about the sanction they will receive.

As part of the recent Fresh Start Agreement we agreed with the Northern Ireland Assembly that the current position on welfare was financially unsustainable and parity across the UK on social security must be restored.

**What are the policy objectives and the intended effects?**

The intention of these policies is to speed up entries into employment from benefits for those able to work, and ensure that those who are able to prepare for work at a later date are given the right support at the right time. This sits alongside the requirement for individuals to take up the support available.

Those who find work benefit from higher income and improved wellbeing and life chances. There are also fiscal savings including a lower benefit burden, and wider social benefits.

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

The do nothing option was considered and rejected as this does not:

- provide further incentives to take up support and move into work and benefit from accompanying wider benefits;
- extend parity on social security across the UK.

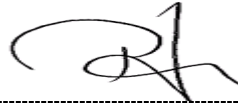
Furthermore the Fresh Start Agreement set out that welfare reforms would be implemented in Northern Ireland equivalent to those introduced in GB by the Welfare Reform Act 2012, as well as other measures, and that these regulations would be passed through Westminster.

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

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> No	<b>&lt; 20</b> No	<b>Small</b> No	<b>Medium</b> No	<b>Large</b> No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A	<b>Non-traded:</b> 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 Minister:



Date: 06/06/16

# Summary: Analysis & Evidence

# Policy Option 1

Description:

## FULL ECONOMIC ASSESSMENT

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

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

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

There will be additional administrative costs of providing the support and administering the accompanying increased adherence to the conditionality regime. These have not been estimated within this document.

### 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				

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

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

The additional incentives to move into work may increase the numbers who then move into work. There are associated benefits to being in work including on health and wellbeing. In addition, if a parent moves into work, potentially increasing the life chances of the children in the household, providing a better lifestyle which may result in an increase in their child's welfare.

Key assumptions/sensitivities/risks

Discount rate (%)

## BUSINESS ASSESSMENT (Option 1)

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

## **Introduction**

The suite of policy changes are designed to improve work incentives and enhance fairness, whilst ensuring support for the most vulnerable. These were implemented in Great Britain in 2012 and the package of reforms has proved to be successful in increasing moves into employment by those affected.

Welfare Reform and Social Security remain devolved in Northern Ireland; however the Northern Ireland (Welfare Reform) Act 2015 enables the UK Government to legislate for welfare reform in NI for a specified period of time. The subsequent Order in Council broadly mirrored the policies in the Welfare Reform Act 2012, with NI specific flexibilities agreed in the Fresh Start Agreement. Both the Northern Ireland (Welfare Reform) Bill and the Order in Council were consented to by the NI Assembly.

Alongside this, mitigations have been assessed and will be put in place by the NI Assembly following the Evason report, published in January 2016.

## **The current policy**

Successive governments have recognised that there should be a link between entitlement to benefits and engagement with the labour market. Most people comply with conditions of entitlement, and the majority of unemployed people leave benefit quickly. However, others require additional support, and there must be a response in the benefit system for people who do not comply.

The current JSA sanctions regime does not work effectively. It is too complex, sanctions for some failures are set at too low a level and claimants are not always clear about the sanction they will receive. The sanctions for the most serious failures are variable from one to 26 weeks. These changes will introduce a clearer and stronger JSA sanctions system that will act as a more effective deterrent to non-compliance. There will be three levels of sanctions which will only apply when claimants do not meet their requirements. The sanction duration will increase with each failure so those who continually choose not to meet all their obligations will see the consequences.

A sanction will not be imposed if a claimant can show they had good reason, and, as now, after a sanction has been imposed, claimants will continue to have the right of appeal.

Higher level sanctions will be applied to jobseekers who do not, without good reason, meet their most important requirements. These might include accepting reasonable job offers and taking part in Mandatory Work Activity. We intend the first sanction to be for a fixed period of 12 weeks, 26 weeks for the second, increasing to 78 weeks for the third and any subsequent sanctions. Medium level sanctions apply when a jobseeker does not undertake all reasonable work search or is not available for work. The first sanction will be for four weeks; second and subsequent sanctions will be for 12 weeks. Lower level sanctions will be applied following non-compliance with those JSA requirements which are not covered by higher or medium level sanctions

The current hardship payment system for the JSA regime can provide financial support at a reduced rate where a benefits sanction is imposed and, in limited circumstances, where a jobseeker is disentitled from JSA or where their payment has been suspended. To qualify, a claimant needs to show that they would be left in hardship were no such payment to be made. A Jobs and Benefit Office/Social Security Agency official will consider a number of things in awarding this, including access to any other financial resources within their household and whether there is a substantial risk that their household would be left without essential items (e.g. food, heating).

Vulnerable claimants (for example where there is a pregnant woman in the household, the claimant is a lone parent or has a chronic medical condition) have immediate access to hardship payments. For those in need who do not fall into a vulnerable group, hardship payments normally begin after two weeks of a sanction.

## **Policy objective**

The policy objective is to:

- Increase the transparency of the system to ensure that claimants fully understand what is expected of them, whatever the level of conditionality they are subject to;
- improve the sanctions regime so that it effectively encourages claimants to meet their responsibilities;
- reform the hardship regime so that it does not undermine the impact of a sanction while protecting people, in particular those in vulnerable groups, from experiencing hardship.

The intention of these policy changes is to speed up entries into employment from benefits for those able to work, and ensure that those who are able to prepare for work at a later date are given the right support at the right time, including the requirement to engage with that support.

Every Income Support, Jobseeker's Allowance and Employment and Support Allowance claimant will have a claimant commitment as a condition of entitlement. The commitment will set out the general expectations on each claimant; the requirements placed upon them and will also be clear about the consequences for the claimant of failing to meet these agreed standards.

The commitment will also ensure that any specific requirements placed on claimants are communicated clearly, together with an explanation of the sanctions that will follow a failure to comply. The introduction of the commitment - together with other changes - should support higher compliance.

## **Behavioural change**

The increased clarity of the sanctions will ensure that people know the consequences of non-compliance with the conditions they have agreed to in their claimant commitment. These aim to discourage this non-compliance and encourage the positive activities toward movement into work..

## **Exchequer Impact**

As a result of not mirroring the measures contained in the Welfare Reform Act 2012, in Northern Ireland the Executive has had to provide 'savings forgone' to HM Treasury. In 2015/16 and prior to the Fresh Start Agreement, these welfare related deductions were estimated to be £114 million and to significantly increase on an annual basis. As a result the non-implementation of welfare reform was putting significant and growing pressure on the Executive's budget.

## **Impact on Households**

The new proposals give claimants a clearer understanding of what is required of them and what the results of not doing this are. The accompanying changes to the hardship regime ensure that this is used where appropriate and protects the vulnerable whilst strengthening the penalties that currently exist.

The claimant commitment clearly sets out conditions relevant to the benefit claimed, which is discussed and agreed to from the outset. Those who comply with conditions in the commitment will be unaffected by these changes. Sanctions are only imposed when a claimant fails to comply with requirements placed upon them and so can be avoided by changes in a claimant's behaviour. This increased incentive to comply with the conditionality of the regime may then result in increased movement into work.

The strengthened conditionality will apply to all JSA, ESA and IS claimants. Where an individual's circumstance does not require job search, but preparations to enter work in the longer term these will be clearly set out in the commitment at the agreement of the claimant. We are not able to state who will break the terms agreed in their claimant commitment and given the increased incentives to comply with the regime it is hoped that compliance would increase. Though it is possible for any claimant to choose not to comply with this, so potentially any of the claimant caseload could be impacted if they make this choice.

## Methodology

Data supplied by the Department for Social Development's Analytical Services Unit and is dated August 2015. This is in line with regular statistical publications<sup>1</sup>. Disability figures quoted are taken from the Family Resources Survey Northern Ireland 2013/14.

## Impact on Income for Protected Groups

Households that include someone with a protected characteristic (as defined by the Equality Act) will be affected by this policy if individuals who have committed to terms of their claim then break this agreement. Overall, those groups who are more likely to be in receipt of affected benefits are more likely to be affected by this policy change.

The protected groups according to the Equality Act 2010 are:

- Age
- Disability
- Gender
- Ethnicity
- Gender reassignment
- Pregnancy and maternity
- Sexual orientation
- Religion or belief
- Marriage and civil partnership

## Age

These changes apply to working age benefits only. The population in receipt of working age benefits comprises around half 25-49 year olds and over a third over 50, the remaining are under 25. State Pension is not a sanctionable benefit. Those who are vulnerable are protected from this change through immediate access to hardship payments.

## Disability

The proposals apply equally to all claimants, both in terms of whether a sanction applies and also the possibility of mitigating the effects of sanctions. 85% of those who receive working age benefits are not disabled, although the proportions of claimants who receive Employment Support Allowance and Incapacity Benefit who are disabled is much greater given the nature of the benefit support. Claimants will agree conditions of their benefit receipt at the start of their claim and be required to comply with this agreement. Vulnerable groups such as the seriously ill and disabled will be protected from this change through immediate access to hardship payments. Benefits that are paid as a contribution towards the extra costs of disability, for example Disability Living Allowance and Attendance Allowance are not sanctionable.

## Gender

The population who receive working age benefits are broadly evenly split male to female, though lone parents are predominantly female. A person of either gender might fall within the vulnerable group. Following the introduction of Universal Credit and associated changes to income-based Jobseeker's Allowance where a person is not in a vulnerable group but would be left in hardship if no payment were made a hardship payment may be applicable. Such a payment may be recoverable from future benefit payments.

Analysis can only be provided for some of the equality groups. We do not, as a matter of course monitor religious belief, political opinion, racial background or sexual orientation for the purpose of administering

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<sup>1</sup> <https://www.communities-ni.gov.uk/publications/benefits-statistics-summary-publication-national-statistic-august-2015>

the social security system in Northern Ireland. However we would not expect claimants to be adversely affected on these grounds.

### **Life Chances**

The new Life Chances legislation (incorporated into the Welfare Reform and Work Act) removed a number of the legal duties and measures set out in the Child Poverty Act 2010 and placed a new duty on the Secretary of State to report annually on children in workless households and the educational attainment of children. This is because evidence shows these to be the two main factors leading to child poverty now and in the future (respectively).

These changes will further enforce the requirement for people to adhere to agreed steps toward moving into employment. Therefore this stricter regime aims to move people back into work quicker and reduce the number of workless households, including those with children. This would improve the life chances of those children.