Office for **Budget Responsibility**

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budgetresponsibility.org.uk

29 January 2016

Dear Frank

Universal Credit and policy costing

Thank you for your letter dated 14 December 2015. Please find the answers to each of your questions in turn below.

1. *How much extra time would you have needed for the tax credits cuts and all consequential effects on other benefits to be identified and properly estimated using the appropriate models?*

   It is difficult to say precisely. Most were identified during the preparation of preliminary forecasts ahead of the November *Economic and fiscal outlook (EFO)*, when forecasters in DWP and HMRC transferred scorecard costings into the full forecast models. But the very short turnaround for scrutinising the July 2015 interactions costing note, which was submitted just ahead of the final scorecard deadline, combined with the limited time available to the DWP analysts tasked with producing the note, was clearly insufficient.

   At future fiscal events, if the scorecard policy package includes welfare spending measures with potentially significant and complex interactions, we will request that interactions notes are prepared with input from the analysts that we consider have the relevant expertise and to a deadline that gives us sufficient time to scrutinise the notes and discuss the underpinning analysis with the officials who produced it. Specific deadlines will be set following consideration of the complexity and materiality of the interactions in any package of measures. We will publish in our *EFO* the detail of our request to the Government and whether it was willing or able to meet that request. In the absence of sufficient time or the input of relevant analysts, we would be unlikely to certify the measures in a given package as 'reasonable and central'. We would then return to the costings at the next fiscal event, when they can be transferred to the full forecast models. That could result in retrospective certification or revisions to our forecast.

   Needless to say, however much notice we are given of policy changes, any forecast may be subject to error or the need for further revision.

2. *How much extra time would you have needed to certify the costing of the removal of the UC first child premium?*

   Again it is impossible to be precise, but in the months following the July 2015 *EFO* OBR staff spent around 20 person-hours on iterations of this costing note prior to certification in the November 2015 forecast. DWP and HMRC officials also devoted their own time to these iterations.

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3. *Have you raised concerns about inadequate time for scrutiny and certification with the Treasury?*

   We routinely reflect on the lessons learnt during fiscal events and, as noted above, we will seek additional notice of measures where there are significant and complex interactions between them.

4. *Are you confident that the OBR is equipped to scrutinise adequately the costings of measures based on the interaction of data from both DWP and HMRC?*

   Our modest budget and staffing means that OBR staff and the BRC operate at full capacity during fiscal events, so more resources would obviously help us to carry out fuller scrutiny (a theme Sir Dave Ramsden acknowledges in the Treasury's September 2015 *Review of the OBR*). But the recent problems in this area have been associated less with lack of expertise and resources than with individual costings or interaction notes being submitted very close to deadlines, limiting the time available for analysis and interacting with experts across departments.

5. *Do you have any concerns about the quality of the data you are receiving regarding the rollout of UC?*

   I am content with the data and other information that DWP provide to us on the rollout of UC. The key challenge is not the quality of the data provided, but the difficult judgement that we have to make about the delivery of the rollout plans given the available evidence and the history of optimism bias. The rollout is still at an early stage, so this judgement remains subject to considerable uncertainty and may be revised again – in either direction – as more information becomes available.

6. *Could you please provide further detail of your calculations for how the delayed rollout of the UC system – which is now less generous overall than the system it replaces – generates savings in each financial year?*

   As you say, the reversal of the two July 2015 tax credits measures means that the UC system is now less generous than the equivalent legacy benefits. Previously the UC system was marginally more generous.

   Policy measures are normally scored in the order in which they appear on the Treasury's 'scorecard'. However, in the 2015 Autumn Statement scorecard the Treasury chose not to follow that convention when presenting the costings of the tax credit reversal and the delayed UC migration schedule. The cost of the tax credit reversal is estimated on the basis of the delayed UC migration schedule having been costed first (the basis on which we certified it), even though the former appears first. By contrast, the costing for the delayed UC migration schedule is costed against a baseline of the tax credits policy setting from July, before the effect of the reversed cuts, when UC was marginally *more* – not less – generous than its legacy equivalent. The confusion this has caused is unfortunate and reflects the Treasury's decisions about how to present the scorecard in the Autumn Statement.

   Rolling UC out more slowly means that the additional costs from the changes in entitlement rules and higher take-up build more slowly, so this saves money. In 2020-21 the additional managed migration included in the forecast for the first time increases marginal AME costs since

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managed-migrated gainers gain, while managed migrated losers are transitionally protected.

7. *Could you please provide (a) comparisons of the number of managed-migration cases that (i) the OBR and (ii) the DWP expect to be brought into the UC caseload in 2019-20 and 2020-21, and (b) the number of legacy claims you expect to remain outstanding by the end of 2020-21?*

As described above, the ordering of the costings in November meant that the delay to the UC migration profile was estimated on the basis of the July tax credits policy setting. The figures presented below are therefore consistent with that costing and will be updated in our March forecast on the basis of the latest policy settings. All else equal, that would imply slightly higher caseloads that would be subject to managed migration.

(a)(i): Our November 2015 forecast includes 490,000 managed-migration cases brought into the UC caseload in 2019-20 and 610,000 in 2020-21.

(a)(ii): This information pertains to DWP's expectations for the rollout, as opposed to our forecast. Consistent with paragraph 28 of the Memorandum of Understanding between the OBR, the Treasury, HMRC and DWP (available on our website), we asked DWP to provide this information for us to pass to you in this letter. DWP has refused to do so, explaining to us that they felt it should be for them to reply to you directly and that they will "respond as quickly as is practical".

(b): Our November 2015 forecast includes 450,000 outstanding legacy claims in March 2021. In the absence of our decision to delay the roll-out from the timetable provided by DWP, no legacy claims would remain.

Best regards, Robert

Robert Chote
Chairman