

Office for  
**Budget  
Responsibility**

## **Welfare trends report: universal credit**

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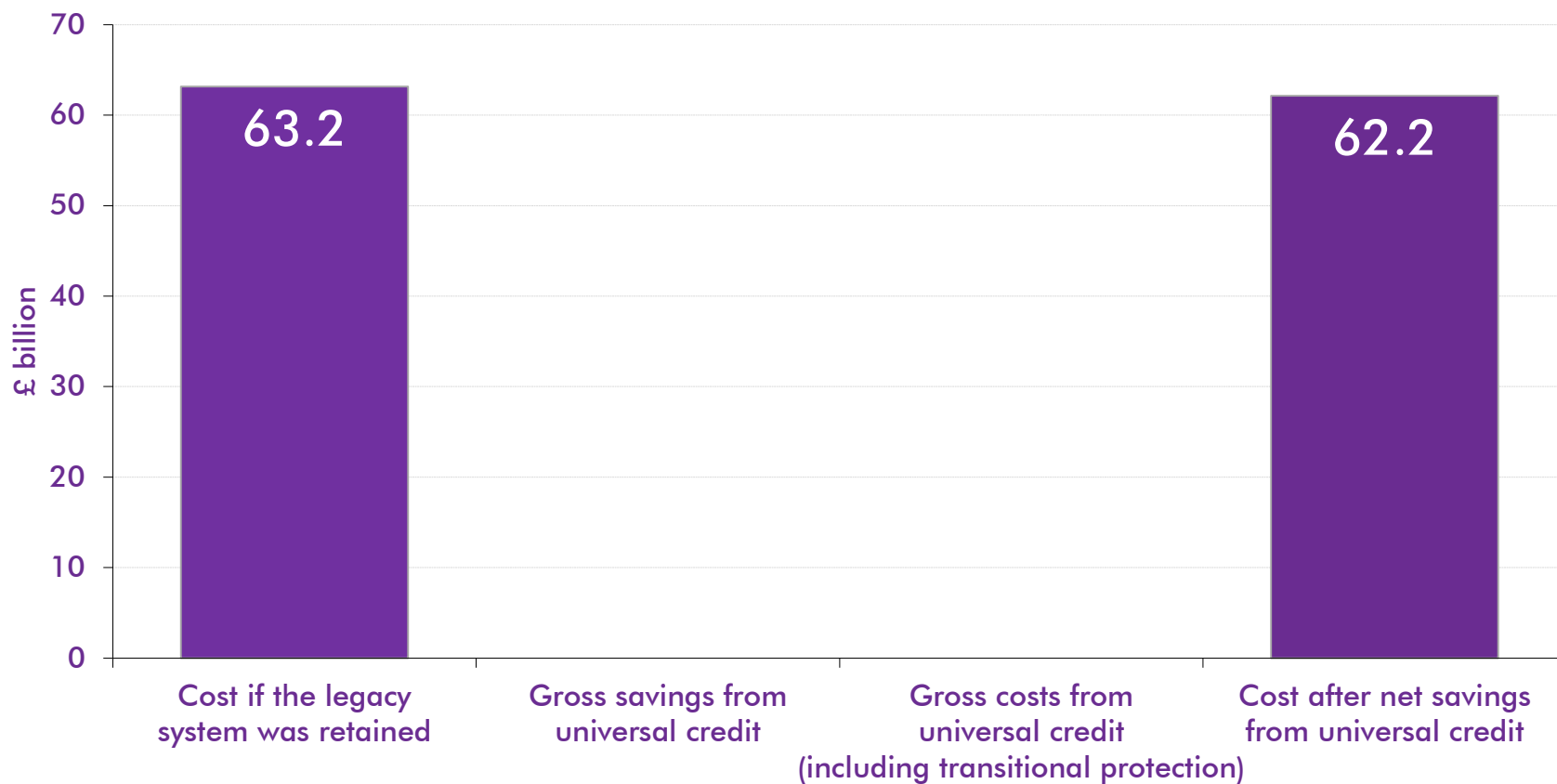
**Robert Chote**  
Chairman

25 January 2018

# Background

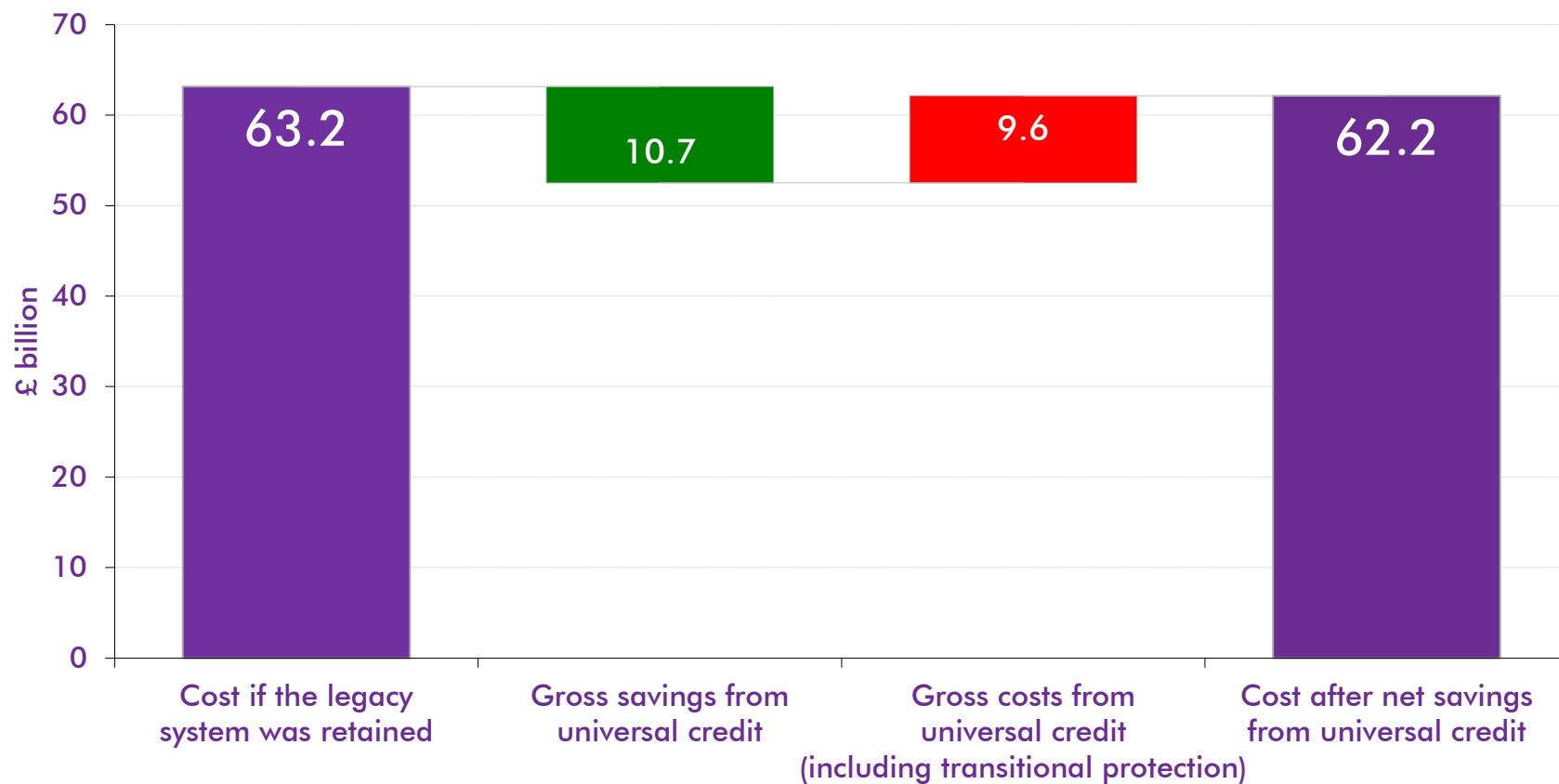
- OBR publishes *Welfare trends report* once a year
- This year devoted to universal credit
- Grateful for help of DWP and other officials
- Views responsibility of BRC. No pressure
- Focus on spending, not distribution and poverty

# Big picture: net effect masks gross



Source: DWP, OBR

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Source: DWP, OBR

# Outline

- How will UC work?
- How do we forecast spending?
  - Legacy system counterfactual
  - Steady-state impact of UC
  - The transition
- Risks and uncertainties
- Conclusion

# UC and the legacy system

Income support  
Jobseeker's allowance  
Carer's allowance

ESA

Contributory

Income based

DLA and PIP

Housing benefit

Universal credit

Tax credits

# Main features of UC

- Administered by DWP alone in GB
- Awarded to 'benefit units'
- Maximum award: standard element + children, housing costs, capacity to work, caring, childcare and disabled children
- Deductions for income, savings and benefit cap
  - 63% taper for earned income above 'work allowance'
  - 100% for other income
  - Minimum income floor (MIF) applied for self-employed
- Transitional protection for 'managed migration' by DWP
- 'Claimant commitment' policed by 'work coaches'

# Main differences from legacy

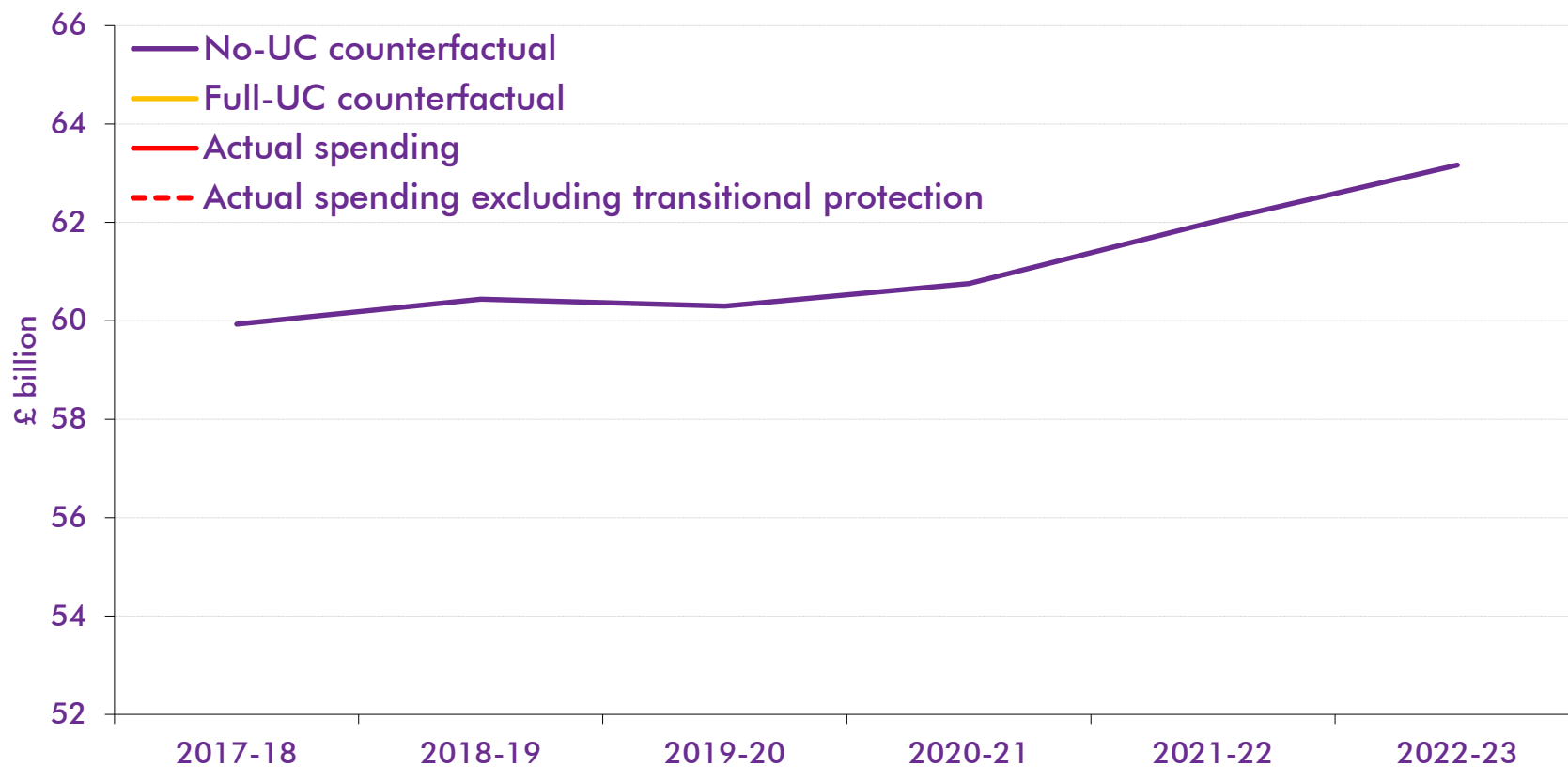
- No hours rules, so more generous for low-paid 'mini-jobs'
- But starts tapering at lower income than tax credits
- Much less generous for low income self-employed (MIF)
- Single claim and single payment, so no partial take-up
- Conditionality extended to employed and self-employed
- Capital limits apply, unlike for tax credits
- More people monthly reporting (self-employed and former TC)
- No income disregards, so more sensitive to changes in earnings
- Support for disabled via main entitlement rather than premia



# The forecasting challenge

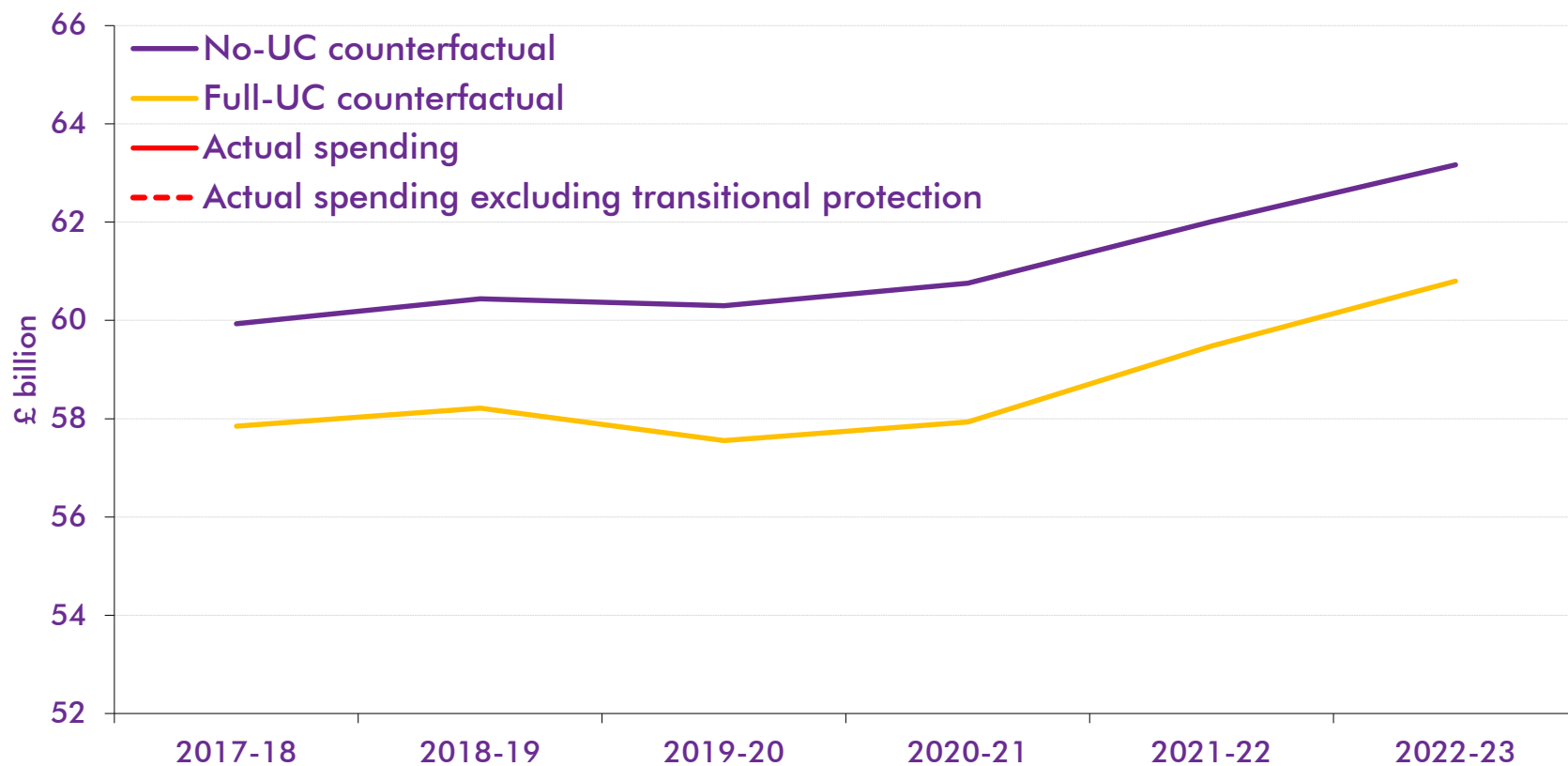
- Admin data does not permit standard approach
- So we use a three-step approach
  - No-UC counterfactual
  - Full-UC counterfactual
  - Reflect roll-out schedule and transitional protection
- Best available approach, but
  - Out-turns hard to scrutinise usefully
  - Lots of risks and uncertainties

# The UC spending forecast



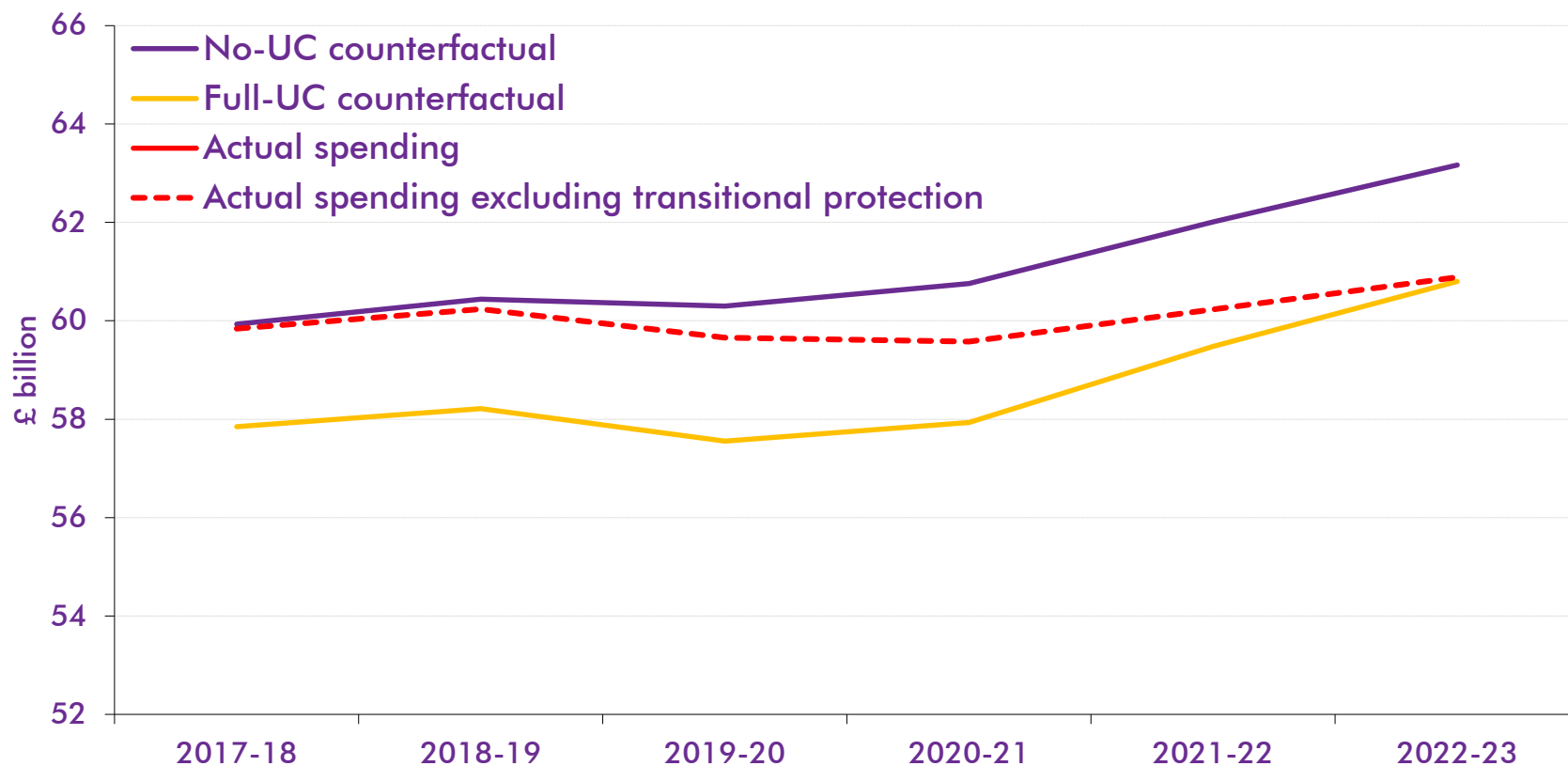
Source: DWP, OBR

# The UC spending forecast



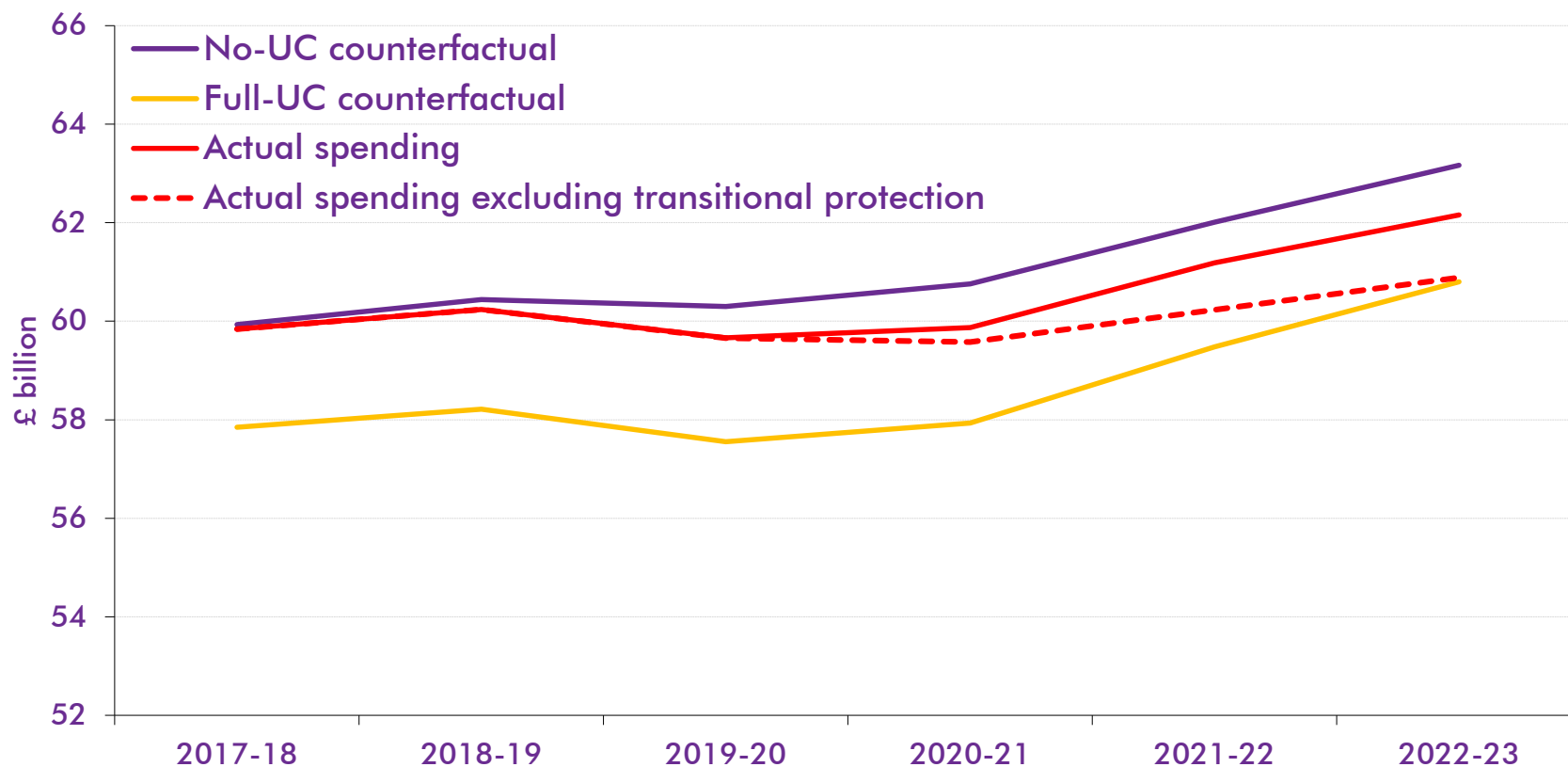
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# The UC spending forecast



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Source: DWP, OBR

# The legacy spending forecast

£ billion	17-18	18-19	19-20	20-21	21-22	22-23
<b>Legacy benefits: 'no-UC' counterfactual</b>	<b>59.9</b>	<b>60.4</b>	<b>60.3</b>	<b>60.8</b>	<b>62.0</b>	<b>63.2</b>
Tax credits	27.0	26.6	26.2	26.6	27.0	27.3
Housing benefit (working-age)	17.7	18.2	18.5	18.1	18.5	18.9
Income-based employment and support allowance	10.7	11.4	11.2	11.5	11.8	12.2
Income-based jobseeker's allowance	2.2	2.2	2.3	2.3	2.4	2.5
Income support (non-incapacity)	2.3	2.0	2.1	2.2	2.2	2.4
<b>Spending as a share of GDP (per cent)</b>	<b>2.93</b>	<b>2.88</b>	<b>2.79</b>	<b>2.73</b>	<b>2.70</b>	<b>2.66</b>

# The legacy spending forecast

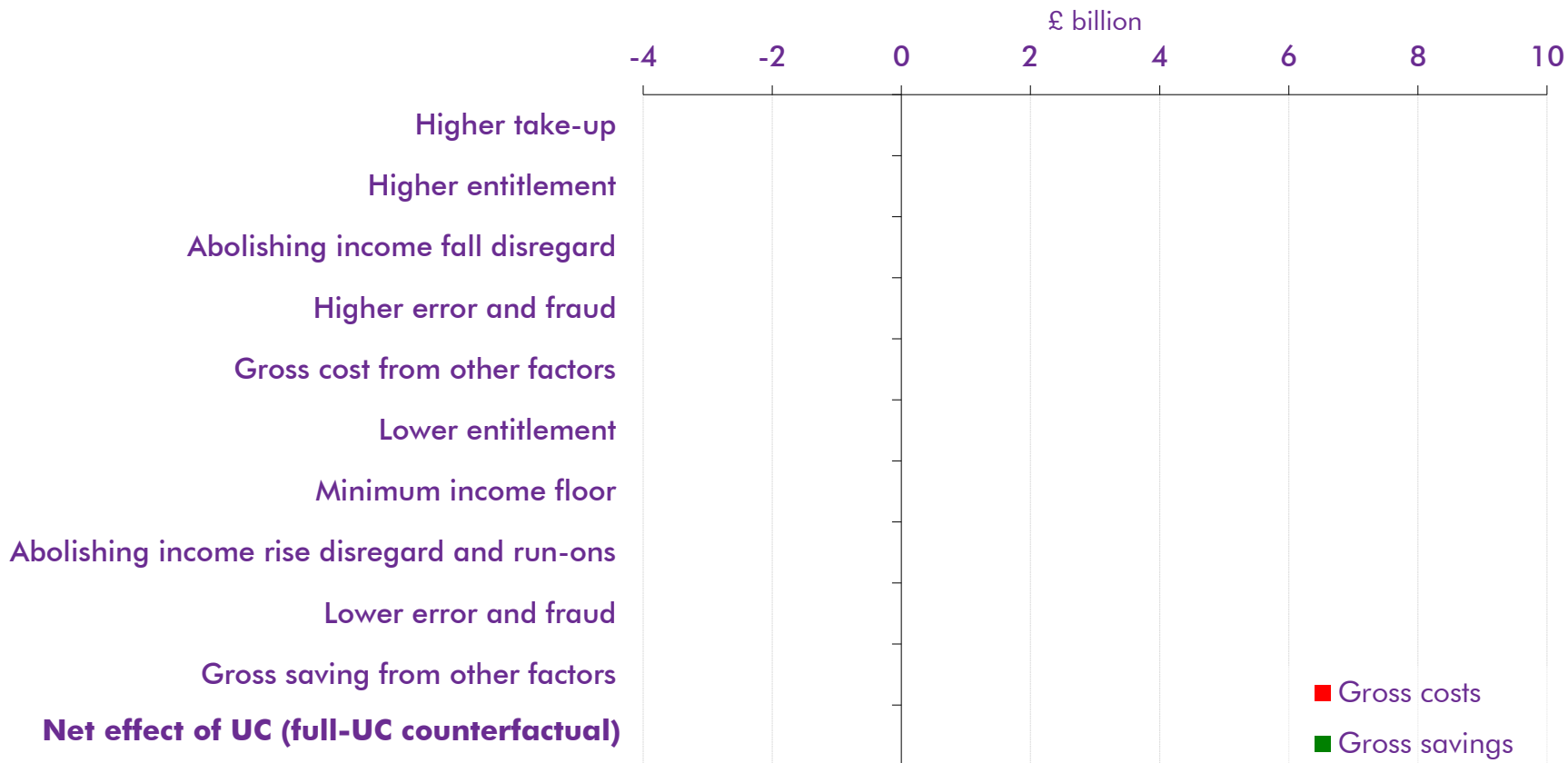
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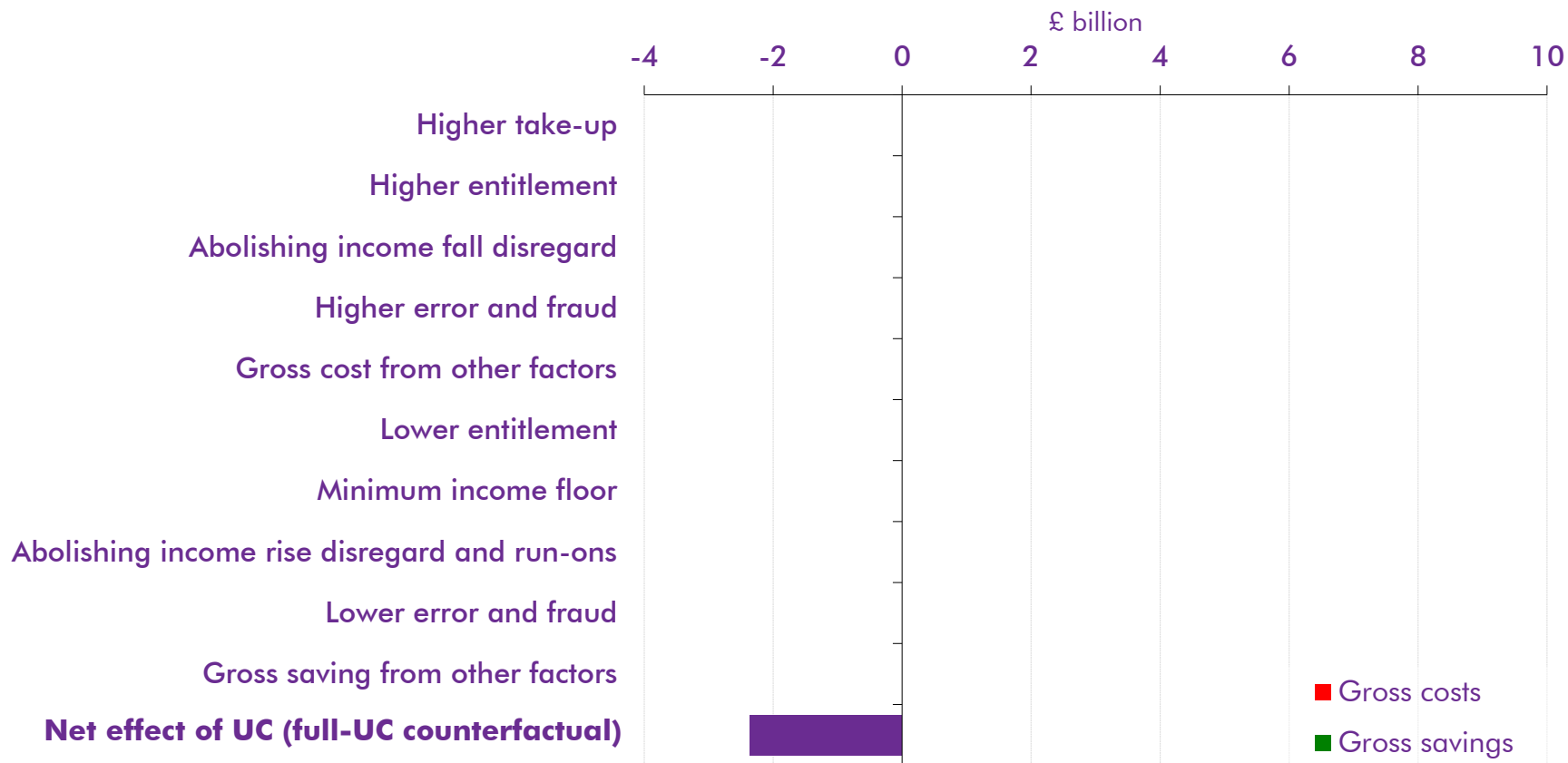


# The steady-state impact of UC



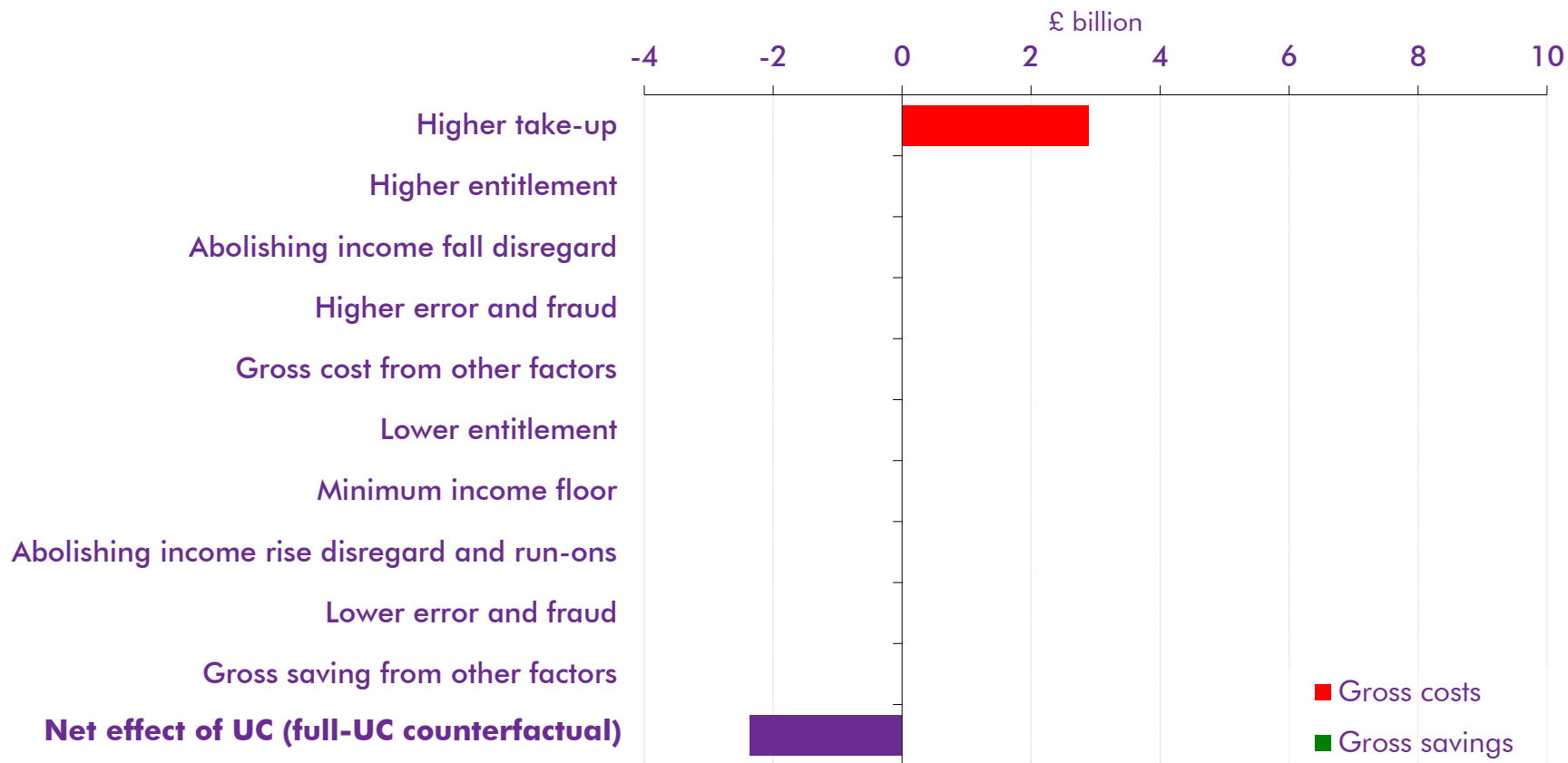
Source: DWP, OBR

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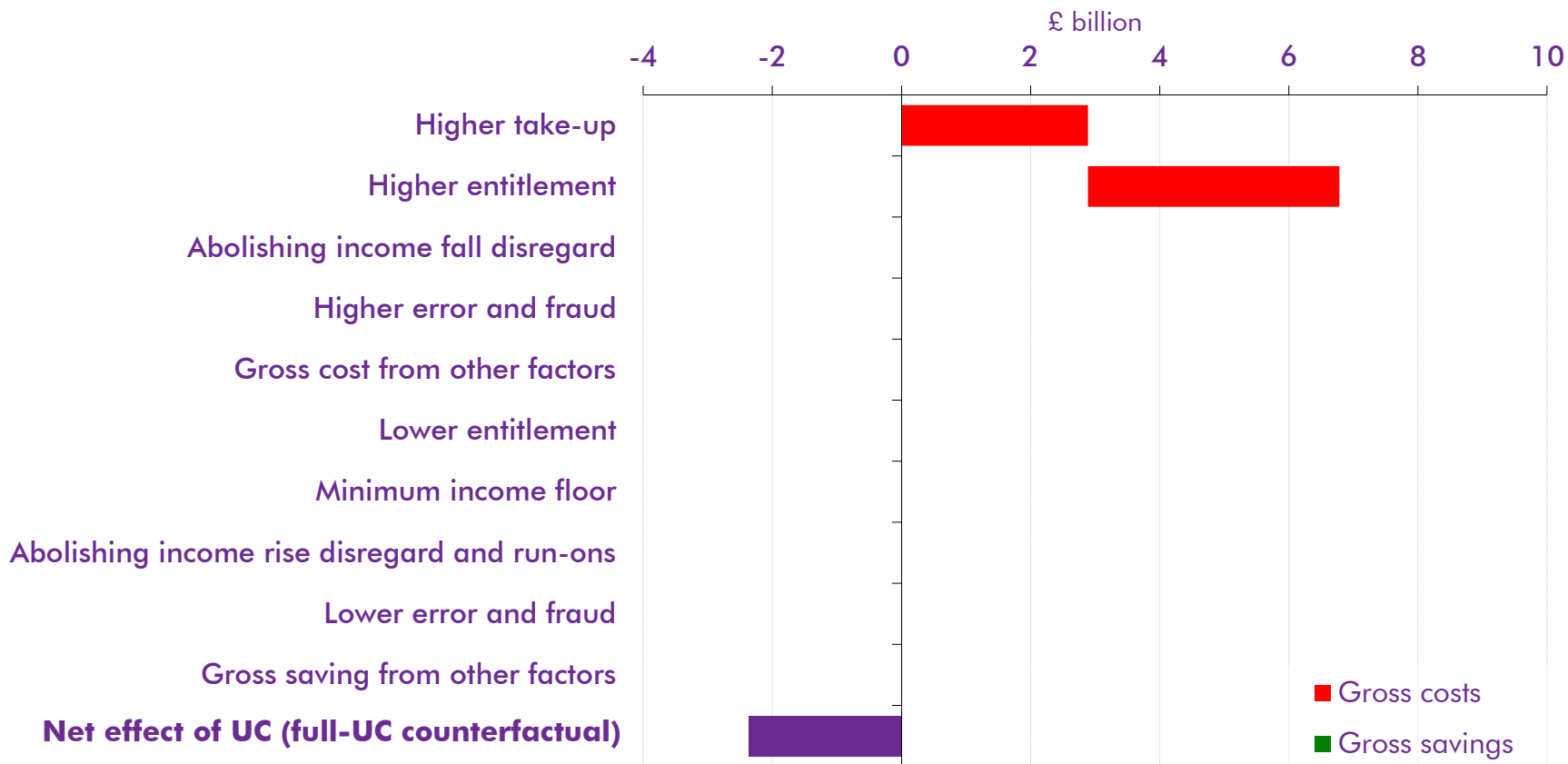
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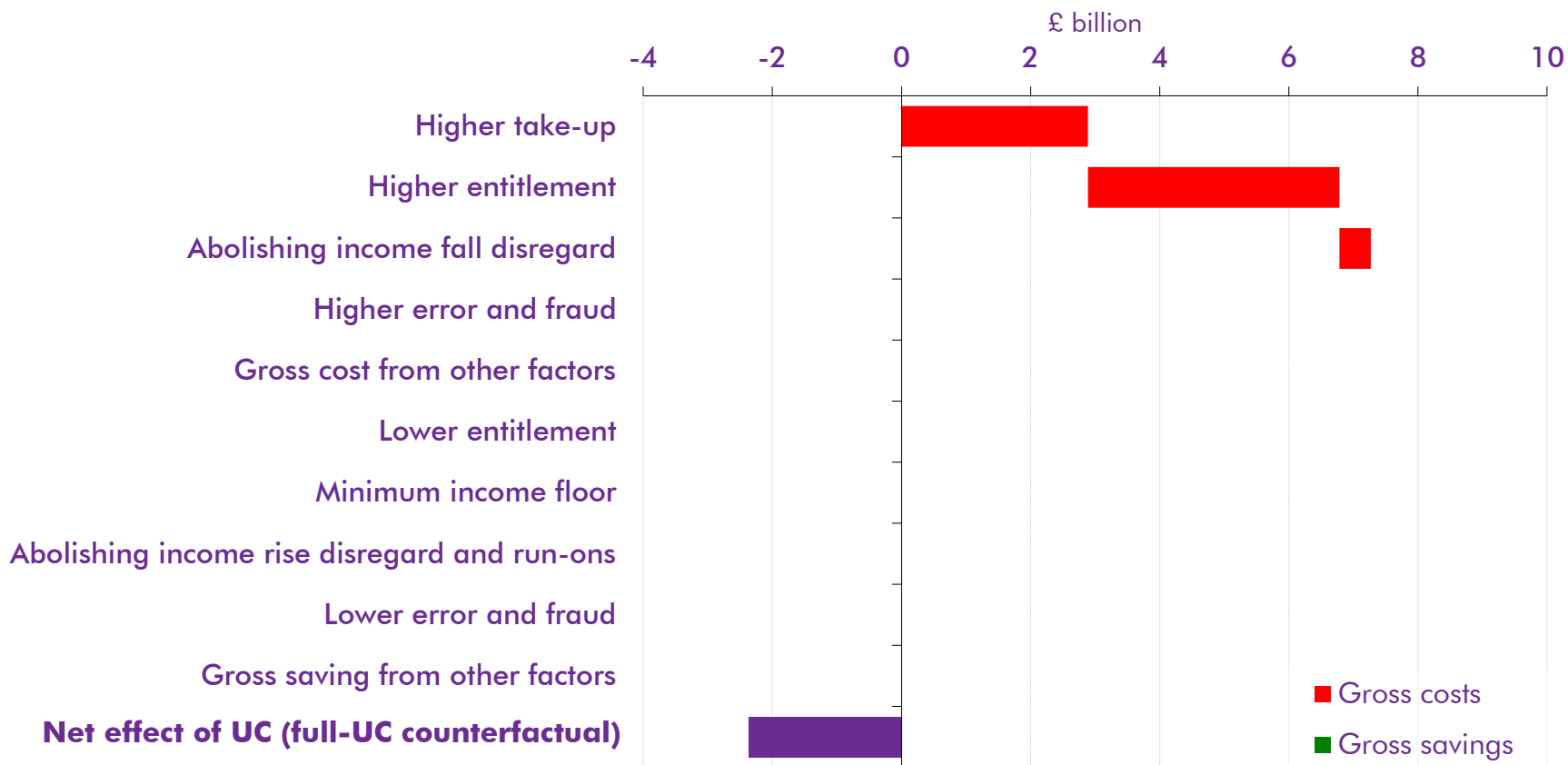
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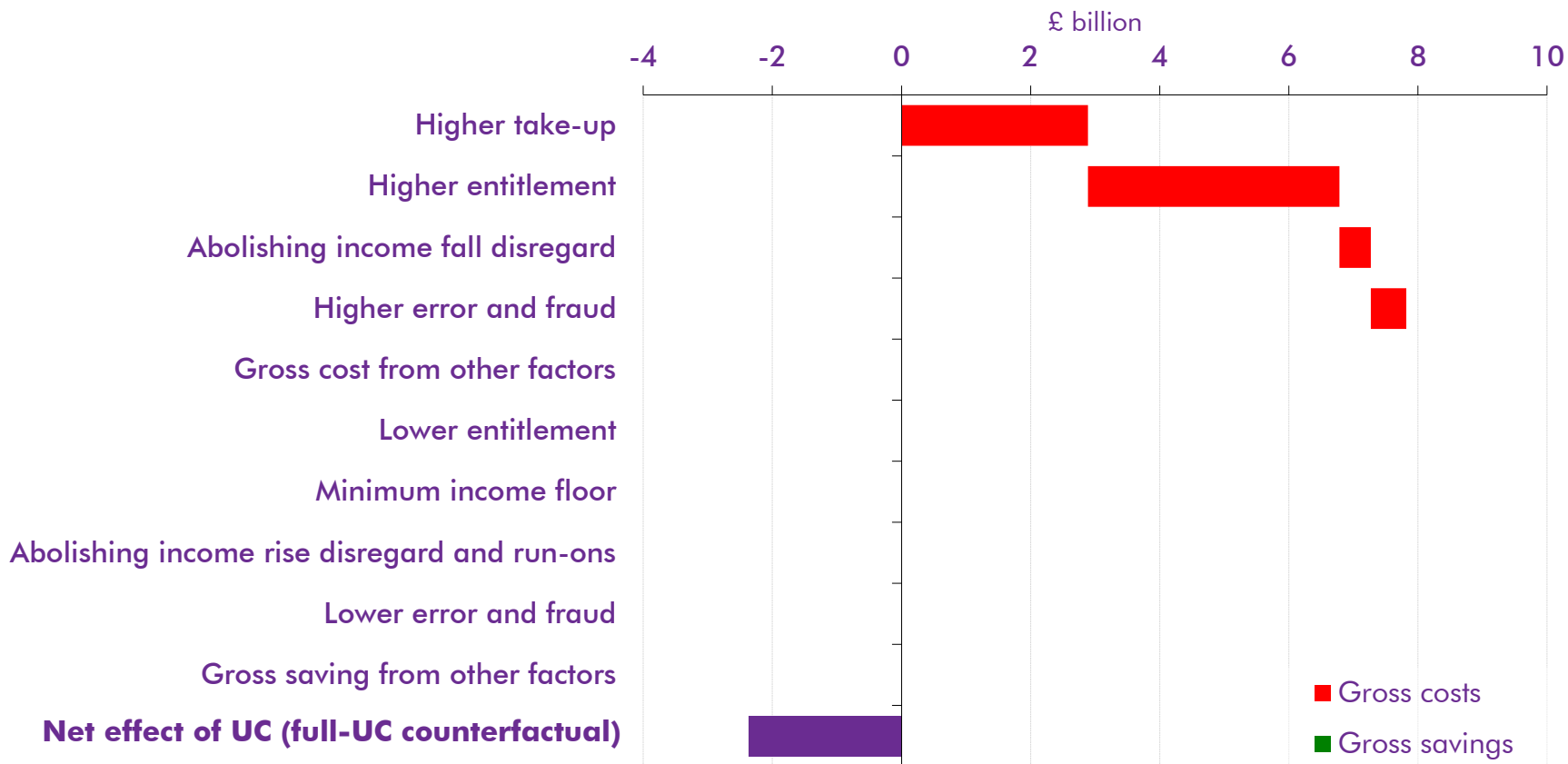
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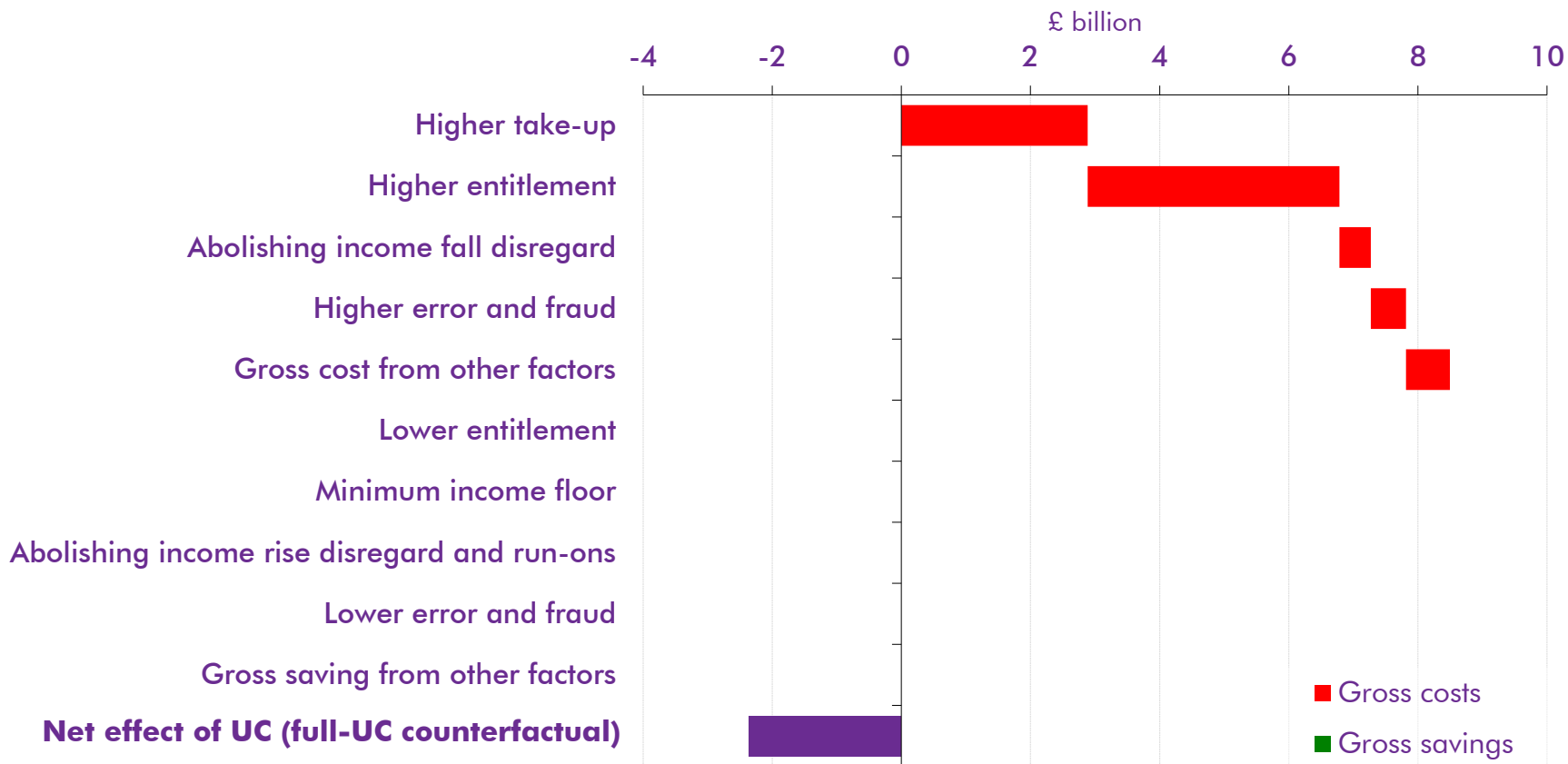
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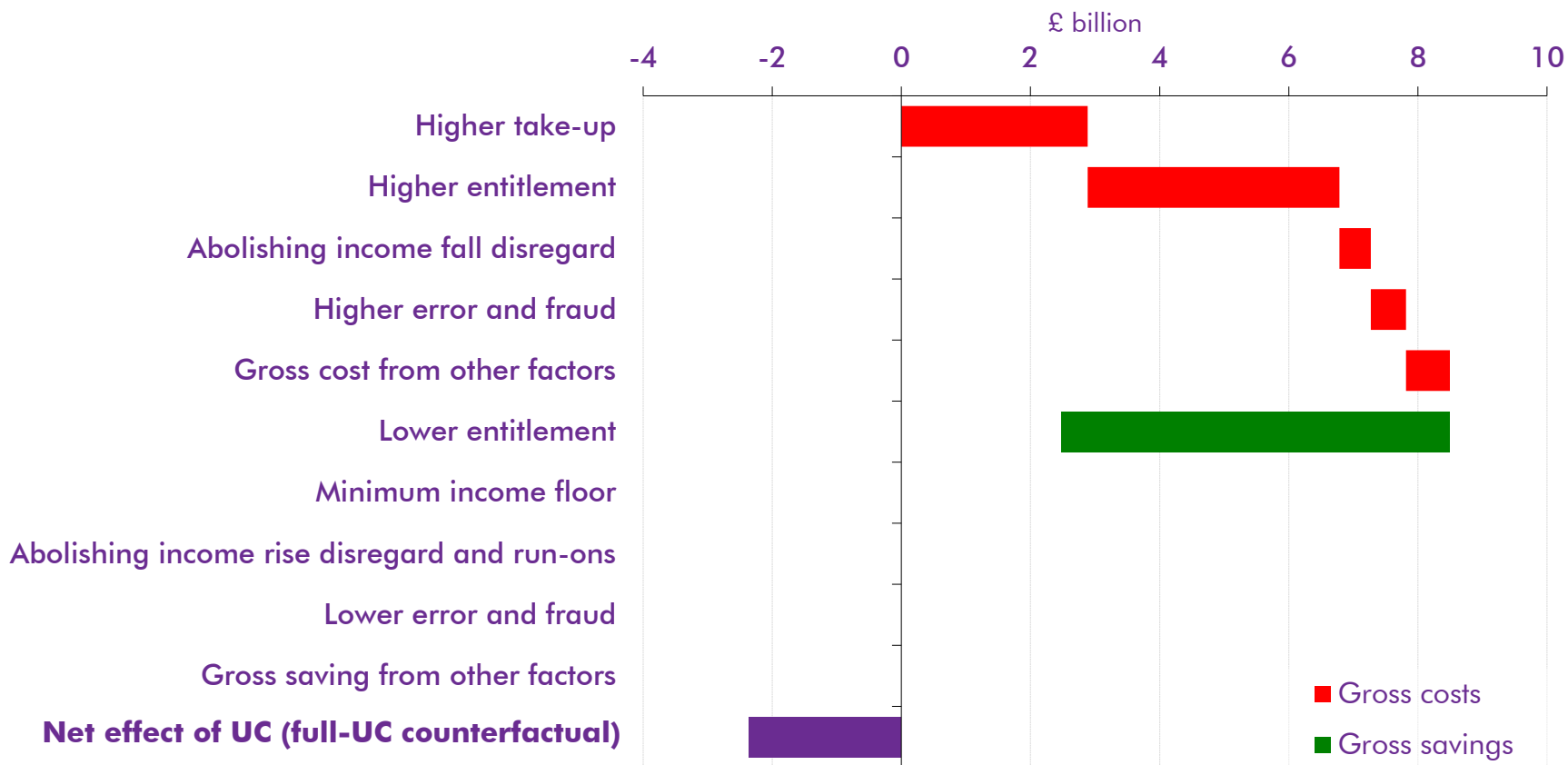
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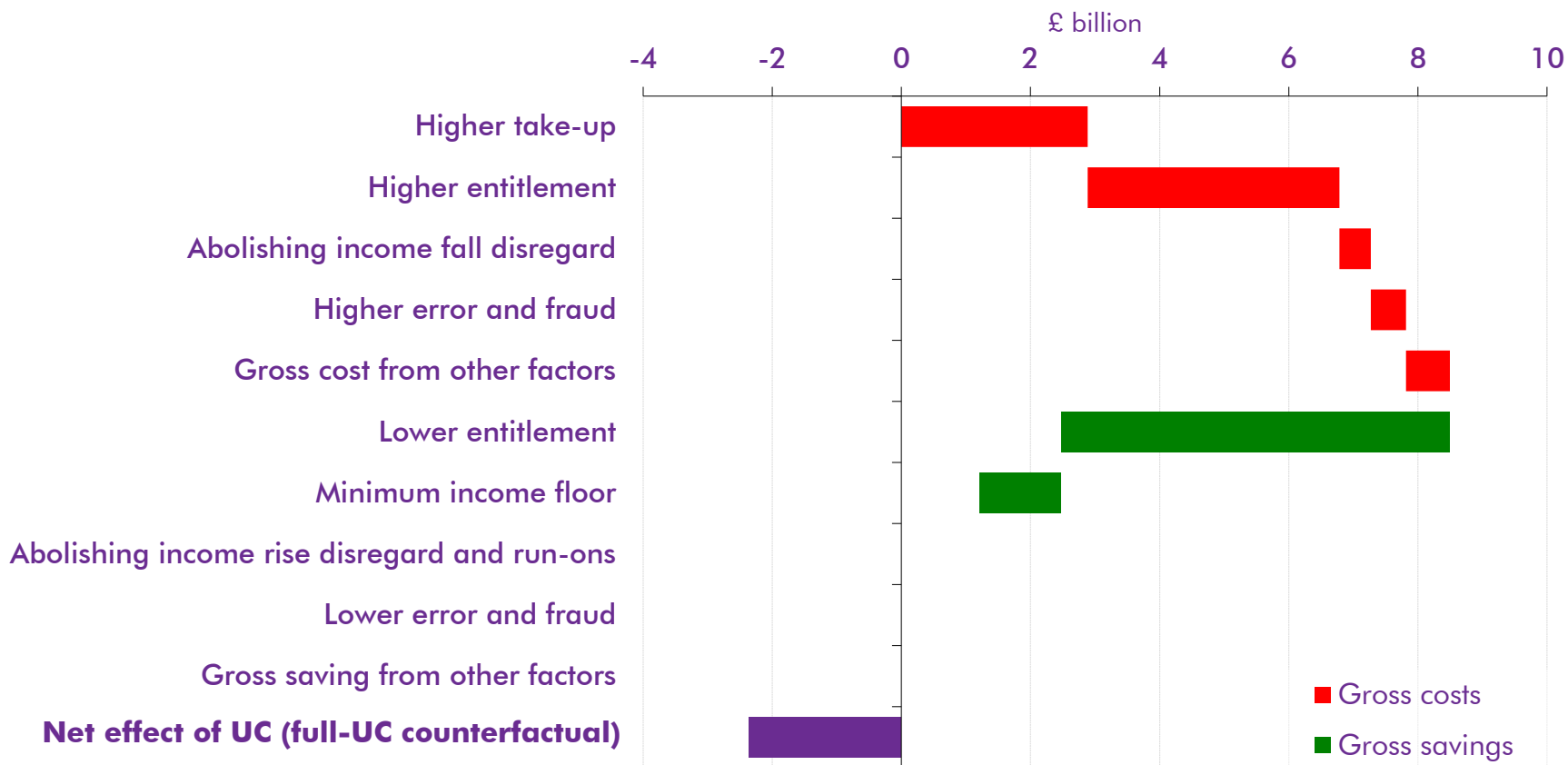
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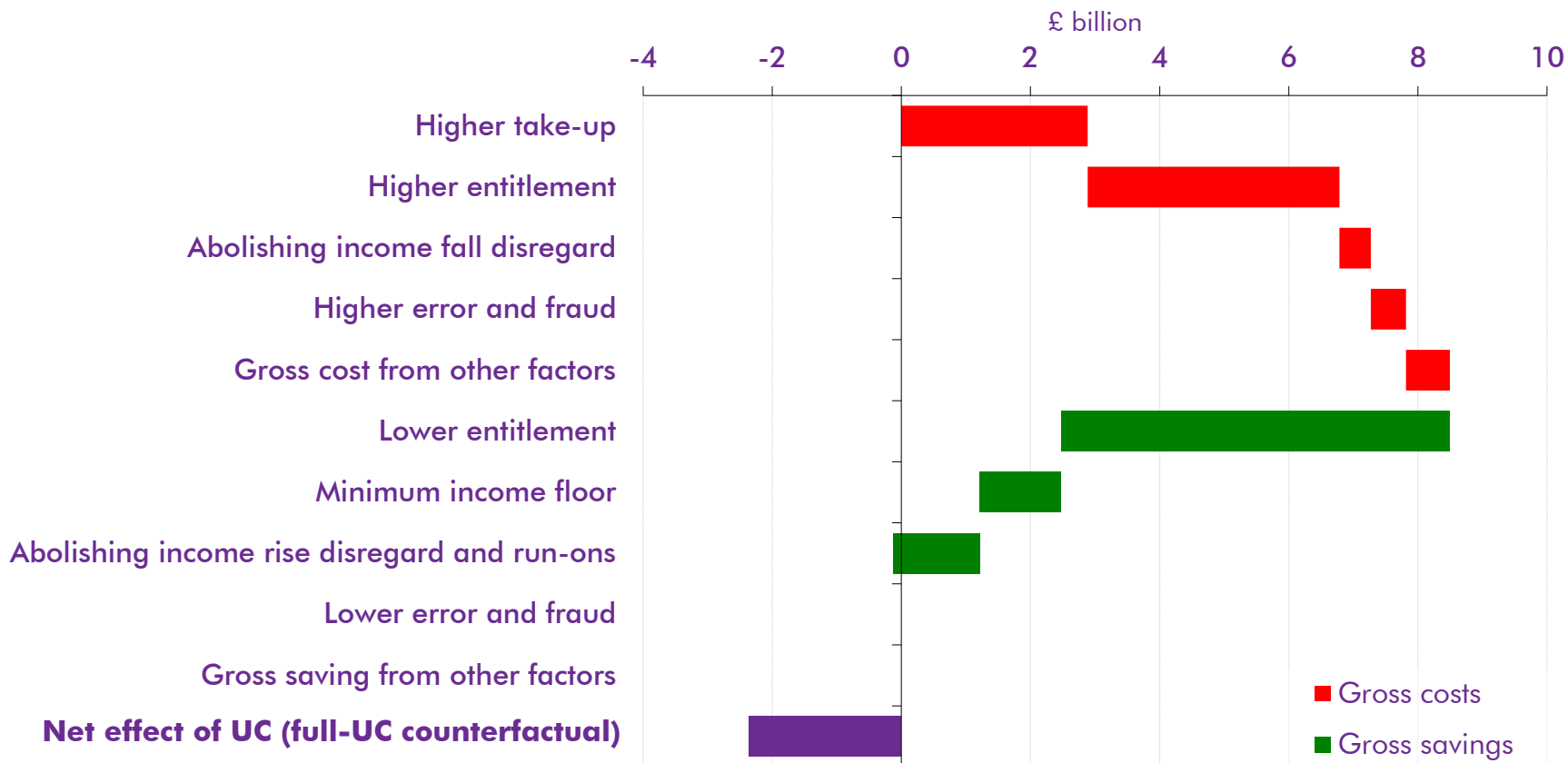


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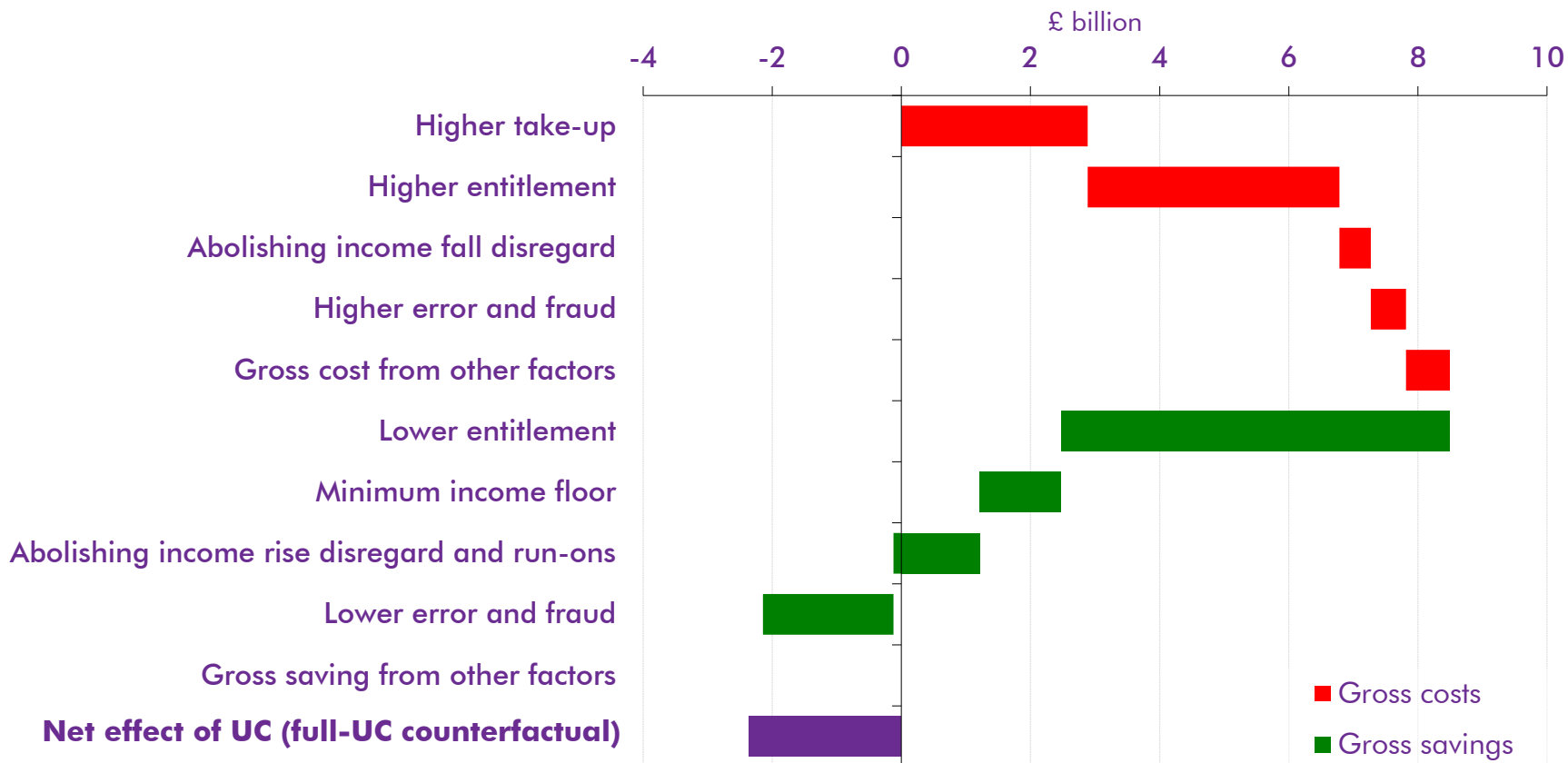
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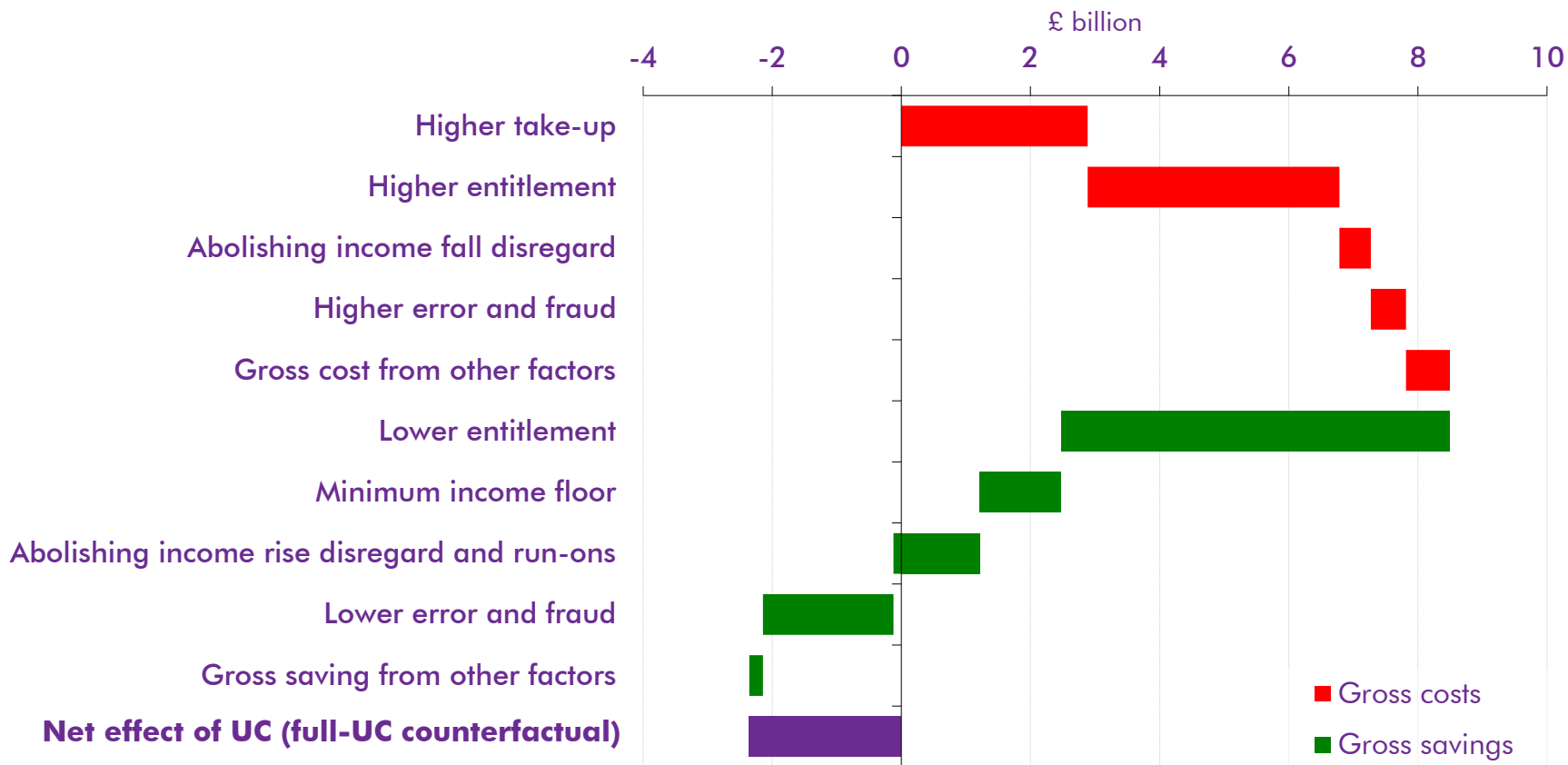
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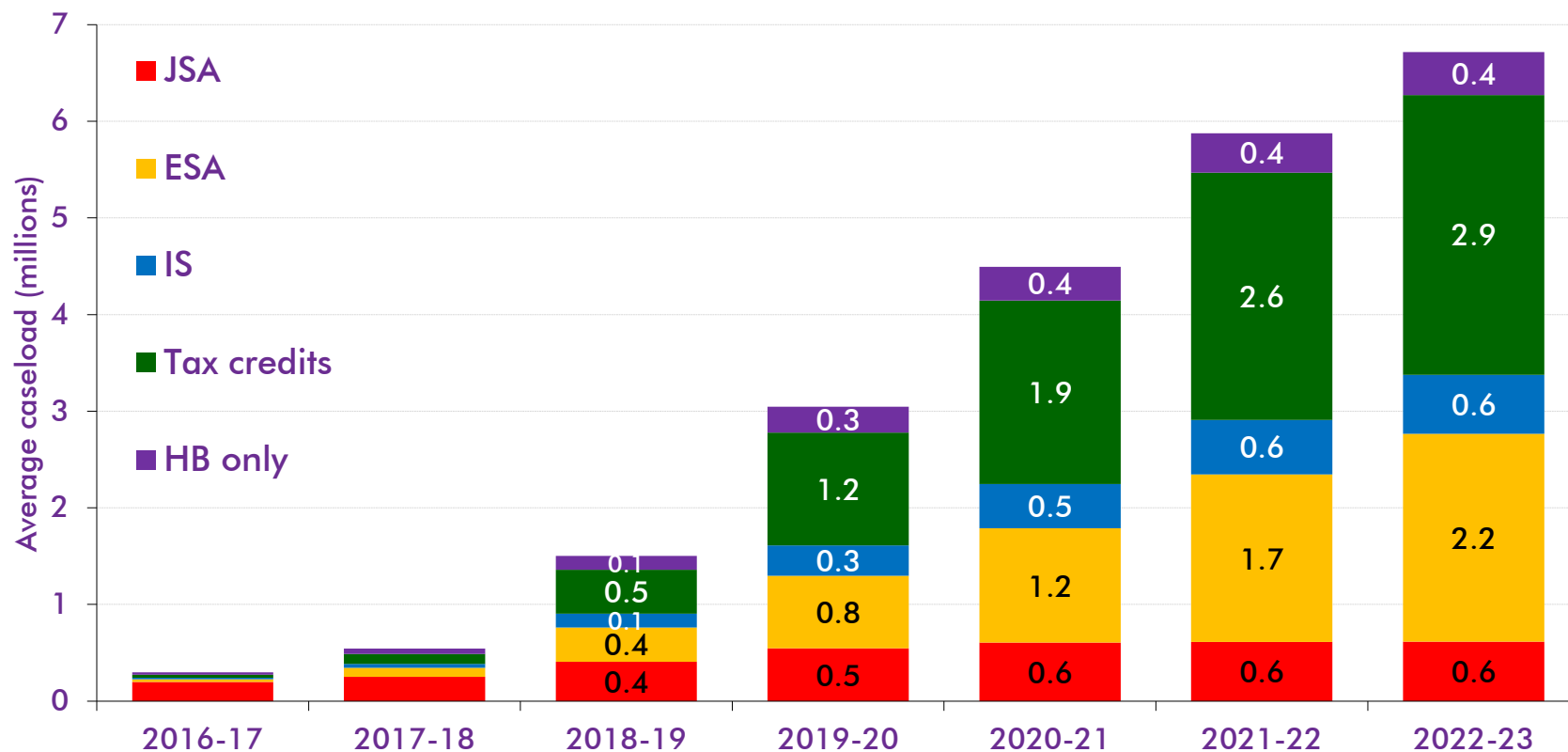
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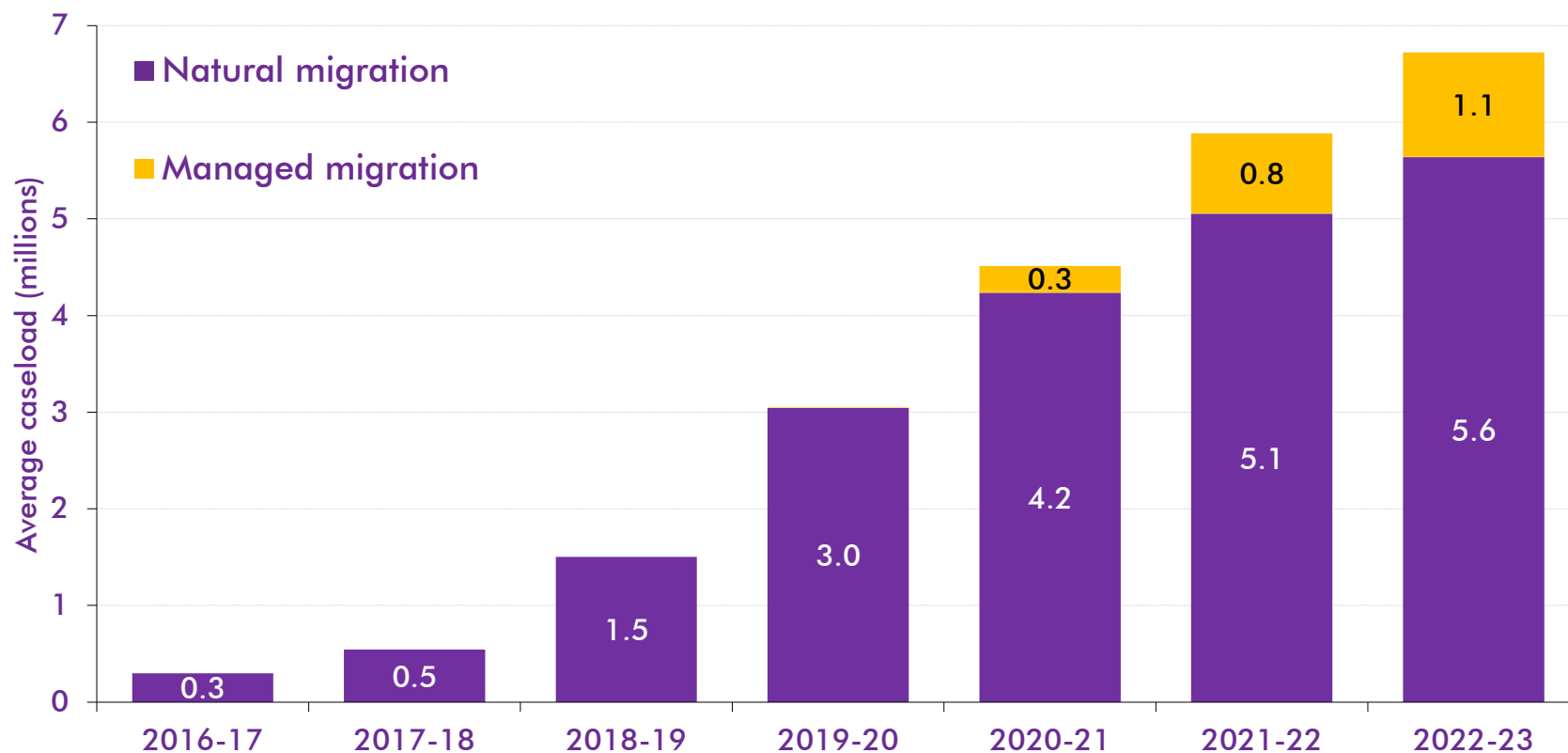
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# The UC caseload forecast



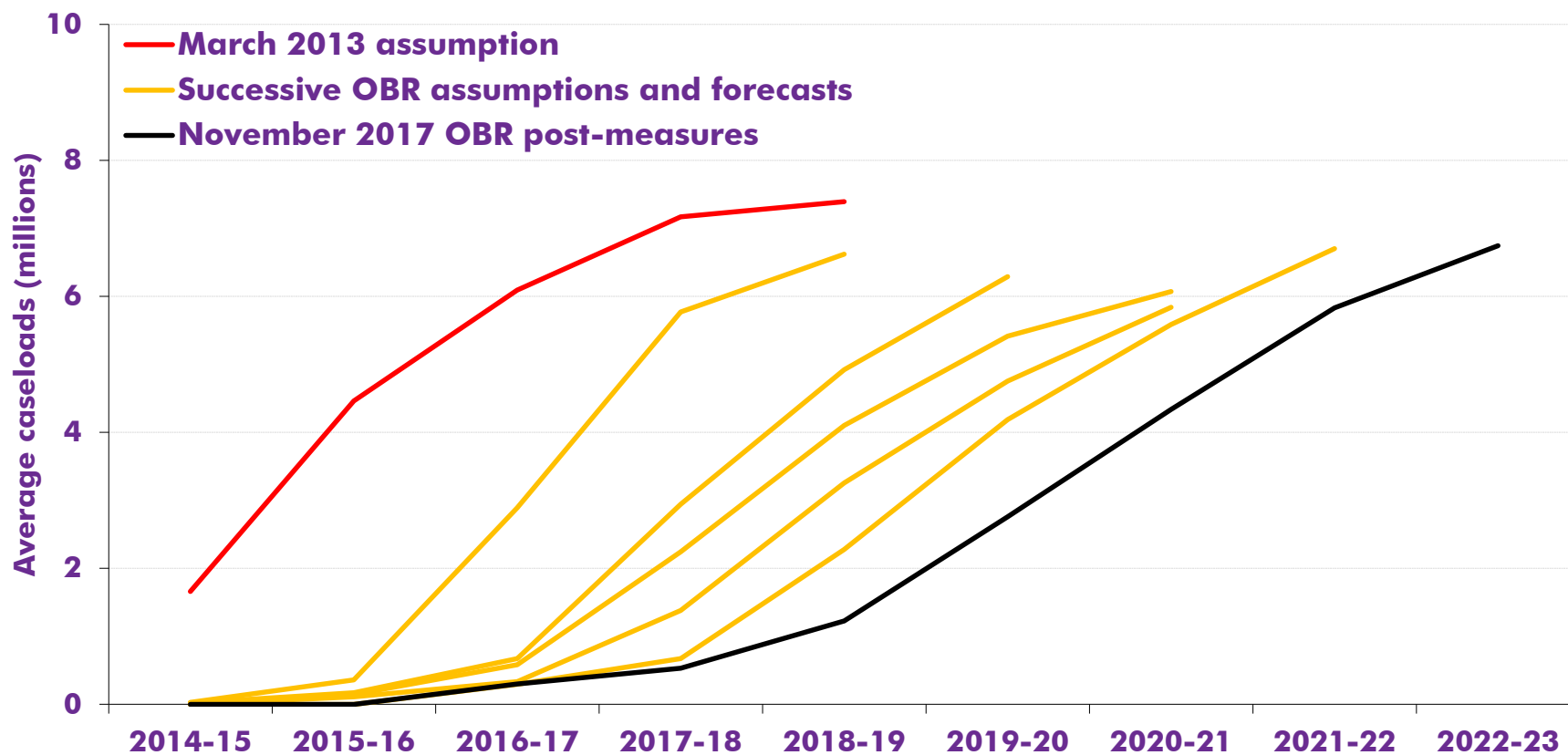
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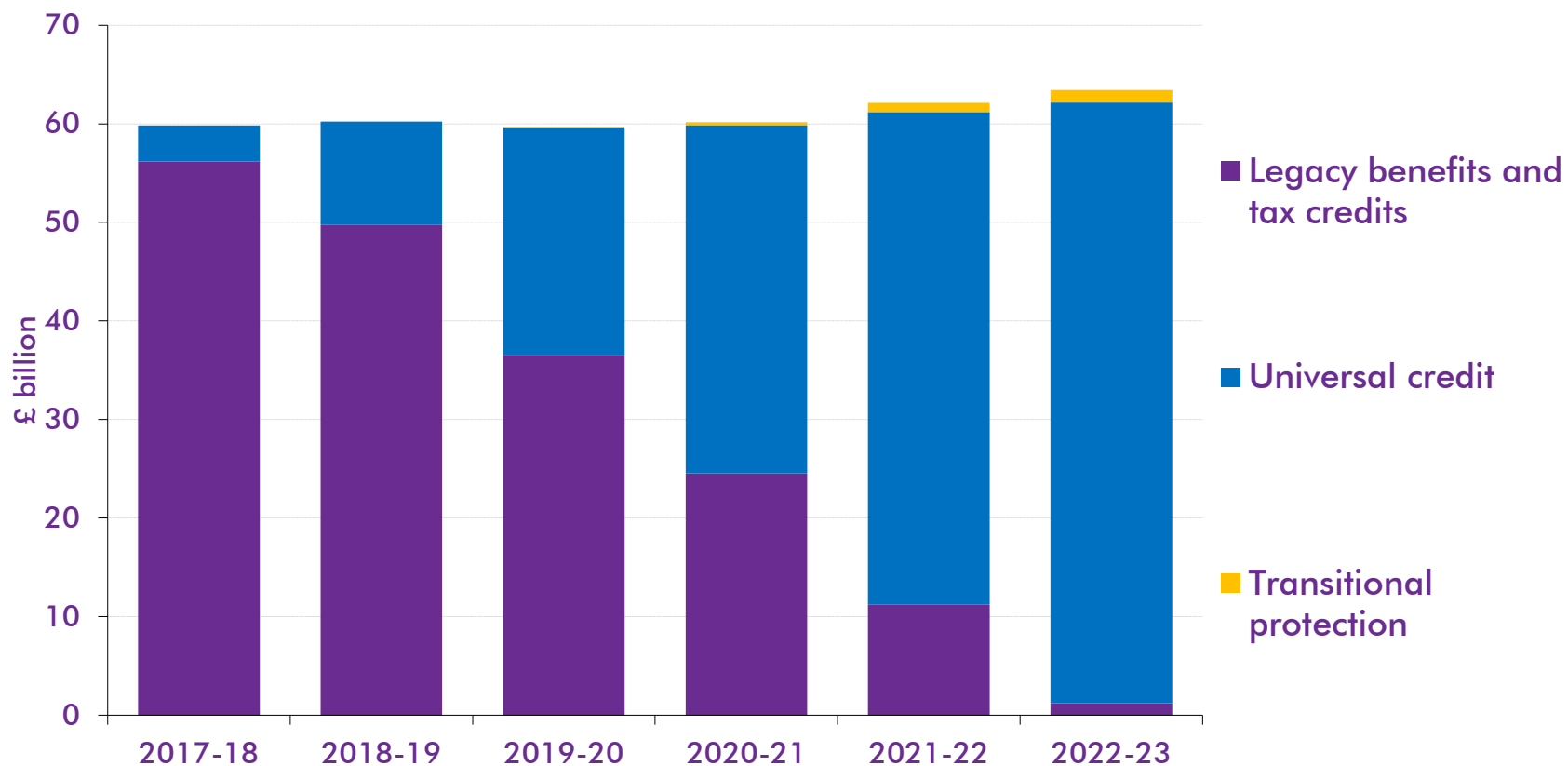
Source: DWP, OBR

# Past UC caseload forecasts



Source: DWP, OBR

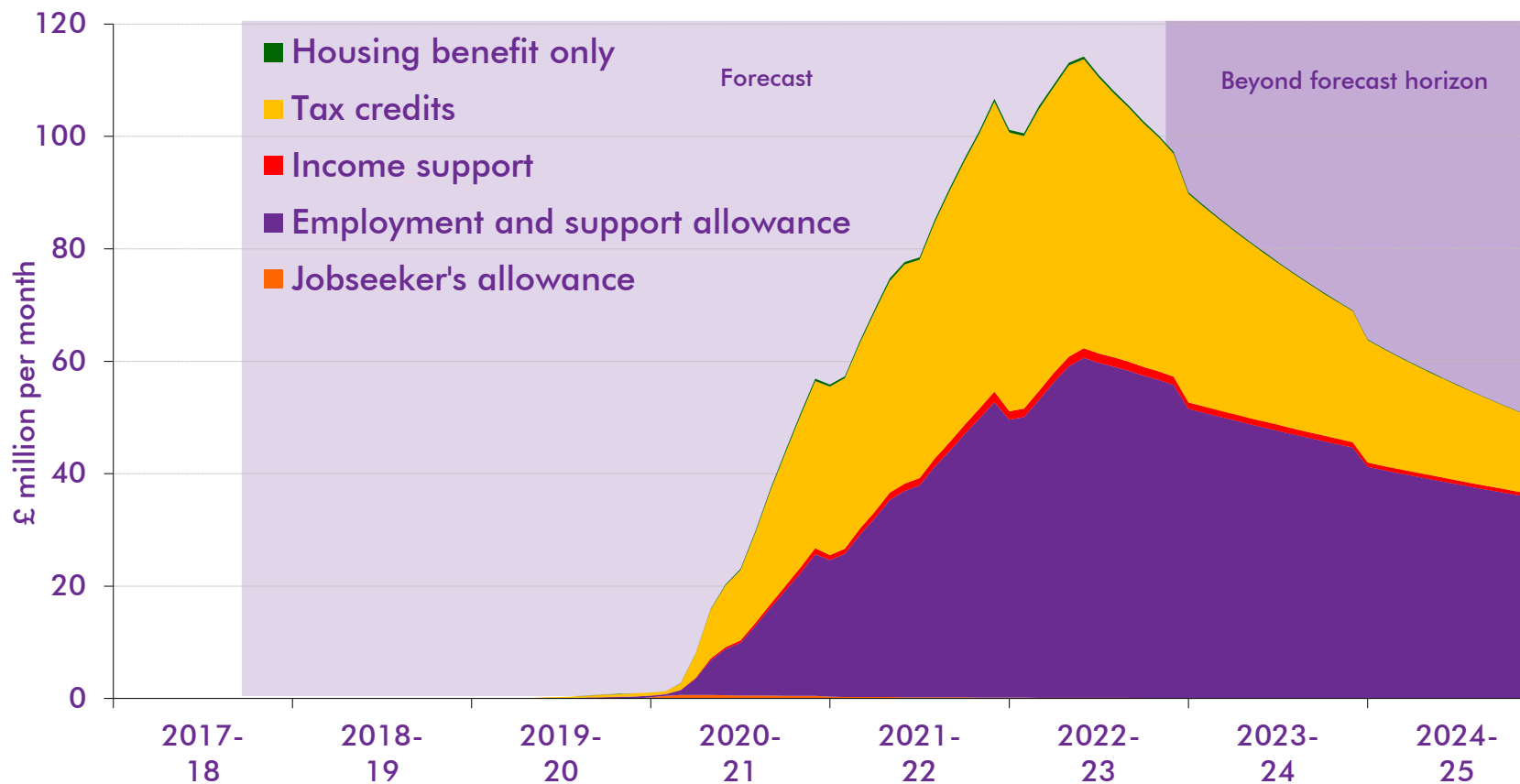
# Actual spending in transition



Source: DWP, OBR



# Cost of transitional protection



Source: DWP, OBR

# Risks and uncertainties

- Underlying forecast risks
- Static modelling risks
- Behavioural responses
- Risk of policy changes

# Underlying forecast risks

- Many affect legacy and UC spending. Some affect them differently
- Structural
  - Potential GDP: earnings growth and employment
  - Proportion of people self-employed
  - Number of renters and social/private split
- Cyclical
  - Unemployment
  - Earnings and inflation
  - National minimum and living wage
  - Rent inflation

# Static modelling risks

- Is the FRS representative when samples small?
- MIF modelling
  - Incomes variable and distribution uncertain
  - Self-employment defined in different ways
  - Work coach discretion in setting MIF
- Hard to adjust for under-reported capital in FRS

# Behavioural modelling risks

- Take-up rate
- Impact of conditionality
- Responses to MIF
- Error and fraud
- Online servicing
- System-learning and legal challenges

# Take-up rates

- Main area where we have adjusted for behaviour
- Assumptions on take-up rates
  - For awards >£4k, all full and partial legacy claimers claim
  - For awards <£4k, some are deterred from claiming
  - 20% of employee and 10% of self-employed non-claimers claim UC, but no unemployed non-claimers do
- What impact from stigma and conditionality?

# Conditionality

- 13,000 work coaches will place people in one of 6 conditionality regimes, from 'intensive work search' to 'working enough'
- Claims can be sanctioned for non-compliance, escalating with severity and repetition
- Appeals procedure similar to legacy system
- Coaches key: demanding role paying £24-26k

# Conditionality

- **Not clear yet**
  - Whether DWP can hire enough good people
  - How they will behave in practice
  - How often their decisions will be challenged
- **Economic impact unclear**
  - What employment will people moved into work get?
  - Will successes displace the work of others?



# Responses to the MIF

- As noted, static effect already hard to estimate
- But MIF will mean big falls in income for some
- Will they
  - Become unemployed or low-wage employees, raising spending?
  - Raise self-employed earnings or not claim, cutting spending?

# Error and fraud

- Current approach static: map from legacy rates
- Large awards and big changes could increase E&F
- But specific features designed to reduce it
- Uncertainties include
  - Will HMRC and DWP 'real time information' IT work?
  - How many E&F cases will be processed?
  - How many over / underpayments will be corrected?

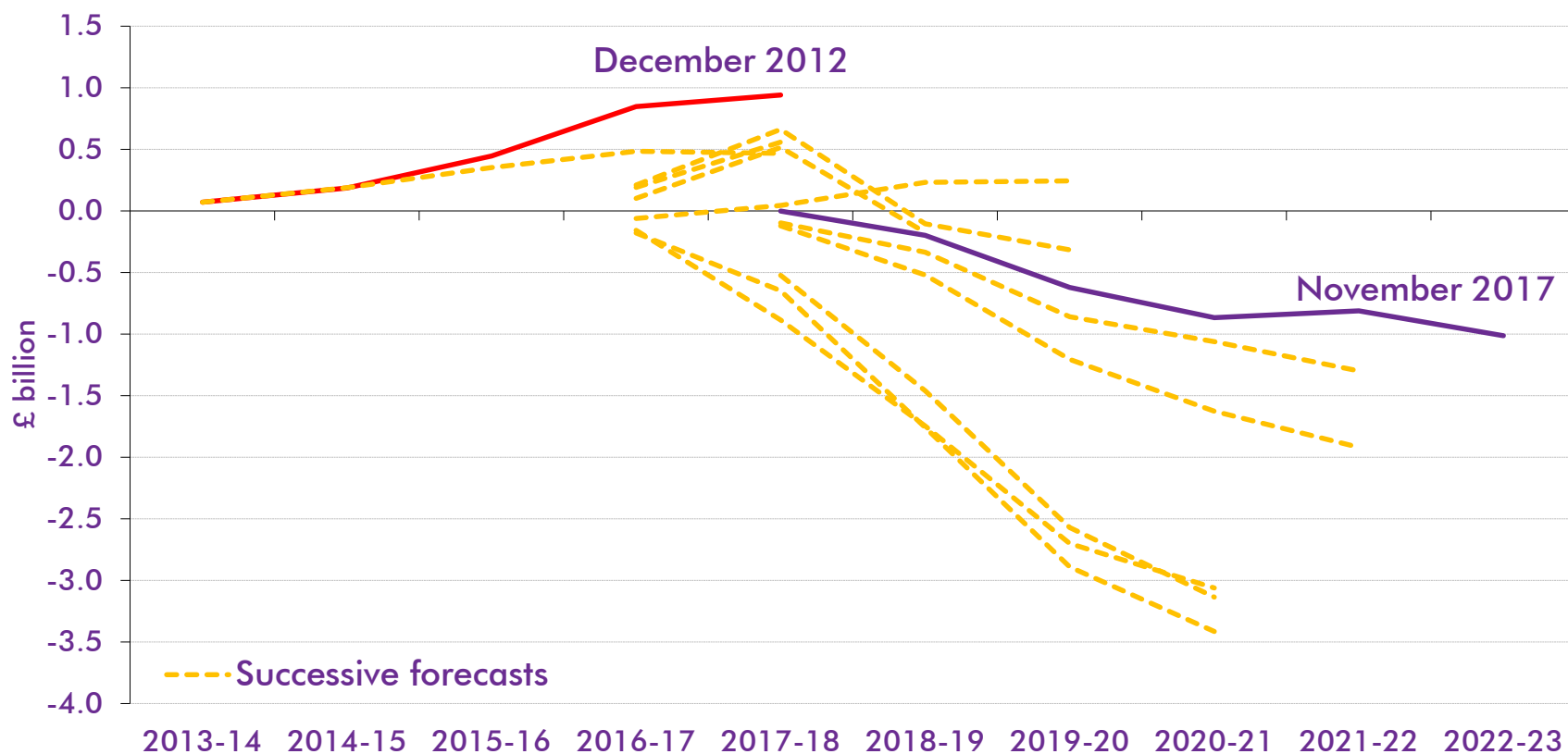
# Other behavioural response risks

- **Online service**
  - Review accounts and report changes online
  - Ease of reporting versus face-to-face prompting
  - Cyber-attacks and less effective verification of info
- **System-learning**
  - Websites advising how to navigate the system
- **Legal challenges**
  - Like challenges to PIP guidance interpretation

# Policy risks

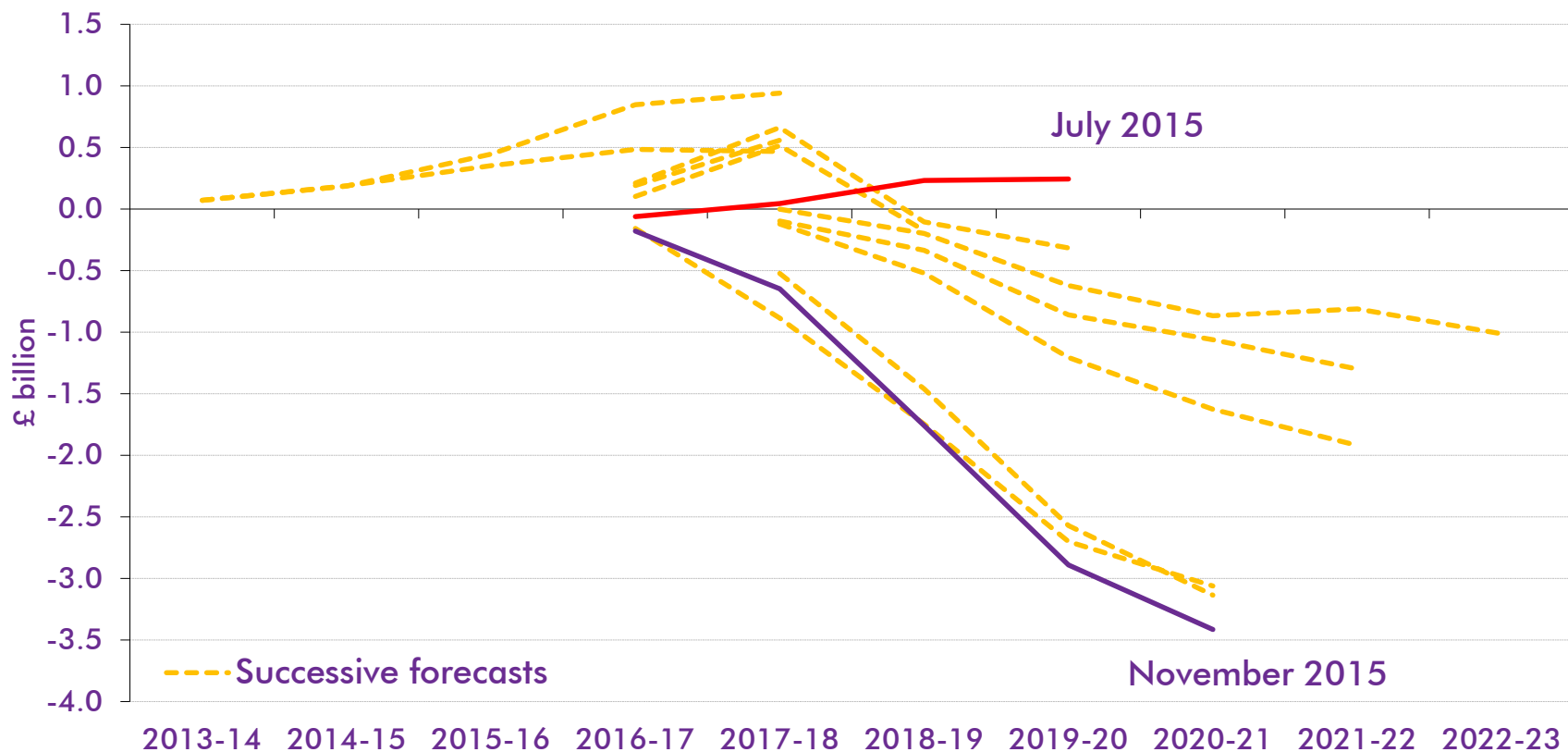
- We have to forecast on current policy
- Not for us to predict, but policy can change and has done
- Policy design may change, perhaps delaying roll-out especially if it requires IT updates
- Government may face pressure to limit losses
  - Note recent reverses on tax and welfare policies affecting the self-employed, disabled people and tax credit recipients

# Marginal spending impact of UC



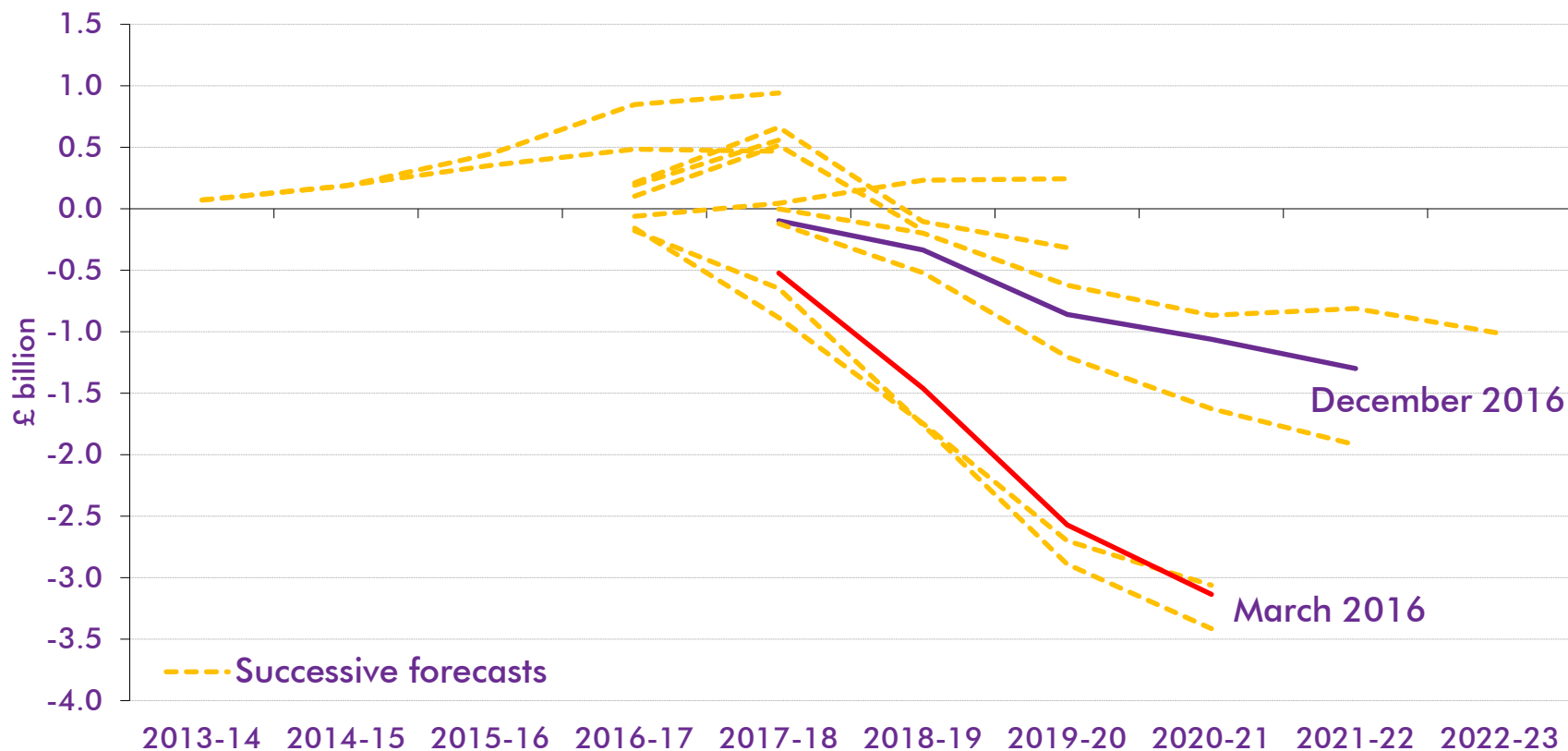
Source: OBR

# Marginal spending impact of UC



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# Economic impact: evidence to date

- UC will alter financial and non-financial incentives
- DWP foresees 250k+ employment boost (October 2017)
  - 150k financial incentives, 50k conditionality, 60k simplicity/smoothness
- DWP study of UC impact versus JSA in 2014-2015
  - Higher and longer employment; marginally higher earnings; *“additional work probably involves relatively few hours at relatively low wages”*
- Suggests modest impact on GDP and tax receipts
- No top-level adjustment to our forecast yet
  - Will impact from simple cases carry through to complex ones?
  - Will resources and operational decisions change as UC scales up?



# Conclusions

- **Fiscally significant**
- **Complicated to deliver and forecast**
- **Small net saving masks bigger gross costs and savings**
- **Large costs and savings for some groups**
- **Uncertain, so risk for public spending control**