Office for Budget Responsibility

25 November 2022

Supplementary forecast information release

Upward revisions to welfare spending since March

1.1 The OBR is releasing further information regarding the upward revisions to welfare spending in our November 2022 *Economic and fiscal outlook* (*EFO*) relative to the forecast we published in March. This follows several requests for additional information on the sources of the revisions and the evidence that underpinned them. In doing so, we are also correcting the split between *upward* revisions to health- and disability-related spending (which were understated in the *EFO* by £0.7 billion in 2026-27) and *downward* revisions due to other factors (which were also understated, by an equal and offsetting amount). The overall forecast for welfare spending is not affected by these changes.

Summary

1.2 Welfare spending is forecast to rise from £245.2 billion in 2021-22 (10.5 per cent of GDP) to £327.5 billion by 2027-28 (11.2 per cent of GDP). Relative to our March forecast, spending has been revised up £19.0 billion (6.5 per cent) a year on average between 2023-24 and 2026-27, with cost-of-living payments the largest source of upward revision in 2023-24, while spending on pensioner benefits, universal credit (UC), and disability benefits have all been revised up by material amounts from 2023-24 onwards.

Table 1.1: Welfare spending forecast and changes since March

	£ billion						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total							
March 2022 forecast	244.7	250.3	270.8	284.6	296.0	306.7	
November 2022 forecast	245.2	260.8	292.3	306.0	314.8	320.7	327.5
Difference	**0.5**	**10.6**	**21.5**	**21.4**	**18.8**	**14.0**	
of which:							
Universal credit and legacy equivalents[1]	1.0	1.8	3.8	7.9	7.3	5.0	
Pensioner spending[2]	-0.9	-0.5	3.6	8.1	7.3	6.2	
Disability benefits[3]	0.2	0.9	2.4	3.9	3.9	3.7	
Other benefits[4]	0.2	0.0	0.5	1.1	0.8	0.6	
Direct effects of Government decisions	0.0	8.4	11.3	0.5	-0.5	-1.3	

[1] UC and legacy equivalents includes personal tax credits, housing benefit (excluding pensioner part), incapacity benefits, contributory ESA, income support and income-based and contributory jobseeker's allowance. It also includes industrial injuries benefit - the Scottish element of which is devolved to Scotland.

[2] Pensioner spending includes pensioner housing benefit, pension credit, state pension expenditure and winter fuel payments.

[3] Disability benefits includes disability living allowance, personal independence payment, and attendance allowance.

[4] Other spending includes child benefit and Northern Ireland social security expenditure.

1.3 Two main factors explain the upward revisions to welfare spending in the medium term: higher uprating of almost all pensioner and working-age benefits (thanks largely to higher inflation in the near term) and higher spending on health- and disability-related benefits (reflecting in particular higher-than-expected inflows in recent months). In 2026-27, uprating explains £8.4 billion of the upward revision and health- and disability-related benefits explain £8.2 billion (which has been revised up from the £7.5 billion reported in the *EFO* due to a correction to how this contribution has been calculated). Other forecast-related changes reduce spending by £1.3 billion, while policy changes reduce spending by £1.3 billion,[1] with the latter more than explained by the £1.5 billion savings from providing DWP with additional resources to address fraud and error in universal credit.

Table 1.2: Sources of changes to welfare spending since March

	£ billion				
	Forecast				
	2022-23	2023-24	2024-25	2025-26	2026-27
March 2022 forecast	250.3	270.8	284.6	296.0	306.7
November 2022 forecast	260.8	292.3	306.0	314.8	320.7
Difference	**10.6**	**21.5**	**21.4**	**18.8**	**14.0**
of which:					
Uprating	0.0	4.9	13.1	11.2	8.4
Health and disability benefits	2.5	3.7	4.1	6.2	8.2
Other forecast changes	-0.4	1.7	3.7	2.0	-1.3
Policy measures	8.4	11.3	0.5	-0.5	-1.3

Uprating

1.4 Our March forecast already factored in relatively high CPI inflation in September 2022 to drive a 7.5 per cent uprating of most benefits in 2023-24. In the event, CPI inflation in that month was 10.1 per cent in outturn, which added £4.9 billion to spending in 2023-24 relative to our March assumptions. Our forecast for CPI inflation has also been revised up from 3.4 to 6.9 per cent in the third quarter of 2023, which drives uprating in 2024-25. This raises the upward revision due to uprating to £13.1 billion. Thereafter, we have revised down our CPI inflation forecast due largely to the effects of falling energy prices. For working-age benefits, this means the upward revisions relative to March diminish in scale in 2025-26 and 2026-27. But for pensioner benefits, the vast majority of which is spending on the state pension and subject to the triple lock, the 2.5 per cent floor on uprating kicks in, leaving the overall revision relative to March little changed between 2024-25 and 2026-27.

Table 1.3: Revisions due to uprating by category of welfare spending

	£ billion				
	Forecast				
	2022-23	2023-24	2024-25	2025-26	2026-27
Total	**0.0**	**4.9**	**13.1**	**11.2**	**8.4**
of which:					
Pensioner benefits	0.0	2.0	5.6	5.6	5.5
All other benefits	0.0	2.9	7.5	5.6	3.0

[1] The costs of policy measures presented in Tables 1.2 and 1.6, and discussed throughout this release, are consistent with the breakdown of policy decisions since March 2022 presented in Table 1 of our *EFO*. This differs from the Treasury's published scorecard, for which the breakdown of welfare measures includes welfare policies that affect 'departmental expenditure limits' (DEL spending) in addition to those that affect 'annually managed expenditure' (AME spending), but not the impacts of tax measures on welfare spending.

Health- and disability-related benefits

1.5 The largest change to a welfare-specific forecast judgement since March has been to revise up the pre-measures path of 'caseload prevalence' (the ratio of benefit caseloads to the working-age population) for health-related cases within UC and for disability benefits. The effects of this are the key driver of the changes shown in Table 1.4, although not the only one as it reflects all pre-measures revisions to spending on these benefits beyond those due to uprating that are captured in Table 1.3.

1.6 The higher path for caseload prevalence reflects recent trends in outturn data on inflows to these benefits – most notably the rise in monthly new claims for personal independence payment (PIP) in England and Wales from an average of 37,000 a month in 2019, before the pandemic struck, to 64,000 a month between April and July 2022 – as well as longer average claim durations. We now expect these trends to persist to a greater extent than we did in our March forecast. The only health-related benefit for which we have revised spending down is employment and support allowance (ESA), where the latest data suggest that our assumptions about post-pandemic impacts on the caseload had proved too high.

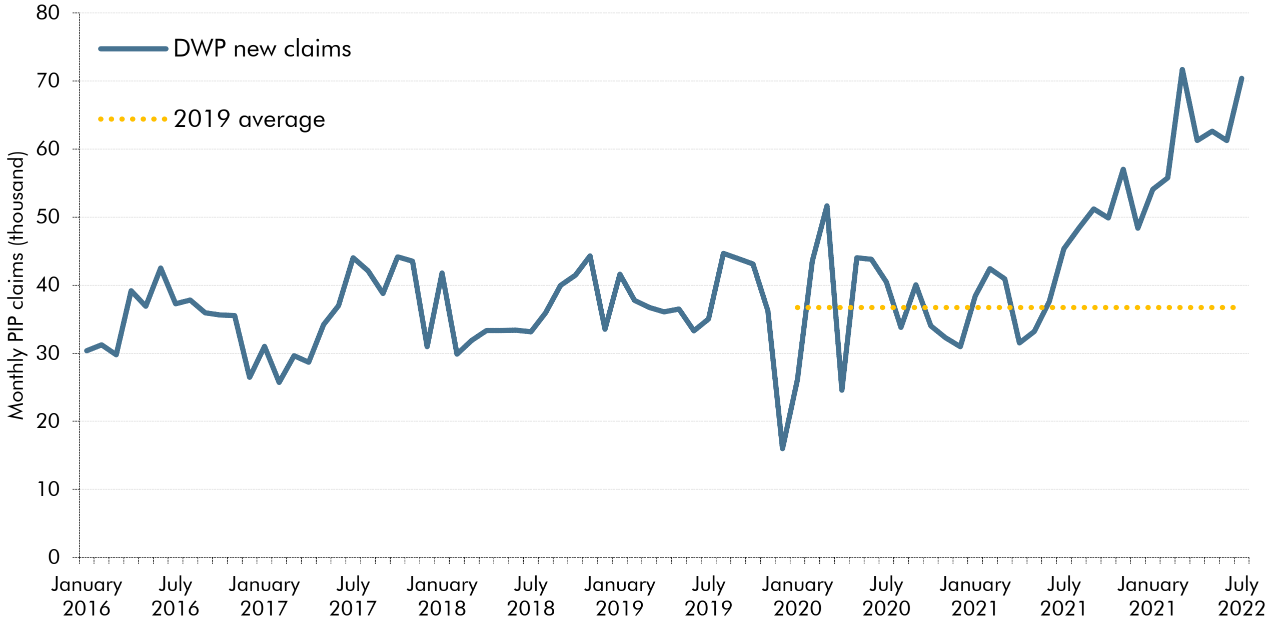
Table 1.4: Non-uprating revisions to health- and disability-related benefit spending

	£ billion				
	Forecast				
	2022-23	2023-24	2024-25	2025-26	2026-27
Total	**2.5**	**3.7**	**4.1**	**6.2**	**8.2**
of which:					
Universal credit (health-related)	2.1	2.7	2.9	4.6	6.1
Personal independence payment	0.5	1.0	1.3	1.9	2.3
Employment and support allowance	-0.4	-0.6	-0.8	-0.8	-0.7
Disability living allowance	0.3	0.4	0.4	0.3	0.3
Attendance allowance	0.0	0.1	0.2	0.2	0.3
Other disability benefits [1]	0.0	0.0	0.0	0.0	0.0

[1] Incapacity benefit, severe disablement allowance, armed forces independence payment.

1.7 The clearest indication of rising demand for health-related benefits can be seen in new PIP claims (Chart 1.1). Our forecasts have factored in assumptions about higher caseloads in the aftermath of the pandemic on the assumption that a health crisis would result in more people being eligible, while also reflecting catch-up demand following the disruption to the processing of claims while public health measures were in place. But the rise has been greater than we had assumed and has also proved more persistent. We have therefore assumed that new claims will remain higher for longer than we did in March.

Chart 1.1: Monthly new claims for personal independence payment

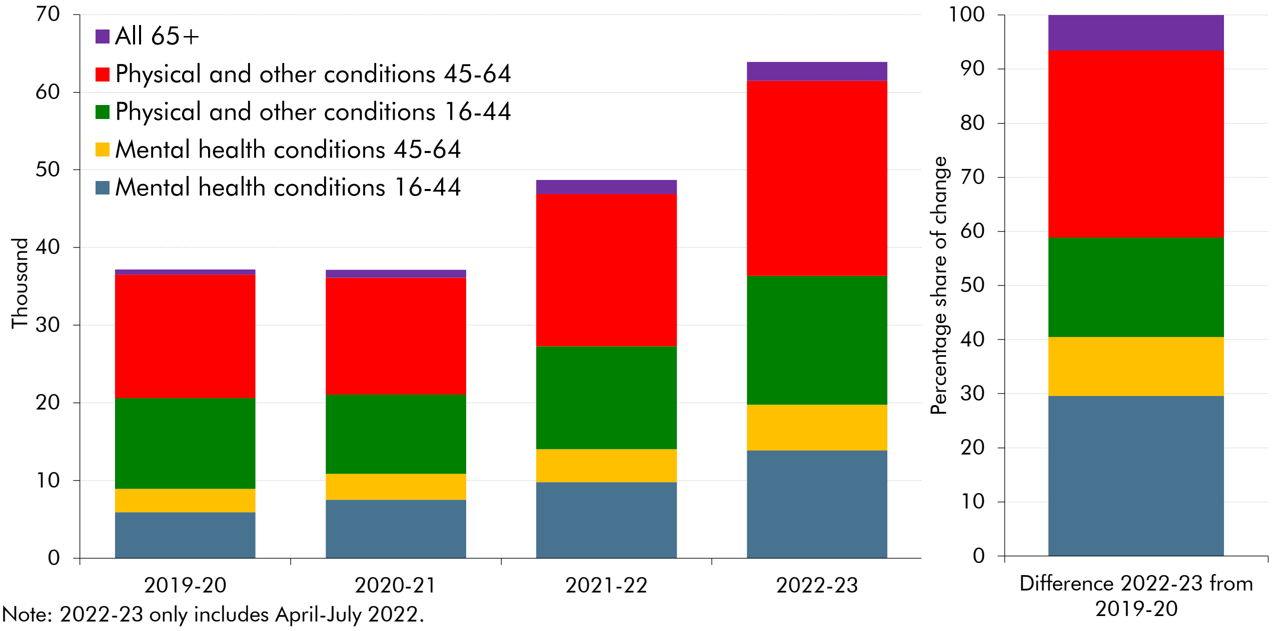


Source: DWP StatXplore

1.8 The age profile of the new claims – and the distribution by condition – mirror to some extent the broader trends towards long-term sickness-related inactivity in the Labour Force Survey statistics.[2] The rise in new claims has been greatest at older age groups, where the rise has been largest across a range of physical and other conditions. The latter explain 35 per cent of the 27,000 (72 per cent) rise in average monthly new claims between 2019-20 and the first four months of 2022-23 (Chart 1.2). But there have also been material rises at younger age groups too, where mental health conditions have been more prevalent, explaining 30 per cent of the overall rise in new claims relative to 2019-20. It is possible that these trends among both age groups could be linked to the rising waiting lists for NHS elective treatments and for mental health treatments in the aftermath of the pandemic.

[2] See, for example, ONS, *Half a million more people are out of the labour force because of long-term sickness*, 10 November 2022.

Chart 1.2: Monthly average new PIP claims by age and condition



Note: 2022-23 only includes April-July 2022.
Source: DWP

1.9 It is more difficult to discern the rising path of health-related universal credit cases from published statistics, since new claims data do not capture the elements to which cases are entitled and the stock of all cases continues to rise as UC replaces legacy benefits. We therefore focus on trends in overall caseload prevalence for UC health-related cases plus the legacy ESA caseload (which are non-overlapping caseloads) in this analysis.

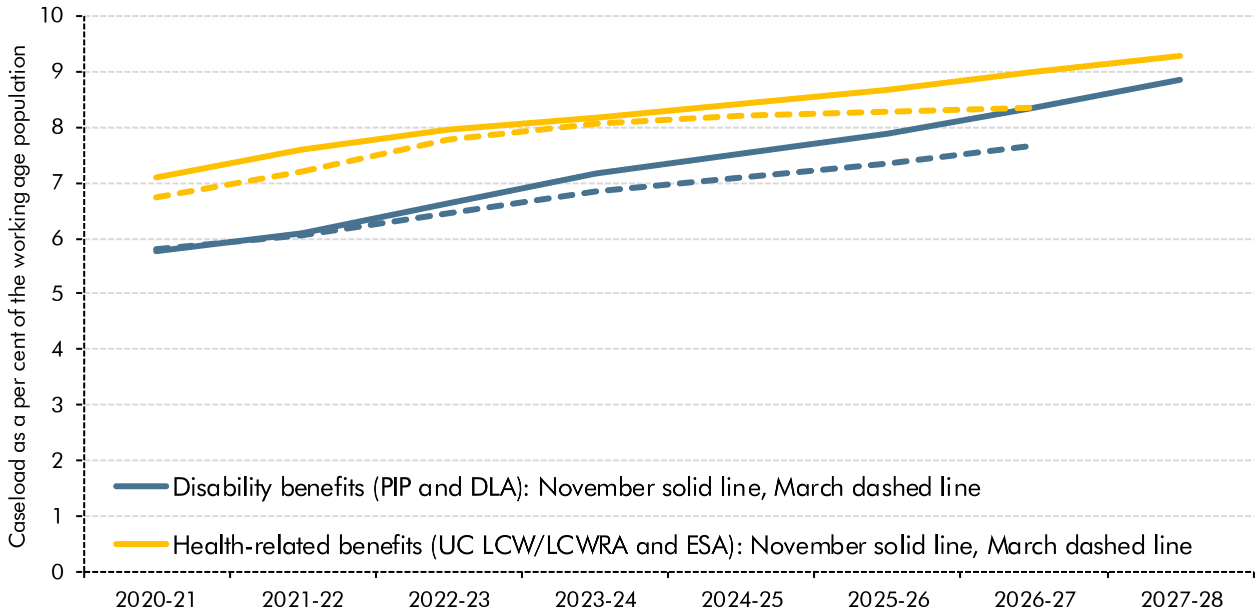
1.10 The result of our updated judgements about trends in health-related UC caseloads and the working-age PIP caseload has been to assume a continuously rising path for caseload prevalence over the forecast period for what we described in the *EFO* as 'health-related and disability benefits'. In the *EFO*, we reported a caseload figure based on PIP and disability living allowance (DLA) for disability benefits, and based on UC within three relevant conditionality groups for health-related benefits.[3] It is possible to focus the latter on a more specific health caseload via the elements that are awarded within UC. So for this release, for health-related benefits (or 'incapacity benefits') we look at UC cases that are either awaiting work capability assessments or have completed them and been deemed to have 'limited capability for work' (LCW) or 'limited capability for work and work-related activity' (LCWRA), while also adding ESA cases. For disability benefits we look at cases for PIP and DLA.

1.11 Chart 1.3 summarises the caseloads underpinning our latest forecast compared to those underpinning our March forecast. These updated judgements mean that the number of health-related cases (on UC and ESA) rises from 3.0 million in 2022-23 to 3.6 million in 2027-28, while the number of working age disability cases rises from 2.5 million in 2022-23 to 3.4 million in 2027-28. Relative to our March forecasts for these caseloads in 2026-27, this translates into upward revisions of 0.2 million (7.4 per cent) in health-related

[3] The 'no work-related requirements' (NWRR) group that is most relevant to those with limited capability for work-related activity, as well as the 'work-focused interview' (WFI) and 'work preparation' (WP) groups.

cases,[4] and 0.3 million (9.1) per cent) in working age disability cases. These figures are not mutually exclusive – it is possible to claim both health-related and disability benefits, so the rise in the number of people claiming these benefits will be less than the 0.5 million increase in the two caseloads combined.[5] (The caseloads presented here are the final *pre-measures* caseloads for the four benefits that are covered. DWP's forthcoming benefit expenditure and caseloads publication will include final *post-measures* caseload and expenditure data consistent with our November 2022 forecast, capturing the impact of all policies announced at the Autumn Statement as well as our underlying forecast changes.)

Chart 1.3: Caseload prevalence forecasts for health- and disability-related benefits: November 2022 versus March 2022



Note: March 2022 for UC and ESA is pre-measures.
Source: DWP, OBR

Other forecast changes

1.12 The remaining forecast changes, which are largest between 2023-24 and 2025-26, mainly relate to changes to housing benefit, social security spending in Northern Ireland, pension credit, and the state pension. Changes to the managed migration of legacy cases to UC ('Move to UC') have resulted in downward revisions to tax credit expenditure in 2024-25 and 2025-26, but upward revisions to housing benefit expenditure in those years. Spending on social security in Northern Ireland is higher in all years of the forecast period, mirroring changes in Great Britain. We have also revised up pension credit spending in each year of the forecast in anticipation of higher claims for pension credit due to cost-of-living pressures and greater awareness of pension credit. And we have revised up state pension spending in

[4] This figure is smaller than the 0.6 million rise in the UC caseload across the NWRR, WFI and WP conditionality groups that was the basis for the figures used in the *EFO*. Around half the difference is due to a narrower definition of UC caseload based on LCW and LCWRA status and the remainder is due to the inclusion of ESA, which as noted above has been revised down relative to our March forecast.
[5] In our January 2019 *Welfare trends report* on disability benefits, we discussed the overlap between the disability and incapacity benefits caseloads, noting that "*more than half the 2.5 million people in receipt of ESA in April 2016 were also in receipt of either DLA or PIP*".

2023-24 to reflect the latest data on pensioners who have been underpaid the state pension in the past. Other revisions include remaining data, assumption, and modelling changes.

Table 1.5: Other forecasting changes since March

	£ billion				
	Forecast				
	2022-23	2023-24	2024-25	2025-26	2026-27
Total	**-0.4**	**1.7**	**3.7**	**2.0**	**-1.3**
of which:					
Move to UC profile: housing benefit	-0.1	0.2	1.1	0.9	0.1
Other housing benefit revisions	-0.3	0.1	0.6	0.1	-0.3
Move to UC profile: tax credits	0.6	0.6	-0.5	-0.6	-0.1
Northern Ireland	0.1	0.2	0.5	0.5	0.5
State pension underpayment exercise	-0.5	0.6	0.4	0.0	0.0
Pension credit: higher take-up	0.1	0.2	0.2	0.1	0.1
Other	-0.3	-0.3	1.5	0.9	-1.6

Policy measures

1.13 New policy announcements since March add material sums to welfare spending in the near term and take away more modest sums in the medium term (Table 1.6). These reflect:

- **Cost-of-living payments.** These comprise two policy packages, one announced in May and the other at the Autumn Statement. The May package provides support in 2022-23 through three payments: a £650 payment to households on means-tested benefits (MTBs), a £300 payment to pensioner households, and a £150 payment to individuals on a disability benefit. The Autumn Statement package provides similar support in 2023-24, with the pensioner and disability payments the same as the May package, while a higher £900 payment is provided to those on MTBs. Together, they carry a large initial cost, increasing DWP and associated Northern Ireland spending by £8.3 billion in 2022-23 (of which £4.8 billion goes to those on MTBs, £2.6 billion to pensioners, and £0.9 billion to those on disability benefits) and by £10.5 billion in 2023-24 (£6.7 billion MTBs, £2.6 billion pensioners, and £1.2 billion disability benefits). In the medium term, there is a modest ongoing cost of these measures as some people are drawn into claiming benefits in order to be eligible for the cost-of-living payment. The extent of this behavioural response is highly uncertain, with the forecast assuming an additional £0.2 billion a year from 2024-25 onwards.

- **Additional resources to tackle fraud and error, particularly in universal credit.** This represents an expansion of two equivalent policies announced in the Spring Statement, together adding almost 6,000 staff to DWP's fraud and error workforce as well as increasing the pace of rollout and extending it to 2027-28. Annual savings build up significantly over time and are expected to reach £2.2 billion in 2027-28.

- **Other measures.** Uprating pension credit and the benefit cap by CPI inflation in 2023-24 raises welfare spending by £1.2 billion a year from 2024-25 onwards. By the forecast horizon, this increase is partly offset by delays to the migration of legacy cases to various new benefit systems,[6] which save a combined £0.7 billion in 2027-28.

Table 1.6: Welfare spending policy measures since March

	£ billion					
	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Policy measures	8.4	11.3	0.5	-0.5	-1.3	-2.0
of which:						
Cost-of-living payments	8.3	10.5	0.2	0.2	0.2	0.2
Fraud and error	0.0	0.0	-0.4	-1.1	-1.5	-2.2
Other	0.1	0.8	0.6	0.3	0.1	0.1

[6] These include the delay of the managed migration of non-contributory ESA claimants to universal credit, the delay of the merger of housing benefit and pension credit, and the pause to the full PIP rollout that migrates the remaining working-age DLA cases to PIP.