Northern Ireland Statistics & Research agency

SOCIAL SECURITY AGENCY

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The impact of Summer Budget 2015

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Social Security Agency
The impact of Summer Budget 2015

This booklet was published in September 2015 and since then several key policies changes were announced during Autumn Statement 2015. These include:

- The Tax Credit Income threshold will remain at £6,420 from April 2016
- The Tax Credit taper will remain at 41% of gross income

Analytical Services Unit are currently modelling the impacts of these amendments and this will be published in due course.

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Annexe

Introduction

1. On 8 July 2015 the Chancellor of the Exchequer, George Osborne, announced a number of welfare measures as part of his Summer Budget 2015. It is forecast that the measures announced will achieve a £12 billion per annum reduction in UK level benefit spending by 2019-20.

2. This document outlines the Northern Ireland specific impacts of the Summer Budget 2015 policies for benefit claimants in Northern Ireland (including Tax Credit claimants). It does not include analysis of other policy announcements from the Summer Budget 2015 such as changes to Personal Tax Allowances or the National Living Wage. These other changes may off-set some of the welfare spending reductions outlined in this document as they will lead to a reduction in tax paid and an increase in earnings for some households.

3. The detail of these measures can be found in the Summer Budget 2015 "Red Book" and HM Treasury's (HMT) "Summer Budget 2015: Policy Costings" documents. These can be accessed at:

   https://www.gov.uk/government/publications/summer-budget-2015

4. To legislate for the Summer Budget 2015 measures, the Westminster Welfare Reform and Work Bill was introduced to the House of Commons in July 2015.

5. The main measures in the legislation are:

   - A four-year freeze to working age benefits. Pensioners benefits and benefits related to the extra costs of disability are protected from the freeze
   - A package of reforms to Tax Credits, including reducing entitlements for many households
   - A package of reforms to Universal Credit, including reducing entitlements for many households
   - Reform to housing and housing support, including removing the entitlement to housing support in Universal Credit for those aged 21 or under, lowering rents in the social rented sector (in England only), changing Support for Mortgage Interest into a loan and a four-year freeze to Local Housing Allowance rates
   - The lowering of the Benefit Cap to £23,000 in London and £20,000 elsewhere including Northern Ireland
   - Alignment of the size of payments to the Employment and Support Allowance Work Related Activity Group (and the Universal Credit equivalent Limited Capability for Work Group) with Jobseeker's Allowance for new claimants from April 2017.

6. Measures are to be phased in and will not affect any claimants until April 2016 at the earliest, with many changes affecting new claimants only. The freezing of benefits and the application of measures to new flows onto benefit is intended to deliver savings while minimising the number of existing claimants who see a reduction in their benefit. However, there will be some existing claimants that see a reduction in their benefits as a result of the measures included in the legislation.

7. Some of the measures outlined in the Summer Budget 2015 would require the Northern Ireland Assembly to pass legislation in order for the policies to be enacted while other measures such as changes to Tax Credits are reserved matters and could be introduced across the United Kingdom to include Northern Ireland without Northern Ireland Assembly approval.

8. For the purposes of this document the Summer Budget policies have been analysed in the context of being additional to the proposals laid out in the Northern Ireland Welfare Reform Bill 2012.

9. The financial profiles produced are heavily dependent on an assumed rollout schedule for each of the reforms. As a result they should be treated with caution as agreement on the implementation of Welfare Reform in Northern Ireland has not been reached.

10. For example, the analysis assumes that Universal Credit will be introduced from January 2017 in Northern Ireland. In this scenario new and existing Tax Credit claimants would start to migrate to Universal Credit from this date. This means that Tax Credit savings achieved through the Summer Budget 2015 measures will decrease over time as cases migrate to Universal Credit, while savings achieved through changes to the structure of Universal Credit will increase (these savings are estimated by comparing the cost of Universal Credit before implementation of Summer Budget 2015 policies with the cost of Universal Credit post Summer Budget 2015).

11. If Welfare Reform is delayed in Northern Ireland then the savings achieved through Tax Credit measures will continue to increase over time rather than decrease as Universal Credit rolls out. Correspondingly the profile for the savings from Universal Credit and other measures included in the Summer Budget 2015 will be delayed.

12. All figures in the main body of the document are estimates. These estimates are based on forecasts that will be revised over time and will be impacted by various external factors as well as the updating of assumptions and methodology. Further details are provided in Annex B. External factors include the implementation of Welfare Reform in Northern Ireland as well as other factors that influence forecasts such as changes in employment and claimant behaviour. Figures are sourced from both administrative and sample data and will be subject to forecast and modelling error. Further details are provided in Annex A.

Summary of Northern Ireland Cost Impacts

Table 1.1

Northern Ireland Summary of Costs/Savings associated with Summer Budget 15 Policy Changes (in £m)*

PAGE REFERENCE	POLICY	2016-17	2017-18	2018-19	2019-20
10	Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17	4	29	65	105
	Reduce income thresholds in tax credits and work allowances in Universal Credit	111	115	124	136
15	Reduce income threshold in Tax Credits	111	105	75	45
25	Reduce Work allowance in Universal Credit	0	10	49	92
18	Increase tax credits taper rate to 48%	77	73	51	29
	Limit child element to 2 children for new births in tax credits and new claims in Universal Credit	0	7	21	33
20	Tax Credits	0	5	14	21
28	Universal Credit	0	2	8	12
	Remove family element in tax credits and Universal Credit, and the family premium in Housing Benefit, for new claims	2	8	15	20
19	Tax Credits	0	5	6	4
29	Universal Credit	0	1	8	16
34	Housing Benefit	2	2	1	0
38	Benefit cap: reduce to £20,000, and £23,000 in London	7	7	7	7
43	Align Work-Related Activity Group rate with JSA for new claims	0	5	9	11
22	Reduce income rise disregard in tax credits	6	8	9	6
42	Support for Mortgage Interest: change from welfare payment to loan; maintain capital limit at £200,000	-1	-1	10	10
30	End automatic entitlement for out-of-work 18-21 year olds in Universal Credit	0	1	2	2
31	UC parent conditionality from when youngest child turns 3	0	-0.2	-0.2	1
	Total	**206**	**251**	**313**	**361**

Positive figures denote a saving to government while negative figures denote a cost to government

Figures may not sum due to rounding

* The table 1.1 excludes Reduce Social Rents by 1% for four years and Pay to Stay for Social housing Tenants as these apply to England only. Fraud and Error savings, Limiting Backdating awards to 4 weeks and Universal Credit Waiting Days: Revised Schedule are excluded due either to no costing information being available, the impact for Northern Ireland being negligible, or the policy not having a cost impact for Northen Ireland.

13. The table 1.1 provides Northern Ireland analysis and estimated savings associated with the Summer Budget 2015 policy measures. This gives annual estimates of the expected contribution by Northern Ireland to the UK level savings outlined by HM Treasury.

14. Each strand of the Summer Budget 2015 proposals was analysed separately and then aggregated to give an overall total for each policy measure. For example the removal of the Family Element has three distinct strands; Tax Credits, Universal Credit and Housing Benefit. For the purposes of this booklet the strands that make up each policy proposal have been grouped in common themes and presented as distinct chapters. These are as follows:

- Benefit Up-rating Freeze
- Tax Credits
- Universal Credit
- Housing Benefit
- The Benefit Cap
- Other Miscellaneous Changes.

15. The analysis uses a variety of data sources including Benefit Administrative Data, Survey data and a number of forecasting models. Full details of these data sources can be found in Annex A. The methodology and all associated caveats and assumptions used for each policy costing have been provided in Annex B.

The impact of Summer Budget 2015

SECTION 1

Benefit Up-rating Freeze

SECTION 1 -

Benefit Up-rating Freeze

16. Up to 2010-11, the rate payable for all social security benefits was increased in line with the rate of inflation calculated using the Retail Price Index (RPI). In 2011-12, the UK Coalition Government switched the indexing of benefit rates from RPI to the Consumer Price Index (CPI) rate of inflation. From 2013-14, further measures were introduced that resulted in the capping of inflationary increases to most working-age benefits at 1% per year for three years.

17. The Summer Budget 2015 introduced a further policy measure that will freeze the cash value of most working-age benefits at 0% for four years from 2016-17. The following working-age benefits impacted by this policy are:

- Jobseeker's Allowance
- Employment and Support Allowance (excluding the Support Group)
- Income Support
- Child Benefit
- Applicable amounts for Housing Benefit
- Child Tax Credit
- Working Tax Credit
- Local Housing Allowance (private rented sector claimants only).

18. Pensioner-specific benefits, benefits relating to the additional costs of disability or care, and statutory maternity, paternity, adoption and sick pay and maternity allowance are excluded from the freeze. Caseloads for the benefits included in the freeze are provided in the below table.

Table 1.2
Working Age Benefit Caseloads subject to Benefit up-rating freeze

Working Age SSA Benefits Subject to the 0% Freeze (From latest DSD Benefit Statistics Summary)	
Jobseeker's Allowance (May 15)	41,000
Employment and Support Allowance excluding Support Group (May 15)	34,000
Income Support (May 15)	39,000
Tax Credits and Child Benefit (Latest figures available from HMRC Publications)	
Tax Credits Caseload (13/14 Annualised Award Statistics)	160,000
Child Benefit Caseload (August 14)	238,000
Housing Benefit (Latest figures from branch administrative data)	
Local Housing Allowance – Private rented sector (June 15)	58,000

All figures included in the table are rounded to the nearest thousand cases

19. In order to assess the impact of this policy, three separate streams of expenditure were analysed namely:

- Social Security Benefits
- Housing Benefit
- Child Benefit and Tax Credits.

20. In order to forecast the savings from the 0% freeze the number of people estimated to be in receipt of each affected benefit/tax credit over the next four years was calculated. This informed the associated benefit expenditure over the same period. The difference in this expenditure with a CPI inflationary uplift was compared with what the figure would be without this uplift to estimate the benefit savings to be achieved from the policy.

21. In calculating the total savings over the next four years it is important to note that the savings will be cumulative (i.e. the savings for any given year will roll over (and be added to) the savings for all subsequent years). The cumulative impact increases significantly in the latter years of analysis given that the forecasted CPI rate for 2018-19 and beyond is significantly higher than the equivalent 2015-16 CPI rate. Full details on how this policy has been modelled, and all associated assumptions and caveats used have been outlined in Annex B.

Table 1.3
Estimated Northern Ireland savings (£m) for the Overall and Individual Impact of Four Year Up-rating Freeze

	2016-17	2017-18	2018-19	2019-20
SSA Benefits*	0	5	12	20
Child Benefits and Tax Credits	3	22	48	77
Local Housing Allowance Rates	0	2	5	8
Combined Northern Ireland Impact	**4**	**29**	**65**	**105**

All figures rounded to nearest £1m, totals are based on unrounded figures
* SSA Benefits include Jobseeker's Allowance, Employment and Support Allowance (excluding the Support Group) and Income Support

SECTION 2

Tax Credit Changes

SECTION 2 -
Tax Credit Changes

22. There are a range of measures outlined in Summer Budget 2015 that affect Tax Credits. These are:

- A reduction in the Tax Credit Income Threshold from £6,420 per annum to £3,850 per annum from April 2016
- An increase in the Tax Credit Taper Rate from 41% to 48% from April 2016
- The removal of the Family Element of Child Tax Credit for new births from April 2017
- Limiting of the Per Child Element of Child Tax Credit to two children for births after April 2017
- A reduction of the in-year income rise disregard from £5,000 to £2,500 from April 2016.

23. Tax Credits are administered by HM Revenue and Customs (HMRC) and are therefore a reserved matter, meaning that the UK government may implement any changes across the UK without Northern Ireland Assembly approval.

24. The analysis presented in this document is based on a working assumption that Welfare Reform will be introduced in Northern Ireland and that Universal Credit will eventually replace Tax Credits. Many of these policies such as the income threshold change, the removal of the family element and the limiting per child element have an equivalent change in Universal Credit.

25. If introduced, Universal Credit will be administered by the Department for Social Development (DSD) in Northern Ireland. Following the rollout of Universal Credit (assumed to begin in January 2017 for the purposes of this document) new claims that would previously have been submitted to HMRC as Tax Credit claims will be submitted to DSD as Universal Credit claims instead.

26. Existing Tax Credit claimants will migrate to Universal Credit either when their circumstances change significantly or according to the DSD/HMRC migration schedule.

27. This migration of new and existing claims to Universal Credit will gradually decrease the number of households to whom HMRC provides support under Tax Credits and increase the number of claimants receiving support from Universal Credit.

28. As a result, the projected savings from Summer Budget 2015 policies that affect Tax Credits claimants will decrease over time. In contrast, savings from corresponding changes in the Universal Credit system will increase as Universal Credit rolls out.

29. The profiled reduction of the Tax Credit caseload is included in Annex B. If Welfare Reform is delayed in Northern Ireland then this decrease in the caseload would not occur at the same point in time and the savings from Summer Budget 2015 measures that apply to Tax Credits will continue to increase until such time as Welfare Reform is introduced.

30. Within the assumed Universal Credit rollout schedule, some Tax Credit cases will only move to Universal Credit if they have a significant change of circumstance, meaning these cases are not physically closed due to intervention by the Department by any specific date. This leaves a residual Tax Credit caseload running into 2019-20. This will in turn result in continued savings from the Summer Budget 2015 policy. This is currently under review in Department for Work and Pension (DWP) and managed migration of the remaining Tax Credit caseload to Universal Credit may take place between 2019-20 to 2020-21.

31. Analysis of these policy measures have been modelled using HMRC Administrative data and the Policy Simulation Model (PSM.) Full details on the methodology used and all associated assumptions and caveats have been outlined in Annex B.

Reduce Income Threshold in Tax Credits

32. Tax Credits are calculated on the basis of “hours” and “gross income”. A household needs to work a set number of hours in order to qualify for Working Tax Credit and then their gross household income is used to calculate how much Tax Credit a household is entitled to[1].

[1] Child Tax Credit can be claimed at any number of hours worked, even zero hours while Working Tax Credit entitlement only begins once a household works a set number of hours. Once a household qualifies for Working Tax Credit if they then increase their household income then the Working Tax Credit award is withdrawn first, Child Tax Credit is only withdrawn once the Working Tax Credit award has been fully exhausted and finally the Family Element is withdrawn.

33. The Tax Credit income threshold is the threshold beyond which Tax Credits begin to be withdrawn as income increases. It is a gross income threshold which is currently set at £6,420 per annum. The new policy will reduce the income threshold in Tax Credits to £3,850 per year, from April 2016.

34. When the change to the income threshold is analysed in isolation, it is estimated that the reduction will lead to a saving of £111 million per annum with 121,000 Tax Credit households having a reduction in household income when they come to renew their Tax Credit claims for the 2016-17 financial year.

35. For those households that see a reduction, there is an average loss per household of £17.60 per week (£918 per annum based on the 2016-17 financial year. This impact may change over time).

36. The following table provides a breakdown of the number of households in receipt of Tax Credits, identifies the number of households that exceed both the current income threshold (£6,420 per annum) and the revised income threshold that will be introduced (£3,850 per annum). It also provides the average impact for the households that see a reduction in household income.

37. There are 109,000 claimants who are earning above the £6,420 threshold who currently have a tapered Tax Credit award. Once the threshold is reduced to £3,850, these claimants will have their Tax Credit award tapered further. An additional 12,000 claimants will also become subject to the taper once the threshold is reduced to £3,850.

Table 1.4
Households Affected by Tax Credit Threshold Change

Number of households in receipt of Tax Credits having a reduction on household income due to exceeding the £6,420 per annum income threshold	**109,000**
Number of households in receipt of Tax Credits having a reduction in household income due to exceeding the £3,850 per annum income threshold	**121,000**
Average Impact per household earning more than £3,850 that sees a reduction in household income	**Weekly: £17.60 loss** **Yearly: £918 loss**

38. This policy will apply to all Tax Credit claims from April 2016 onwards so the steady state (that will be created once the policy has been fully implemented and maximum savings have been realised) will be achieved in the first year. However as the Tax Credit caseload will decline over time due to the assumed rollout of Universal Credit, the associated savings will also reduce over time.

39. The following profile shows the savings decreasing due to the rollout of Universal Credit, based on an assumed start date of January 2017 for Universal Credit in Northern Ireland. This is dependent on the implementation of Welfare Reform in Northern Ireland.

Table 1.5
Estimated Northern Ireland Savings for Reducing the Income Threshold in Tax Credits

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Impact (£m)	111	105	75	45

Increasing the Tax Credits Taper Rate to 48 per cent

40. This policy increases the Tax Credits taper rate from 41 per cent to 48 per cent of gross income.

41. As a result, the rate at which the Tax Credits are tapered increases from 41p for every additional £1 of income above the income threshold to 48p. This will have the effect of reducing entitlement for cases that are subject to the Tax Credit taper and could mean that cases with higher incomes are no longer entitled to Tax Credits. This measure is effective from April 2016.

42. This will reduce the incentive to increase the number of hours worked as there will be less financial return for doing so. Especially for cases that are in receipt of both Tax Credits and Housing Benefit as the combined withdrawal rate is particularly high.

43. The policy has been analysed by first setting the income threshold to £3,850 and then analysing the impact of increasing the taper rate from 41% to 48%.

44. Analysis of this policy indicates that with the income threshold set at £3,850 there are 111,000 households in receipt of Tax Credits who are subject to the taper[2].

45. The steady state (that will be created once the policy has been fully implemented and maximum savings have been realised) saving of applying this policy in 2016-17 is an estimated £79 million per annum. For those households that see a reduction, there is an average loss per household of £13.60 per week (£712 per annum).

46. The profile of the savings will decrease over time as cases migrate off Tax Credits and on to Universal Credit.

47. The following table shows the profile of the savings decreasing over time. This profile is based on the passage of the Welfare Reform Bill and the rollout of Universal Credit in Northern Ireland.

Table 1.6
Estimated Northern Ireland Savings for Increasing the Tax Credit Taper Rate to 48%

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Impact (£m)	77	73	51	29

[2] This number is slightly lower than the 121,000 cases in Table 1.4 who saw a loss when the income threshold was initially set to £3,850 per annum. A number of these cases had their Tax Credit award reduced to zero due to the income threshold change and so were unaffected by the increase in the taper rate from 41% to 48% as they already had a zero award of Tax Credits.

Remove the Family Element of Child Tax Credit for new births (from April 2017)

48. This measure removes the family element of Child Tax Credit (CTC) for first children born on or after 6 April 2017.

49. In Child Tax Credit the Family Element is an individual payment which is added into the Maximum Child Tax Credit Award. It is worth £10.50 per week or £545 per year. The Family Element is protected from the Child Tax Credit Taper until Working Tax Credit and other Child Tax Credit elements have been fully tapered to zero (which will occur as income rises to the maximum threshold for claiming CTC).

50. The policy will initially apply to Tax Credits but as Universal Credit rolls out in Northern Ireland the savings from the policy will eventually transfer to Universal Credit (subject to the introduction of Welfare Reform in Northern Ireland).

51. Analysis of the Policy Simulation Model (please see Annex A for full description) indicates that in 2017-18 there are approximately 144,000 Child Tax Credit claims in receipt of the Family Premium. If all these cases lost this premium it would lead to an estimated £74 million savings per annum (Sourced from PSM at 17/18 steady state).

52. This figure noted above gives an indication of the number of households who could eventually be impacted by this policy. However, as existing households will be protected and the policy will only apply to new births it would take several years for the existing stock of protected households to be replaced by households that have been affected by the policy change. The estimated savings from those claimants who will be impacted by this policy measure over the next 4 years is shown in Table 1.7 below.

53. Analysis of Tax Credit data indicates that on average approximately 2,000 existing claims become entitled to the family element during a given year and approximately 17,000 new claims begin including the family element.

54. The estimated savings from the removal of the family element of Child Tax Credit for first children born on or after 6 April 2017 are shown in the table below.

Table 1.7
Estimated Northern Ireland Savings for the removal of the family element of Child Tax Credit for first children born on or after 6 April 2017

	2016-17	2017-18	2018-19	2019-20
Estimated Northern Ireland savings for removal of the family element of CTC (£m)	0	5	6	4

Limiting the Per Child Element of Child Tax Credit to two Children for new births (from April 2017)

55. This measure limits the child element of Child Tax Credit to two children for children born on or after 6 April 2017.

56. The outworking of this is existing Child Tax Credit claimants who already have more than two children in their household pre 6 April 2017 will retain their current level of support. That is they will not be subject to the policy change and will continue to receive the per child element for each of their existing children but not for any future children.

57. The Per Child Element of Child Tax Credit is worth £2,780 per annum (in 2015-16, the element will remain frozen at this rate for the next 4 years due to the freeze in up-rating of tax credits). This element is added in to the maximum Child Tax Credit award on a multiplicative basis for each child in the household. For example a family of three children would have a total Child Tax Credit element of 3 X £2,780 per annum.

58. Many parents will receive the full Child Element for each child included in their final Child Tax Credit award as Child Tax Credit only begins to taper (a reduction in benefit receipt as income rises) once Working Tax Credit (which can be received in conjunction with Child Tax Credit) has fully tapered away.

59. According to HMRC published statistics for 2013/14, there were 33,000 households in Northern Ireland receiving Child Tax Credit for more than two children, with 42,500 children above the proposed two-child cut-off.

Table 1.8
Northern Ireland Households in receipt of Child Tax Credit

Number of Children in Household	Households in receipt of CTC
1 or 2	109,000
3	23,000
4 or more	10,000
Total	**141,000**

Source: HMRC published statistics 2013/14

60. This gives an indication of the number of households that could eventually be impacted by this policy. However, as existing households will not be affected and the policy will only apply to new births it would take a number of years for the existing stock of protected households to be replaced by households that have been affected by the policy change.

61. Existing claimants will retain their current level of support as they move to Universal Credit if they do not have a gap of more than 6 months between the Child Tax Credit claim ending and the Universal Credit claim beginning.

62. The estimated savings from limiting the per child element of Tax Credits to two children for new births following 6 April 2017 are outlined below.

Table 1.9
Estimated Northern Ireland Savings for limiting the Per Child Element of Child Tax Credit to two children for new births (from 06 April 2017)

	2016-17	2017-18	2018-19	2019-20
Tax Credit Savings (£m)	0	5	14	21

Reduce Income rise disregard in tax credits

63. The income rise disregard is the amount up to which any increase in a claimant's income within a year does not trigger/ initiate a recalculation of their Tax Credits entitlement for that year. This measure reduces the limit from £5,000 to £2,500. It is effective from April 2016.

64. The analysis estimates the change in Tax Credit expenditure on families receiving Tax Credits and having an income rise of between £2,500 and £5,000 compared to their previous year's income using HMRC administrative data.

65. Due to limitations in the Northern Ireland administrative data, the impact of this policy in Northern Ireland has been derived from the estimated savings for the UK as a whole. This was done by applying the proportion of UK claimants who reside in Northern Ireland as at 2013/14 (3.5%) to the UK figure.

66. Only cases that have an increase in income of between £2,500 and £5,000 during a tax year will be affected.

67. The rollout of Universal Credit will impact on the savings achieved by this policy change. Universal Credit awards will be updated on a monthly basis based on Real Time Information (RTI) earnings data. The income rise disregard therefore does not apply to Universal Credit.

68. As Universal Credit rolls out in Northern Ireland there will be fewer cases in receipt of Tax Credits meaning the savings from the reduction in the income rise disregard under Tax Credits will decrease over time. This is of course dependent on the passage of the Welfare Reform Bill through the Northern Ireland Assembly.

69. The table below outlines the estimated savings from this policy, based on a proportionate read-across from the UK level estimates.

Table 1.10
Estimated Northern Ireland Impact Savings for Reducing the Income Rise disregard in Tax Credits

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Read-across (3.5%) (£m)	6	8	9	6

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SECTION 3

Universal Credit Changes

SECTION 3 -
Universal Credit Changes

70. Subject to the implementation of Welfare Reform in Northern Ireland, Universal Credit will replace the six main income related benefits for working age people. These are:

- Jobseeker's Allowance (Income Based)
- Income Support
- Employment and Support Allowance (Income Related)
- Housing Benefit
- Working Tax Credit
- Child Tax Credit.

71. Analytical Services Unit has conducted analysis on the impact of Universal Credit and has published a detailed document which can be found at

https://www.dsdni.gov.uk/publications/welfare-changes-universal-credit-information

This analysis was produced prior to Summer Budget 2015 and therefore does not include any of the policy measures analysed in this booklet.

72. The DWP are continuing to roll out the Universal Credit Live Service across Great Britain. Alongside this, the Universal Credit Digital Service is currently being tested in a small number of Job Centre Plus offices. The transition of all new claims to Universal Credit Digital Service will begin in Great Britain in May 2016. In Northern Ireland we intend to start the transition of new claims to the Universal Credit Digital Service in January 2017.

73. The Summer Budget 2015 included a range of measures that will affect the structure of Universal Credit. Several of these have equivalent measures that will impact on Tax Credit and Housing Benefit claimants. However there are also Universal Credit specific changes.

74. The changes to be implemented are outlined below

- A reduction in the Universal Credit work allowances
- The removal of the family element in Universal Credit for new claims
- Limiting of the Per Child Element of Universal Credit to two children for new claims after April 2017 and births after April 2017 for existing claims
- An end to automatic entitlement to Universal Credit housing support for out-of-work 18-21 year-olds
- Universal Credit parent conditionality from when youngest child turns 3.

75. Analysis of the impact of Summer Budget 2015 policies on Universal Credit is based on comparing the structure and cost of Universal Credit pre Summer Budget 2015 (as laid out in the Northern Ireland Welfare Reform Bill i.e. assuming Universal Credit has been introduced), with the structure and cost of Universal Credit after the Summer Budget 2015 policies have been implemented.

76. The following sub sections include more detail on each of the Summer Budget 2015 policies relating to Universal Credit and provide the estimated savings at the Northern Ireland level.

77. Full details on how each of these policies have been modelled, and all associated assumptions and caveats have been outlined in Annex B.

Reducing Work Allowances

78. The Work Allowances or earnings disregards are the amount of net earnings a household can have before the Universal Credit award begins to taper (i.e. reduce).

79. There are two sets of earnings disregards; one for those who do receive the Housing element of Universal Credit and one for those who do not. A higher disregard is paid to households who do not receive the Housing Element of Universal Credit, as Universal Credit would otherwise be less generous for these cases than for cases who do receive the Housing element.

80. Prior to the Summer Budget 2015 announcement the Work Allowances were tailored depending on the family type of the household. The allowances are now being simplified and made less generous.

81. The following table shows the Work Allowances for cases with the Housing Element pre and post Summer Budget 2015.

Table 1.11
Monthly Universal Credit Work Allowances for Claimants **with** the Housing Element - Pre and Post Summer Budget 2015

Family Type	Previous Work Allowance	Summer Budget 2015 Announcement
Single/Couple - No Children or Disabilities	£111	£0
Couple with Children	£222	£192
Lone Parent	£263	£192
Limited Capability for Work	£192	£192

82. The table below shows the Work Allowances for cases without the Housing Element pre and post Summer Budget 2015.

Table 1.12
Monthly Universal Credit Work Allowances for Claimants **without** the Housing Element - Pre and Post Summer Budget 2015

Family Type	Previous Work Allowance	Summer Budget 2015 Announcement
Single/Couple - No Children or Disabilities	£111	£0
Couple with Children	£536	£397
Lone Parent	£734	£397
Limited Capability for Work	£647	£397

83. Households with no children or disabilities will now see their Universal Credit award immediately tapered by 65p for every £1 of earnings. All other households will have a set work allowance of either £192 per month or £397 per month depending on whether or not they receive the Housing Element of Universal Credit.

84. Taking into account the revised set of Work Allowances, at Steady State (which will be achieved when all claimants have migrated to Universal Credit), Universal Credit becomes less generous by an estimated £120 million per annum with an estimated 121,000 households seeing a reduction in entitlement.

85. The table on the following page gives a breakdown by the family types which were previously used to differentiate between Work Allowances.

Table 1.13
Impact of Reducing Work Allowances by Family Type

Family Type	Households seeing Reduction	Annual Average Reduction
Single/Couple - No Children or Disabilities (with or without housing element)	20,000	£751
Couple with Children (with housing element)	18,000	£234
Couple with Children (without housing element)	34,000	£1,046
Lone Parent (with housing element)	24,000	£531
Lone Parent (without housing element)	17,000	£2,426
Limited Capability for Work (with housing element)	-	-
Limited Capability for Work (without housing element)	8,000	£1,533

86. The following profile shows the savings increasing due to the rollout of Universal Credit, based on an assumed start date of January 2017. This is of course dependent on the implementation of Welfare Reform in Northern Ireland.

Table 1.14
Estimated Northern Ireland Savings for Reducing the Work Allowances in Universal Credit

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Savings (£m)	0	10	49	92

Limiting the Per Child Element of Universal Credit to two Children for new claims (From April 2017)

87. This measure limits the child element of Universal Credit to two children for claims made after 6 April 2017. It is the Universal Credit equivalent to the Child Tax Credit policy outlined earlier in the document.

88. Existing Child Tax Credit claims that already have more than two children in their household pre April 2017 will retain their current level of support.

89. If these cases then move to Universal Credit or there is less than a six month gap between the Child Tax Credit claim ceasing and the Universal Credit claim beginning then the current level of support will remain in place.

90. The Per Child Element of Universal Credit is worth £2,780 per annum (in 2015-16, the child element will remain frozen at this rate for the four years from 2016-17 due to the freeze in up-rating of benefits). This element is added in to the maximum Universal Credit award on a multiplicative basis for each child in the household. For example a family with three children would have a total Universal Credit Child Element of 3 X £2,780 per annum.

91. Once the child elements of Universal Credit are incorporated into the maximum Universal Credit award the entire award is subject to the income taper.

92. The statistics on households currently claiming Child Tax Credit with more than two children included in the earlier section of this document (see Table 1.8) gives an indication of the number of households who could eventually be affected by this policy.

93. The estimated savings from limiting the per child element of Universal Credit to two children for awards following 06 April 2017 are outlined below. This is of course dependent on the implementation of Welfare Reform in Northern Ireland.

Table 1.15
Estimated Northern Ireland Savings for limiting the Per Child Element of Universal Credit to two children for new awards (from 6 April 2017)

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Savings (£m)	0	2	8	12

Removal of the family element in Universal Credit

94. In Universal Credit a higher amount is paid to claimants for their first child than for their subsequent children. The difference between the rate for a first child and the rate for subsequent children is equivalent in value to the Family Element in Child Tax Credits. The Universal Credit Family Element is currently worth £545 per year.

95. This measure removes the Universal Credit Family Element equivalent, for first children born on or after 6 April 2017 and for all new claims to Universal Credit on or after 6 April 2017.

96. The policy will initially apply to Tax Credits and Housing Benefit but as Universal Credit rolls out in Northern Ireland the savings from the policy will eventually transfer to Universal Credit.

97. Claimants who do not have a gap of more than 6 months between their Child Tax Credit claim ending and their Universal Credit claim beginning will retain their entitlement to the Family Element. This includes existing cases that migrate to Universal Credit through a natural or managed migration.

98. However, these existing cases will lose their entitlement when the oldest child ceases to be a dependent. In other words the family element will not be passed down to the 'next oldest' dependent child.

99. Analysis of the Policy Simulation Model indicates that at steady state (when all claimants have migrated to Universal Credit), approximately 139,000 Universal Credit claims would contain a first child element equivalent to the Family Element of Child Tax Credit. If this element was removed it is estimated that this would save £74.8 million per annum. Claimants with children make up 53% of the Universal Credit caseload.

100. It will take a number of years for the existing stock of cases who receive the family element and who are protected to be replaced by a caseload that is not entitled to the family element due to the Summer Budget 2015 policy announcement.

101. The table below shows the forecasted savings with the removal of the family element of Universal Credit from new claims, current claims who gain a family and savings due to the oldest child ceasing to be dependent. This is of course dependent on the implementation of Welfare Reform in Northern Ireland.

Table 1.16
Estimated Northern Ireland Savings for the removal of the family element equivalent in Universal Credit (from 06 April 2017)

	2016-17	2017-18	2018-19	2019-20
Estimated Northern Ireland savings for the removal of the family element equivalent in Universal Credit (£m)	0	1	8	16

End automatic entitlement to Universal Credit housing support for out-of-work 18-21 year-olds

102. This measure aims to remove housing support to Universal Credit claimants who are under 22 and in the all work-related requirements conditionality group (the Universal Credit Equivalent to claimants of Jobseeker's Allowance). Exemptions will be in place for certain vulnerable groups in addition to a six month exemption for those recently in-work.

103. As currently specified the policy will apply to claimants who meet the following conditions:

- In the all work-related requirements conditionality group. These are claimants who are considered ready and able to work, i.e. they do not have a health condition or caring responsibilities which would prevent them from taking a job
- Single under 22 or a couple where both are under 22
- Without dependent children
- Out of work
- Have not been in continuous paid employment in the previous six months
- Meet the above conditions and do not fall into one of the exempted groups.

104. The policy will apply to any new claim to Universal Credit from April 2017, who meet these conditions and who have housing costs at the start of their claim or who subsequently acquire them. Therefore this policy applies to brand new claims only and excludes households migrating to Universal Credit from current benefits.

105. The total number of people in receipt of both Housing Benefit and Jobseeker's Allowance is the current equivalent to what will be the all work-related requirements Conditionality Group under Universal Credit.

106. June 2015 Housing Benefit administrative data suggests that there were 3,800 recipients where both the main claimant and partner (where applicable) are aged under 22. Of these, 800 cases were in receipt of Jobseeker's Allowance and have no children and so would be affected by the measure. They received an average of £54 per week in Housing Benefit.

107. The table below shows the expected savings due to cessation of automatic entitlement to housing support in Universal Credit for out-of-work 18-21 year olds.

Table 1.17
Estimated Northern Ireland Savings due to an end of automatic entitlement to housing support for out-of-work 18-21 year-olds (From April 17)

	2016-17	2017-18	2018-19	2019-20
Estimated Northern Ireland savings due to an end of automatic entitlement to housing support for out-of-work 18-21 year-olds (£m)	0	1	2	2

UC parent conditionality from when youngest child turns 3

108. Welfare Recipients are subject to various forms of conditions when accessing state support. A principle of conditionality holds that access to certain welfare benefits and services should be dependent on an individual first agreeing to meet particular obligations or patterns of behaviour (e.g. engage in a certain amount of job search activities).

109. The new Universal Credit parent conditionality measure extends full conditionality (equivalent to full work search requirements under Jobseeker's Allowance) in Universal Credit to lone parents and responsible carers with a youngest child aged 3 or 4 years. This means that lone parents and responsible carers will be required to be available for and looking for work, and comply with Jobcentre Plus conditionality regimes, once their youngest child is aged 3 years. Currently in Northern Ireland, under Income Support Rules this level of conditionality would not apply to a lone parent until their child turns 7, however if Welfare Reform is introduced this age will decrease to 5.

110. The estimated UK level savings for this policy were based on Department for Work and Pensions (DWP) research into the behaviour of claimants in Great Britain following the introduction of Lone Parent Obligations. These reduced the age at which full conditionality was applied to Lone Parents on Income Support from when their youngest child turned 16 to when the youngest child turned 7 on a phased basis from 2008 to 2011. The costings assume that there will be a cost in terms of additional resource required to provide job coaching etc, however eventually the policy change will lead to savings as claimants move in to work after the change in their conditionality requirements.

111. Due to modelling limitations it was not possible to generate the equivalent Northern Ireland savings estimates for this policy. The table below shows a proportionate read-across based on the current claim rates for Lone Parents claiming Income Support, to estimate the savings.

Table 1.18
Estimated Northern Ireland Cost/Savings for the extension of full conditionality in Universal Credit when youngest child turns 3

	2016-17	2017-18	2018-19	2019-20
Northern Ireland 3.7% read-across (£m)	0	-0.2	-0.2	+1

The impact of Summer Budget 2015

SECTION 4

Housing Benefit Changes

SECTION 4 -
Housing Benefit Changes

Housing Benefit removal of the family premium

112. This measure removes the family premium in Housing Benefit to new claims with a family and to existing Housing Benefit claims who start a family post April 2016.

113. The family premium in Housing Benefit is an income allowance worth £17.45 per week for families with children.

114. A number of claimants may be entitled to benefits such as Housing Benefit if they also receive a 'passporting' benefit such as Jobseeker's Allowance (Income Based), Income Support, Pension Credit or Employment and Support Allowance (Income Related). Any claimant who has been 'passported' onto Housing Benefit would not be affected by the loss of the Family Premium as they will receive their full eligible rent through their Housing Benefit payment.

115. For non-passported cases that are subject to the Housing Benefit "means test" (see glossary for further details) the loss of the Family Premium could mean that the household receives a reduction in their Housing Benefit award. Due to the Family premium no longer being included as an income allowance the household then may be newly subjected to the Housing Benefit taper or could have an increase in their tapered income.

116. As a result of this complexity not all Housing Benefit cases in receipt of the Family Premium will actually see a reduction in Housing Benefit income following its abolition.

117. There are currently 44,000 Housing Benefit claimants in Northern Ireland who have a Family Premium as part of the calculation of their Housing Benefit entitlement. The majority of these are in receipt of a passporting benefit so only a proportion of the total families will be affected.

118. The loss of the Family Premium would mean an estimated reduction in Housing Benefit income for approximately 12,000 of these households with a total reduction in Housing Benefit of £6.8 million per annum (Sourced from PSM at 16/17 steady state). The policy will however only apply to new claims to Housing Benefit and existing Housing Benefit cases that start a family after April 16.

119. From January 2017 (assumed start date for rollout of Universal Credit in Northern Ireland) existing Housing Benefit cases will begin to move to Universal Credit. The Family Premium does not play a part in the calculation of the Housing Element of Universal Credit so the savings from the Housing Benefit change will decrease as cases migrate to Universal Credit.

120. This complicates the calculation of the savings associated with the policy as the "steady state" savings indicated by the analysis of the current stock of claimants will not be achieved due to the interaction between the policy only applying to new claimants and the rollout of Universal Credit.

121. The estimated savings from the removal of the Housing Benefit Family Premium from new cases post April 2016 are outlined below.

Table 1.19
Estimated Northern Ireland Savings for the removal of the Housing Benefit Family Premium from new cases post April 2016

	2016-17	2017-18	2018-19	2019-20
Estimated Northern Ireland savings for the removal of the Housing Benefit family premium from new cases post April 2016 (£m)	2	2	1	0

Limit Child Allowance in Housing Benefit to two children

122. This measure limits the child allowance for the calculation of Housing Benefit to two children for new births and new claims on or after 6 April 2017.

123. Analysis of the Policy Simulation Model and the assumed rollout of Universal Credit indicates that there will be a negligible impact on benefit expenditure in Northern Ireland.

124. The Housing Benefit award will be unaffected for the majority of cases due to passporting to full Housing Benefit for those cases in receipt of an income related benefit. The assumed rollout of Universal Credit will also mean that any savings will erode over time.

SECTION 5

Benefit Cap

SECTION 5 -
Benefit Cap

125. The Benefit Cap places a limit on the total amount of benefit a household can receive in state support. Although already introduced in Great Britain, the introduction of this policy to Northern Ireland is subject to the passage of the Welfare Reform Bill.

126. The current Benefit Cap limits the total amount a household can receive in benefits to £26,000 per year for couples and households with children and to £18,200 per year for single member households.

127. Households that are in receipt of Working Tax Credit, Disability Living Allowance, Attendance Allowance, the Support component of Employment and Support Allowance, Industrial Injuries Benefit, Armed Forces Compensation Scheme payments or War Pension Scheme Payments will be exempt from the Benefit Cap.

128. Analytical Services Unit has conducted analysis on the impact of the Benefit Cap at this level and has published a more detailed document which can be found at http://www.dsdni.gov.uk/impact-of-benefit-cap.pdf.

129. Summer Budget 15 proposed that this limit be reduced further to £20,000 per year for couples and households with children and to £13,400 per year for single-member households in areas outside of London.

130. A database specifically designed to assess the impacts of the Benefit Cap policy was constructed based on data from June/July 2014. At the £20,000 cap limit, 3,200 households are estimated to be affected by the Benefit Cap (rounded to the nearest hundred, this analysis takes into account that while there will be a higher number of households in receipt of benefits in excess of the £20,000 limit a large proportion of households will be exempted from the Benefit Cap policy). The estimated total annual savings is £8.2 million (to the nearest hundred thousand, with the cap linked to the Housing Benefit award).

131. In Northern Ireland the £26,000 benefit cap has not been implemented. However original estimates indicated that it would affect 470 households and save £1.1 million per annum.

132. The projected additional savings from reducing the cap to £20,000 from £26,000 per annum are £7.1 million per annum.

133. The projected date for the commencement of these savings would depend on the national rollout of the £20,000 limits across the UK and the progress of Welfare Reform in Northern Ireland. For the purpose of the analysis a date of April 2016 has been used.

134. The table below shows a flat profile of the savings; this does not include any additional Universal Credit impacts or benefit freeze impacts.

Table 1.20
Estimated Northern Ireland Impact – £20k Savings and Additional Savings Compared to £26k Threshold (£m)

	2016-17	2017-18	2018-19	2019-20
Northern Ireland savings at £20k threshold	8	8	8	8
Northern Ireland Impact (Additional saving compared to £26k threshold)	7	7	7	7

135. It should be noted that other policy changes announced in the Summer Budget 2015 could potentially have an impact on the Benefit Cap caseload in the future. The limiting of the child element in Child Tax Credit and Universal Credit for new births/new awards to 2 children could eventually reduce the benefit cap caseload as this is heavily influenced by payments to large families. These secondary impacts have not been included in the flat profile of benefit cap savings here.

136. Full details on how each of these policies have been modelled, and all associated assumptions and caveats have been outlined in Annex B.


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The impact of Summer Budget 2015

SECTION 6

Other Miscellaneous Changes

SECTION 6 -
Other Miscellaneous Changes

Support for Mortgage Interest: change from welfare payment to loan; maintain capital limit at £200,000

137. This measure maintains the capital limit on Support for Mortgage Interest payments at £200,000, and reverts the waiting period to 39 weeks from April 2016. The measure also changes Support for Mortgage Interest from a benefit to an interest-bearing loan, secured against the mortgaged property, from April 2018.

138. The policy will have resource implications as the money paid out in Support for Mortgage Interest will now have to be recovered once the claimant moves off benefit.

139. The Support for Mortgage Interest data held for Northern Ireland is not of sufficient detail to replicate the analysis that DWP have completed in order to cost this policy. As a result the impact of this policy in Northern Ireland has been derived from the estimated savings for the UK as a whole. This was done by applying the Northern Ireland proportion of the overall UK Support for Mortgage Interest expenditure (3.8%) to the UK figure. This is known as a proportionate read-across.

140. Due to the interest due on the loan, the costing assumes a decrease in take-up of Support for Mortgage Interest. It also assumes that claimants seek to pay back the loan as soon as possible after moving into work.

141. The estimated savings from changing Support for Mortgage Interest from a benefit to an interest-bearing loan, from April 2018 are outlined below. There will continue to be a cost to the Exchequer during 2016-17 and 2017-18 to operate this benefit in its current format until this change has been implemented in April 2018. Details of how these figures have been calculated and associated caveats are included in Annex B.

Table 1.21
Estimated Northern Ireland Cost/Savings for changing Support for Mortgage Interest from a benefit to an interest-bearing loan

	2016-17	2017-18	2018-19	2019-20
Estimated Northern Ireland savings for changing Support for Mortgage Interest from a benefit to an interest-bearing loan (£m)	-1	- 1	+10	+10

Positive figures denote a saving to government while negative figures denote a cost to government

Aligning Employment and Support Allowance Work-Related Activity rate with Jobseeker's Allowance

142. At present claimants of Employment and Support Allowance (ESA) who are entitled to the Work Related Activity component receive £29.05 in addition to their basic ESA Personal Allowance. This policy change will remove this additional payment to all new benefit claimants from April 2017, thereby aligning the rates paid to those in the ESA Work Related Activity Group (WRAG) to those claiming Job Seekers Allowance (JSA).

143. The table below shows a comparison between what ESA claimants and JSA claimants currently receive in the form of a Personal Allowance and the Work Related Activity Component. Claimants on these benefits may also receive additional payments and premiums.

Table 1.22
Comparison of Personal Allowance and Work Related Activity Component for Jobseeker's Allowance and Employment and Support Allowance

Component	Employment and Support Allowance	Jobseeker's Allowance
Personal Allowance (Over 25)	£73.10	£73.10
Work Related Activity Component	£29.05	

144. Universal Credit will replace both ESA (Income Related) and JSA (Income Based). Universal Credit will contain a Limited Capability for Work (LCW) component which is equivalent in value to the ESA Work Related Activity Component. It is anticipated that the caseload receiving this component in Universal Credit will be similar to those under ESA and the rate of benefit will also remain the same. The savings here have been profiled using the ESA caseload as it is anticipated that there will be no significant difference upon the transition to Universal Credit.

145. As a devolved matter this policy change will only take effect in Northern Ireland if Northern Ireland specific legislation is passed. For purposes of this analysis it has been assumed that the Welfare Reform has been implemented which will bring along with it the introduction of Universal Credit and ESA time limiting amongst other changes.

146. The analysis was carried out by comparing the difference between the pre- and post-measure costing of ESA, in which the population expected to be entitled to the ESA WRAG from April 2017 onwards, have the work-related activity component reduced to £0 for the duration of their claim.

147. Based on the latest roll out schedule, ESA Time limiting is due to commence from June 2016 onwards. This will limit to 365 days the period for which claimants within the Work Related Activity group can receive contribution based ESA. This has been built into this analysis and should therefore be treated with caution as the implementation of Welfare Reform in Northern Ireland has not been agreed.

148. As this policy change will only impact new claimants entitled to ESA WRAG or Universal Credit LCW component from April 2017 it is estimated it will take until March 2021 for all claimants entitled to this additional component to have started their claim on or after April 2017.

149. Once this steady state is reached it is estimated that a stock caseload of around 10,000 claimants will be impacted by the removal of the ESA WRAG or Universal Credit LCW component.

150. It should be noted that this policy will widen the financial gap between money received by claimants in the ESA Support group and the WRAG as the Support Group cases will continue to receive a personal allowance and an additional Support Component worth £36.20. This is likely to incentivise claimants to appeal the decision to place them in the WRAG. It should be noted that no such behavioural/structural change has been modelled.

151. The estimated savings for each year are shown below. Full details on how this policy has been modelled, and all associated assumptions and caveats have been outlined in Annex B.

Table 1.23
Estimated Northern Ireland Savings for Aligning ESA WRAG to JSA

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Impact (£m)	0	5	9	11

Measures that may off-set Welfare Spending reductions

152. There are several measures that were announced in Summer Budget 2015 that may off-set some of the welfare spending reductions in this document. These are outlined below.

153. **Personal Tax Allowance**
The tax free Personal Allowance (the amount people can earn before they have to start paying Income Tax) will increase to £11,000 in 2016-17 and £11,200 in 2017-18. It currently stands at £10,600 in 2015-16. The government has an ambition to increase the Personal Allowance to £12,500 by 2020, and it is intended that a law will be introduced so that once it reaches this level, people working 30 hours a week on the National Minimum Wage won't pay Income Tax at all.

154. **National Living Wage**
From April 2016, a new National Living Wage of £7.20 an hour for those aged 25 and over will be introduced; an increase of 50 pence on what the rate would have been under the National Minimum Wage. This will rise to over £9.00 an hour by 2020.

155. **Childcare**
Free childcare for 3 and 4 year olds will be extended from the current 15 hours per week to 30 hours per week for families where both parents work and for lone parents in work. However the extension of free childcare announced in the Budget only applies to England. Responsibility for childcare entitlement is a devolved matter. As at 2011, there were 49,230 3 and 4 year olds living in Northern Ireland. (This data was sourced from the 2011 Census, which is the most up to date data available.) Birth rates in Northern Ireland from 2007-2008 (birth year of 3/4 years in 2011) until 2014 have not significantly changed and therefore it is anticipated that a similar number of 3 and 4 year olds would benefit from free child care if this policy was made available in Northern Ireland.

Conclusion

156. The analysis of the Summer Budget 2015 policy measures indicates substantial savings over and above the proposals laid out in the Northern Ireland Welfare Reform Bill 2012.

157. The table below shows the estimated savings for the years 2016-17 to 2019-20. This profile of savings is based on the assumed rollout of Welfare Reform within Northern Ireland which will see Tax Credits decrease as the Universal Credit caseload builds up. If Welfare Reform is delayed in Northern Ireland then the savings achieved through Tax Credit measures will continue to increase over time and the profile for the savings from Universal Credit and other measures included in the Summer Budget 2015 will be delayed. However as the Tax Credit caseloads and Universal Credit caseloads will remain similar and benefit rates will remain the same; the changes to the overall savings below are likely to be marginal.

158. It is notable that three specific measures account for the bulk of savings generated, namely; the reduction in income thresholds in Tax Credits and Work Allowances in Universal Credit; the freeze in uprating of Working Age benefits and Tax Credits; and; increasing the Tax Credit taper rate to 48%.

159. It should be noted this booklet does not include analysis of other policy announcements from Summer Budget 2015 which are outside the scope of Social Security such as changes to Personal Tax Allowances, the National Living Wage and Childcare support. These other changes may off-set some of the welfare spending reductions outlined as they will lead to a reduction in tax paid and an increase in earnings for some households.

160. All of the estimates in this booklet are subject to forecasting and modelling error. The profiled savings also rely heavily on assumptions about the rollout of Welfare Reform. Full details of the data sources, methodology used and the associated caveats can be found in Annexes A and B.

Table 1.24
Northern Ireland Summary of Costs/Savings associated with Summer Budget 2015 Policy Changes (in £m)

	2016-17	2017-18	2018-19	2019-20
Total £m	206	251	313	361

ANNEXE

Data Source

ANNEX A -

Data Source

161. The impact of Summer Budget 2015 policy for Northern Ireland has been derived from various different data sources. This section provides an overview of these.

Northern Ireland Policy Simulation Model

162. The Northern Ireland version of the Department for Work and Pensions' Policy Simulation Model has been used extensively in the analysis of Summer Budget 2015 policy changes.

163. This is a computer model that employs source data from the Family Resources Survey (FRS) 2012-13. The FRS is an annual household survey that collects data from a representative random sample of approximately 2,200 Northern Ireland households.

164. The model simulates the tax and benefits system for Northern Ireland and allows a simulation to be run where the current system of benefits is replaced with an alternative system. This allows the user to examine proposed policy changes by comparing both scenarios.

165. Within this booklet all analysis has been modelled in steady state, that is the policy has been fully implemented and there are no longer any claimants/households to transition to the new policy measure.

166. As an example of this, the model was used to simulate the impact of Universal Credit, as legislated for pre Summer Budget 2015. The model was re-run with the Summer Budget 2015 policies applied. The changes in benefit receipt for individual sample cases were examined and used to estimate the effect of the policy changes for the wider population.

167. The model is subject to a degree of modelling and sampling error.

Administrative Benefit Data

168. Data from administrative data systems of the Social Security Agency, the Northern Ireland Housing Executive and HMRC was also used to inform the Summer Budget 2015 policy analysis.

169. The data provides anonymised records of all those in receipt of Social Security benefits, Tax Credits and Housing Benefit.

170. This data was used both in the examination of the current stock of cases that could potentially be affected by the policy changes and for trend/flows analysis in order to produce forecasts of the caseloads that would be affected by the policies in the future.

Benefit Caseload and Expenditure Forecasts

171. In order to profile the savings from Summer Budget policies over a number of years benefit caseload and expenditure forecasts were used.

172. This included profiling of the rollout of Universal Credit which was important as it affected both the estimated run-down of Tax Credit savings and the increase of Universal Credit savings.

173. These forecasts are based on a range of varying assumptions and are subject to a degree of forecasting error.

174. In particular the implementation or non implementation of Welfare Reform in Northern Ireland will have a significant bearing on this analysis as assumptions had to be put in place about the possible dates for implementation.

Universal Credit Transition Simulator Model (TRANSIM)

175. The TRANSIM model builds on a range of administrative data analysis carried out on an individual benefit by benefit basis to provide Northern Ireland specific caseload and flow forecasts for the movement of caseloads from legacy benefits to Universal Credit.

176. TRANSIM combines the administrative data for each of the legacy benefits since August 2011 at a benefit unit level and arranges the data in a longitudinal format so that any change in household benefit receipt over time can be monitored.

177. This allows analysis at a benefit unit level of the combinations of benefits received in a household as well as movement between legacy benefits on a monthly basis.

178. Transition rules are applied to the Northern Ireland administrative data as if Universal Credit was introduced. During this time period, real administrative cases are flagged as new awards to Universal Credit or Natural/Managed Migrations to Universal Credit to simulate the rollout of Universal Credit in Northern Ireland.

179. The TRANSIM model simulates the introduction of Universal Credit at a date that has already passed. There are limitations to this approach in that claimant behaviour and volume of claims may change before the introduction of Universal Credit. To address this, weightings are applied to the volumes produced by TRANSIM in order to make them as consistent as possible with expected caseloads at the time Universal Credit is introduced.

ANNEX B -

Methodology and Assumptions

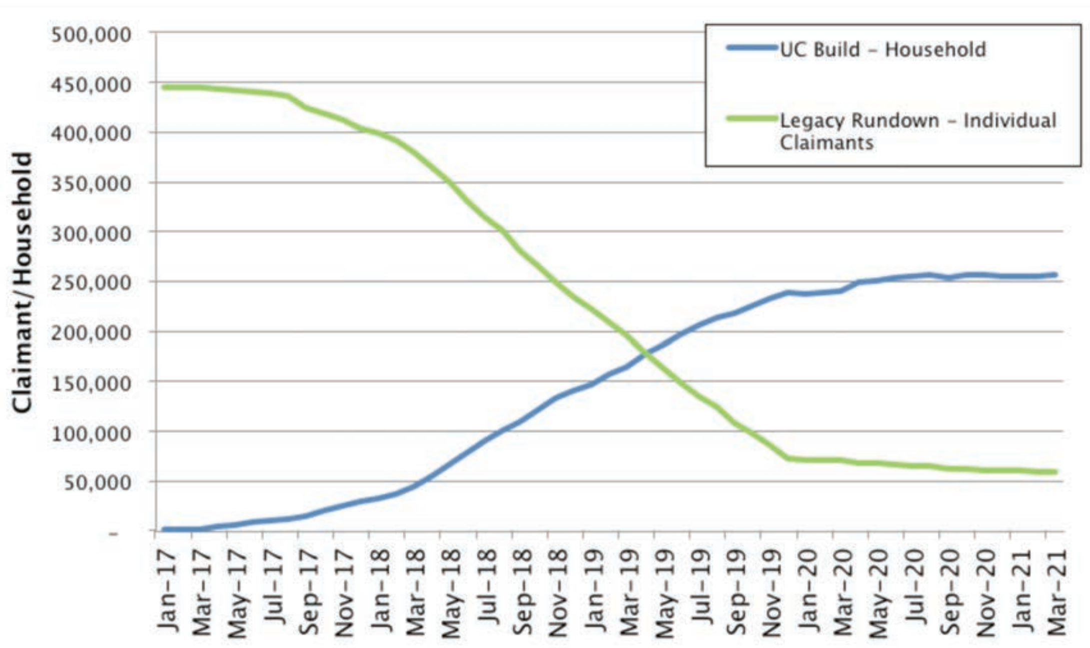
180. This section provides an overview of the methodology used and associated assumptions applied in the analysis of the Summer Budget 2015 policy impacts.

Assumed Universal Credit Rollout and Legacy Benefit Run Down

181. The analysis of Summer Budget 2015 policy measures has been based on the assumed rollout of Universal Credit across Northern Ireland from January 2017. The graph below shows the build up of the Universal Credit caseload and the corresponding Legacy benefit run down.

182. It was necessary to assume a rollout profile for Universal Credit in order to profile the increase of Summer Budget 2015 savings associated with Universal Credit and the decrease of savings associated with Tax Credits. This profile is dependent on the introduction of Welfare Reform in Northern Ireland and should be treated with caution.

Graph 1.1
Universal Credit Caseload build and Legacy Benefit Caseload rundown based on Universal Credit start date January 2017



183. Within the assumed rollout schedule some Tax Credit cases will only move to Universal Credit if they have a significant change of circumstance, meaning these cases are not physically closed to intervention by the Department at any specific date. This leaves a residual Tax Credit caseload running into 2019-20. This is currently under review in DWP and managed migration of the remaining Tax Credit caseload to Universal Credit may take place between 2019-20 to 2020-21.

Benefit Up-rating Freeze

184. In assessing the impact of freezing Social Security Agency benefits at current rates, the Agency deflated the expenditure forecasts sent to the Department of Finance and Personnel in June 2015. Initial forecasts were based on the inflation factors supplied by the Office for Budget Responsibility using their Consumer Price Index forecasts. Further calculations were necessary to identify the Employment and Support Allowance Support Group category claimants as these claimants were not impacted by the zero uprating change. Claimants in the Assessment phase and Work Related Activity Group were impacted and expenditure forecasts for these categories were deflated.

185. To produce estimates for Child Benefit and Tax Credits, Analytical Services Unit have deflated expenditure forecasts published by DWP/HMRC for the Northern Ireland expenditure on these benefits. This published information was produced by DWP as part of the Budget 2015 forecasting exercise. The deflators applied were based on the Consumer Price Index (CPI) that would have been used to inflate the DWP HMRC forecast expenditure. At the time these forecasts were produced CPI inflation for 2016-17 was forecast to be just above zero, however given that the forecast Northern Ireland expenditure for Child Benefit and Tax Credits for this year was expected to be approximately £1.4 billion this still produced an estimated saving from the benefit freeze.

186. The Local Housing Allowance rate element of this policy has been estimated in the Policy Simulation Model. The rates of the Local Housing Allowance were frozen in the model for each of the four years from 2016-17 and the Housing Benefit award sizes were compared with what they would have been if inflation was applied.

187. It should be noted that the Policy Simulation Model inflates the Local Housing Allowances for future years based on the Consumer Price Index. In actuality Local Housing Allowance Rates are up-rated each year based on the minimum of CPI or the 30th Percentile of Local Market rents.

188. The main elements of uncertainty surrounding the savings estimated here are the future benefit caseloads and the actual rate of inflation as well as the impact on expenditure of future policy changes.

189. The real-terms cut to benefit income due to the freeze in benefit up-rating

will depend on future levels of inflation. If inflation is much lower than forecast then the real cuts will be small. If it is higher than forecast then the real cuts will be bigger than is currently expected.

190. In addition to this the savings from the cut are based on benefit caseload forecasts produced prior to Summer Budget 2015. This means the savings do not reflect the cumulative impact of other Summer Budget 2015 policy measures on benefit expenditure.

Reduce Income Threshold in Tax Credits

191. The Tax Credit income threshold is the threshold beyond which Tax Credits begin to be withdrawn as income increases. It is a gross income threshold which was previously set at £6,420 per annum but which is now being reduced to £3,850 per annum from April 2016.

192. This costing has been measured in the Policy Simulation Model which gives a "steady state" impact of the costs. The Tax Credit costing compares the expenditure on Tax Credits before the change to the income threshold with expenditure after the income threshold has been reduced.

193. This policy will apply to all Tax Credit claims from April 2016 so the steady state savings will be achieved in the first year. However as the Tax Credit caseload will decline over time due to the assumed rollout of Universal Credit from January 2017, so will the associated savings reduce over time.

194. In order to isolate the savings for the income threshold change the Tax Credit taper rate was left at the original 41% when costing this policy. In reality the taper rate will be increased to 48% at the same time as the income threshold is reduced.

195. The projected rollout of Universal Credit is a significant uncertainty for the profiling of the savings associated with this policy change.

Increasing the Tax Credits Taper Rate to 48 per cent

196. This policy increases the Tax Credits taper rate from 41% to 48% of gross income.

197. As a result, the rate at which Tax Credits are tapered increases from 41p for every additional £1 of income above the income threshold to 48p. This will have the effect of reducing entitlement for cases that are subject to the Tax Credit taper and could mean that cases at the end of the taper are no longer entitled to Tax Credits. This measure will be effective from April 2016.

198. This policy was analysed using the Policy Simulation Model to ascertain the number of households in receipt of Tax Credits who are subject to the taper. The Policy Simulation Model also provided the steady state saving per annum once this policy is applied.

199. In order to isolate the savings from increasing the taper rate to 48% while still taking into account the changes to the income threshold, the income threshold was first reduced

to £3,850 and then the savings from increasing the taper rate from 41% to 48% were compared. In reality the income threshold change and the increase in the taper to 48% will be applied simultaneously in April 2016.

200. The assumed rollout of Universal Credit across Northern Ireland is expected to start taking place from January 2017. The profile of savings will decrease from this point as cases migrate off Tax Credits and on to Universal Credit.

201. The projected rollout of Universal Credit is a significant uncertainty for the profiling of the savings associated with this policy change.

Remove the Family Element of Child Tax Credit for new births

202. This measure removes the family element of Child Tax Credit (CTC) for first children born on or after 6 April 2017.

203. In Child Tax Credit the Family Element is an individual payment which is added into the Maximum Child Tax Credit Award. It is worth £10.50 per week or £545 per year. The Family Element is protected from the Child Tax Credit taper until Working Tax Credit and other Child Tax Credit elements have been tapered to zero.

204. The assumed rollout of Universal Credit across Northern Ireland is expected to take place starting January 2017. As claimants migrate to Universal Credit the savings from this measure will also decline as claimants will claim Universal Credit instead of Tax Credits.

205. The removal of the family element from Child Tax Credit (CTC) analysis is based on the use of projected new awards to CTC post April 2017 to create an affected caseload.

206. The Northern Ireland TRANSIM Model is used to determine the affected caseload. TRANSIM is based on historic administrative data which is projected across the forecast period based on the latest Universal Credit roll out schedule and by applying a set of migration rules.

207. Savings are calculated by multiplying the affected caseload by the value of the extra family element (£545 per annum at 2015/16 prices).

208. The main areas of uncertainty are around the projected volume of cases affected by the policy due to new births and the rollout assumptions for Universal Credit.

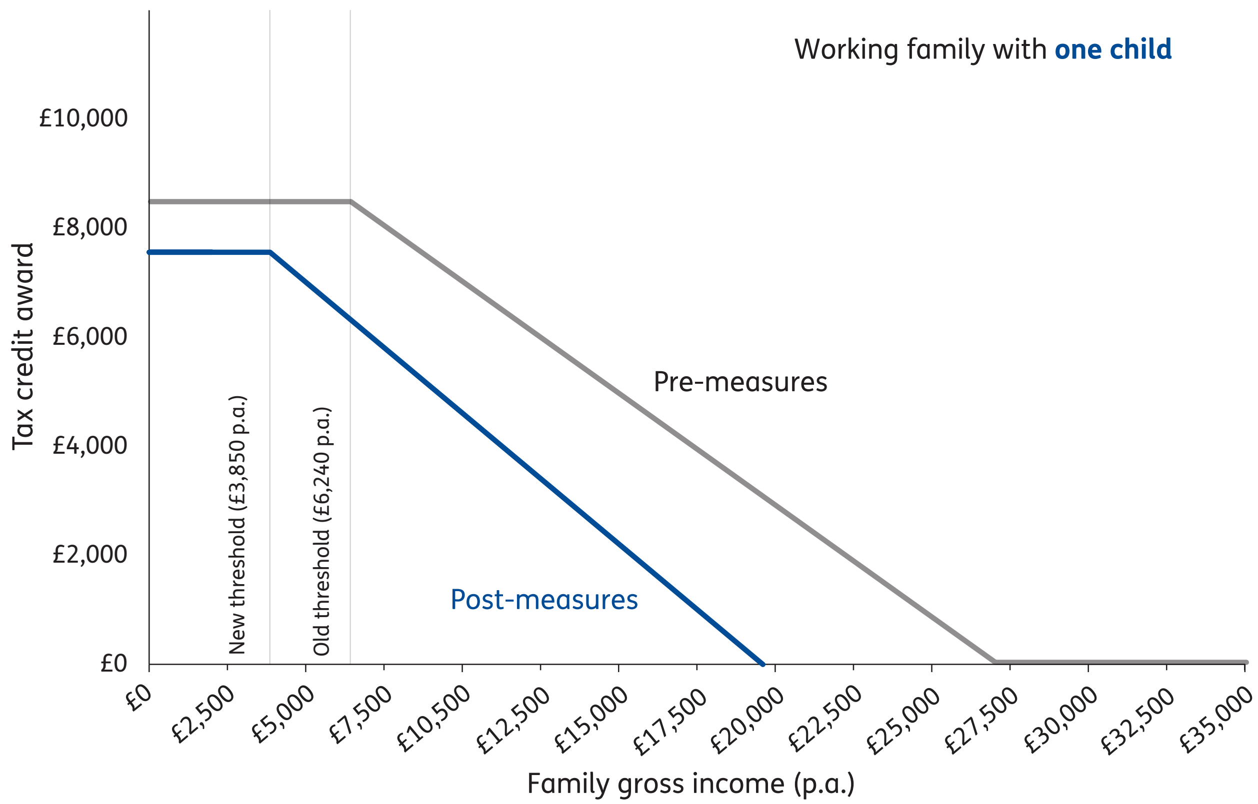
209. The graph on the following page is taken from the House of Commons Library Briefing[3] on the Welfare Reform and Work Bill. It shows the change in Tax Credit income at 2019-20 for a working family with one child, as household income increases.

210. The graph shows the pre-measures Tax Credit award compared to the post-measures Tax Credit award (with the 4 year benefit freeze, the reduction in the Tax Credit income threshold and the increase in the taper rate to 48% included).

3 http://researchbriefings.files.parliament.uk/documents/CBP-7252/CBP-7252.pdf

211. The graph illustrates how the Tax Credit is of a lesser value following the removal of the family element, the award begins to taper at a lower level of income with the £3,850 threshold than with the previous threshold and the benefit award declines at a faster rate due to the increase in the taper rate to 48%.

Graph 1.2
Illustrated effect on tax credit entitlement in 2019-20 of measures announced at Summer Budget 2015



Limiting the Per Child Element of Child Tax Credit to two children for new births

212. This measure limits the child element of Child Tax Credit to two children for children born on or after 6 April 2017.

213. The per child element of Child Tax Credit is worth £2,780 per annum and is added in to the maximum Child Tax Credit award on a multiplicative basis for each child in the household.

214. To model this policy measure HMRC administrative data from 2012 until 2015 was used to substitute for the years 2017 to 2020, thus data from April 2012 became data for April 2017 and so on, allowing the use of an introduction date of April 2017. This approach also allowed for the duration of claims to be estimated.

215. This start date allowed Child Tax Credit cases to be classified as either an existing case or a new claim over the 3 year time frame.

216. The volume of new births for existing claims and the number of new claims that were over the two child limit were identified and used to estimate the affected caseload following the introduction of the policy. The 2015/16 rates for the child element from the PSM was used to calculate monthly values for the amount saved per child including adjustments to the amount to take into account the effect of the income taper.

217. Analysis of the historic Tax Credit data has indicated that the rate of births has been fairly consistent over the last few years, so using the historic profile based on the administrative data to provide a forecast of the future effects of the policy should provide a good indication of the expected savings.

218. The potential for future changes to the caseload trends and the assumed rollout of Universal Credit do however form a significant level of uncertainty.

219. This policy measure is based on the introduction of Universal Credit across Northern Ireland from January 2017.

Reduce Income rise disregard in Tax Credits

220. The income rise disregard is the amount up to which any increase in a claimant's income within a year does not trigger/ initiate a recalculation of their Tax Credits entitlement for that year. This measure reduces the limit from £5,000 to £2,500. It is effective from April 2016.

221. The Tax Credit administrative data available for Northern Ireland comes from a different source to that available to HMRC and is not reliable enough to model changes in income over time.

222. As a result Northern Ireland specific analysis is not available for this policy and a proportionate read-across of 3.5% has been applied from the UK

level savings. This 3.5% equates to the proportion of UK claimants who reside in Northern Ireland as at 2013/14.

223. Using a proportionate read-across means the estimates have associated uncertainty. At the time of publication no data is available on how Northern Ireland compares to Great Britain in terms of the number of cases having changes of income during a year, and the extent to which this would affect the Tax Credit award. The true value of the savings may therefore be higher or lower than the expected savings using the read-across.

224. The savings associated with this policy measure are profiled using the assumed rollout schedule of Universal Credit within Northern Ireland starting in January 2017. Therefore the estimated savings are expected to decrease over time as the Tax Credit caseload decreases.

Reducing Work Allowances in Universal Credit

225. The work allowances or earnings disregards are the amount of net earnings a household can have before the Universal Credit award begins to taper.

226. This measure will reduce the work allowance in Universal Credit for non-disabled households without children to zero and simplify all other work allowances to a rate of £192 per month for households with housing costs and £397 per month for households without housing costs.

227. The costing of this policy change was estimated using the Policy Simulation Model. The changes to the Universal Credit work allowances were applied and expenditure on Universal Credit was compared to a costing of Universal Credit with the previous work allowances in place.

228. The profile of the savings will increase as Universal Credit rolls out and the number of claimants increases in Northern Ireland. Universal Credit caseload build forecasts using an assumed start date of January 2017 were used for the profiling.

Limiting the Per Child Element of Universal Credit to two Children for new claims

229. This measure limits the child element of Universal Credit to two children for claims made after 6 April 2017.

230. The Per Child Element of Universal Credit is worth £2,780 per annum and is added in to the maximum Universal Credit award on a multiplicative basis for each child in the household.

231. This policy measure is the Universal Credit equivalent to the Child Tax Credit policy outlined earlier, and therefore follows the same methodology approach.

232. Child Tax Credit administrative data was used to estimate the number of new claims to Universal Credit that will be affected by the policy having more than two children.

233. When Universal Credit is introduced claimants who would previously have claimed Child Tax Credit will be re-directed to Universal Credit when they make a new claim so the data on Child Tax Credit should give a good proxy for the caseload affected by the policy in the future.

234. The data also allowed modelling of the protection of the existing stock of cases who are already claiming Child Tax Credit for more than two children at the time the policy is introduced.

235. The estimated savings from this policy are based on the assumed rollout schedule of Universal Credit from January 2017 and are therefore expected to increase over time in line with the Universal Credit caseload build.

236. The main elements of uncertainty are the rollout of Universal Credit and the volume of new claims affected by the policy.

Removal of the family element equivalent in Universal Credit for new claims

237. The removal of the family element equivalent from Universal Credit analysis is based on the projected volumes of new claims to Universal Credit who receive the additional child element, which is paid for the first child. The measure will apply from April 2017 to all new awards to Universal Credit which are not a natural migration or a re-award of Universal Credit.

238. The costing is principally based on data taken from the Northern Ireland TRANSIM Model. TRANSIM is based on historic data which is projected across the forecast period based on the latest Universal Credit roll out schedule and by applying a set of migration rules.

239. There are four main routes into Universal Credit:

- New award from outside of the benefit system – i.e. claimants who are not receiving a legacy benefit
- Re-awards – i.e. new awards who had a live claim of Universal Credit in the previous six months
- Natural migrations – i.e. new awards of Universal Credit made to claimants who are in receipt of a legacy benefit
- Managed migrations.

240. Households will only be affected by this policy change if they fall into the first group; all other groups will have their family element protected. TRANSIM has been used to determine the number of households moving onto Universal Credit each month by the new award route.

241. There is an exception to the principle that all claimants apart from new awards are protected:

- Protected families will lose the family element when the oldest child ceases to be a dependent. In other words the family element will not be passed down to the 'next oldest' dependent child.

242. No moves to Universal Credit from Tax Credits as a result of new births could be identified. But aging out (turning 18) of the oldest child in pre-existing claims which would result in their loss of the family element can be taken into account; using TRANSIM to identify the number of households with children in receipt of Universal Credit each month, and the DWP assumption that 5% of protected Universal Credit families per annum will lose their protection due to the oldest child leaving the benefit unit.

243. The caseload affected by a loss of the family equivalent element due to the policy change is therefore the total of new awards to Universal Credit who would have been eligible for the family element, plus pre-existing claims with the oldest child aging out (turning 18).

244. Savings are calculated by multiplying the affected caseload by the value of the extra family element (£545 per annum at 2015/16 prices).

245. The main area of uncertainty is around rollout assumptions and projections of the Universal Credit caseload.

End automatic entitlement for out-of-work 18-21 year-olds

246. The policy aims to remove housing support for Universal Credit claimants who are under 22 and in the all work-related requirements conditionality group. Exemptions will be in place for certain vulnerable groups and a six month exemption for those recently in-work.

247. The caseload currently on Housing Benefit in receipt of Jobseeker's Allowance are the current benefit equivalent to the all work-related requirements Conditionality Group under Universal Credit.

248. The Housing Benefit administrative data has been analysed to isolate the caseload in receipt of Housing Benefit aged less than 22, who are in receipt of Jobseeker's Allowance and who have no children. Cases from January 2012 to June 2015 were used as a proxy for the flow of affected cases on to Universal Credit, to give an affected caseload over time.

249. Housing Benefit Administrative data from June 2015 was then used to determine the average Housing Benefit award received by the non-exempt cases, as £54 per week. This average award is used as a proxy for the amount these claimants would receive under Universal Credit for their Housing Element. The affected caseload was multiplied by the average award to calculate the expected savings.

250. Using Housing Benefit as a proxy for Universal Credit awards and savings has limitations in that it does not account for future changes in caseload that may occur as a result of Universal Credit.

251. It has not been possible to model all the exemptions from the policy such as exempting cases that have been in continuous employment in the previous six months. There may be additional exemptions such as care leavers or 18-21 year olds with a history of domestic abuse. The detail on these exemptions has not been provided to date and have not been included in the modelling.

Universal Credit parent conditionality from when youngest child turns 3

252. The assumptions used to produce the UK level figures are based on research carried out in DWP following the initial rollout of Lone Parent obligations under Income Support from 2009. The equivalent research is not available for Northern Ireland and the Department for Social Development does not currently have access to the full list of assumptions and methodology used to produce the UK level costings.

253. In order to produce an estimate a proportionate read-across was used to scale down the UK level savings published by Treasury, using the number of Lone Parents claiming Income Support who have a youngest child aged between 3-4 in order to provide an estimate of the Northern Ireland expected savings.

254. The table below provides a breakdown of the number of Lone Parents currently claiming Income Support by the age of their Youngest Child (Source: Income Support MIDAS data at July 2015).

Table 1.25
Illustrated effect on tax credit entitlement in 2019-20 of measures announced at Summer Budget 2015

Age of Youngest Child	Number of Lone Parents Claiming Income Support
<3	**9,700**
3-4	**5,000**
5-6	**3,300**
7+	**3,300**

255. The table shows that there are currently 5,000 Lone Parents claiming Income Support with a youngest child aged between 3-4 and a further 3,300 Lone Parents claiming Income Support with a youngest child aged between 5-6. Currently Lone Parent obligations apply to Lone Parents in Northern Ireland with a child aged 7+.

256. The Northern Ireland Welfare Reform Bill proposed to apply Lone Parent obligations to Lone Parents on Income Support with children aged between 5-6 years old; the policy change announced at Summer Budget will extend this further so that under Universal Credit conditionality will apply to Lone Parents when the youngest child turns 3.

257. The responsible carer conditionality is for an out of work partner in a couple, where the partner cares for a child. The current Universal Credit policy is that the responsible carer would have limited conditionality until the child turns 5.

258. There are currently 14,700 Lone Parents in Northern Ireland claiming Income Support with a youngest child aged under 5 and 382,000 in Great Britain. Combining these would indicate that Northern Ireland makes up 3.7% of the UK Lone Parent Income Support population with a child aged less than 5.

259. Applying this % to the UK level savings as a proxy for the extension of conditionality to 3-4 year olds arrives at the cost profile for Northern Ireland. The Exchequer estimates and therefore the Northern Ireland read-across represent the movement from aged 5 to aged 3 for the youngest child. It should be noted that the age 5 rule is not currently in place in Northern Ireland, therefore there will be additional savings associated with moving from the age 7 rule currently implemented.

260. It should also be noted that the savings outlined here are linked to this policy being implemented through Universal Credit, the rollout profile of Universal Credit in Northern Ireland will therefore affect the profile of savings.

261. The DWP/Treasury have estimated this policy will lead to additional cost to government in the first two years of its introduction but will turn to a small saving in later years due to cases moving off benefit and into employment.

262. The Northern Ireland level savings are dependent on the actual number of claimants affected by the policy change in Northern Ireland and their response to the policy change in moving in to work after conditionality has been applied.

Removal of Family Premium in Housing Benefit

263. The abolition of the Family Premium will apply to new claims with a family and to existing Housing Benefit claims who start a family post April 2016.

264. From January 2017 (possible start date for rollout of Universal Credit in Northern Ireland) existing Housing Benefit cases will begin to move to Universal Credit, so the savings from the Housing Benefit change will decrease as cases migrate to Universal Credit.

265. The affected caseload was determined using both Housing Benefit administrative data and the Northern Ireland TRANSIM Model.

266. Housing Benefit administrative data was used to determine the average proportion of the monthly Housing Benefit caseload which would see a reduction in entitlement - a new claim with children or an existing claim gaining children. Off flows and existing claims with children turning into claims with no children were also taken into account.

267. This proportion was applied to the TRANSIM Housing Benefit caseload projections which take into account the introduction of Universal Credit in Northern Ireland, to give a monthly affected caseload.

268. The affected caseload was multiplied by the average loss of approximately £550 per year calculated in the PSM analysis to give the estimated savings from the removal of the Housing Benefit Family Premium from new cases post April 2016.

269. The main area of uncertainty is around rollout assumptions and projections of the Universal Credit caseload and Legacy claim run down.

270. The current costing does not contain any behavioural impact. Following the introduction of this policy the support provided for children is reduced. People contemplating having children may therefore be less likely to do so. If people respond to this disincentive the estimated savings from the policy are reduced.

Limit Child Allowance in Housing Benefit to two children family premium

271. Housing Benefit has allowances for children which are equivalent to the child additions paid through Child Tax Credit. These are income allowances which are used for the calculation of how much income a household can have before their Housing Benefit is tapered.

272. In line with the limiting of the Child Tax Credit and Universal Credit awards to two child elements or additions, allowances in Housing Benefit for each dependent child will also be limited to two children, for new births and new claims from April 2017.

273. Analysis of the Northern Ireland Policy Simulation Model has indicated that the majority of Housing Benefit awards where there are more than two children are in receipt of a means tested income related benefit such as Income Support/Jobseeker's Allowance Income Based or Employment and Support Allowance Income Related.

274. Even if these cases were limited to two child income allowances, their Housing Benefit award would be unaffected as cases in receipt of these means tested income related benefits are "passported" and automatically receive a Housing Benefit award that covers their full eligible rent.

275. The analysis of the Policy Simulation Model indicated that in "Steady State" if all Housing Benefit awards were limited to child income allowances

for two children then the savings in reduction of Housing Benefit would be less than £1m per annum.

276. This along with the fact that the policy only applies to new births and new claims from April 2017 and the fact that Universal Credit will begin to reduce the Housing Benefit caseload around the same time indicates that the impact of this policy in Northern Ireland will be negligible.

277. A profile of the savings over time has therefore not been provided in the main body of the document.

Benefit Cap: Reducing the Benefit Cap threshold to £20k per annum from £26k per annum

278. Analytical Services Unit (ASU) developed a household administrative database which merged all social security benefit data (extracted between June and July 2014) with HMRC data. This allowed benefit payments to be assessed at individual household level. This shows which households will be subject to the Cap and which will be excluded from it.

279. Households' total benefit income is calculated and, where applicable, capped at the appropriate level based on the Benefit Cap thresholds set by this measure. Initially, the Benefit Cap will be implemented through Housing Benefit receipt; before Universal Credit has been introduced the maximum amount a household can be capped by is equal to their Housing Benefit award[4].

280. The projected additional savings from reducing the benefit cap to £20,000 is calculated by subtracting the difference between the estimated savings from the existing cap at £26,000 and the savings for the new lower cap.

Support for Mortgage Interest: change from welfare payment to loan; maintain capital limit at £200,000

281. From April 2018 Support for Mortgage Interest changes from a benefit to an interest-bearing loan, secured against the mortgaged property.

282. The data held for Northern Ireland on Support for Mortgage Interest is not of sufficient detail to replicate the analysis that DWP have completed in order to cost this policy. The saving calculated reflects the Northern Ireland proportion of the overall UK Support for Mortgage Interest expenditure for the last four years.

283. The DWP costing was based on administrative data and assessed a number of features of Support for Mortgage Interest claimants and their circumstances, such as the amount of equity claimants have, and how likely they are to sell their home, based on their age.

[4] A notional payment of £0.50 will remain to ensure that the Housing Benefit claim stays live.

284. Due to the interest due to be paid on the loan, the costing assumes a decrease in take-up of Support for Mortgage Interest. It assumes that claimants seek to pay back the loan as soon as possible after moving into work.

285. The following table shows the money paid out for Support for Mortgage Interest in Northern Ireland for the last four financial years. From April 2018 a proportion of this money would be recovered as an interest bearing loan in each year, as with all debt not all money paid out will be fully recovered. The table also contains equivalent expenditure figures for Great Britian[5] and the UK.

Table 1.26

Mortgage Interest paid out by Benefit and Financial Year

Financial Year	Northern Ireland			Northern Ireland Total*	GB Total	**UK Total**
	ESA	JSA	IS/PC			
2011/12	- 2	- 4	- 12	- 19	- 456	**- 475**
2012/13	- 4	- 4	- 10	- 18	- 468	**- 486**
2013/14	- 5	- 3	- 8	- 16	- 415	**- 431**
2014/15	- 6	- 2	- 7	- 15	- 401	**- 416**

*Figures rounded to nearest £1m, Totals may not sum due to rounding

286. A Northern Ireland impact has been calculated using a proportionate read-across of 3.8% from the UK analysis, which reflects the Northern Ireland proportion of the overall UK Support for Mortgage Interest expenditure for the last four years.

287. The main uncertainties are around the rate at which Support for Mortgage Interest loans will be recouped, the effect of the change to the scheme on take up and use of a Northern Ireland proportionate read-across from the UK level savings.

[5] DWP, Benefit expenditure and caseload tables 2015, Outturn and forecast: Budget 2015 [xls], Available at: https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2015 [Accessed 23rd July 2015].

Align ESA Work-related Activity rate with JSA for new claims

288. This measure will remove the additional payments associated with the Employment and Support Allowance Work-related Activity Component and the Universal Credit Limited Capability for Work Element for new benefit claimants from April 2017.

289. The analysis is based on the projected volumes of new claims to Employment and Support Allowance Work-Related Activity Group from April 2017 onwards. The analysis is based on the increase of these claims within the Employment and Support Allowance Work-Related Activity Group caseload until steady state of March 2021, whereby it is estimated that all claims within the caseload have commenced on or after April 2017.

290. Based on the assumed implementation schedule, ESA time limiting is due to commence from June 2016 onwards, and has therefore been built into this analysis. It is estimated that the Employment and Support Allowance Work-related Activity Group caseload will reduce once ESA time limiting is introduced.

291. This analysis has removed any claims that have reapplied to the benefit under the 13 week rapid reclaim rule. That is if a claimant has come off benefit and then reclaimed within 13 weeks, they will not have to serve the 13 week assessment period if they have already done so and will go back onto the rate of payment of the earlier Employment and Support Allowance award. Analysis of claim on-flows to the Employment and Support Allowance Work-related Activity Group caseload (using ESA Administrative data) has indicated that 4% of on-flows are through the 13 week rapid reclaim rule and therefore a 4% reduction has been applied to the new claims forecast to take account of these claims.

292. This policy will widen the financial gap between money received by claimants in the Employment and Support Allowance Support Group and the Work Related Activity Group. This is likely to incentivise claimants to appeal the decision to place them in the Work Related Activity group. It should be noted that no such behavioural/ structural change has been modelled.

Glossary of Terms

GLOSSARY OF TERMS	
LEGACY BENEFIT	The current system of benefits that will be replaced by the introduction of Universal Credit. These will include Income based Jobseeker's Allowance, Income Support, Income-related Employment and Support Allowance, Housing Benefit, Working Tax Credit and Child Tax Credit.
CASELOAD	The number of live cases for a particular benefit. For legacy benefits a case will represent an individual's claim whereas in Universal Credit a case will represent a claim for the household.
CONDITIONALITY	Welfare Recipients are subject to various forms of conditions when accessing state support. A principle of conditionality holds that access to certain welfare benefits and services should be dependent on an individual first agreeing to meet particular obligations or patterns of behaviour (e.g. engage in a certain amount of job search activities). Depending on an individual's capability and circumstance these obligations may range from being required to actively seek full time work to attending job preparation courses to no conditionality at all.
NATURAL MIGRATION	If a claimant has a change of circumstances that leads to their current system of benefits being reassessed they will be moved to Universal Credit through a Natural migration.
MANAGED MIGRATION	If a claimant is actively transferred from their current system of benefits to Universal Credit and nothing else has changed.

GLOSSARY OF TERMS	
READ-ACROSS	A Northern Ireland value obtained by taking a proportion of the total UK value. The proportion is calculated by comparing the Northern Ireland caseload/population to the overall UK caseload/population.
STEADY STATE	When the policy has been fully implemented and no further claimants have to transition to the new regime.
MEANS TEST	A means test is a way of checking whether a claimant has enough financial resources to support themselves and what amount of social security payment, if any, they may qualify for.
CONSUMER PRICE INDEX (CPI)	This is the method of calculating inflation in the UK. It is a measure of the cost of living and reflects changes in the general price level in a range of goods and services used regularly. The CPI excludes housing costs and so tends to give a lower inflation rate than the Retail Price Index (RPI).
RETAIL PRICE INDEX (RPI)	The Retail Price Index, or the RPI, shows the changes in the cost of living. It reflects the movement of prices in a range of goods and services used regularly. RPI includes some components that are not included in CPI such as mortgage interest payments.

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