Office for **Budget Responsibility**

28 March 2024

Supplementary forecast information release

Further information on the forecast change in in-work universal credit spending at Spring Budget 2024

1.1 The OBR is releasing the information below following requests for further detail on the forecasts presented in our March 2024 *Economic and fiscal outlook* (*EFO*). We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.

1.2 We have received a request to decompose the change in in-work universal credit (UC) spending between our November 2023 and March 2024 forecasts presented in Table 4.9 into the change due to higher-than-expected earnings growth among UC claimants and the larger-than-expected proportion of tax credits claimants closing their claim. The impacts that each of these factors have on our forecast for in-work universal credit spending are presented in Table 1 below.

Table 1: Changes to universal credit in-work spending at Spring Budget 2024

	£ billion					
	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Difference						
Lower spending on the in-work component of universal credit[1]	-0.3	-2.9	-3.1	-2.6	-2.3	-2.1
of which:						
Higher earnings growth among UC claimants	-0.2	-1.3	-1.4	-1.4	-1.4	-1.4
Higher proportion of tax credit claimants closing down their claim	-0.1	-1.0	-1.1	-1.0	-0.9	-0.8
Other items[2]	0.0	-0.6	-0.7	-0.3	-0.1	0.1

[1] We do not forecast Universal Credit by claimants' work status. This line and the following decomposition primarily affect in-work claimants but there will be other forecasting changes between November 2023 and March 2024, which will have impacted spending on in-work claimants.

2 This line mostly captures other changes to our managed migration profile, which at March 2024 brought forward some managed migration compared to our November 2023 forecast.

1.3 An increase in our forecast for universal credit claimants' earnings reduces our spending forecast as higher claimant earnings leads to larger earnings tapering of awards. Department for Work and Pensions data on the earnings of UC claimants shows that claimants' earnings have grown faster than economy-wide average earnings since mid-2019. We now assume that UC claimants' earnings grow in line with our forecast for the National Living Wage. The reduction in expenditure from higher claimant earnings amounts to £1.3 billion in 2024-25, before remaining around that level.

1.4 A larger proportion of tax credits claimants closing their claim reduces our spending forecast compared to November as we now assume some claimants leave the benefit caseload earlier than they otherwise would have. The forecast saving from a higher proportion of claim closures peaks at £1.1 billion in 2025-26, before reducing to £0.8 billion in 2028-29. The latest evidence on managed migrations from the Department for Work and Pensions shows that the proportion of tax credit claimants who had not claimed UC four months after receiving a managed migration notice averaged around 26 per cent. We have not changed our assumptions for housing benefit only, income support, or jobseeker's allowance claimants as the rollout of managed migration has so far only encompassed tax credit claimants.

1.5 The manged migration claim closure rate, the average awards of those who close their claim, and the earnings growth of UC claimants are all highly uncertain. We will gather more evidence about the claim closure rate as the Move to UC programme continues. Likewise, we will continue to monitor and gather evidence on the average awards of tax credits claimants who close their claim. We have provisionally assumed these are equal to the average award of those who manage migrate to UC, though some initial data suggest they could be lower. The earnings growth of UC claimants will likely respond to the future path of the National Living Wage (which the Government has not set out past 2024). We will continue to review judgements on these three assumptions in response to the latest managed migration and earnings data.