An OBR guide to welfare spending

Office for **Budget Responsibility**

THE independent Office for Budget Responsibility (OBR) was established in 2010 to monitor the public sector's finances. Twice a year – alongside each Budget and Autumn Statement – we produce detailed forecasts for the coming five years, assessing the likely impact of policy decisions and expected developments in the economy. We then use these forecasts to assess the Government's performance against the fiscal targets that it has set itself for the management of the public finances.

In scrutinising the outlook for public spending, an important component is spending on social security benefits and tax credits – cash payments that governments make to individuals or families with lower incomes and/or specific needs. In 2015-16, the UK Government spent £216 billion on these payments, equivalent to 29 per cent of total public spending and 11 per cent of national income. The Government has set a 'welfare cap' on some of this spending, with which the OBR has been asked to assess compliance.

There are two parts to this guide.

- First, we present an overview of total UK spending on social security benefits and tax credits, which looks at how much is spent, what it is spent on, and which factors have caused this to change in the past and are expected to cause it to change in the future.
- Second, we look at each line of social security and tax credits spending in turn, addressing similar questions of how much is spent, how that has evolved over time and what we expect to happen over the next five years. We end by looking at universal credit, which is expected to change the welfare spending landscape

over the coming years as it replaces six existing benefits and tax credits with a single payment.

Parliament has asked us to focus on how much the Government spends, not on how well it spends it. So we do not discuss how benefits and tax credits affect the distribution of income or measures of living standards and poverty – important though those issues are. The figures presented here are consistent with our November 2016 forecast, covering the five fiscal years up to 2021-22. Each fiscal year runs from April to March.

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Overview

What counts as welfare spending?

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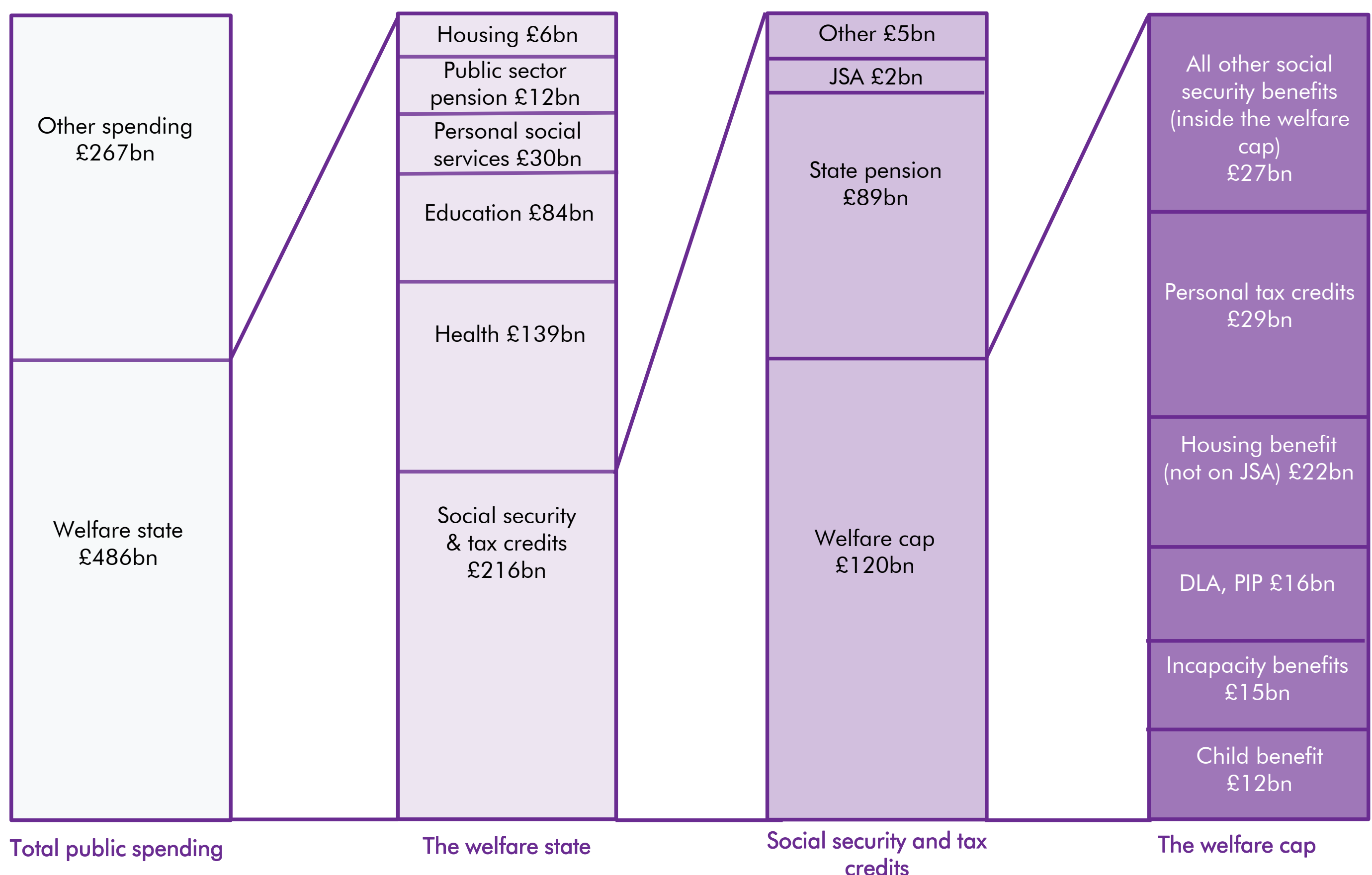
THE UK public sector is estimated to have spent a total of £753 billion in 2015-16 (equivalent to 40 per cent of GDP). Within this total it spent around £486 billion (about 26 per cent of GDP) on the 'welfare state', broadly defined, including health, education, social services, public service pensions and housing, as well as social security and tax credits. Most of the remainder went on other public services (e.g. defence and transport) and interest payments on government debt.

Welfare spending in the UK in 2015-16



Social security and tax credits spending amounted to £216 billion (11 per cent of GDP or around £8,000 per household). We refer to this as 'welfare spending' for short in our forecasts and in the rest of this guide. The Government's welfare cap excludes spending on the state pension and those benefits linked most closely to the ups and downs of the economy. Spending subject to the cap totalled £120 billion in 2015-16 (6 per cent of GDP).

Next: What is welfare spending spent on?

What is welfare spending spent on?

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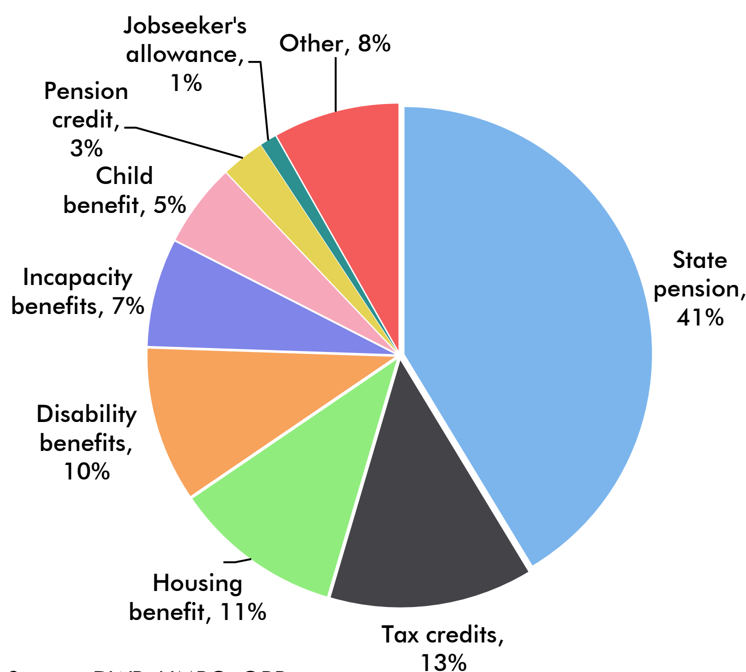
AT any one time over half of all families receive income from at least one benefit in the welfare system – and most people will receive one or more welfare payments for well over a third of their lives (including child benefit when young and the state pension when retired).

Of the £216 billion spent on welfare payments in 2015-16, around 55 per cent was paid to pensioners, with **state pensions** the largest single item at £89 billion. **Personal tax credits** – mostly for families with children – cost £29 billion and **housing benefit** – three quarters of which is paid to people of working age – cost £24 billion. Together these payments made up around two-thirds of all welfare spending.

Disability and incapacity-related benefits accounted for a further 10 and 7 per cent of welfare spending respectively, followed by **child benefit** (payable for most children from 0 to 18 years of age) at 5 per cent. Pension credit made up a further 3 per cent of welfare spending.

Chart 1: Breakdown of welfare spending in the UK (2015-16)



Source: DWP, HMRC, OBR

Despite its relatively high profile, spending on **jobseeker's allowance** – paid to those who are unemployed and meet certain criteria – accounted for only £2 billion or a little over 1 per cent of total welfare spending.

The remaining 8 per cent of welfare spending included spending on a range of benefits in Northern Ireland, which are administered separately, and a number of smaller benefits including carer's allowance, statutory maternity pay, income support and winter fuel payments.

Next: What drives welfare spending?

What drives welfare spending?

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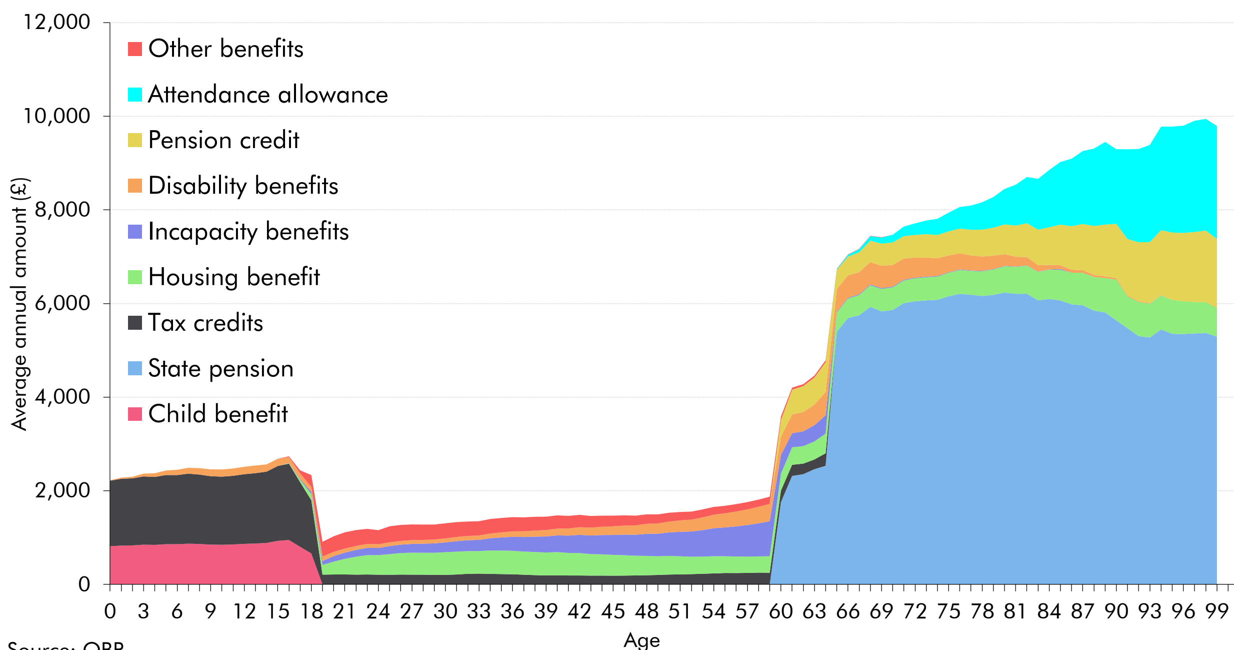
WELFARE spending is driven by factors that affect the number of people receiving each welfare payment (the 'caseload') and the average amount paid to each recipient (the 'average award'). In addition to the basic decisions that governments take about eligibility criteria and the generosity of each type of payment, factors influencing welfare costs include:

- **Demographic and economic trends.** Overall welfare spending per person is higher at both younger and (particularly) older ages. State pension spending has been pushed higher by the ageing of the population (which has raised the proportion of adults over the state pension age), and an increase in the proportion of women working (which has increased the number of people eligible for the full pension). The cost of unemployment benefits rises and falls with the ups and downs of the economy. Recent growth in the share of the population renting rather than owning their home has increased the housing benefit caseload, while the shift from the social- to the private-rented sector has raised the cost per claimant due to higher rents paid. Most importantly for the system as a whole, changes in inflation typically feed through to the uprating of most welfare payments. If inflation is higher than earnings growth, the welfare bill will tend to rise relative to national income. (This can be offset by government policy decisions, as has been the case in recent years for most working-age welfare payments);

Chart 2: Average spending on benefits and tax credits at different ages in 2010-11



Source: OBR

Next: Recent trends in welfare spending

- **Major reforms to the welfare system.** These often lead to unexpected changes in spending. For example, the cost of tax credits rose faster than expected in the mid-2000s, as earnings grew more slowly for tax credits recipients than in the wider economy, and as childcare costs increased significantly. Reforms to unemployment benefits in the second half of the 1980s, designed to reduce their cost after the recession of the early 1980s, pushed the incapacity benefits caseload up sharply. This prompted major reform of incapacity benefits in 1995;
- **Changes in take-up rates** – the proportion of people eligible for a benefit who claim it. The introduction of pension credit in 2003 was accompanied by a campaign to raise take-up; the caseload increased by more than 50 per cent between 2002-03 and 2005-06. Similarly, benefit take-up among low-income families with children increased from around 60 per cent for the family income supplement to 90 per cent for the current system of tax credits; and
- **Wider public policy decisions**. For example, lower spending on social housing may have put upward pressure on the housing benefit bill, by increasing the proportion of recipients paying higher rents in the private-rented sector.

Next: Recent trends in welfare spending

Recent trends in welfare spending

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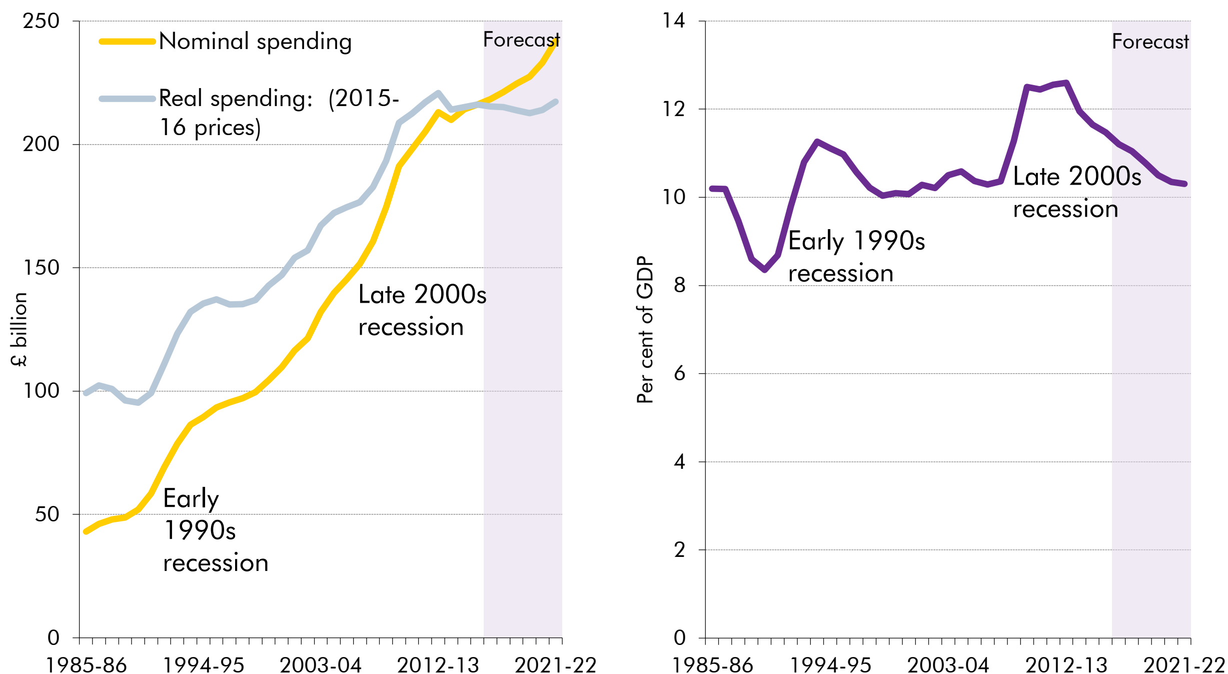
WELFARE spending has increased fourfold in cash terms over the past 30 years and has more than doubled in real terms, after adjusting for inflation. But, as a share of national income, there has been no clear trend. Our estimate of welfare spending fluctuates with the ups and downs of the economy, averaging just over 11 per cent of GDP over the period. It climbed to over 12 per cent of GDP after the late 2000s recession – a smaller increase than in the early 1990s – but has been falling since 2012-13 and is forecast to continue falling over the next five years.

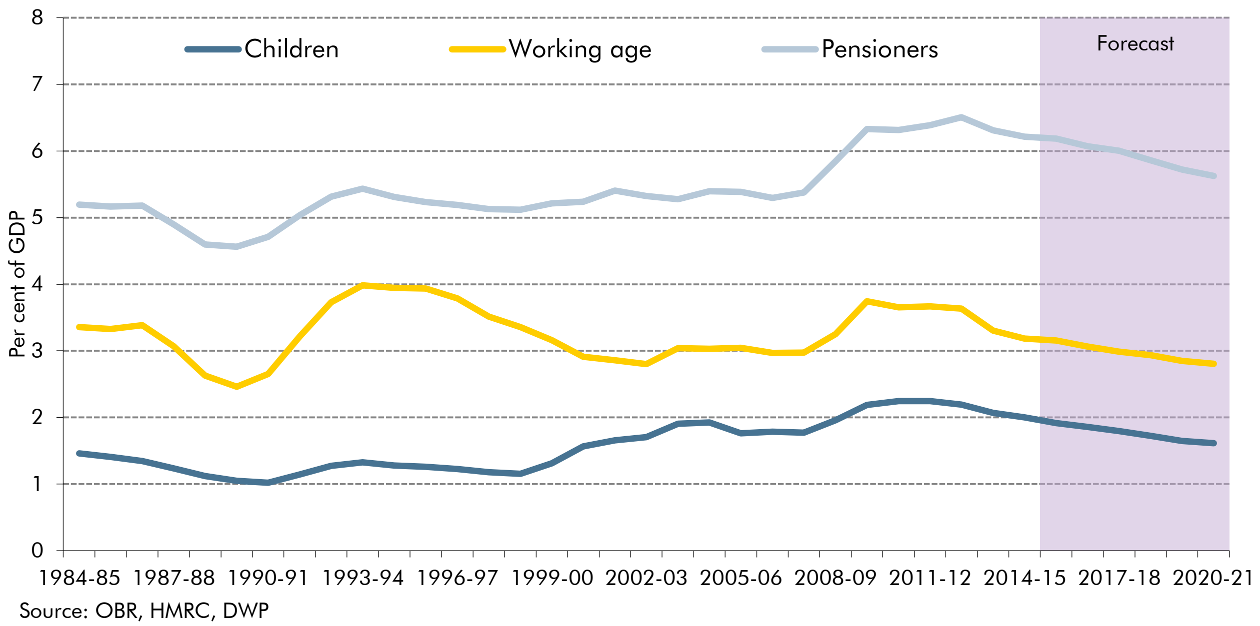
Chart 3: Total welfare spending



Source: DWP, ONS, OBR

Spending on all age groups fell as a share of national income through the boom of the late 1980s, but then increased in the recessions of the early 1990s and late 2000s. Spending on working-age recipients appears to have been the most cyclical, reflecting the link with unemployment. Spending on pensioners went through a long period of relative stability prior to the last recession before rising relatively sharply during it, while spending on children saw a marked rise in the 2000s. Spending on each group is forecast to fall as a share of national income over the next five years.

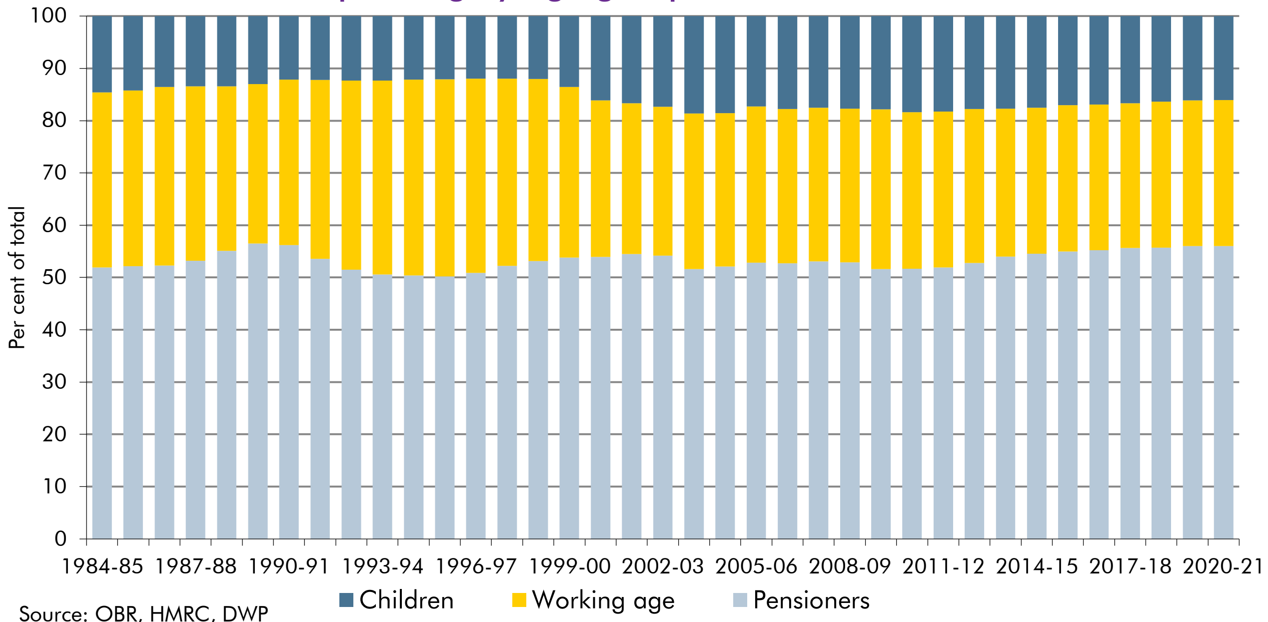
Chart 4: Welfare spending by age group



Source: OBR, HMRC, DWP

Looking just at the proportion of welfare spending going to each group, the mix tilted first towards pensioners from the mid-1980s (up 5 percentage points), before tilting back towards working-age people through the early 1990s recession (up 8 percentage points). Spending then shifted towards children from 1997-98 to 2010-11 (up 6 percentage points), and finally back towards pensioners and away from working-age people since 2010-11 (by 3 percentage points by 2015-16, with a further 2 percentage point shift towards pensioners forecast in the next six years). The 57 per cent of welfare spending expected to go to pensioners in 2021-22 would be the highest proportion in at least 35 years.

Chart 5: Welfare spending by age group

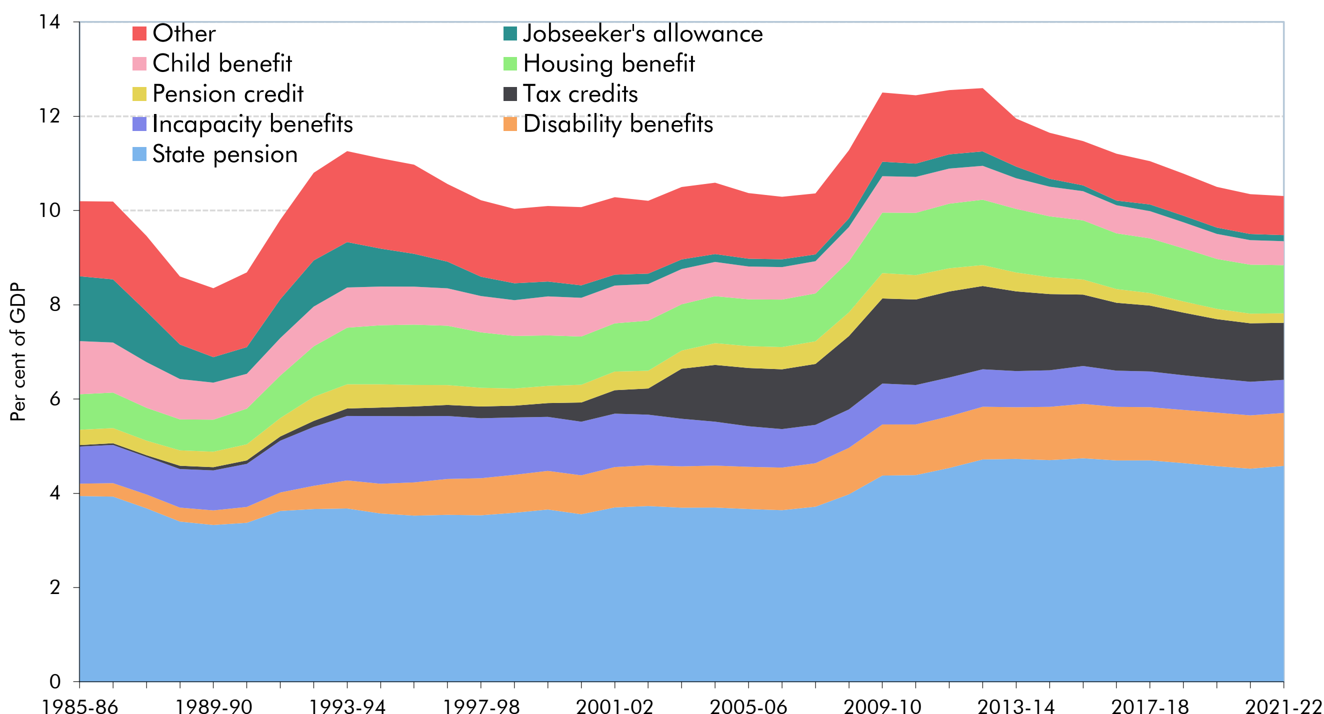


Source: OBR, HMRC, DWP

In terms of the breakdown of welfare spending as a share of national income on specific benefits:

- **During the 1980s and early 1990s**, spending fluctuated with the economic cycle, with spending on unemployment and incapacity benefits falling then rising. Spending on state pensions also fluctuated as the uprating of awards varied relative to the strength of average earnings growth;
- **From 1997-98 to the late 2000s recession**, spending on tax credits increased significantly as they absorbed other benefits (such as the child allowances previously paid with income support and jobseeker's allowance) and were used to reduce child poverty. There was also a flow of people away from unemployment benefits and onto disability benefits, reducing the cost of the former and increasing the cost of the latter. The share of GDP spent on state pensions and child benefit fell, as they were generally uprated by inflation at a time when prices were rising less quickly than average earnings and national income; and
- The welfare bill jumped **between 2007-08 and 2012-13** during the last recession and the start of the recovery. Uprating the state pension and tax credits in line with – or by more than – inflation protected their purchasing power while increasing their generosity relative to both earnings and the size of the economy. Higher unemployment and weak earnings growth increased the number of people claiming jobseeker's allowance and housing benefit.

Chart 6: Welfare spending by type of benefit



Source: OBR, HMRC, DWP

We expect spending on most welfare payments to fall as a share of national income on current policy, with tax credits falling proportionally the most and disability benefits the least (as described in the next section). We expect spending on jobseeker's allowance to increase fractionally as a share of national income.

The outlook for welfare spending

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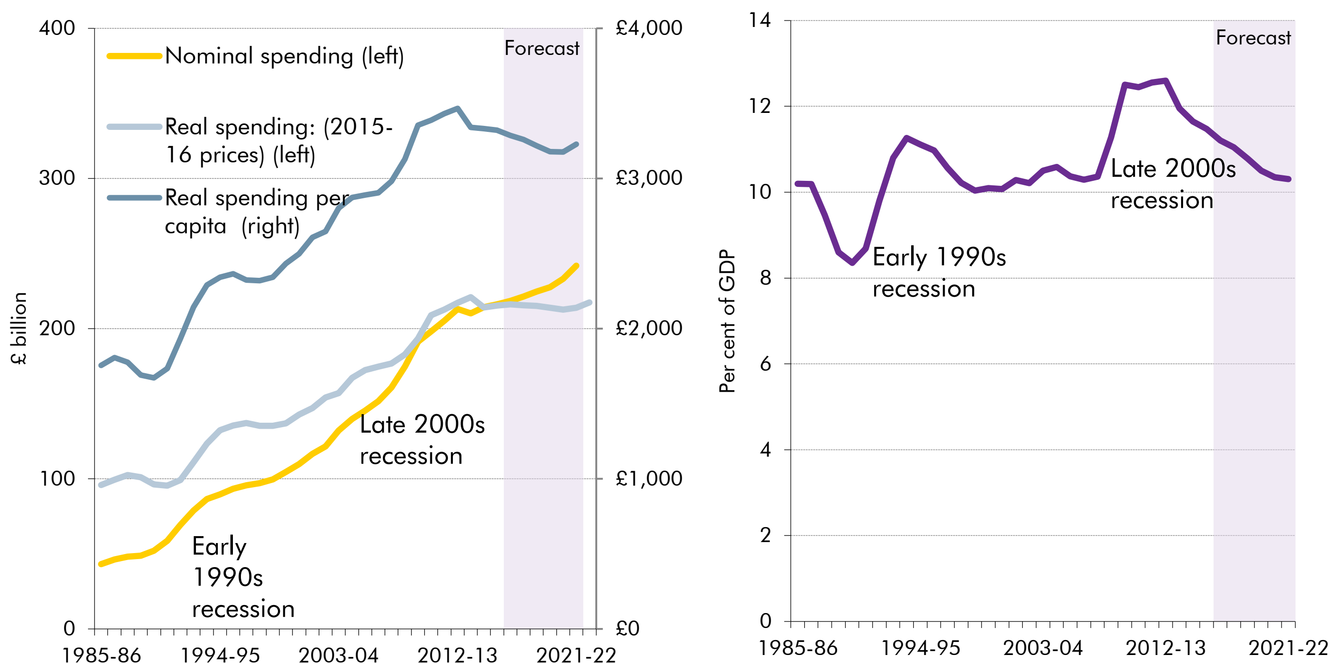
OVER the next five years spending on welfare is forecast to rise 11 per cent in nominal terms and 1 per cent in real terms but fall 2 per cent in terms of real spending per capita. Our preferred measure – spending as a share of GDP – is expected to fall 0.9 percentage points. The last time welfare spending fell by that much over a five-year period was in the late 1990s.

Chart 7: Total welfare spending



Source: DWP, ONS, OBR

This 0.9 per cent of GDP fall is driven by reduced spending on tax credits and housing benefit (0.2 percentage points each) and state pensions (0.1 percentage points) and smaller falls across other items. The fall in spending on the state pension partly reflects the rising state pension age – which offsets the effect of uprating the state pension by the comparatively generous 'triple lock' (the higher of wage growth, inflation and 2.5 per cent).

The majority of these falls in spending are the result of policy changes announced in four statements to Parliament. Three took place in the 2010-2015 Parliament:

- the post-election **June Budget 2010**, when the Coalition Government announced measures that were expected to reduce welfare spending by around £9 billion in 2014-15, the bulk of which came from switching the uprating of most working-age benefits and tax credits from RPI or Rossi to the lower CPI measure of inflation;

freezing the uprating of child benefit for three years; and reforms to tax credits, housing benefit and disability benefits;

- **Spending Review 2010**, in which measures were expected to reduce welfare spending by around £7 billion in 2014-15, mainly from withdrawing child benefit from higher-income families, limiting contributory employment support allowance claims to one year; and further tax credits reforms; and
- **Autumn Statement 2012**, in which measures were expected to reduce welfare spending by around £4.5 billion in 2017-18, driven largely by a three-year cap of 1 per cent on the uprating of most working-age benefits.

In the **Summer Budget 2015** at the beginning of this Parliament, the new Conservative Government announced a range of policy measures that were expected to reduce welfare spending (mostly for working-age recipients) by around £12 billion in 2019-20 – the year in which it was aiming to secure a budget surplus. Two measures to cut spending on tax credits were reversed in the November 2015 Autumn Statement, reducing savings by around £3 billion in the short term, but only around £0.5 billion by 2020-21 when most tax credits recipients will have moved to universal credit (UC), which is now less generous following cuts announced in July 2015. While the 'pay to stay' housing policy was also reversed in the November 2016 Autumn Statement the overwhelming majority of the £12 billion worth of cuts remain in place.

The main sources of the remaining cuts include:

- the **four-year freeze in the uprating of most working-age benefits** from 2016-17 to 2019-20, estimated at the time to save £3.9 billion by 2019-20;
- the **cut in UC work allowances**, estimated at the time to save £2.9 billion in 2019-20;
- limiting the **child element to 2 children and removing the family element/premium for flows into tax credits, UC and housing benefit**, estimated at the time to save £1.6 billion in 2019-20; and
- **policies that result in cuts to housing benefit announced in July 2015** – reducing social sector rents by 1 per cent a year for four years, estimated in July 2015 to save £1.9 billion in 2019-20.

We also expect spending on disability benefits and incapacity benefits to fall as a share of GDP as ongoing reforms to both systems are completed.

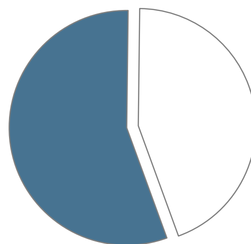
These cuts are being implemented against a baseline that reflects the cuts in welfare spending announced in the 2010 to 2015 Parliamentary session, which were estimated to amount cumulatively to £21 billion in 2015-16. But trends in the economy (notably the weakness of earnings growth and periods of high price inflation), delays in implementing reforms and other factors, meant that welfare spending in 2015-16 was only around £5 billion lower than had been forecast in June 2010. Spending on items

now subject to the welfare cap was actually higher – not lower – in 2015-16 than forecast in June 2010.

Our latest **long-term projections** show spending on state pensions and other pensioner benefits rising – the former from 5.0 per cent of GDP in 2021-22 to 7.1 per cent in 2066-67. This reflects an ageing population and increased generosity as a result of the 'triple lock' on uprating. Spending on other welfare benefits is projected to be relatively flat as a share of GDP over the long term.

Next: The welfare cap

The welfare cap



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IN Budget 2014 the Government set a cap on the total amount forecast to be spent on selected benefits and tax credits from 2015-16. (It is separate to the 'benefit cap' that caps the overall level of welfare payments payable to any individual family). The Government has excluded spending on the state pension from the welfare cap – which it claims is "*better planned and controlled over a longer time period*" – and jobseeker's allowance and associated housing benefit payments – as "*the most cyclical elements of welfare*". This leaves just over half of social security and tax credits spending subject to the cap.

The cap was reset in the July 2015 Budget and we made our formal assessment of performance against it in the November 2016 Autumn Statement, which showed it being breached in all years. The Government has now proposed a new welfare cap, which will only apply in 2021-22. We will monitor progress against it until then.

Spending subject to the cap is forecast to rise by 5.1 per cent from £120 billion in 2016-17 to £126 billion in 2021-22, while spending outside the welfare cap is forecast to rise by 18 per cent from £99 billion to £116 billion. The difference is explained in large part by the basic state pension rising in line with the 'triple lock', while many benefits subject to the cap have been frozen in cash terms until 2019-20.

Table 1: Welfare cap spending

	£ billion						
	Outturn	Forecast					
			Welfare cap period				
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Personal tax credits	28.5	28.1	28.0	27.7	27.3	28.0	28.4
Housing benefit (not on JSA)	21.8	21.4	21.0	21.0	20.6	21.0	21.5
Disability living allowance and personal independence payments	16.2	16.6	17.1	17.9	18.8	19.4	20.1
Incapacity benefits	15.1	15.0	15.2	15.3	15.7	16.1	16.5
Child benefit	11.7	11.6	11.6	11.5	11.5	11.7	12.0
Pension credit	6.0	5.7	5.3	5.0	4.7	4.6	4.7
NI social security in welfare cap	3.4	3.5	3.5	3.5	3.7	3.8	3.9
Carer's allowance	2.6	2.7	2.9	3.2	3.4	3.5	3.6
Statutory maternity pay	2.3	2.3	2.4	2.5	2.5	2.6	2.7
Income support (non-incapacity)	2.4	2.3	2.0	2.0	2.0	2.1	2.1
Winter fuel payment	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Other	7.8	8.6	8.5	8.5	8.4	8.5	8.5
Total spending inside welfare cap	120.0	119.8	119.6	120.1	120.5	123.2	126.0
Welfare cap (July 2015)		115.2	114.6	114.0	113.5	114.9	

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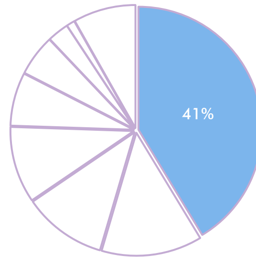
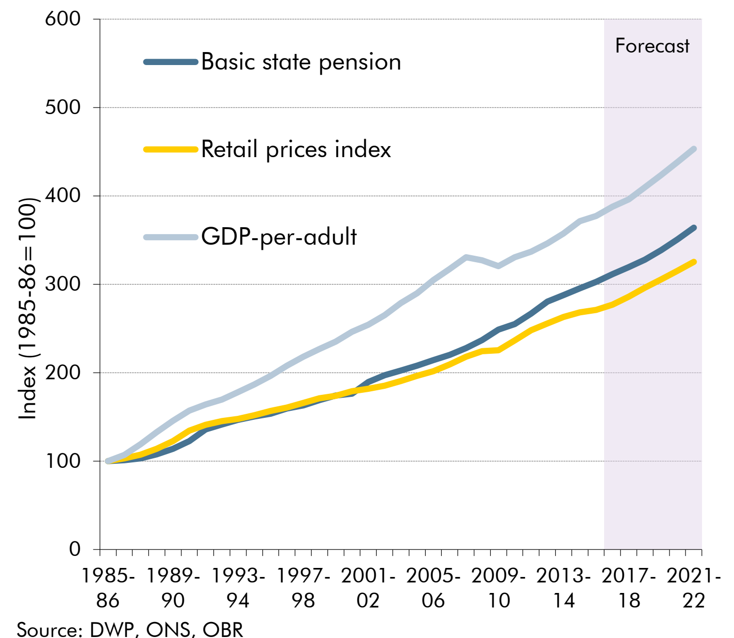
Individual welfare payments

State pension



THE state pension is the largest single item of welfare spending, making up over 40 per cent of the total. The current system for most pensioners comprises the basic state pension (providing a basic level of retirement income) and the state second pension (related to earnings). Since April 2016, they have been replaced by a 'single-tier' (flat-rate) pension for newly retired pensioners. The state pension age (SPA) is set to rise to 66 for both men and women by 2020.

Chart 8: Basic state pension awards



Source: DWP, ONS, OBR

Spending on the state pension has risen in cash terms from £17 billion in 1985-86 to £89 billion in 2015-16. Relative to GDP, spending fell during the late 1980s and rose in the late 2000s recession and subsequent recovery. More recently spending has stabilised again.

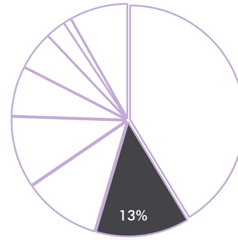
Spending fell as a share of GDP because the state pension was generally uprated in line with inflation at a time when prices were rising less quickly than average earnings and national income. However, rising life expectancy, and post-war baby-boomers reaching state pension age (SPA), increased the proportion of adults over the state pension age (SPA) from 23 per cent in 1985 to 24 per cent in 2015 (an extra 2 million pensioners), while a higher proportion of women in work has increased eligibility for the full basic state pension.

Since 2010, the basic state pension has been uprated by the 'triple lock' whereby it is uprated by the higher of CPI inflation, average earnings growth or 2.5 per cent. This increased the generosity of the state pension by 3 per cent relative to RPI inflation over five years and by 10 per cent relative to earnings.

Spending on the state pension is forecast to fall slightly as a share of national income from 4.7 per cent in 2015-16 to 4.6 per cent in 2021-22. Continued upward pressure from an ageing population is more than offset by ongoing increases in the SPA.

Next: Personal tax credits

Personal tax credits



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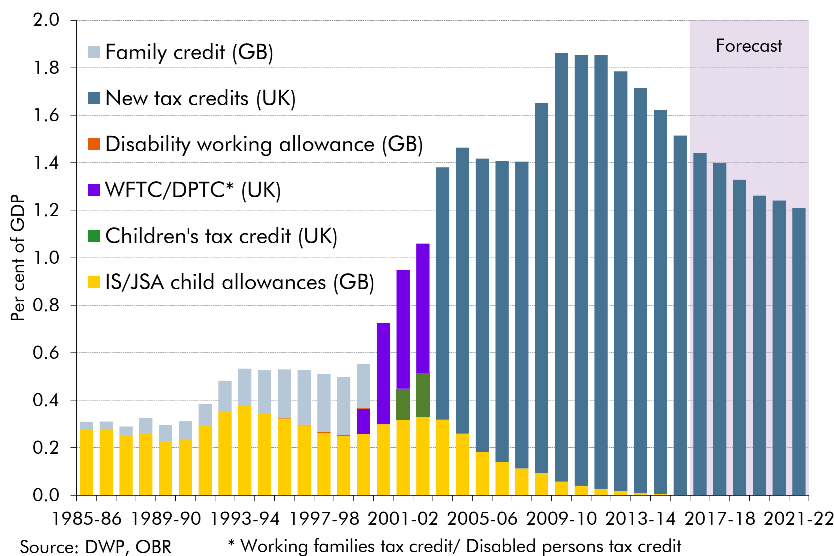
PERSONAL tax credits comprise the working tax credit – payable to families with someone in work (typically for 16 hours or more a week) – **and the much larger child tax credit** – payable to families with children. The working tax credit also subsidises childcare costs. Awards are based on family circumstances and means-tested against family income.

Chart 9: Spending on tax credits



Source: DWP, OBR * Working families tax credit/ Disabled persons tax credit

Spending on personal tax credits accounted for 13 per cent of total welfare spending in 2015-16. It has risen sharply, from £1 billion (on its predecessors) to £30 billion in cash terms and from 0.3 to 1.5 per cent of national income between 1985-86 and 2015-16.

In 1999-00, the working families' and disabled persons' tax credits (WFTC/DPTC) were created – subsuming family credit and disability working allowance, while also increasing average awards. The current 'new tax credits' were created in 2003-04, absorbing both WFTC/DPTC and the child allowances in income support and jobseeker's allowance. Support was also extended to families on higher incomes and families without children while abolishing the children's tax credit. The increase in average awards and the widening of the scope significantly increased spending.

Spending subsequently increased during the late 2000s recession, as the child element was uprated faster than earnings and inflation, substantially increasing generosity relative to earnings and the size of the economy. At the same time earnings grew more slowly in the tax credits population than in the wider economy, further raising spending.

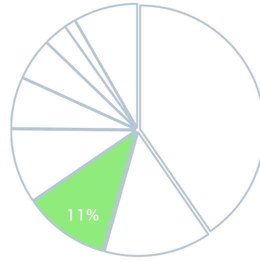
Measures announced in June 2010 cut support from higher up the income distribution meaning the caseload fell by around 20 per cent in 2012-13. Average awards were also cut as the uprating of various elements moved from RPI to CPI inflation, childcare support was cut from 80 to 70 per cent of eligible costs, the withdrawal rate was increased from 39 to 41 per cent, and additional payments for babies were also cut. These cuts were only partially offset by an increase in the value of the child element.

Next: Housing benefit

Spending on tax credits is forecast to fall further from 1.5 per cent of national income in 2015-16 to 1.2 per cent in 2021-22. This largely reflects the three-year 1 per cent cap on uprating from 2013-14 followed by the four-year freeze on the uprating of tax credits from 2016-17, alongside measures that cut support for larger families.

In reality spending on tax credits will fall faster, because it is one of the elements of the welfare system that will be replaced by universal credit over time (as described at the end of this guide).

Housing benefit



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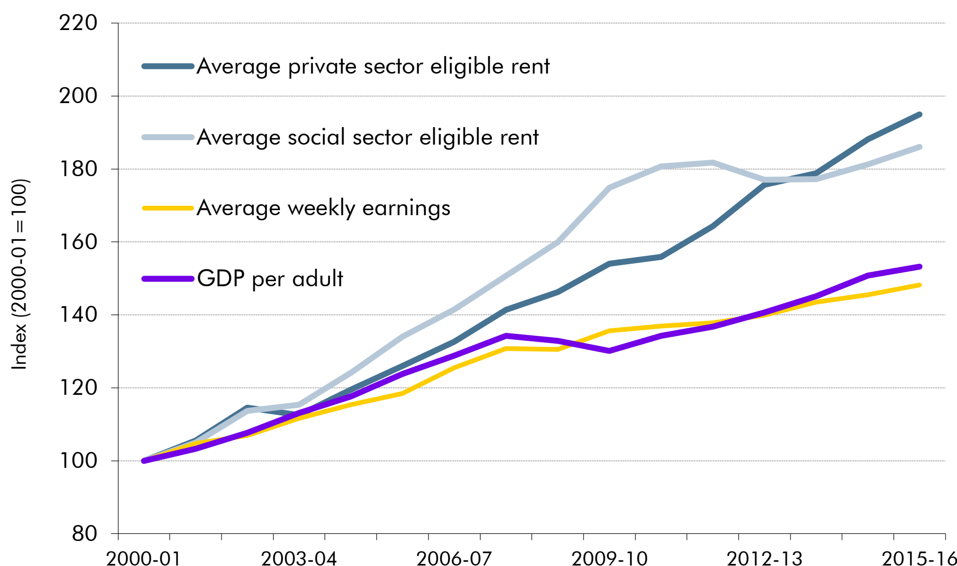
HOUSING benefit is financial support available to people on low incomes who rent their homes from private- or social-sector landlords. Unlike many benefits, there is no fixed amount available to each claimant. The value of the award depends on an estimate of 'eligible' rent and other household circumstances.

In 2015-16 housing benefit cost around £24 billion, 11 per cent of total welfare spending and 1.3 per cent of GDP (up from 0.8 per cent in 1985-86). Housing benefit for those claiming unemployment benefits tends to rise and fall with the economic cycle, while caseloads for people with a disability or health condition have risen markedly since the late 1980s – driven by trends in incapacity and disability benefits. Caseloads for pensioners have fallen since the 1990s, partly due to higher home ownership rates among pensioners, as well as growth in pensioner income.

Chart 10: Rents, earnings and GDP per adult



Source: DWP, ONS

Since the early 2000s, the share of spending accounted for by claimants in the private-rented sector has risen. As private rents are on average higher than social rents, that shift has put upward pressure on welfare spending. These rents have risen faster than earnings and inflation over the past decade.

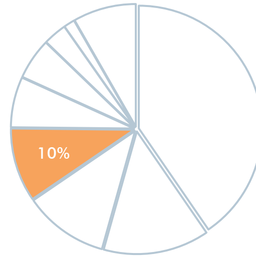
The number of claimants in employment has risen from 0.4 million at the end of 2008 to 1.1 million by March 2016 (from 10 to 23 per cent of the total). This reflects the combination of strong employment growth but also weak earnings growth, as well as the continued rise in the proportion of households renting their homes.

Spending on housing benefit is forecast to fall as a share of national income – from 1.3 per cent in 2015-16 to 1.0 per cent in 2021-22 – as average awards grow more slowly than GDP. That is mainly the result of policy measures.

Housing benefit will be replaced by universal credit over time.

Next: Disability benefits

Disability benefits



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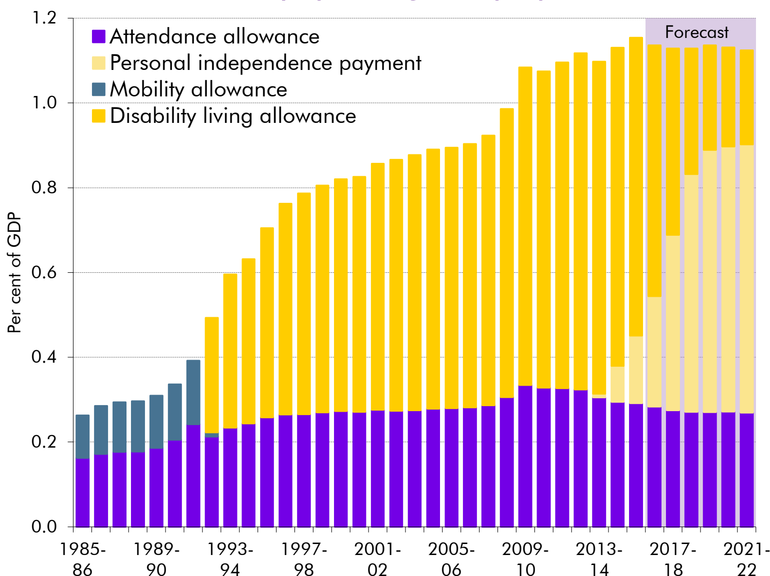
DISABILITY benefits provide financial support to assist with the costs of daily care and/or mobility needs, based on the extent of the recipient's disability. This has been provided through disability living allowance (DLA) since 1992, which is now being replaced by the personal independence payment (PIP) that has different eligibility criteria. Attendance allowance provides support to pensioners who require substantial and regular care.

Chart 11: Disability spending as a proportion of GDP



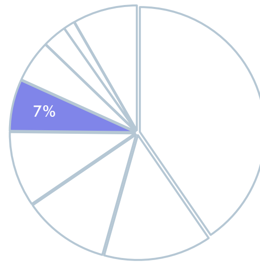
Source: DWP, OBR

In 2015-16 spending on disability benefits accounted for 10 per cent of total welfare spending. Spending has risen from around £1 billion in 1985-86 to £22 billion in 2015-16, and from 0.3 to 1.2 per cent of national income over the same period.

The introduction of DLA led to rapid growth in caseloads and spending as a result of wider eligibility, the introduction of claimant self-assessment, and a rise in take-up.

The introduction of PIP for working-age claimants in 2013 was forecast to reduce spending, as people's eligibility is 'more rigorously' reassessed. That process of reassessment is still in its early stages, but the evidence to date has pointed to a slower process of reassessment delivering smaller-than-expected savings (echoing the experience of reforms to incapacity benefits). In recent forecasts, we have revised up how much we expect will be spent on PIP in the coming years as more people are expected to receive payments and the average amount paid to each claimant will be higher than initially expected.

Incapacity benefits



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INCAPACITY benefits are income-replacement benefits available to people unable to work due to sickness and/or disability. Employment and support allowance (ESA) has replaced incapacity benefit as the main component. Other components include a dedicated element of income support and the severe disablement allowance.

In 2015-16 spending on incapacity benefits was around £15 billion – around 7 per cent of total welfare spending. Spending on incapacity benefits has risen in cash terms over the past 30 years, but it has been on a downward trend in real terms (adjusting for inflation) and relative to the size of the economy since the mid-1990s, almost halving as a share of GDP.

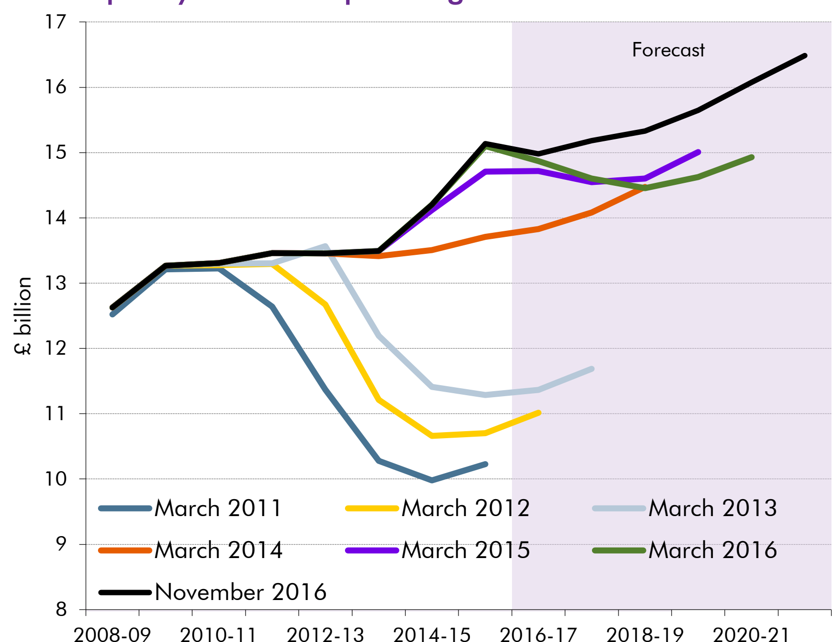
Spending on incapacity benefits rose sharply between the 1980s to the mid-1990s, as caseloads rose from 1.3 million to 2.8 million between 1984-85 and 1995-96. This reflected periods of high unemployment and industrial restructuring. The rise in spending prompted major reform of the system in 1995, tightening eligibility and reducing generosity. As a result, spending fell as a share of GDP.

ESA replaced incapacity benefit in 2008 and was originally expected to deliver significant savings via stricter 'work capability assessments'. Delivery problems have meant that savings have fallen well short of initial expectations, prompting successive upward revisions to our spending forecasts.

The volume of assessments has been lower than expected with significant delays and backlogs. In addition, completed assessments have resulted in a higher proportion of people being found eligible for support and fewer declared 'fit for work' than originally expected.

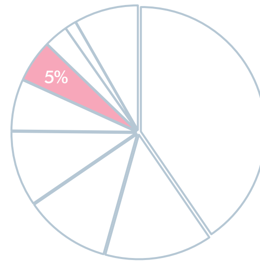
The majority of ESA will be replaced by universal credit over time.

Chart 12: Successive forecasts and outturns for incapacity benefits spending



Source: DWP, OBR

Child benefit



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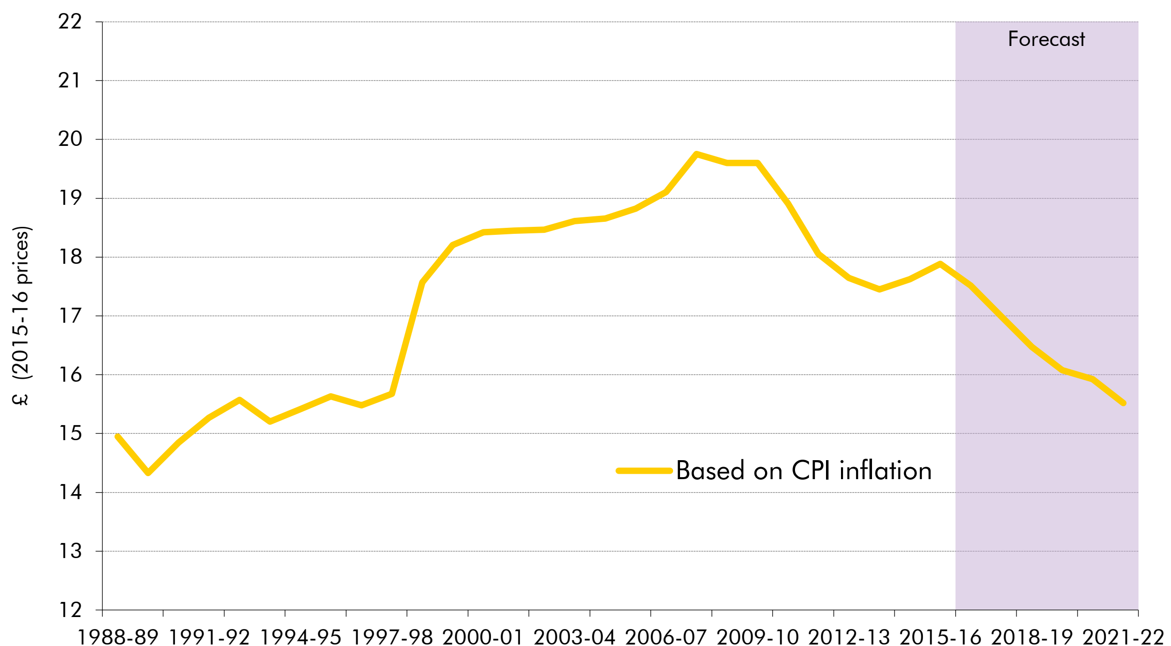
CHILD benefit is a cash payment payable for each child. Historically, it provided universal support for parents or guardians bringing up children, but since 2013 it has been subject to a tax charge for earners over £50,000. For those earning more than £60,000 child benefit is in effect withdrawn altogether.

In 2015-16 spending on child benefit was around £12 billion or 5 per cent of total welfare spending. Spending on child benefit has risen in cash terms, but has fallen relative to national income over the past 30 years as it was generally uprated in line with inflation at a time when prices were rising less quickly than average earnings and national income. This decline was occasionally offset by one-off policy decisions to increase generosity.

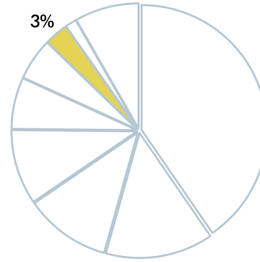
Chart 13: Average weekly child benefit award



Source: HMRC, OBR

Child benefit has been means-tested since 2013, via the 'high income child benefit charge'. This removes eligibility for child benefit from families with at least one parent earning more than £60,000 and reduces awards on a sliding scale for those with one earning between £50,000 and £60,000. Alongside recent decisions to freeze the uprating of child benefit until 2018, uprating with CPI in later years means that spending on child benefit is forecast to fall as a share of national income through to 2021-22.

Pension credit



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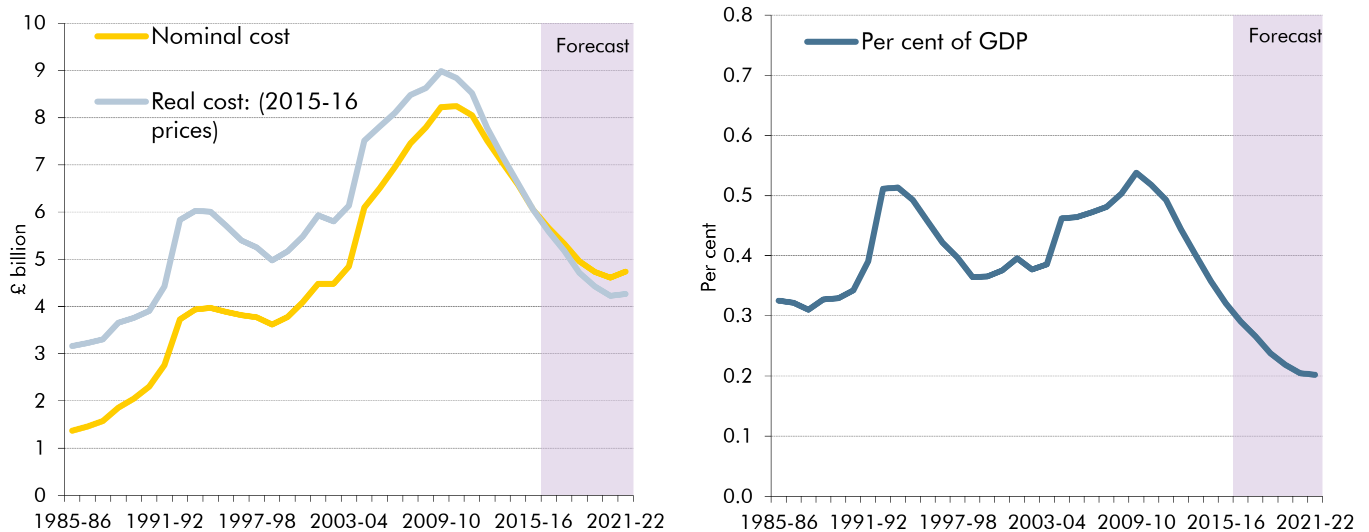
PENSION **credit was introduced in 2003**, replacing the 'minimum income guarantee' and before that income support for the over 60s. It tops up the income of older people to a minimum level, through the 'guarantee credit', while a 'savings credit' provides extra support to those who have saved for their retirement so that the guaranteed income does not remove the incentive to do so.

Spending on pension credit was around £6 billion in 2015-16. Over the past 30 years, spending on pension credit and its predecessors has risen in cash terms, fluctuating between 0.3 and 0.5 per cent of GDP. The introduction of pension credit did see spending increase, with government campaigns to encourage take-up contributing to a rise in caseload of more than 50 per cent between 2002-03 and 2005-06.

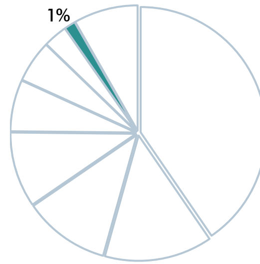
Chart 14: Pension credit spending



Source: OBR

Between 2015-16 and 2021-22 spending on pension credit is expected to fall slightly as a share of national income. The rise in the state pension age will reduce caseloads, while the new single-tier pension has been set above the level of the standard minimum guarantee. The savings credit is also due to close to new claims as part of these state pension reforms.

Jobseeker's allowance



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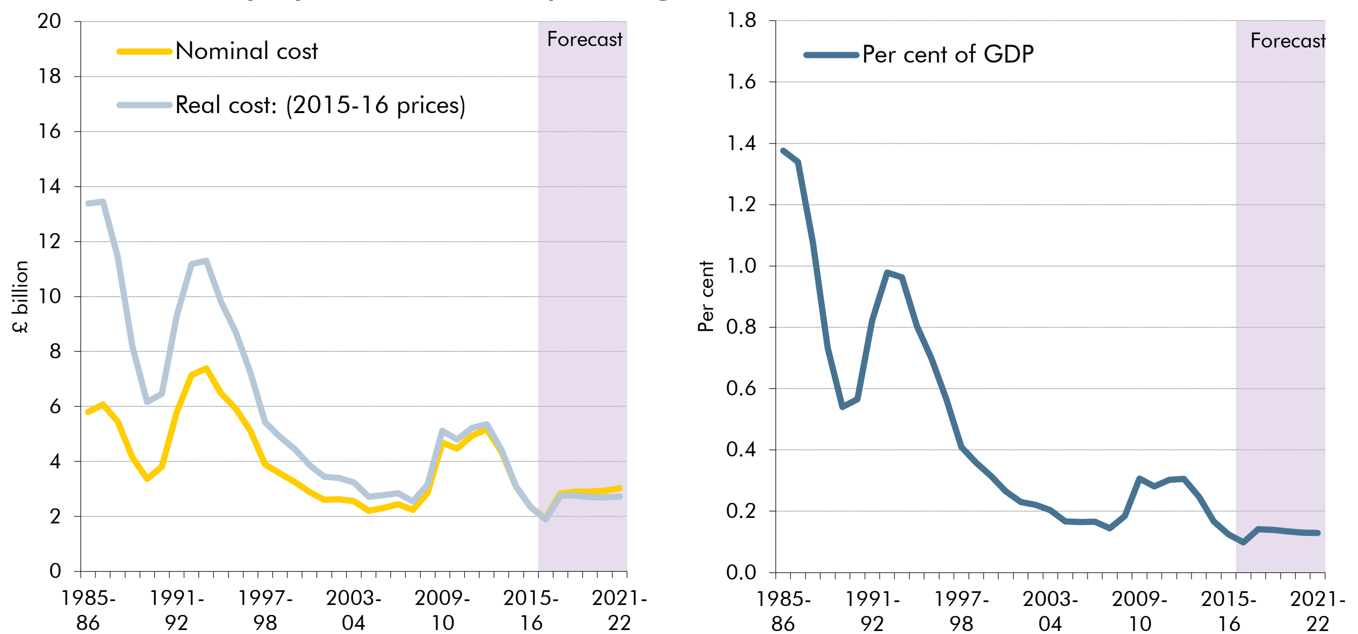
JOBSEEKER'S allowance (JSA) provides financial support for the unemployed on the condition that they take steps to find a job. Claimants are required to sign a commitment to seek work and to take part in a work programme after claiming for a certain period. Recipients can also claim other benefits – notably housing benefit if they rent their accommodation.

Spending on unemployment benefits (around £2 billion in 2015-16) is small relative to total welfare spending – just 1.1 per cent of the total. This has risen and fallen with the economic cycle, as shown in the chart below. Spending on unemployment benefits has fallen from a peak of 1.4 per cent of GDP in the 1980s to just 0.1 per cent now.

Chart 15: Unemployment benefits spending

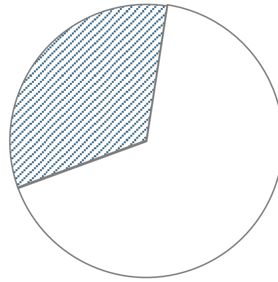


Source: OBR

Spending increased substantially following the early 1980s recession, reaching a real terms peak in 1986-87 when claimants topped three million. Since 1986 eligibility criteria have been tightened a number of times, pushing down caseloads and spending. Further smaller peaks in spending followed the early 1990s recession and, much smaller again, the late 2000s recession. We forecast spending on JSA to be relatively stable as a share of GDP over the next five years.

The majority of jobseeker's allowance will be replaced by universal credit over time.

Universal credit



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UNIVERSAL credit (UC) combines the following six welfare payments into a single monthly payment administered by DWP:

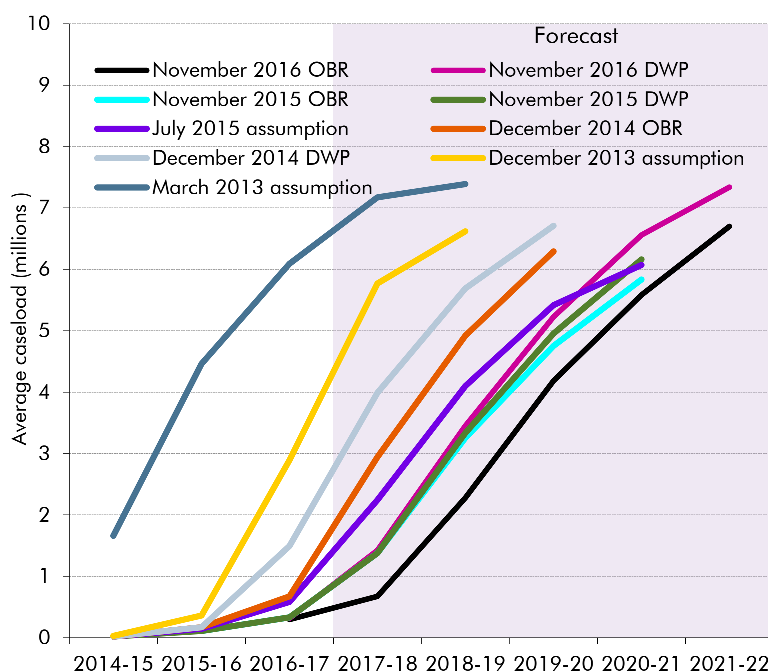
- **income-based jobseeker's allowance;**
- **income-based employment and support allowance;**
- **income support;**
- **working tax credit;**
- **child tax credit; and**
- **housing benefit for working age people.**

Together, spending on the existing benefits amounted to roughly £70 billion in 2015-16. Combining these benefits into one payment is expected to increase take-up relative to the individual 'legacy' benefits since it is all captured in one claim. Assuming similar benefit rates, this would increase overall entitlement on average. Support for childcare costs also increases from 70 per cent under tax credits to 85 per cent under UC.

Offsetting the effect of higher take-up, operational savings – such as reductions in error and fraud, the introduction of the minimum income floor for the self-employed, and abolishing the income disregards in tax credits – are expected to reduce spending relative to the legacy benefits.

Recent policy decisions – in particular the July 2015 decision to reduce work allowances mean that overall UC is expected to cost less than the legacy benefits and tax credits that it replaces. In our latest forecast, we expect this marginal saving to reach £1.3 billion in 2021-22. This is despite the November 2016 announcement to lower the rate at which payments are tapered with income by 2 percentage points.

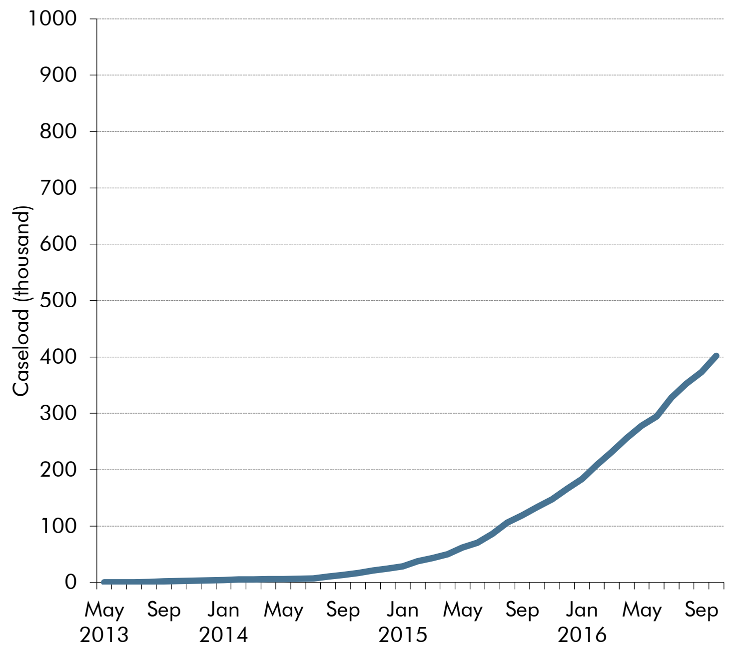
Chart 16: Successive forecasts and outturns for universal credit caseloads



Source: DWP, OBR

The Government is gradually rolling out UC. The process was originally due to have finished by 2017-18, but various delivery challenges have meant that the full rollout has been repeatedly delayed. Our forecasts for the UC caseload in specific years have therefore been revised down repeatedly, while the end-point of the rollout has been pushed further into the future.

Chart 17: Universal credit caseload outturns



Source: DWP

The volume of claimants on UC has increased steadily in recent months, but the number of migrated claimants is still small. As of October 2016, the UC caseload had reached 402,000 – 6 per cent of the total caseload forecast for 2021-22 and 7 per cent of the numbers set out in the March 2013 plans.