Welfare Reform and Work Bill Policy Brief addendum

Clauses 13 & 14

Definition of the WRAG

Employment and Support Allowance (ESA) claimants found to have limited capability for work are placed in the work-related activity group (WRAG). The WRAG includes a wide range of people, both those who are relatively close to moving into work and others for whom that is a more distant prospect. People placed in this group are not required to look for work, but are provided with help and support to prepare for work. Given the beneficial impacts of even a small number of hours of either (permitted) work or structured work-related activity, it is important that claimants are assigned to the WRAG where they can benefit from participating in some form of activity. The general expectation is that people placed in the WRAG will recover or adapt to their health condition and ultimately return to work.

Secretary of State's speech

The Secretary of State made a speech on the 24 August which set out his vision for a welfare system that protects those most in need and helps those who can realise their potential in the world of work.

Link to the speech: http://www.reform.uk/publication/rt-hon-iain-duncan-smith-mp-speech-on-work-health-and-disability/

Explanation of the 1% figure used in the policy note

The 1% off flow figure is derived from caseloads and off flow statistics published through the DWP Tabulation Tool. The latest figures show that 17,000 of the 477,000 WRAG claimants (March 2015 to May 2015) left the benefit. This equates to 3.6% for the quarter and as such an average of 1.2% each month.

What figure would we have expected to move in to work?

As set out in both the Green[1] and White[2] papers published in 2008, the reform of Incapacity Benefits with the introduction of Employment and Support Allowance was supposed to reduce the number of people on incapacity benefits by one million by 2015. Both Command papers also clearly stated that for the vast majority, ESA would be a temporary benefit which helps people make the most of their abilities and that people would be expected to take reasonable steps to move into employment. A specific off flow expectation for the WRAG group of the policy has not been

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/238741/7363.pdf
[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/238683/7506.pdf

published, however actual total (including, but not only, movements into work) off flows from the group are only slightly higher than those for the Support Group and around 71% of the caseload have been on ESA for more than 2 years.

Percentage that move from ESA WRAG on to JSA equivalent

Research indicates that[3] 42% of those ending an ESA claim then claim another out of work benefit. Of these around four-fifths go on to claim JSA. Figures for the WRAG group separately are not available.

Provide evidence review of work incentives

A 2005 report[4] by the OECD (Organisation for Economic Co-operation and Development) argued that "Financial incentives to work can be improved by either cutting welfare benefit levels, or introducing in-work benefits while leaving benefit levels unchanged". Findings cover the whole population, and although not specifically focussed on the disabled population it does not indicate such incentives would not apply.

This same report by the OECD comments on the economic idea of the '*income effect*': 'When taxes are reduced (or benefits increased), disposable income increases and people may be more likely to be content with their situation, and so less inclined, for example, to seek to increase their earnings. This is the income effect'. Therefore, economic theory would argue that higher out of work benefits could reduce incentives to find work.

A paper by Barr et al.[5] published by the Journal of Epidemiology and Community Health in 2010 looks at how relaxed eligibility requirements and increased generosity of disability benefits acted as disincentives for employment. It finds that '*Eight out of 11 studies reported that benefit levels had a significant negative association with employment. The most robust study (Hesselius and Persson, 2007) demonstrated a small but significant negative association*'. Please note purchase of the article or membership of the Journal of Epidemiology and Community Health is required to view the full document.

[3] The Destinations of Jobseeker's Allowance, Income Support and Employment and Support Allowance Leavers 2011 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214578/rrep791.pdf

[4] http://www.oecd.org/employment/emp/36780865.pdf

[5] http://jech.bmj.com/content/early/2010/08/30/jech.2010.111401.short

Approach to supporting disabled lone parents in Universal Credit

No existing claimants will lose out in cash terms as a direct result of being moved on to Universal Credit (UC), including ESA claimants who receive the Work Related Activity Component (WRAC). These claimants will be given transitional protection to avoid cash loss at the point of change.

This measure and the new funding of up to £100million per year, announced in the Summer Budget, for additional practical support is intended to provide the right incentives and support to help all those, including disabled lone parents, who have limited capability but potential to prepare for work to move closer to the labour market, and when they are ready, back into work.

The Government has committed to increase childcare support within Universal Credit by around £350million to provide 85% of childcare costs where the lone parent or both parents in a couple are in work. This is up from 70% in the current working tax credit system and current Universal Credit system. From April 2016, working families on Universal Credit will therefore be able to claim up to 85% of their eligible childcare costs up to a cap. This equates to a maximum support of £646.35 per month for one child and £1108.04 per month for two or more children.

UC will remove the limit on the number of hours people with health conditions or disabilities can work without losing their benefit, and will ensure any work the claimant is able to do will always pay. This will particularly benefit people who can only work irregularly or for a short number of hours. The personal tax allowance will continue to rise, reaching £11,000 in 2016/17, and the National Living Wage is forecast to reach over £9/hour by 2020.

The limited capability for work (LCW) element of £126.11 a month will no longer be payable from April 2017 for those making claims to UC on or after the date this change is introduced. This mirrors the change being made in ESA to remove the WRAC.

The overall design of UC results in greater incentives, financial and other, to find a job compared to the current legacy systems and will continue to do so. Prior to UC, claimants could only earn up to £104.00 per week and work less than 16 hours a week. Earning over this amount would cause your benefits to stop, and there is no equivalent to the "LCW" element for current Tax Credit claimants.

In UC, once a person is earning more than their work allowance, their UC is reduced at a consistent and predictable rate. Claimants will generally keep a higher proportion of their earnings. UC will also remove the constant need to make new claims to benefits/tax credits as people cycle between unemployment and work. To reduce disincentives on entering work UC is paid on the same day, every month, into the same bank account when someone moves into work – only the amount changes.