



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 1464
SESSION 2010–2012
14 SEPTEMBER 2011**

Means Testing

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 880 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.



National Audit Office

Means Testing

Ordered by the House of Commons
to be printed on 12 September 2011

Report by the Comptroller and Auditor General

HC 1464 Session 2010–2012
14 September 2011

London: The Stationery Office
£15.50

This report has been
prepared under Section 6
of the National Audit Act
1983 for presentation to
the House of Commons
in accordance with
Section 9 of the Act.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

9 September 2011

Means testing affects 13 per cent of public spending. In an environment of major reforms, it will be difficult to achieve value for money unless departments understand the impacts of means testing, learn from past experience and coordinate between programmes.

© National Audit Office 2011

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as National Audit Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Contents

Key facts **4**

Summary **5**

Part One

Introduction **10**

Part Two

The impacts of means testing **14**

Part Three

Designing means tests **24**

Part Four

Interactions between
means tests **32**

Appendix One

Methodology **36**

Appendix Two

Summary of means-tested
benefits **37**

The National Audit Office study team consisted of:

Miguel Garcia-Sanchez, Paul Kellaway, Martin Malinowski, Joe Perkins, and Max Tse under the direction of Michael Kell.

This report can be found on the National Audit Office website at www.nao.org.uk/means-testing-2011

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

£87bn

Spending on means-tested benefits in 2009-10

42m

Means-tested benefit claims in payment in 2009-10

1.2m

Cases related to means-tested benefits addressed by Citizens Advice Bureaux in 2009-10

- 13 per cent** Spending on means-tested benefits as a share of total public spending in 2009-10
- 34 per cent** Means-tested benefit payments as share of net income of poorest fifth of households
- £46 billion** Spending on benefits which may be passported from means-tested benefits in 2009-10
- £9 billion** Total overpayments of tax credits between 2003-04 and 2009-10, due to changes in claimant circumstances
- £47** Average annual cost of maintaining an existing claim for means-tested Pension Credit, compared to £14 for an existing State Pension claim
- 152** Local authorities who can decide the conditions for eligibility for state support for adult social care in England

Summary

1 Means testing helps to target state support at people with low incomes, savings or other financial resources. In 2009-10, the Government spent £87 billion on means-tested benefits, 13 per cent of total public expenditure. There were 42 million means-tested benefit claims in payment in 2009-10, and the poorest fifth of families relied on means-tested programmes for, on average, 34 per cent of household net income.

2 Means testing is applied to many areas of public spending beyond cash benefits. Eligibility for free or subsidised goods or services, such as medical prescriptions and social housing, is often determined partly or entirely through a means test. We therefore interpret benefits broadly to include cash, services and transfers in kind.

3 The main alternatives to means testing are:

- universal provision, such as the National Health Service; and
- contribution-based schemes, such as the State Second Pension, where recipients receive benefits related to contributions they have made.

4 The Government has announced major reforms to means-tested benefits. These include replacing many benefits for those of working age with the new means-tested Universal Credit from 2013. Other proposed changes will affect the extent of means testing. For instance, reforms to the State Pension should reduce reliance on means-tested Pension Credit. On the other hand, from 2013, Child Benefit will no longer be a universal benefit, as families with higher-rate taxpayers will be ineligible. It is clear that means testing will continue to be used extensively for the foreseeable future. Assessing Universal Credit and other proposals is not within the scope of this report.

5 The purpose of this report is to identify the risks to value for money that arise from the design of means tests. The policy decision to apply a means test can lead to more effective targeting of spending than under universal or contributory schemes. But it has important consequences, including for administrative costs, work incentives and benefit take-up. We find that the design and implementation of means tests is key to mitigating risks to value for money.

Why does means testing matter?

6 The UK depends heavily on means testing to concentrate support on those in need while limiting overall spending. Greater reliance on universal or contributory benefits would require either large increases in spending or reductions in the level of support provided to many people. For example, average Working Tax Credit awards were £3,173 per claimant in 2009-10. Providing this amount universally across the working-age population would cost £122 billion, more than 16 times current expenditure.

7 While means testing can be an effective way to target spending, there are unavoidable consequences for the costs and effectiveness of benefit programmes. Means testing creates important trade-offs, particularly between preserving incentives to work and save, targeting benefit payments and managing the costs of delivering benefits.

- Means testing affects incentives to work and save. Means-tested support is withdrawn as income and assets increase, so some claimants see little financial return to working more. The Institute for Fiscal Studies estimated that in 2010, 2.6 per cent of workers, or about 700,000 people, would receive less than 10p for each extra £1 they earned.
- Means testing causes additional costs of administering and delivering benefits. The complexity of means testing compared to, say, universal provision, is associated with higher administrative costs and increased fraud and error. Means testing can also impose burdens on claimants and those who help them. Citizens Advice Bureaux dealt with 1.2 million cases related to means-tested benefits in 2009-10, 17 per cent of their total caseload.
- Means-tested programmes interact in a more complex way than universal or contributory benefits. Claimants often depend on multiple benefits that might be withdrawn at the same time, leading to large and sudden changes to claimants' income and strong disincentives to work. This applies not only to the major benefits administered by the Department for Work and Pensions and HM Revenue & Customs, but also to many other benefits that depend on these for their eligibility (sometimes called 'passporting'), including free school meals and Cold Weather Payments.

8 Effective implementation and design can address many of the adverse consequences of means testing. In previous reports, we found that departments have faced major challenges in implementing means-tested benefit programmes. They have struggled to streamline administration, prevent fraud and error, increase take-up of benefits, target support and reduce complexity. Better implementation remains central to ensuring that departments can achieve value for money in means testing.

9 In this report, we focus on the design of means-tested benefits. Design choices, such as the type of means to include in the test, are complex and often poorly understood. Serious risks to value for money can result if departments fail to take account of how different design choices affect outcomes and costs across government. Departments can act in several ways to ensure that the costs of means testing are managed and predicted, and to balance effectively the benefits of means testing in reducing public spending against these costs. The three areas we consider are:

- identifying the impacts of means testing, and understanding trade-offs between different impacts (Part Two);
- making choices about how to design means tests and learning from past experiences (Part Three); and
- coordinating means tests between departments (Part Four).

Key findings

10 Departments do not systematically consider or measure all of the impacts of means testing, particularly the burden on claimants. Understanding these impacts is critical to informing policy decisions and programme design related to means testing. We found that departments were aware of many of the impacts of means testing, but this knowledge was not always used effectively. We reviewed a selection of departmental Impact Assessments published before major reforms, and found that the range of impacts included varied substantially. In particular, most of the Impact Assessments failed to assess the burdens on claimants, such as the costs of completing forms and requesting advice.

11 Departments need to take account of past lessons when designing means-tested benefits. Departments have learned from past difficulties with means testing, for example, in the management of overpayments of tax credits, but this learning has often been expensive and slow. Tax credit overpayments due to changes in claimant circumstances totalled over £9 billion between 2003-04 and 2009-10. In many cases, HM Revenue & Customs has found it difficult to claw this money back at the end of the tax year. These overpayments have arisen because the legislation determines provisional awards on the basis of the claimant's income in the previous year, and on the basis of other circumstances, which are liable to change. Despite changes to the design of tax credits, overpayments remain a substantial feature of the system. It is important that government as a whole learns from such experiences, both in designing benefits and understanding how to cope with the consequences of design choices.

12 There is no overall accountability for interactions across programmes administered by different departments. Departments are responsible for the effects of the programmes they administer, including indirect and wider impacts, but the interactions between programmes that result from means testing make broader coordination important. In some areas, departments work together to assess interactions. For instance, the Child Poverty Unit works with the Department for Work and Pensions, the Department for Education and HM Treasury to look at how benefits such as free school meals affect child poverty. However, there is no overall responsibility for looking at the wider system of means testing, such as how work incentives are affected by higher education funding or the overall effects on claimants of multiple benefits.

Tackling the risks of means testing

13 In an environment of major reform, it will be difficult to achieve value for money unless all departments responsible for means-tested benefits understand the impacts of means testing, learn from past experience and coordinate between benefits. We make several suggestions for departments that could help to mitigate the risks.

- a The impacts of means testing are not fully considered in the assessment of proposed reforms.** Departments could:
- include in their Impact Assessments all relevant impacts of means testing, for example the burden on claimants and the effect this has on incentives and take-up;
 - quantify systematically the extent of these impacts and be transparent about trade-offs between objectives; and
 - share best practice in using costing models to understand the incremental impact of design choices on administration costs.
- b Learning from past experience across government needs to be embedded in programme design and implementation.** Departments could:
- develop a common framework for understanding and explaining choices about the design of means tests, as in **Figure 1**, to enable policymakers to make informed decisions about means-tested benefits;
 - revisit design choices regularly as part of the evaluation and appraisal process; and
 - collect and share information about how design choices affect outcomes for departmental spending, incentives and the burden on individuals.

Figure 1
Options in designing a means test

	← Simpler		More complex →
Whose means are taken into account?	Individual only	Household or family based on formal relationships (e.g. parenthood)	Household or family based on informal relationships (e.g. living together)
Which means are considered?	Employment income	Employment income and capital	Disposable income (e.g. after housing or childcare costs)
Where does information come from?	Passported from other benefits	Based on an established system	Separate verification of declaration of means
How are benefits withdrawn?	Simple threshold	Smooth taper of individual benefit	Taper combined with other benefits payments
How are changes in circumstances considered?	Long fixed assessment periods, no clawback	Periodic review, retrospective clawback	Self-reported changes in circumstances as they happen

Source: National Audit Office analysis

c There is little coordination of interactions between benefits administered by different departments.

- Collectively, departments have developed substantial expertise in designing and administering means-tested benefits. However, this expertise is dispersed across government, and can be difficult for individual departments to access. The Department for Work and Pensions or a central department such as HM Treasury could support better coordination and information sharing. This could include providing guidance on the impacts that a department should consider and the sources of expertise about them. Departments could work together to ensure that existing policy simulation analysis is available across government and reflected in policy design.
- Departments could increase assessment of wider impacts when developing policy reforms, clearly identify the risks of interactions that might undermine policy objectives and adjust for these risks in options appraisal.
- As part of its existing role in managing spending risks, HM Treasury could ensure that departments have systematically considered the impacts of means testing across government when changing or developing means-tested benefits.

Part One

Introduction

1.1 Governments use means tests to determine eligibility for benefits or services by looking at the financial position of an individual or household. The main alternatives to means testing are either contribution-based schemes, where the benefits people receive depend on their past contributions, or universal provision.

1.2 Means-tested programmes can provide support in cash, as with tax credits and Pension Credit, or in kind, such as through subsidised housing, medical prescriptions or school meals. Programmes often include further conditions, based, for example, on disability, employment status or age.

1.3 Means-tested benefits can be an important part of household income. A family with two children, whose head is employed for 30 hours per week on the national minimum wage of £174 per week, could receive up to £336 per week from means-tested tax credits and housing and council tax benefits.

1.4 There were on average 42 million benefit claims in payment at any one time in 2009-10. Means testing determined £87 billion of public spending, nearly half of all benefit spending, and 13 per cent of all public expenditure. Departments and agencies use means testing in more than 30 programmes. **Figure 2** lists some of the largest means-tested benefit programmes. Appendix Two provides a more comprehensive list across departments.

The evolution of means testing

1.5 Means testing has increased over time, reflecting policy decisions, changing demography and economic developments. As more people receive means-tested benefits when out of work, expenditure as a share of average household income has increased during recessions and fallen during times of economic growth (**Figure 3**).

Figure 2

Summary of means-tested benefits, 2009-10

	Spending (£bn)	Claimants (million)
Housing Benefit	19.6	4.5
Child Tax Credit	19.0	5.7
Income Support	8.3	1.9
Pension Credit	8.2	2.7
Working Tax Credit	7.8	2.4
Personal Social Services for older people	7.5	1.1
Council Tax Benefit	4.6	5.6
Jobseeker's Allowance (income-based)	3.6	1.1
Legal aid	2.2	3.0
Carer's Allowance	1.5	0.5
Other means-tested benefits	5.2	13.6
Total	87.3	42.1

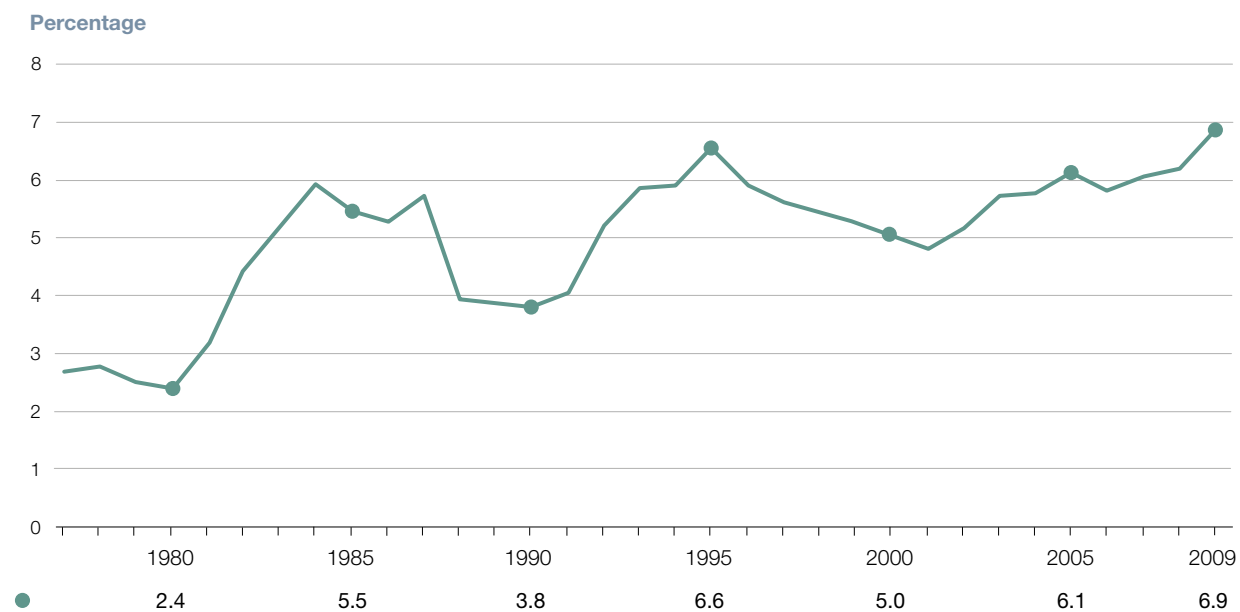
NOTES

1 Totals may not sum due to rounding.

2 Legal aid spending includes significant non means-tested funding, and claimant figure refers to acts of assistance.

*Source: Departmental resource accounts***Figure 3**

Means-tested benefit payments, as share of household disposable income

*Source: National Audit Office analysis based on Office for National Statistics data*

1.6 The UK uses means testing more than most developed economies. International comparisons are difficult because of variations in the definition of benefits. But the Organization for Economic Cooperation and Development estimates that in 2005, the UK ranked fourth of 30 advanced countries in means-tested benefit expenditure as a proportion of national income, behind Australia, New Zealand and Canada.¹

Planned reforms to means testing

1.7 The Government has begun fundamental reforms of several means-tested benefits and programmes where claimants' eligibility is determined on the basis of their receipt of certain benefits. Some of these reforms will reduce the extent of means testing, but others are likely to expand it.

- The Welfare Reform Bill 2011 introduces a Universal Credit to replace Housing Benefit, Child Tax Credit and Working Tax Credit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. The Bill also alters the eligibility rules of these benefits.
- The Government is consulting on options to reform the state pension system and to provide 'simple, contributory flat-rate support above the level of the means-tested Guarantee Credit.'² This reform is likely to reduce the number of pensioners receiving means-tested benefits in future.
- Families with higher-rate taxpayers will be ineligible for Child Benefit payments from 2013.
- Higher earners will accrue higher rates of interest on their higher education loans compared to lower earners.
- The Government has proposed reforms to legal aid, including removing assistance for a number of civil cases and changes to capital eligibility tests.
- In April 2011, the Department of Energy and Climate Change amended the eligibility criteria for Warm Front to better target support to households that receive certain income-related benefits and live in a property that is below an energy efficiency threshold.

¹ H. Immervoll, *Minimum income benefits in OECD countries – policy design, effectiveness and challenges*, OECD Social, Employment and Migration Working Papers No. 100, January 2010.

² HM Treasury, *Budget 2011*, HC 836, March 2011.

Scope of this report

1.8 We define benefits to include both cash awards and other services and benefits in kind, such as adult social care and free school meals. Means-tested benefits include those which assess eligibility partly on the basis of financial means. Where possible, our evidence is based on a wide range of means-tested benefits. Our report covers means-tested benefits across the UK, except where these are determined by devolved administrations or local government.

1.9 Universal Credit and other reforms will change the benefit landscape. We do not assess reform proposals but instead lay out some of the important challenges that means-tested benefits face. Particularly in the context of major reform and constrained public spending, it is crucial that departments address these challenges to ensure that public money is well spent.

1.10 The remainder of this report addresses the impacts of means testing, the design of means tests and interactions between means tests. In each Part, we first discuss the main issues raised by means testing and then highlight some of the risks of which departments need to be aware.

Part Two

The impacts of means testing

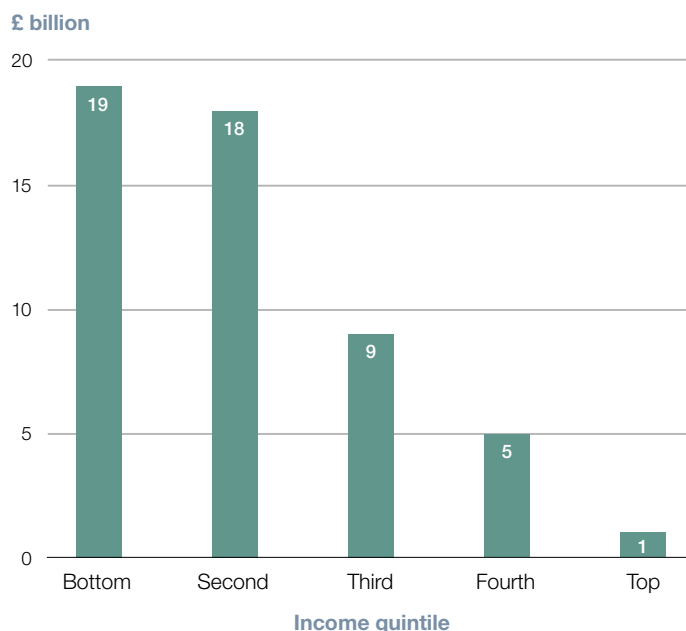
2.1 In this Part, we describe how means testing can help to target benefits. We also consider the effects of means testing, including incentives to work and costs of delivering and claiming benefits.

Who receives benefits?

2.2 Means testing concentrates payments on poorer households. On average, means-tested benefit payments constitute around 34 per cent of net income in the poorest fifth of households, compared to 0.4 per cent in the richest fifth. The poorest two fifths of households receive 71 per cent of total means-tested expenditure (**Figure 4**).

Figure 4

Means-tested benefit payments in 2009-10 by income quintile



NOTES

- 1 Includes Income Support, Pension Credit, Employment and Support Allowance, Housing Benefit, tax credits, Council Tax Benefit, Carer's Allowance and income-based Jobseeker's Allowance.
- 2 Totals differ from Appendix Two, because some benefits are excluded and because the source for this Figure undercounts the number of recipients.

Source: Office for National Statistics

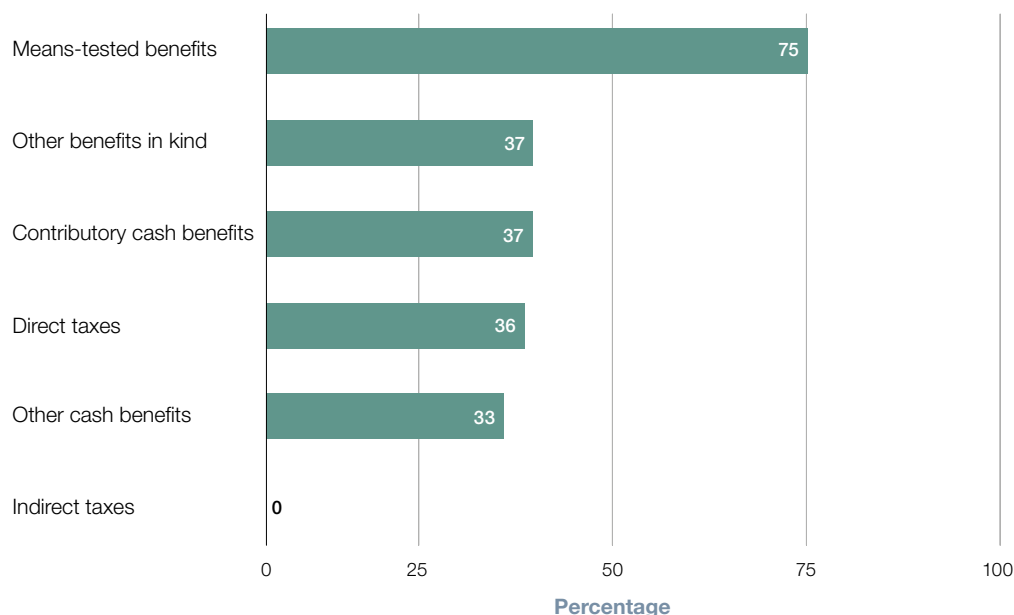
2.3 Means-tested benefits help to achieve social objectives such as poverty reduction and income redistribution at lower cost than universal benefits. People who receive Working Tax Credit currently receive £3,173 per year on average. If this amount were provided universally, the cost would be £122 billion, more than 16 times current expenditure.

2.4 The Department for Work and Pensions, in line with HM Treasury guidance for project appraisal, states that there can be benefits to society of redistributing income from richer to poorer groups. This is based on evidence that an additional £1 of income is worth more to a poor person than to a rich one. We estimated the redistributive impacts of means testing by applying Department for Work and Pensions assumptions to data on the distribution of taxes and benefits among households.³ We found that these redistributive impacts were equivalent to an additional 75 per cent of total expenditure. On average, for every £1 the Government spends on means-tested transfers, there are 75p of additional social benefits as a result of redistribution. Means-tested transfers are more redistributive than other forms of benefits and taxation (**Figure 5**).

Figure 5

Means-tested benefits have larger redistributive impacts than other taxes and benefits

Additional redistributive impacts as a proportion of absolute cash impacts, 2009-10



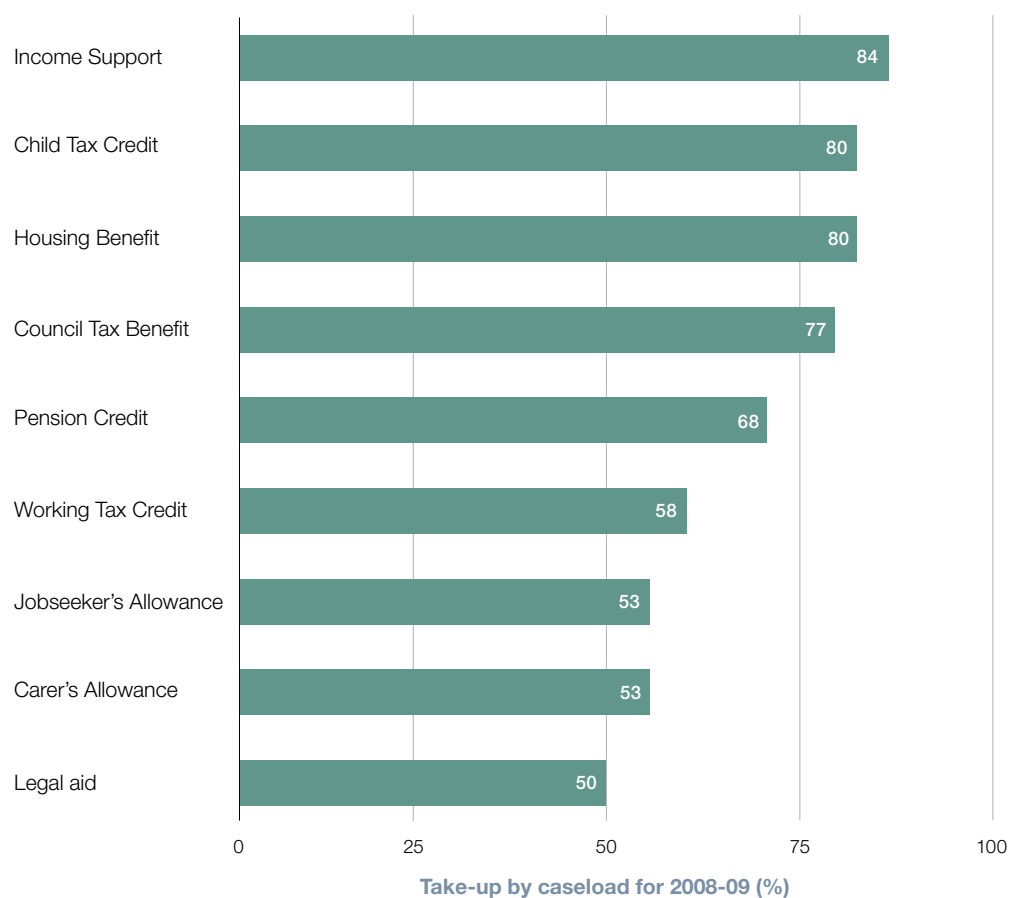
Source: National Audit Office analysis based on data from the Office for National Statistics

³ D. Fujiwara, *The Department for Work and Pensions social cost-benefit analysis framework*, Department for Work and Pensions Working Paper No. 86, 2010.

2.5 While means testing can target benefits on those most in need, many households do not take up their entitlements to means-tested benefits (**Figure 6**). By contrast, Child Benefit, which is not currently means tested, is taken up by 96 per cent of eligible households.

Figure 6

Take-up of the largest means-tested benefits



NOTES

- 1 For ease of presentation, we show mid-points of estimated ranges. In some cases ranges may be asymmetric and no official point estimate is available.
- 2 Income Support includes Employment and Support Allowance; Housing Benefit and Council Tax Benefit exclude pensioners.
- 3 Carer's Allowance take-up is based on Department for Work and Pensions analysis of the Family Resources Survey.
- 4 Legal aid take-up is based on Legal Services Commission estimate of take-up at police stations in 2008-09.

Source: National Audit Office analysis of published departmental statistics

2.6 Low take-up makes it difficult to target spending on the poorest. The Department for Work and Pensions found that, in 2008-09, 67 per cent of pensioners who were entitled to, but not receiving, Pension Credit lived in low-income households. Pensioners who did not take up Pension Credit were likely also to fail to take up other benefits, such as Housing Benefit and Council Tax Benefit.⁴ As a result, the poorest fifth of retired households on average receive £476 per year from Pension Credit payments and Income Support, while the richest fifth of retired households receive £488 per year.⁵

2.7 Research by the Department for Work and Pensions suggests that barriers to take-up of Pension Credit include perceived ineligibility and concerns about interactions with other benefits.⁶ The Department is currently investigating whether take-up could be improved by using information already held.⁷

How means tests affect the incentives that claimants face

2.8 Because means-tested benefits are paid on the basis of income or assets, means testing can have important effects on incentives to work. The 'effective marginal tax rate' measures how taxes and the withdrawal of benefits affect an individual's net income. An effective marginal tax rate of 80 per cent implies that net income increases by 20p for each extra pound earned. Means testing can also affect incentives to save or form households.

2.9 As a result of the withdrawal of benefits and the introduction of taxes, many people face high effective marginal tax rates. The Institute for Fiscal Studies estimated that in 2010, 13 per cent of workers faced effective marginal tax rates above 70 per cent, while 2.6 per cent, or about 700,000 employees, faced rates above 90 per cent.⁸ **Figure 7** overleaf shows effective marginal tax rates across countries.

2.10 The impact of high effective marginal tax rates on behaviour is difficult to assess, partly because people can react very differently to financial incentives. For instance, mothers of young children are more likely to leave the labour market in response to high effective tax rates, whereas disincentive effects on working age men are smaller. In 2005, the Organization for Economic Cooperation and Development estimated that a 1 per cent reduction in effective marginal tax rates would increase the probability of an unemployed person finding employment by 0.5 per cent.⁹

4 Department for Work and Pensions, *Income related benefits estimates of take-up in 2008-09*, 2010.

5 Office for National Statistics, *The effects of taxes and benefits on household income 2009/10*, 2011.

6 K. Bunt et al., *Understanding the relationship between the barriers and triggers to claiming Pension Credit*, Department for Work and Pensions Research Report No 336, 2006.

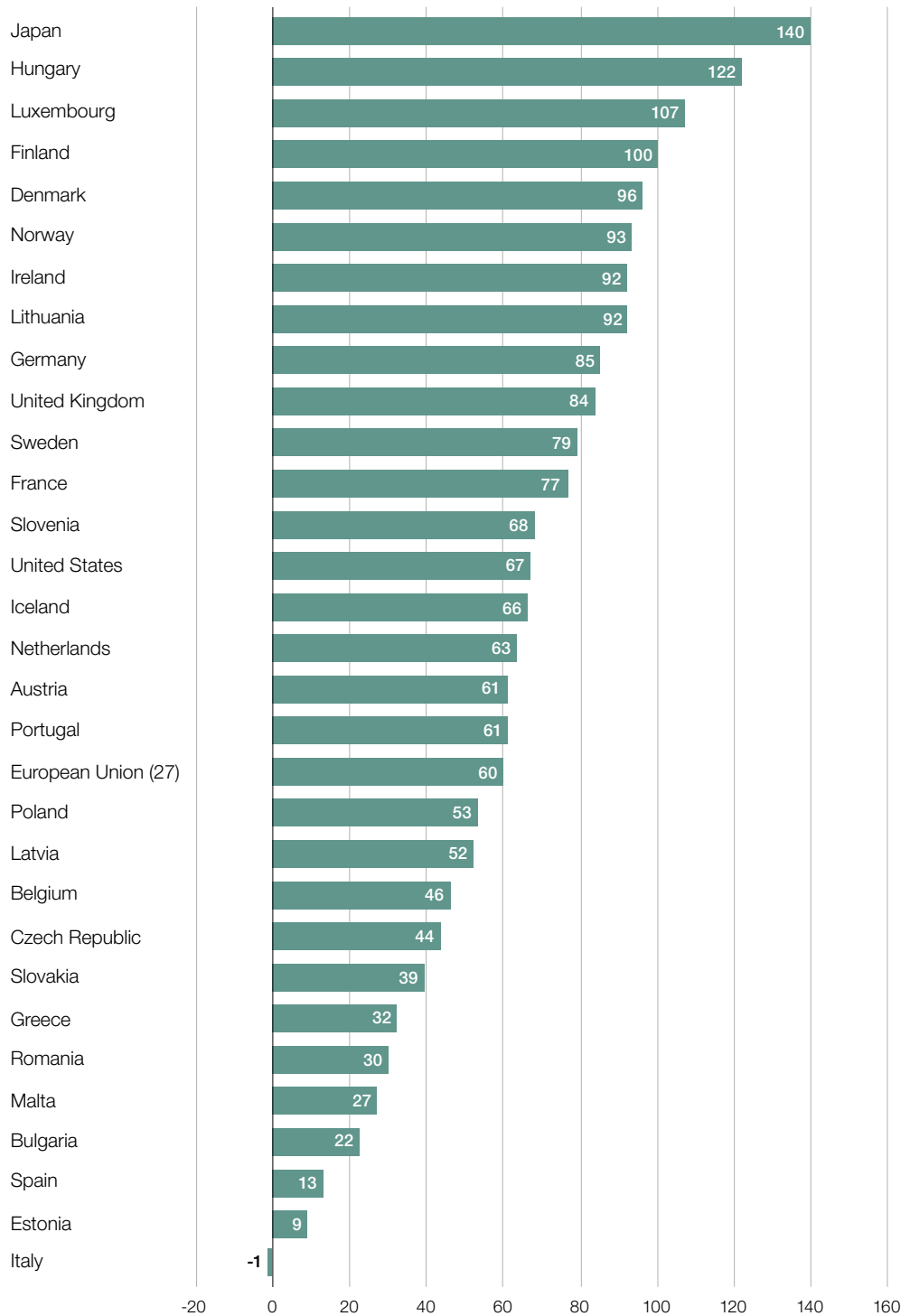
7 Department for Work and Pensions, *Pension Credit Payment Pilot*, State Pensions Division, October 2009.

8 J. Browne and D. Phillips, *Tax and Benefit Reforms Under Labour*, IFS BN88, 2010 Election Briefing Note No. 1.

9 Organization for Economic Cooperation and Development, *Employment Outlook*, 2005.

Figure 7

International comparison of incentives for low wage earners

Effective tax rate for a single-earner couple with two children increasing income from 33 per cent to 67 per cent of average wage in 2009

Source: Eurostat

How much benefits cost to deliver

2.11 While means testing can reduce public spending through targeting of support, the costs *per claim* of delivering means-tested benefits tend to be higher than for contributory or universal benefits even where benefits have similar target groups. The Department for Work and Pensions estimates that maintaining existing claims for Pension Credit cost £47 per claim in 2010-11, compared to £14 per claim for the non-means-tested State Pension (**Figure 8**). This is largely due to the greater complexity of assessing eligibility and the need to take account of changes in the financial circumstances of claimants. Some of the differences between administrative costs across programmes can be explained by different approaches to assessing eligibility, discussed in Part Three.

Figure 8

Unit costs of administering means-tested benefits in 2010-11

Means-tested benefits		Unit cost (£)
Housing and Council Tax Benefit	All claims	163
Tax credits	All claims	78
Income Support	New claim	181
	Existing claim	116
Pension Credit	New claim	351
	Existing claim	47
Jobseeker's Allowance	New claim	92
	Existing claim	306
Carer's Allowance	New claim	121
	Existing claim	33
Example non-means-tested benefits		
Child Benefit	All claims	11
State Pension	New claim	91
	Existing claim	14

NOTES

- 1 Unit costs for Income Support, Jobseeker's Allowance, Pension Credit and Carer's Allowance are preliminary departmental estimates. They include an element of recharged central costs from the Department for Work and Pensions and the agency responsible.
- 2 Tax credit and Child Benefit costs are based on dividing total administration costs by claimant estimates, and so may not be directly comparable to estimates for other benefits.
- 3 Jobseeker's Allowance new claims cost includes processing and excludes initial interviews and job search reviews.

Sources: Departmental resource accounts. *Updating the Costs of Housing and Council Tax Benefit Administration*, DWP Research Report 705, 2010

2.12 Means testing creates opportunities for claimants and officials to make mistakes or for claimants to misrepresent their circumstances. Overpayments increase public spending while underpayments deprive claimants of support to which they are entitled. Overpayments of means-tested Pension Credit owing to fraud and error in 2010-11 were £500 million, or 6 per cent of total spending. By contrast, overpayments of the non-means-tested State Pension were £100 million, or 0.1 per cent of total spending.

2.13 The Department for Work and Pensions and HM Revenue & Customs monitor the reasons for over and underpayments. Using this information we found that reasons associated with means testing, such as incorrect declarations of earnings, accounted for over half of all overpayments due to fraud and error (**Figure 9**).

Figure 9
Overpayments due to fraud and error, 2009-10



NOTES

- 1 Totals may not sum due to rounding. Mid-point estimates of ranges are presented here.
- 2 'All' is the weighted average of other benefits shown in the figure.

Source: National Audit Office analysis of published departmental statistics

The burden of means tests on claimants

2.14 Claimants incur costs in applying for benefits or reporting changes to their income or assets. These costs are:

- financial, such as the cost of calling a government benefits hotline from a mobile phone, which can be as much as 40p per minute;
- time, such as the costs of filling in forms; and
- psychological, including the 'stigma' and uncertainty of claiming benefits.

2.15 Claimants may also find it difficult to understand their obligations and the options that they have in claiming benefits. Citizens Advice Bureaux dealt with 1.2 million cases related to means-tested benefits in 2009-10, 17 per cent of their total caseload.¹⁰

2.16 The Department for Work and Pensions has initiatives in place to reduce the burden on claimants. For example, Rapid Reclaim reduces the time required to reapply for Housing Benefit. In 2009, the Department found that Jobseeker's Allowance claimants faced direct financial costs of £3.20, and the average time spent on contact calls and Jobseeker interviews was around 60 minutes.¹¹ Such costs are likely to have a disproportionate impact on the most vulnerable claimants and potential claimants. A high burden on claimants can impair the effectiveness of programmes, for instance by reducing take-up or harming incentives to change jobs because of the costs of completing a new claim.

Understanding the impacts of means testing

2.17 Value for money depends on good information about the outcomes and wider costs of policy decisions. Particularly in the current context of benefit reform, departments need to address potential risks to the design and implementation of benefit programmes as they arise.

2.18 Departments have made progress in developing and publishing estimates of likely impacts. For instance, at Budget 2011, HM Treasury published analysis of the effects of tax and benefit changes on the distribution of household incomes and incentives to work.¹²

¹⁰ Citizens Advice data.

¹¹ Department for Work and Pensions, *Measuring burdens experienced by Jobseeker's Allowance claimants* (unpublished), 2011, p.14.

¹² HM Treasury, *Budget 2011*, HC 836, March 2011, Annex A.

2.19 There are limitations to what can reasonably be achieved by departments in the short term. We highlight three areas where better measurement and understanding of outcomes is needed.

- The impact of changes to work incentives is uncertain, both because households respond differently to incentives and because longer-term benefits from reducing unemployment are difficult to estimate. Universal Credit proposals expect a reduction in the number of workless households by 300,000 as a result of improved incentives to work. The Department for Work and Pensions acknowledges that ‘the true impact is highly uncertain.’
- The burden on claimants and complexity of some benefits can affect levels of take-up and error. The effectiveness of reforms will depend on how difficult it is for claimants to interact with the benefits system, for example, through online claims. The Institute for Fiscal Studies recently called for better measurement of the burden on claimants.¹³
- The scope for administrative savings under proposed reforms will depend on the design and implementation of means testing. Since 2007, the Department for Work and Pensions has been developing an activity-based costing model that should help it to identify some of the impacts of means testing on administrative costs. We have previously recommended greater use of this modelling to identify operational savings and productivity across different sites.¹⁴ HM Revenue & Customs is also developing cost breakdowns for its processes.

2.20 Better understanding of impacts would aid more complete appraisal and planning. We found that departments do not consistently include all impacts of means testing when appraising options for means-tested benefits. Our review of six recent departmental Impact Assessments (assessments of a proposal’s significant costs and benefits) shows that there are considerable variations in the types of impacts included (**Figure 10**), and that the burden on claimants was rarely considered. The assessment for Universal Credit covered a wide range of impacts in detail and scored well in the majority of categories. We hope this is an indication of positive change in Impact Assessments which encompass means testing, but it is still too early to conclude. In some cases other documentation addressed the impacts of means testing, but this information was not available in the Impact Assessment itself. Better understanding of impacts may therefore require comparison of existing information in a more systematic way, rather than additional information.

¹³ F. Bennett et al., *Understanding the Compliance Costs of Benefits and Tax Credits*, Institute for Fiscal Studies, 2009.

¹⁴ Comptroller and Auditor General, *Reducing costs in the Department for Work and Pensions*, Session 2010-12, HC 1089, National Audit Office, 23 June 2011.

Figure 10

Impacts of means testing considered in Impact Assessments

	Date of Impact Assessment	Distributional impacts	Take-up	Incentives	Fraud and error	Administration costs	Claimant burden
Tax Credits	2002	✓✓	X	✓	✓	✓✓	✓✓
Employment and Support Allowance	2006	X	X	✓	X	X	X
Legal aid reforms to financial eligibility	2011	✓✓✓	✓	X	X	✓✓✓	X
Changes to higher education finance	2011	✓✓✓	✓	X	X	✓✓✓	X
Warm Home Discount	2011	✓✓✓	✓	✓✓	✓	✓✓✓	X
Universal Credit	2011	✓✓✓	✓✓	✓✓	✓✓✓	✓✓✓	X

NOTES

- 1 X = Not mentioned or minimal, ✓ = Qualitative impact(s), ✓✓ = Quantified impact(s), ✓✓✓ = Monetised quantified impact(s).
- 2 This figure considers most recent available versions of Impact Assessments, but not other relevant policy documents such as consultations.
- 3 Means testing may only have affected a small part of proposed reforms. In these cases some of the impacts of means testing may have been excluded as less significant or addressed in separate documentation.
- 4 Impact Assessment requirements have changed over time and differences in this figure may reflect a more limited basis for appraisal in earlier years.

Source: National Audit Office analysis of departmental Impact Assessments

Part Three

Designing means tests

3.1 There are two ways to tackle the unavoidable consequences of means testing. First, effective implementation of benefit programmes can help to minimise the costs that arise. Previous National Audit Office reports have shown that departments have struggled to streamline business operations and administration, improve detection and prevention of fraud and error, raise take-up of benefits, target support as intended, and reduce complexity for claimants.¹⁵ Cost-effective implementation will continue to be crucial to achieving value for money in both current programmes and proposed reforms.

3.2 Second, departments can change the design of the means test. In this Part we describe how design choices affect the outcomes of means testing and consider the risks that arise if departments do not learn from experience in designing means tests. Figure 1 on page 9 illustrates the main choices in designing a means test. The table is not an exhaustive list of options, but provides a framework for considering the design decisions that departments face. Within each option, departments face further decisions, such as the types of income and capital to consider.

3.3 In deciding between design options, departments face a series of trade-offs. The central trade-off is between tighter targeting of benefits (often linked to greater design complexity) and other impacts such as take-up levels, administrative costs and incentives to work.

Whose means are taken into account?

3.4 Means tests can be based on individual means or on the combined means of couples, families or households. Many means-tested benefits, including Income Support and Child Tax Credit, use the financial position of the household. Carer's Allowance eligibility, by contrast, is determined on the basis of individual income only.

3.5 One advantage of household assessment is that it can help to target support on families in which all members are poor, and avoid providing support to individuals in richer households. This is not the case with Carer's Allowance, where the median fifth of households receive on average £96 per year, compared to £76 per year for the poorest fifth.¹⁶

¹⁵ Comptroller and Auditor General, *PaceSetter: HMRC's programme to improve business operations*, HC 1280, 2010-12; *The Community Care Grant*, HC 286, 2010-11; *Reducing losses in the benefits system caused by customers' mistakes*, HC 704, 2010-11; *Dealing with the complexity of the benefit system*, HC 592, 2005-06.

¹⁶ Office for National Statistics, *The effects of taxes and benefits on household income 2009/10*, 2011.

3.6 On the other hand, household assessment can be complex and is likely to lead to higher administrative costs and greater opportunities for fraud and error. HM Revenue & Customs estimates that in 2009-10, about 18 per cent of fraud and error among tax credits was related to an undeclared partner, about £355 million.¹⁷

3.7 Household assessment can also mean that an individual's incentive to work depends upon whether their partner is employed. Because of benefit withdrawal, the effective marginal tax rate can be significantly higher for someone with an unemployed partner than for someone whose partner works.¹⁸ Complex rules around entitlements can affect the formation of households, for instance by providing more benefits to a couple that lives separately than to the same couple living together (**Figure 11**).

Which means are considered?

3.8 The definition of means is not straightforward. Many households have complicated and variable financial means including earned income, savings and housing assets.

3.9 The treatment of savings and other forms of capital is particularly difficult and differs widely. **Figure 12** overleaf shows how the treatment of capital differs depending on the definition of capital, how much capital is disregarded for the means test and the thresholds at which support is withdrawn as capital increases. More detailed definitions of capital and lower disregards can help to prevent benefits being paid to wealthy households. But there is a trade-off involved, since the complexity of capital conditions can cause problems for households who do not understand the criteria.

Figure 11

Income assessment and incentives for household formation

Anne is a lone parent with two children. She is unemployed and receives benefit payments of £430 per week. Her partner, Ben, lives separately. He works full-time at a salary of £330 per week after tax.

Living in separate homes means that Anne and Ben's combined income is £760 per week. If they moved in together, their combined income would fall to £550 per week, as a result of a fall in their benefit entitlements.

NOTE

¹ Assumes that Anne's children are between one and five years old, and that Ben works 30 hours per week.

Sources: Department for Work and Pensions Tax-Benefit Model. National Audit Office analysis

¹⁷ HM Revenue & Customs fraud and error statistics, 2009-10.

¹⁸ Institute for Fiscal Studies, *Tax by Design*, chapter 4, 2010.

Figure 12
Capital conditions for selected means-tested benefits

Programme	Definition of savings and capital	Disregard limit (£)	Eligibility threshold (£)	Tariff income
Housing Benefit	Excludes owner-occupied property	6,000	16,000	£1 for every £250 of savings
Child Tax Credit	Not a condition of entitlement	–	–	–
Income Support	Excludes owner-occupied property	6,000	16,000	£1 for every £250 of savings
Pension Credit	Excludes owner-occupied property	10,000	no eligibility threshold	£1 for every £500 of savings
Working Tax Credit	Not a condition of entitlement	–	–	–
Personal Social Services for older people	Residential care includes owner-occupied property Domiciliary care excludes property	14,250	23,250	£1 for every £250 of savings
Council Tax Benefit	Excludes owner-occupied property	6,000	16,000	£1 for every £250 of savings
Jobseeker's Allowance (income-based)	Excludes owner-occupied property	6,000	16,000	£1 for every £250 of savings
Legal aid	Rules for 'disposable capital' including owner-occupied property	3,000	8,000	Three bands, depending on disposable income
Carer's Allowance	Not a condition of entitlement	–	–	–

NOTES

- 1 Disregard limit is the level below which capital is not considered. Eligibility threshold sets the limit above which claimants are ineligible.
- 2 Tariff income determines the rate at which support is withdrawn as savings increase. This is often calculated as an assumed income of £1 for every additional £250 of savings above the threshold for eligibility. Assumed income is then considered in entitlement calculations.
- 3 Different conditions apply to Housing and Council Tax benefits for those over Pension Credit qualifying age: disregard limit is £10,000; no eligibility threshold is applied to those in receipt of Pension Credit Guarantee; tariff income is £1 for every £500.

Source: National Audit Office analysis

Where does information come from?

3.10 To use means testing effectively, departments and agencies need reliable and timely information about claimants' financial means. Information sources range from whether the claimant receives other means-tested benefits ('passporting') to a separate assessment of the claimant's declaration of income and assets. The Department for Work and Pensions uses claimant interviews extensively in determining eligibility for income-based Jobseeker's Allowance and Income Support. In administering tax credits, HM Revenue & Customs has instead relied on claimant estimates of income and circumstances, with overpayments or underpayments addressed at the end of the tax year.

3.11 The approach to determining eligibility will depend partly on characteristics of the target group. **Figure 13** describes how the Legal Services Commission has piloted new information requirements for legal aid.

3.12 Several programmes have chosen to accept claimants' eligibility on the basis of their receipt of other benefits. This tends to reduce administrative costs and the burden on claimants but can reduce the accuracy of targeting (**Figure 14**).

Figure 13

Piloting reforms to the administration of legal aid

The Legal Services Commission identified issues with the accuracy of the information given by clients to support means assessments. Therefore, from December 2010, the Legal Services Commission has required all applicants for legal aid related to civil representation to provide recent bank statements and wage slips. It also piloted a more ambitious initiative in its Chester office between December 2010 and March 2011. In this pilot, applicants were required to provide further supporting evidence, such as tenancy contracts and childcare statements.

Evaluation of the Chester pilot showed that bank statements and wage slips were the key information in improving the accuracy of means tests. The evaluation also showed that whilst even more accurate decisions could be made using further supporting information, it is too early to confirm the extent of potential improvements and whether it is sufficient to offset the additional administrative costs and time needed to make decisions.

Source: Legal Services Commission internal management information

Figure 14

Eligibility and Warm Front

The Warm Front scheme provides grants for the installation of heating and insulation measures in vulnerable households.

It is difficult to identify fuel-poor households, defined as those spending more than 10 per cent of net income on fuel bills. The Department of Energy and Climate Change has identified proxies based on the receipt of certain benefits, which indicate the likelihood of a household being fuel poor. Targeting of grants is therefore imperfect. We found in previous reports in 2003 and 2009 that the value for money of Warm Front had been impaired because a number of non fuel-poor households were entitled to assistance.

The Department of Energy and Climate Change has now amended the eligibility criteria to better target support at those likely to be vulnerable to fuel poverty, by using only income-related benefits as the proxies, and overlaying these with a thermal efficiency test of the property. The proportion of non fuel-poor households entitled to assistance has fallen from 47 per cent to 23 per cent. The Warm Front scheme does not guarantee that all of the eligible group will receive assistance.

Sources: Department of Energy and Climate Change, Amendments to the eligibility criteria for the Warm Front scheme, Impact Assessment, March 2011. Comptroller and Auditor General, The Warm Front Scheme, HC 126, 2008-09; Warm Front: Helping to combat fuel poverty, HC 769, 2002-03

How are benefits withdrawn?

3.13 After the initial decision to apply a means test, departments and agencies must decide how to withdraw support as incomes and assets increase. Some programmes, such as residential care for older people, impose sharp ‘cliff edges,’ where anyone with income or assets above a cut-off level is not eligible for support. Alternatively, benefits can be withdrawn smoothly as income increases. Some benefits allow for entitlement to continue for a limited period after a claimant becomes ineligible, in order to help claimants to adjust.

3.14 This decision balances the incentives faced by claimants and total expenditure. Faster withdrawal of benefits can reduce public spending, but can also create disincentives to work and save. In the case of adult social care, current rules imply that someone who requires residential care can lose up to 90 per cent of their wealth if faced with a lifetime care bill of £150,000.¹⁹

3.15 Withdrawal rates do not only affect incentives. Understanding how changes to employment will affect households is complex and this imposes an additional burden on claimants through greater uncertainty about future income.

How are changes in circumstances considered?

3.16 People’s income, assets and household composition frequently change. Any means test must include arrangements for treating changes in circumstances, including how frequently to reassess entitlement and whether to ignore interim changes.

Figure 15 shows that changes in circumstances related to means testing are common. Among the 6.4 million households that receive tax credits, 5.4 million changes in circumstances were reported by telephone alone in 2010-11.

3.17 Departments face a trade-off between targeting benefits at the most vulnerable, which can be helped by frequent reassessment of eligibility, and limiting overpayments, which often increase when claimants are required to report any changes in circumstances immediately. The Department for Work and Pensions estimates that over 70 per cent of Housing and Council Tax Benefit overpayments are caused by changes in circumstances rather than mistaken initial claims.²⁰

3.18 Tax credits demonstrate how flexibility to changes in circumstances can create problems. Awards are made at the beginning of the year based on income in the previous tax year and entitlement is then finalised at the end of the tax year. Claimants are supposed to report other changes in circumstances during the year, but in many cases this is not done promptly. Tax credits were designed to ensure that awards respond flexibly to changes in claimants’ circumstances. However, changes to claimants’ circumstances, including income, have contributed to substantial overpayments as a result of the design of the system: £9 billion of total overpayments between 2003-04 and 2009-10.

¹⁹ *Fairer Care Funding: The Report of the Commission on Funding of Care and Support*, 2011.

²⁰ Department for Work and Pensions, *Housing Benefit Initiatives: Evaluation Handbook*, 2008.

3.19 In addition to the overpayments arising from changes in circumstances, tax credits have also experienced high fraud and error. HM Revenue & Customs estimated that tax credit fraud and error favouring the claimant (overpayments) were 7.4 per cent of final entitlements in 2009-10 (**Figure 16**).

Figure 15
Changes of circumstances and tax credits

Reasons for changes of circumstances reported by telephone to HM Revenue & Customs in 2010-11	Thousands	Per cent
Work details	1,417	26
Income	899	17
Personal details	875	16
Child details	818	15
Household break-up	533	10
Childcare	489	9
Multiple changes and other	381	7
Total	5,411	100

NOTE

1 'Other' includes less than 0.1 per cent of total relating to appointee changes, multiple years and access complaints.

Source: HM Revenue & Customs

Figure 16
Tax credits estimates of fraud and error



NOTES

- Estimates are of fraud and error. In addition to the overpayments identified through the regular process of finalisation, the department estimates fraud and error based on a random sample of finalised awards.
- Estimates are subject to uncertainty. Mid-point estimates are presented here.

Source: HM Revenue & Customs fraud and error statistics

Learning from past experience of means testing

3.20 Learning from past experience helps departments to improve the effectiveness of means testing, particularly given complex design choices and other uncertain factors, such as claimants' behaviour. Departments can learn from their own experiences or from other programmes and departments.

3.21 In the context of spending cuts and major reforms, learning within and between means tests will become even more important.

- Departments must respond early to achieve spending targets if costs do not decrease as planned. In previous reports we identified the risks to achieving cost reductions in the benefits system and a lack of contingency if plans are not met.²¹
- The success of Universal Credit will partly depend on how departments address issues such as overpayments and work incentives.

3.22 Departments have learned from past experience of administering benefits but sometimes only with long lags in tackling core design issues.

- HM Revenue & Customs shifted its approach for tax credits to 'check first, then pay' in December 2009, increasing the number of pre-payment checks to get more claimants into the right award at the outset and to prevent fraud and error. In 2010-11, it carried out 450,000 checks of high-risk claims at application, changes of circumstances and renewal, preventing an estimated loss of £200 million.
- The Department for Work and Pensions is investigating ways of using available data to improve take-up of Pension Credit.
- The Department of Energy and Climate Change changed the conditions for eligibility for assistance under Warm Front (see Figure 14 on page 27) in April 2011.

3.23 Learning between departments has been more limited. For example, the introduction of tax credits meant that HM Revenue & Customs had to work with benefit claimants whose needs were very different from those of the wider population of taxpayers. In 2006, the Treasury Select Committee found that this required a culture shift and that the Department needed 'to refocus its administrative structures for tax credits around the needs of claimants.' In the same year HM Revenue & Customs established the Tax Credits Transformation Programme, partly to identify and address the causes of error, but greater learning at an earlier stage from the experiences of the Department for Work and Pensions could have helped to avoid some problems.

²¹ Comptroller and Auditor General, *Reducing costs in the Department for Work and Pensions*, Session 2010-12, HC 1089, National Audit Office, 23 June 2011; *Reducing costs in HM Revenue & Customs*, Session 2010-12, HC 1278, National Audit Office, 20 July 2011.

3.24 Learning within and between departments is limited by the lack of consistent frameworks for understanding the choices in designing means tests. We suggested to departments that they consider a framework of possible choices as illustrated in Figure 1 on page 9. A common framework could help departments to identify challenges rapidly and communicate how choices have been made. In our discussions with departments we found no evidence of such a framework being used to help choose between alternative policy designs.

Part Four

Interactions between means tests

4.1 In this Part, we describe how interactions between means tests affect incentives and create trade-offs between simplicity and flexibility in administration.

Aligning incentives

4.2 There are two ways in which interactions between means tests create difficulties for incentives.

- Compared to individual means tests, the combination of means tests can create much stronger disincentives to work, save or form households.
- Differences between means tests create incentives for claimants to apply for less appropriate forms of support.

4.3 The combined effects of overlapping means-tested programmes can create strong disincentives to work. People entering employment or increasing their earnings are affected by changes to their entitlements to all forms of support, and their decisions will take this into account. The strong disincentives from withdrawal of overlapping benefits have been well documented by experts such as the Institute for Fiscal Studies.²²

4.4 Claimants will also be affected by means tests provided by other organisations, such as higher and further education providers and charities. **Figure 17** illustrates how higher education bursaries can mean that claimants are financially worse off if they work more.

4.5 Differences in the design of otherwise similar benefits create incentives for claimants or administrators to prefer one option over another. In the example of social care, housing assets are not taken into account in determining eligibility for state support for care in one's own home, but are included in the means test for support with residential care home charges. People who own their house but have few other assets face strong incentives to stay out of residential care.

²² For example, S. Adam and J. Browne, *Redistribution, work incentives and thirty years of UK tax and benefit reform*, Institute for Fiscal Studies, 2010.

Figure 17

Case example – the incentive effects of interactions

Carole is a lone parent with three children. She earns £25,000 per year before tax. Her eldest child is applying for a university bursary in addition to the Maintenance Grant. Carole is offered an increase in her working hours which would see her salary rise by £2,500 per year. In the first year, this would mean Carole's household is £223 better off after tax, withdrawn benefits, and a reduction in Maintenance Grant. However, her eldest child would no longer be eligible for the £1,000 first-year university bursary, which is only available to students receiving the full Maintenance Grant. The household would be £777 worse off in the first year if Carole decided to work the increased hours.

NOTES

- 1 We assume that Carole's younger children are between one and five years old. Effects of childcare costs are excluded.
- 2 £1,000 bursary estimate is based on the average annual amount of university bursary in 2009-10, according to the Department for Business, Innovation and Skills.

Source: National Audit Office analysis based on the Department for Work and Pensions Tax-Benefit Model

4.6 Problems of aligning means tests across benefits are particularly complex where there is local variation in eligibility criteria. Currently, each local authority can decide the conditions for eligibility for state support for adult social care, meaning that there are effectively 152 different systems across England. This situation makes it difficult for claimants to understand entitlements and can hinder people from moving between areas.²³

4.7 In some respects, the alignment of eligibility criteria has improved. For example, in 2006, the Government raised the upper capital thresholds for Jobseeker's Allowance and Income Support to £16,000, in line with the thresholds for Housing Benefit and Council Tax Benefit, partly to encourage households to save.

Simplifying means tests

4.8 Interactions between means tests can make it difficult to reduce the costs of administering benefits. Administrative costs can rise as a result of interactions, while claimants can face a high burden of complying with different entitlement conditions.

4.9 For many benefits, departments determine eligibility based on whether the claimant also receives other benefits (**Figure 18** overleaf). Spending on benefits that may be passported was £46 billion in 2009-10. Passporting can reduce administrative costs and ease the burden on claimants in dealing with multiple benefits, but can create uncertainties when introducing reforms to core benefits from which passported entitlements are determined.

4.10 Passporting means that changes to core benefit programmes such as Income Support could have unanticipated effects on other programmes such as free school meals. Third sector organisations such as charities may also find it difficult to allocate support. For example, the People's Dispensary for Sick Animals charity allocates free veterinary care on the basis of entitlement to Housing Benefit and Council Tax Benefit, both of which are the subject of proposed reforms.

²³ *Fairer Care Funding: The Report of the Commission on Funding of Care and Support, 2011.*

Figure 18
Passported benefits

Benefit	Maximum value in 2011-12
Housing Benefit	£105.95 per week for couple £62.33 per child
Council Tax Benefit	£105.95 per week for couple £62.33 per child
Free school meals	Approximately £10 per week per child
Sure Start Maternity Grant	£500 per child
Cold Weather Payments	£25 per week of cold weather

NOTE

1 Most benefits are passported from Income Support, income-based Jobseeker's Allowance, Employment and Support Allowance and Pension Credit.

Source: Child Poverty Action Group, Welfare benefits and tax credits handbook, 2011

4.11 Passporting can itself create administrative problems, particularly where departments use older or incompatible systems. The Department for Work and Pensions estimated that in 2009-10, errors in passporting between the Department for Work and Pensions and local authorities resulted in £19 million of Housing Benefit overpayments.²⁴

Departmental coordination of means testing

4.12 Coordination between means tests becomes particularly important in the context of benefit reform. Universal Credit proposals aim to improve financial incentives to work by combining benefit schemes and creating a smoother rate of withdrawal of working-age benefits as income rises. But Universal Credit proposals do not combine all means-tested benefits. For example:

- Losing free school meals entitlements could reduce the weekly income of a household with two children by around £20, creating strong disincentives at the point of withdrawal.
- Proposals to localise decisions about Council Tax Benefit could create variation between local authorities, and make it hard to determine the overall impact on work incentives.
- Incentives may be affected by changes to higher education funding and the extent of student bursaries provided by higher education institutions.

4.13 In some areas, coordination to combat long-standing problems related to means testing has increased.

- To reduce fraud and error in benefit payments, the Department for Work and Pensions and HM Revenue & Customs announced a joint strategy in October 2010. This initiative aims to share good practice and expertise to reduce overpayments by £1.4 billion by 2014-15.
- Departments and agencies have improved their use of data to reduce administrative costs. Student Finance England has identified estimated annual savings of £993,000 by using income data from HM Revenue & Customs to compare against the income declared by claimants. Savings are caused by reducing calls to acquire financial evidence and making processing of applications simpler.
- The Child Poverty Unit is a cross-departmental initiative to tackle child poverty between HM Treasury, the Department for Work and Pensions and the Department for Education. It demonstrates how departments can integrate their approaches, for instance in modelling the impacts of proposals in 2009 to extend eligibility for free school meals.
- In June 2011, the Minister for Welfare Reform asked the Social Security Advisory Committee to undertake an independent review of passported benefits, particularly in light of the proposed introduction of Universal Credit.

4.14 Coordination between departments is, however, limited in understanding the impact of benefit design on the wider system of benefits. The standardised appraisal guidance contained in the Green Book requires departments to assess the costs and benefits of a programme to society as a whole, including indirect and wider impacts where possible. But this can be difficult to achieve in practice. For example, we found no evidence that the Department for Work and Pensions and the Department for Business, Innovation and Skills had estimated the impact of proposals for higher education loans and university bursaries on incentives to increase employment. More generally, in our discussions with departments we found that there was a lack of clarity about who should be responsible for coordinating between means tests. This constitutes a risk to value for money in the benefits system.

Appendix One

Methodology

Method

Document review. Reviewing departmental and external documents including business cases, Impact Assessments and departmental research.

Interviews. With departments and agencies.

Expert interviews. Interviews with academic and third party experts.

Analysis of management and statistical information. Including department, agency and third party data on costs, fraud and error, take-up, distribution of benefits and incentives.

Purpose

Identifying the information available on the impacts of means testing. Determining how impacts have been considered in appraisals.

Understanding what frameworks are used to understand means testing. Identifying issues for means testing in programmes and proposed reforms.

Gauging wider context and perceptions of means testing. Identifying impacts of current programmes and issues for proposed reforms.

Estimating the impacts of means testing on departments and claimants.

Appendix Two

Summary of means-tested benefits

Means-tested benefit expenditure and claims, 2009-10

Benefit	Target of support	Expenditure (£bn)	Claims in payment (million)
Department for Work and Pensions			
Housing Benefit	Rental costs	19.6	4.5
Income Support	Low incomes	8.3	1.9
Pension Credit	Pensioners	8.2	2.7
Council Tax Benefit	Low incomes	4.6	5.6
Jobseeker's Allowance (income-based)	Unemployment	3.6	1.1
Carer's Allowance	Full-time care	1.5	0.5
Employment and Support Allowance (income-related)	Disability preventing work	0.7	0.2
Social Fund payments	Cold weather, community care and maternity	0.6	4.6
Independent Living Funds	Home care costs	0.3	<0.1
Return-to-Work and In Work Credit	Return to work	0.2	n/a
Job Grant	Return to work	<0.1	n/a
Discretionary housing payments	Rental costs	<0.1	n/a
HM Revenue & Customs			
Child Tax Credit	Child raising costs	19.0	5.7
Working Tax Credit	Low incomes	7.8	2.4
Local authorities			
Personal Social Services for older people (over 65)	Residential and domiciliary care	7.5	1.1

Benefit	Target of support	Expenditure (£bn)	Claims in payment (million)
Department of Health			
NHS Business Services Authority bursaries for students	Medical and social work study costs	0.6	0.1
Free prescriptions, dental treatment, sight tests	Treatment costs	n/a	6.0
Department for Business, Innovation and Skills			
Student Finance England – Maintenance, Higher Education and Special Support Grants	Term-time study costs	1.2	0.5
Student Finance England – other targeted support	Term-time study costs	0.1	<0.1
Student Finance England – Tuition Fee Grants	Tuition fees	<0.1	<0.1
Ministry of Justice			
Legal aid	Legal fees	2.2	3.0
Of which Criminal Defence Service		1.1	1.5
Of which Community Legal Service		1.1	1.4
Department for Education			
Education Maintenance Allowance	Student expenses	0.5	0.6
Free school meals	School food	n/a	1.2
Department of Energy and Climate Change			
Warm Front	Heating and insulation costs	0.4	0.2
Home Office			
Asylum support	Asylum seekers	0.5	n/a
Department for Culture, Media and Sport			
Athlete grants	Training costs	<0.1	<0.1
TOTAL		87.3	42.1

NOTES

- 1 The list includes passported programmes where eligibility is determined on the basis of their receipt of other benefits. It excludes some partially means-tested benefits where data are unavailable, such as social housing. It excludes loans, such as Social Fund Crisis Loans.
- 2 Means-tested Social Fund includes Community Care Grants, Sure Start Maternity Grants and Cold Weather Payments.
- 3 Legal aid claims refer to acts of assistance.
- 4 Education Maintenance Allowance figures are for academic year to June 2010.

Sources: Departmental resource accounts and statistical publications



Design and Production by
NAO Communications
DP Ref: 009724-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & Email

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

Customers can also order publications from:

TSO Ireland

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

£15.50

