Office for
Budget
Responsibility

Welfare trends report

December 2019

CP 200

Office for Budget Responsibility: Welfare trends report

Presented to Parliament by
the Exchequer Secretary to the Treasury by
Command of Her Majesty

December 2019

CP 200

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Foreword

The Office for Budget Responsibility (OBR) was created in 2010 to provide independent and authoritative analysis of the UK's public finances. In December 2013, the Government asked the OBR to take on additional responsibilities in relation to its newly announced cap on a subset of welfare spending. This request was in two parts: to assess the Government's performance against the welfare cap and to "*prepare and publish information on the trends in and drivers of welfare spending within the cap*", so as to facilitate open and constructive debate. Parliament formally included these requirements in the October 2015 edition of the *Charter for Budget Responsibility*.

We have explored several issues in our successive *Welfare trends reports (WTR)*, ranging from a broad historical sweep in our first report to international comparisons in our second to deeper analyses of universal credit and disability benefits in our most recent two reports. This year has been unusual in terms of our forecasting and other analytical work, with considerable time devoted to preparing forecasts for a 6 November Budget that was eventually cancelled. We have therefore prepared a shorter *WTR* that focuses on a single question: how and why did welfare spending evolve differently to the forecasts we prepared in July 2015 alongside the then Conservative Government's post-election 'Summer Budget' – in which it announced large cuts to welfare spending.

The analysis in this report represents the collective view of the OBR's Budget Responsibility Committee. We take full responsibility for the judgements that underpin it and for the conclusions we have reached. We have, of course, been supported in this by the full-time staff of the OBR, to whom we are enormously grateful. We are also grateful to officials in the Department of Work and Pensions and HM Revenue and Customs that have provided their help and expertise.

As with all our reports, the *WTR* remains a work-in-progress. We have refined and modified our other reports in response to feedback from users and we would be very keen to hear suggestions on the scope and format of this report.

We provided the Chancellor with a final copy of the report 24 hours in advance of publication.

Robert Chote | Sir Charles Bean | Andy King

The Budget Responsibility Committee

Executive summary

Overview

1 Over the past decade, the welfare system has been subject to both major reform and to significant money-saving measures. Our previous two *Welfare trends reports (WTR)* have looked in depth at two areas of continuing reform – universal credit and disability benefits. In this report we look back at Summer Budget 2015, when the incoming Conservative Government announced cuts to welfare spending that were intended to save £12 billion in 2019-20 – meeting a manifesto commitment, albeit two years later than originally stated.

2 Viewed from the perspective of our July 2015 forecast performance, welfare spending in 2018-19 exceeded our forecast by £3.5 billion (1.6 per cent). This overshoot was more than explained by two factors: the failure of reforms to disability benefits to save money (as we described in this January's *WTR*); and a series of policy reversals, delays and concessions that either removed entirely or tempered some of the Summer Budget cuts.

3 Viewed from the perspective of the Summer Budget measures, with the benefit of hindsight regarding subsequent changes to the policies themselves and other factors influencing welfare spending, the Summer Budget package will have saved significantly less than £12 billion in 2019-20. In part this reflects trends in tax credits spending that meant there was less spending to be cut, but more important were the subsequent changes to the policies themselves. The scale of the planned cuts – particularly those that generated cash losers from one year to the next – proved greater than was politically deliverable.

Summer Budget 2015 revisited

How did our July 2015 forecast for 2018-19 perform?

4 In July 2015, we predicted welfare spending would stand at £219.4 billion in 2018-19. That included the £9.7 billion of savings in that year associated with policy measures announced in the Summer Budget – £8.9 billion of which related to universal credit and the six benefits and tax credits that it is replacing. In fact, £222.9 billion was spent in 2018-19.

5 Chart 1 summarises the sources of this £3.5 billion overshoot. On the upside:

- **Disability benefits** spending exceeded our forecast by £4.0 billion, with almost all the difference related to the rollout of PIP, which failed to save the sums assumed at the time – indeed, our January 2019 *WTR* suggested that it raised spending materially.

- **Policy reversals, delays and concessions** related to the Summer Budget cuts, plus other subsequent policy measures affected UC and its predecessor benefits and tax credits, added £2.4 billion to spending. The largest effect came from dropping the planned cuts to the tax credits income threshold and taper before they were implemented.

- **Lower earnings growth** (other things equal) raised spending on UC and its predecessors, while **higher inflation** raised spending on disability benefits.

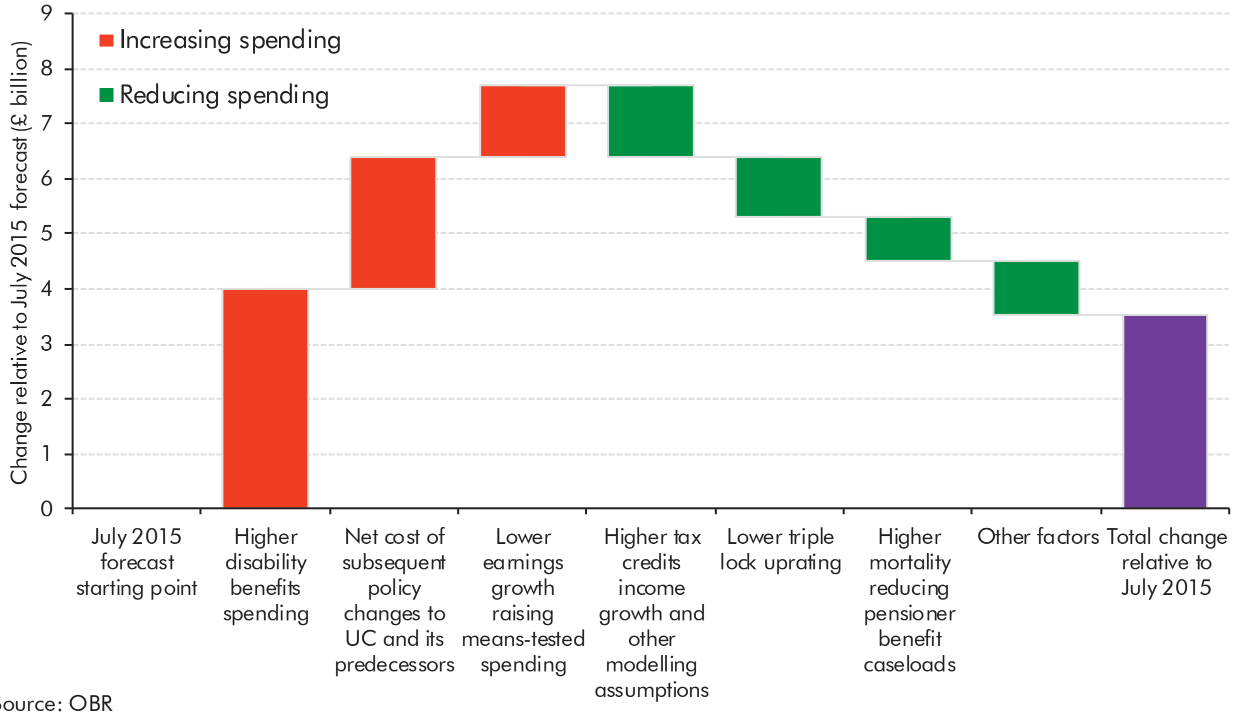
6 The main factors partly offsetting these upside surprises were:

- **Modelling assumptions related to UC and its predecessors** were a significant source of overestimate. In particular, income growth among the tax credits population exceeded our assumptions, leading to more tapering of awards and to lower spending.

- **Lower earnings growth** reduced the cost of triple lock uprating the state pension.

- **Higher mortality** resulted in fewer-than-expected claimants of the state pension and other pensioner benefits.

Chart 1: Why did welfare spending in 2018-19 exceed our July 2015 forecast?



Source: OBR

Did the Summer Budget measures save £12 billion in 2019-20?

7 In Summer Budget 2015, the Government announced welfare spending measures that were expected to cut £12.2 billion from spending in 2019-20. Adding the modest knock-on effects to welfare spending from other Budget measures took that to £12.5 billion.

8 A full recosting of these measures would be a large undertaking, but we can get a feel for whether the package saved £12 billion or not via a simpler updating of key assumptions. Table 1 reports the results of that exercise. It suggests that the measures saved £4.0 billion less than expected in 2019-20 – with the shortfall reasonably stable across the period.

9 The largest single contributor to the shortfall was the reversal of the cuts to tax credits that were due to kick in immediately in 2016-17. Cutting income thresholds and increasing the rate at which awards are tapered with incomes was due to save £4.4 billion. It would have generated year-on-year income losses of several thousand pounds for large numbers of families on tax credits. The ensuing outcry prompted the Government to drop the measure.

10 Other subsequent changes to measures were less costly, but tended to raise spending. The largest of these were measures that increased the generosity of UC relative to the Summer Budget policy settings – notably changing the taper rate in Autumn Statement 2016 and the work allowances in Budget 2018. Again, the impetus for these decisions built as the number of families facing cash losses as they moved onto UC from the legacy system increased.

Table 1: Recosting the Summer Budget 2015 welfare package

	£ billion				
	2016-17	2017-18	2018-19	2019-20	2020-21
Original scorecard					
Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17	-0.1	-0.9	-2.3	-3.9	-4.0
Reduce income thresholds in tax credits and work allowances in UC	-2.9	-3.1	-3.2	-3.3	-3.4
Increase tax credits taper rate to 48%	-1.5	-1.0	-0.6	-0.3	-0.2
Other measures affecting welfare spending	-1.1	-1.9	-3.6	-4.9	-5.7
Total	**-5.6**	**-6.9**	**-9.7**	**-12.5**	**-13.3**
Revised costing					
Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17	-0.1	-0.9	-2.5	-4.1	-4.3
Reduce income thresholds in tax credits and work allowances in UC	-0.1	-0.1	-0.1	0.2	0.3
Increase tax credits taper rate to 48%	0.0	0.0	0.0	0.0	0.0
Other measures affecting welfare spending	-1.1	-1.9	-3.4	-4.5	-5.1
Total	**-1.2**	**-2.9**	**-6.0**	**-8.4**	**-9.1**
Difference					
Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17	0.0	0.1	-0.2	-0.3	-0.3
Reduce income thresholds in tax credits and work allowances in UC	2.8	3.0	3.1	3.5	3.7
Increase tax credits taper rate to 48%	1.5	1.0	0.6	0.3	0.2
Other measures affecting welfare spending	0.1	-0.1	0.2	0.4	0.6
Total	**4.4**	**4.0**	**3.7**	**4.0**	**4.3**

11 The cash freeze on most working-age benefits and child benefit did not save much more than expected despite cumulative inflation over the period being materially higher than expected. While this increased the cuts in recipients' real incomes relative to what was

expected in July 2015, the effect of this on the overall saving was tempered by other factors reducing the numbers affected relative to the July 2015 pre-measures baseline – in particular the higher-than-expected income growth among tax credits cases.

Conclusions

12 Looking back at our July 2015 welfare spending forecast and the package of cuts announced in Summer Budget 2015, several conclusions can be drawn:

- As discussed at length in our January 2019 *WTR*, the **savings associated with reform of disability benefits for working-age claims did not materialise**. We highlighted several lessons from this experience in that *WTR*, which help guide our scrutiny of new policies.

- **The scale of spending on the state pension means that even modest differences between forecast assumptions and outturns can generate large differences in spending** – in this instance, the modest shortfalls in earnings growth relative to our forecast and in the size of the pension-age population relative to the ONS projections we used.

- **The Summer Budget cuts have saved less than intended**. The shortfall is dominated by various policy reversals, delays and concessions related to cuts to tax credits and UC.

- Echoing the conclusions of our 2016 *WTR*, which looked at all post-2010 welfare spending measures, **the most reliable sources of cuts were those that squeezed average awards** – notably the uprating freeze, which by 2019-20 will have cut the real value of the affected benefit rates by 6.1 per cent (versus the 4.6 per cent planned).

- The **measures that were reversed, delayed or watered down were typically those that generated cash losers from one year to the next** – most obviously the 2016-17 tax credits cuts that were dropped, but also some of those affecting housing benefit and UC. This points to the greater political salience of families experiencing actual cash losses as opposed to seeing their spending power squeezed by real-terms cuts.

1 Introduction

1.1 'Welfare spending' means different things to different people. At its broadest, it could cover any public spending that plays a part in the provision of the welfare state – including health, social care, education and social housing, as well as social security benefits and tax credits for people of all ages. Our *Welfare trends reports (WTRs)* focus on benefits and tax credits, which transfer cash from some parts of the population to others who are eligible.

1.2 In this year's report we focus on how outturn welfare spending in 2018-19 differed from our July 2015 forecast, which included the large package of welfare cuts announced in Summer Budget 2015 by the then new Conservative Government. In this chapter we introduce the metrics and methodological approach that we use to analyse the evolution of welfare spending over time. We then describe how we have categorised different benefits and tax credits in order to analyse the performance of our July 2015 forecast relative to outturn.

Welfare spending

How we measure welfare spending

1.3 Our *WTRs* focus on those elements of benefit and tax credit spending that are financed by central government as part of what the Treasury calls 'annually managed expenditure' (AME). Most are administered by three central government organisations:

- the **Department for Work and Pensions** (DWP) for most benefits in Great Britain;
- **HM Revenue and Customs** (HMRC) for the personal tax credits, child benefit and tax-free childcare systems across the United Kingdom; and
- the **Department for Communities** for most benefits in Northern Ireland.

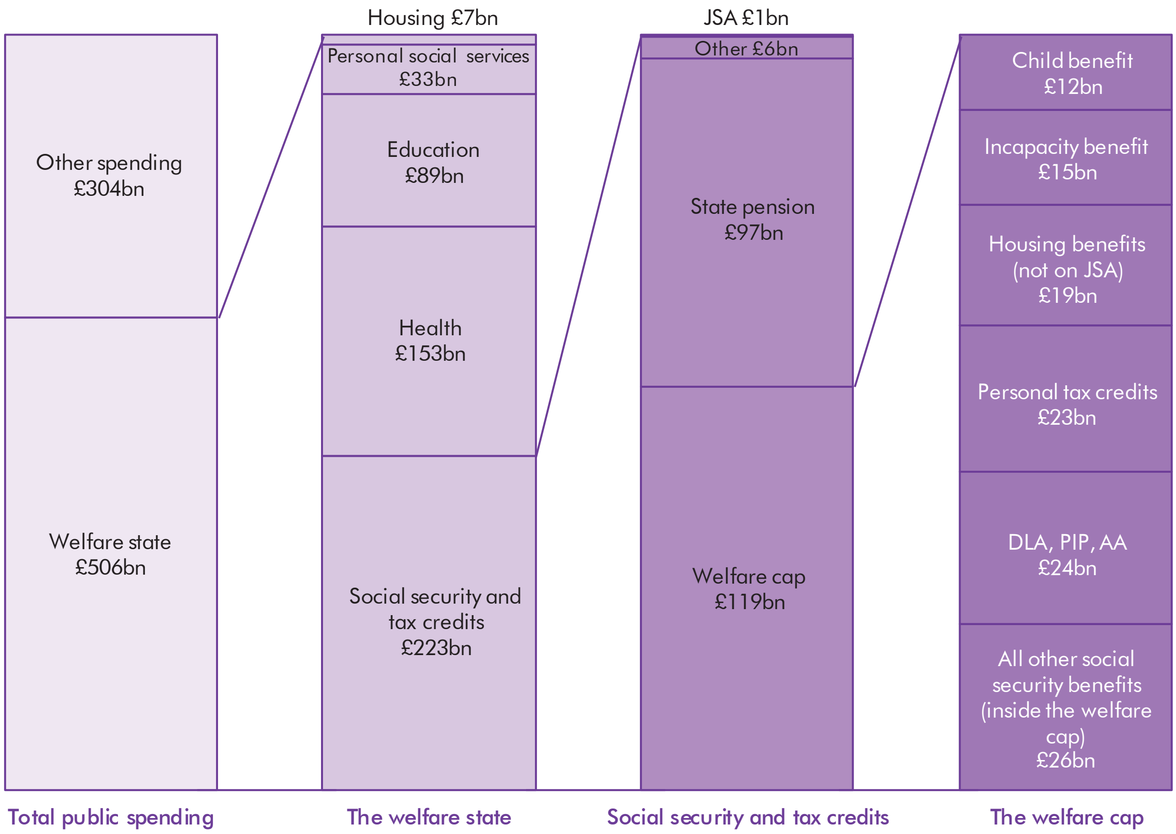
1.4 In addition, under the terms of the fiscal framework agreed between the UK and Scottish Governments, responsibility for some benefits paid to people resident in Scotland is being transferred to the Scottish Government. Carer's allowance is the largest to be transferred to date, with several disability benefits due to be devolved from April 2020.

1.5 Housing benefit and local council tax support are administered by local authorities. Most of the cost of housing benefit in Great Britain is met by DWP.

1.6 Due to the administrative separation of the benefits system between Great Britain and Northern Ireland, we tend to focus on Great Britain for DWP-administered spending, while HMRC-administered spending is considered on a UK-wide basis.

1.7 Figure 1.1 shows how the definition of welfare spending used in this report relates to total public spending and to other possible definitions of welfare spending. It shows that AME spending on social security and tax credits accounted for 28 per cent of the £810 billion of total public spending in 2018-19 and 44 per cent of a broader definition of spending on the 'welfare state'. The Government's 'welfare cap' applies to 54 per cent of welfare spending as defined here and 15 per cent of total public spending.

Figure 1.1: UK welfare spending in context (2018-19)



Source: HMRC, OBR

1.8 In describing how welfare spending evolves over time, different metrics are appropriate for different purposes. The three we use most often are:

- **Spending in cash or nominal terms**: this is simply the cash amount spent in a given period. But without putting the cash amount into context – by asking what recipients could buy with it or how much national income is available to fund it – interpreting changes in cash spending is difficult, particularly over longer time periods.

- **Spending in real terms**: trends in cash spending can be adjusted for whole economy or consumer price inflation. This gives a sense of the volume of goods and services that could be purchased with that spending in the hands of the recipients.

- **Spending as a share of national income**: trends in cash spending can be related to the cash value of the economic activity that can be taxed to finance it. This is the metric most relevant when considering the sustainability of the public finances.

1.9 Other metrics include welfare spending as a share of total public spending (illustrating the trade-offs with other priorities within a given spending envelope), relative to revenues (a more direct comparison with the resources available to finance it) or in per capita terms (allowing it to be related more directly to individual incomes or living standards).

How we analyse trends in welfare spending

1.10 Trends in welfare spending reflect many different drivers. We split these into:

- those that affect the number of recipients – **the caseload**; and
- those that affect the amount paid to each – **the average award**.

1.11 Total spending on each benefit and the average caseload through each year are derived from administrative data, with the average award calculated from the two. This average award is not necessarily the same as the statutory rate or rates for a given benefit, as it will usually depend on the composition of the caseload.

1.12 Changes in caseload can be affected by:

- **Changes in the population eligible for a benefit**, due to demographic or economic factors – such as the rising number of people above the state pension age or changes in the number of people with disabilities or long-term health conditions.
- **The proportion of those eligible who take up their entitlement** – this could be affected by knowledge of the entitlement, by conditions placed on receiving it, by the hassle involved in claiming or by perceived stigma that deter people from making a claim.
- **Changes in income that affect entitlement** – especially earnings and changes in housing costs in means-tested benefits.
- **Policy changes that alter eligibility criteria** – such as raising the state pension age or revising the parameters that guide assessment decisions for new or existing claims.

1.13 Changes in average awards can be affected by:

- **Statutory (or default) uprating of benefits and the economic factors that affect the measures by which they are uprated** each year. For example, where rates are linked to prices, they would be affected if exchange rate or oil price movements led to higher or lower inflation or if the Government changed the measure used (as the Coalition Government announced in 2010, moving from the RPI to CPI measure of inflation).
- **Policy choices to uprate benefits by a discretionary amount instead of the default setting**. This was the case for most working-age welfare spending between 2013-14 and 2019-20, thanks first to the 1 per cent a year uprating policy announced by the

Coalition in Autumn Statement 2012, which was followed by the four-year cash freeze announced by the new Conservative Government in Summer Budget 2015.

- **Changes in the composition of the caseload**. When different groups receive different amounts, such changes can alter the average award even when the overall caseload is stable. For example, a lower rate of employment and support allowance (ESA) is paid to those deemed to be in the 'work-related activity group' and a higher one to those deemed to be in the 'support group', so a shift towards one or other of these groups will affect the average award across the aggregate ESA caseload.

Categories of welfare spending used in this report

1.14 Welfare spending provides support to many different groups and with many different issues, so one challenge faced when analysing trends in welfare spending is how best to group the various types of spending to tell a meaningful story. No approach is perfect. For example:

- **In our first *WTR*** we used categories that had previously been used by the Institute for Fiscal Studies in its own analysis of welfare spending.[1] These included groups based on recipients' characteristics – e.g. pensioners – and on the nature of the support provided – e.g. for housing costs. Choices needed to be made where spending could reasonably fall under more than one heading – e.g. housing benefit paid to pensioners (which was grouped with other housing benefit under the housing costs heading) or attendance allowance (which was grouped with pensioner benefits, but could have been grouped with those supporting people with ill-health or disabilities).

- **In our *Economic and fiscal outlook* publications** we group benefits under just two headings, depending on whether or not they are subject to the Government's welfare cap. This facilitates our assessment of performance against the cap, but the two groups are subject to varying influences and spending on universal credit and housing benefit is split between the two groups depending on claimants' circumstances.

1.15 In Chapter 2 we have grouped spending under different headings again, in this case to facilitate our assessment of how spending in outturn has differed from our July 2015 forecast. We have chosen five headings for this purpose:

- **State pension and other pensioner benefits**: this is dominated by the state pension, but also includes pension credit, the winter fuel allowance and housing benefit paid to pensioners. In terms of the analysis in Chapter 2, these items share two important characteristics: spending growth is heavily influenced by the ageing population and changes in the state pension age; and, except for housing benefit, their generosity was unaffected by the Summer Budget measures.

- **Universal credit and its legacy predecessors**: this groups together the main means-tested forms of support for working-age families, which in the legacy system are

[1] See Institute for Fiscal Studies, *A survey of the UK Benefit System*, IFS Briefing Note BN13, November 2016 and previous editions.

provided via jobseeker's allowance, employment and support allowance, child and working tax credits, income support and housing benefit. These bore the brunt of the Summer Budget cuts, both in terms of reduced generosity and reduced eligibility. It is hard to analyse outturn against forecast, benefit by benefit, because of methodological and real-world complexities generated by the rollout of universal credit – to which we devoted our January 2018 *WTR* – so we consider them together in Chapter 2.

- **Disability benefits**: we group spending on disability living allowance, personal independence payment and attendance allowance under this heading. This part of the benefits system has also been the subject of major reform in recent years, with spending having come in substantially higher than initial estimates of the effect of those reforms assumed – as we discussed in our January 2019 *WTR*. Spending is largely driven by changes in the prevalence of benefit receipt in the population. The generosity of these benefits was unaffected by the Summer Budget measures.

- **Child benefit**: this is the only benefit that we treat on its own. Spending growth is driven by growth in the child population, tempered somewhat by growth in the number of families whose eligibility is reduced or removed by the 'high-income child benefit charge'. The generosity of child benefit going forward was cut in Summer Budget 2015.

- **Other welfare spending**: the largest items in this category are carer's allowance, the caseload for which is directly related to disability benefits spending and whose generosity was not affected by Summer Budget measures, and the various lines of welfare spending in Northern Ireland, which were to a large extent affected by the cuts announced in Summer Budget 2015.[2] This group also includes the various parental leave benefits, industrial injuries benefits, tax-free childcare and bereavement benefit.

1.16 Table 1.1 sets out our latest forecasts presented under these headings. It shows that spending is forecast to rise by 16.8 per cent in cash terms over the five years from 2018-19 to 2023-24. That reflects a 5.9 per cent rise in real terms (relative to CPI), but since spending growth is slower than growth in the economy it falls by 0.2 per cent of GDP.

[2] For a discussion of the effect of social security and other policy changes in Northern Ireland, see Reed, H. and Portes, J., *Cumulative impact of tax and social security reforms in Northern Ireland*, November 2019.

Table 1.1: March 2019 welfare spending forecast

	£ billion					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
State pension and other pensioner benefits	**109.6**	**111.4**	**114.0**	**118.7**	**124.4**	**131.0**
State pension	96.7	98.9	101.6	106.4	112.0	118.5
Housing benefit	5.8	5.6	5.6	5.7	5.9	6.0
Pension credit	5.1	5.0	4.8	4.6	4.5	4.5
Winter fuel payments	2.0	2.0	1.9	2.0	2.0	2.0
UC and its legacy benefit predecessors[1]	**63.3**	**63.5**	**63.7**	**64.4**	**65.5**	**67.0**
Universal credit	8.0	0.9	1.0	1.1	1.1	1.6
Personal tax credits	22.8	24.8	24.8	24.9	25.1	25.3
Employment and support allowance	15.0	16.0	15.6	15.7	15.7	15.9
Housing benefit	14.4	17.2	17.5	18.0	18.6	19.2
Jobseeker's allowance	1.3	2.4	2.5	2.6	2.6	2.7
Income support	1.9	2.2	2.2	2.2	2.3	2.3
Disability benefits	**24.4**	**26.3**	**27.4**	**28.9**	**30.4**	**32.0**
Disability living allowance	8.1	7.3	6.3	6.0	5.8	5.6
Personal independence payment	10.6	13.1	15.1	16.6	18.1	19.7
Attendance allowance	5.7	5.9	6.1	6.3	6.5	6.8
Child benefit	**11.6**	**11.6**	**11.9**	**12.1**	**12.4**	**12.7**
Other welfare spending	**14.1**	**14.6**	**15.2**	**15.9**	**16.8**	**17.7**
Northern Ireland social security	6.2	6.3	6.5	6.8	7.0	7.3
Carer's allowance	2.9	3.0	3.2	3.4	3.7	4.0
Maternity and paternity pay	3.1	3.2	3.3	3.4	3.5	3.6
Industrial injuries benefits	0.8	0.8	0.8	0.9	0.9	0.9
Bereavement benefits	0.5	0.4	0.4	0.4	0.3	0.3
Tax-free childcare	0.1	0.3	0.4	0.6	0.8	1.0
Other items	0.5	0.6	0.6	0.6	0.6	0.6
Total welfare	**223.0**	**227.3**	**232.2**	**240.0**	**249.5**	**260.5**

[1] Spending in 2017-18 and 2018-19 is presented on an actual cost basis. From 2019-20 onwards, it is presented based on a legacy system counterfactual plus a marginal cost of universal credit. See our January 2018 *Welfare trends report* for a full description of how and why this approach is used.

1.17 Chart 1.1 shows how each category of spending contributes to the £13.1 billion real terms rise in spending over the period:

- **Pensioner benefits** account for around two-thirds of the rise, thanks in large part to triple lock uprating lifting the average state pension award by 8.5 per cent in real terms, while the increase in the state pension age to 66 by October 2020 limits caseload growth to only 2.3 per cent despite the continued ageing of the population.

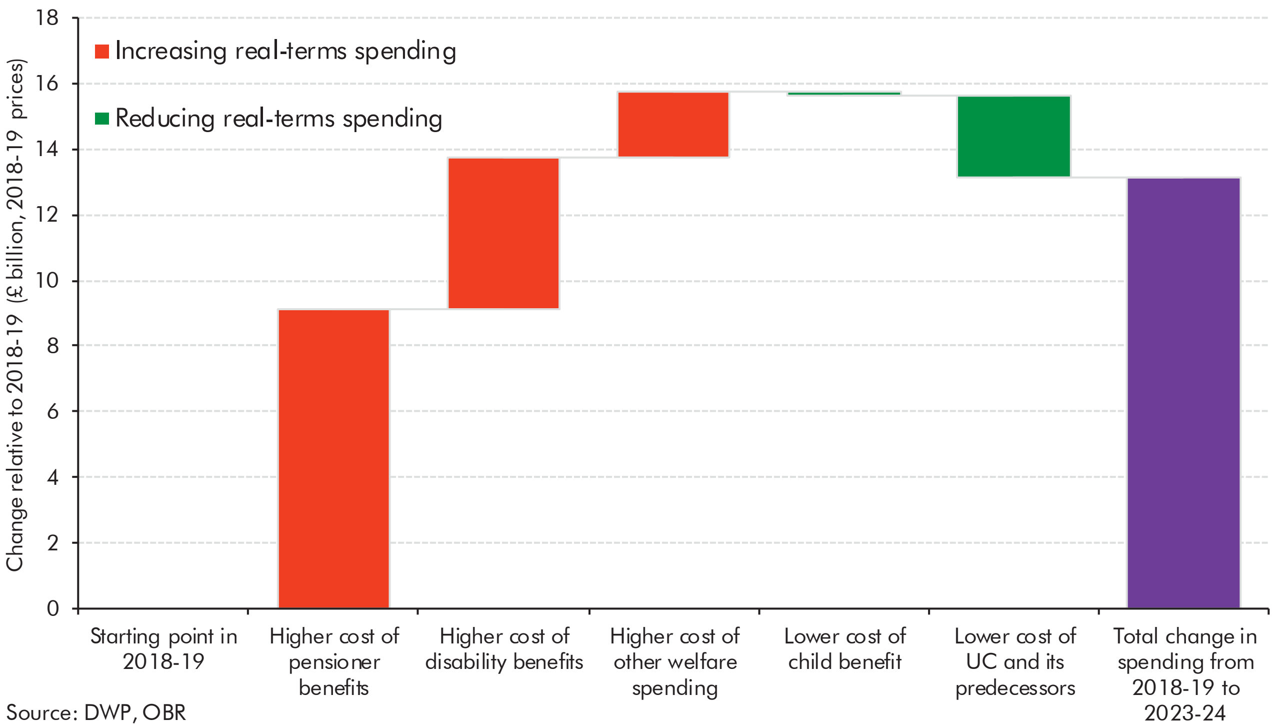
- **Disability benefits** account for around a third of the rise, due largely to rising prevalence of DLA receipt among children and of PIP receipt among working-age adults. The combined DLA and PIP caseload is forecast to rise 17.4 per cent over the period. The shift from DLA to PIP for working-age adults helps to push real average awards up by 4.1 per cent, as people receive more on average under PIP than DLA.

- **Other welfare spending** also rises in real terms over the period, in particular carer's allowance (reflecting trends in disability benefit caseloads) and tax-free childcare (as take-up of this new benefit is assumed to rise towards a steady-state level).

- **Child benefit** spending is almost flat in real terms over the period as growth in the number of children in the population is offset by growth in the number of families whose eligibility is reduced or removed by the 'high-income child benefit charge'.

- **Universal credit and its predecessors** provides the only material source of lower real spending over the period. As already noted, it is difficult to analyse the sources of this decline meaningfully due to the rollout of universal credit – when one universal credit claim replaces multiple legacy system claims (e.g. a family claiming both tax credits and housing benefit), the split of spending into caseloads and average awards no longer compares like with like. But in broad terms, the decline reflects lower real spending on incapacity benefits and tax credits (thanks in part to policy measures, such as the cash freeze that still applies in 2019-20 and the restriction of some awards to only the first two children in a family) that is partly offset by universal credit now being more generous on average than the legacy benefits it is replacing.

Chart 1.1: Source of changes in real-terms welfare spending: 2018-19 to 2023-24



Source: DWP, OBR

2 Summer Budget 2015 revisited

Introduction

2.1 Cuts to working-age welfare spending have contributed significantly to reducing the budget deficit over the past decade. In particular, this reflects the switch to uprating most working-age benefits and tax credits by CPI inflation rather than other, generally higher, measures of inflation (announced in the June 2010 Budget), which was followed by successive periods of below-inflation upratings or cash freezes. But the largest single package of cuts was announced in the Conservative Government's post-election Summer Budget in July 2015. In its 2015 manifesto, the Conservative Party had pledged to "*find £12 billion from welfare savings*" in order to help meet its then fiscal target for 2017-18. In the event, it aimed for £12 billion of savings in 2019-20 instead. The Government reflected these planned cuts in the welfare cap, which was reset at a level 13 per cent lower than the previous one.

2.2 We now have outturn data up to 2018-19, by when around 80 per cent of the cut in welfare spending associated with these measures was due to have been delivered. This chapter:

- summarises **our July 2015 forecast** – reviewing our pre- and post-policy-measures forecasts and the package of policy measures that it incorporated;
- discusses **the differences between that forecast and outturn** spending in 2018-19; and
- draws some **conclusions**.

Our July 2015 forecast

Summer Budget 2015 policy measures

2.3 As presented on the Treasury's 'scorecard' of policy measures in Summer Budget 2015, there were 16 welfare spending measures that were designed to cut spending by £12.2 billion in 2019-20, with £9.4 billion of that expected by 2018-19. Adding in the effects of three other measures that were presented in different parts of the Treasury scorecard raised those figures to £12.5 billion and £9.7 billion. The largest individual measures – accounting for over 80 per cent of the expected savings – were:

- **'Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17'**. This held selected welfare payments flat in cash terms for the four years to 2019-20 rather than uprating in line with CPI inflation each year. This affected tax credits (but not the disability elements), child benefit, employment and support allowance (ESA, but not the 'support group' rate nor the disability and carer premiums), housing benefit (with some exceptions in the least affordable areas), income support, jobseeker's allowance and universal credit (UC). This was expected to save little in 2016-17, when CPI uprating with September 2015 inflation was expected to be low, but the saving built up progressively thereafter in line with our forecast for inflation to rise back towards the Government's 2 per cent target.

- **'Reduce income thresholds in tax credits and work allowances in UC'**. This cut the income at which working tax credit began to be withdrawn by 40 per cent from £6,420 to £3,850 a year from 2016-17 onwards. Work allowances in UC were abolished for non-disabled childless claimants, and reduced from £222 to £192 a month for couples with housing costs and £536 to £397 a month for couples without housing costs. This would have delivered a large, immediate cut in tax credits spending – of £2.9 billion in 2016-17 – while the reduction in UC was expected to build more slowly as the UC caseload built up – reaching £3.4 billion in 2020-21.

- **'Reduce social sector rents by 1% each year for 4 years from 2016-17'**. This cut rents charged by housing associations and local authorities for social housing tenants by 1 per cent a year rather than allowing them to rise by CPI inflation plus 1 per cent. This reduced rental income for social housing providers, most of which were then classified in the private sector, while also reducing housing benefit paid to social sector tenants. Savings from this built up progressively to reach £2.0 billion in 2020-21.

- **'Limit child element to 2 children for new births in tax credits and new claims in UC'**. This restricted support through child tax credit and UC to two children for those born on or after 6 April 2017. It also limited the child element in UC to the first two children for new *claims* after that date. The equivalent allowances in housing benefit were also limited to two children, for new births and new claims from April 2017 onwards. Savings from these changes built up year by year to reach £1.4 billion in 2020-21.

- **'Increase tax credits taper rate to 48%'**. This measure increased the rate at which tax credits awards were withdrawn with gross income from 41 to 48 per cent from April 2016. Combined with the lower income thresholds, this meant that awards would taper to zero at significantly lower incomes than under the pre-measures tax credits system. The effect on tax credits spending was relatively large and hit immediately – saving £1.5 billion in 2016-17, then less over time as tax credits cases moved to UC.

2.4 Among the other scorecard measures that had knock-on effects on welfare spending, the largest medium-term saving came from '**Childcare: 30 hour entitlement for working parents of 3 and 4 year olds**', which saved £0.2 billion a year from 2018-19 onwards. This was thanks to childcare costs that had previously been subsidised through tax credits and UC being met in full through departmental spending by the Department for Education.

2.5 When grouped under the five categories of welfare spending used in this chapter, around 90 per cent of the savings came from UC and its predecessor benefits and tax credits. Some pensioners were affected by the housing benefits cuts. And child benefit and some other elements of welfare spending were subject to the four-year freeze on uprating.

Table 2.1: Summer Budget 2015 scorecard measures

	£ billion					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Individual Summer Budget 2015 scorecard measures						
Welfare spending measures						
Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17	0.0	-0.1	-0.9	-2.3	-3.9	-4.0
Benefit cap: reduce to £20,000, and £23,000 in London	0.0	-0.1	-0.3	-0.4	-0.4	-0.5
Limit child element of tax credits and UC to 2 children for new claims	0.0	0.0	-0.3	-0.7	-1.1	-1.4
Remove family element in tax credits and UC, and the family premium in Housing Benefit, for new claims	0.0	-0.1	-0.2	-0.4	-0.6	-0.7
Increase tax credits taper rate to 48%	0.0	-1.5	-1.0	-0.6	-0.3	-0.2
Cut income thresholds in tax credits and work allowances in UC	0.0	-2.9	-3.1	-3.2	-3.3	-3.4
Reduce income rise disregard in tax credits	0.0	-0.2	-0.2	-0.3	-0.2	-0.1
UC waiting days: revised schedule	0.0	0.0	0.0	0.0	0.0	0.0
End automatic entitlement for out-of-work 18-21 year olds	0.0	0.0	0.0	0.0	0.0	0.0
Reduce social sector rents by 1% each year for 4 years from 2016-17	0.0	-0.2	-0.7	-1.3	-1.9	-2.0
Pay to stay: higher income social housing tenants to pay market rents	0.0	0.0	0.1	0.2	0.2	0.3
Limit backdating awards to 4 weeks	0.0	0.0	0.0	0.0	0.0	0.0
Support for Mortgage Interest: change from welfare payment to a loan; maintain capital limit at £200,000	0.0	0.0	0.0	-0.3	-0.3	-0.3
Employment and Support Allowance: align Work-Related Activity Group rate with JSA	0.0	0.0	-0.1	-0.2	-0.4	-0.6
UC parent conditionality from when youngest child turns 3	0.0	0.0	0.0	0.0	0.0	0.0
Fraud, error and debt: tax credits changes	-0.1	-0.1	0.0	0.0	0.0	0.0
Total welfare spending cuts on Treasury scorecard	**-0.1**	**-5.0**	**-6.7**	**-9.4**	**-12.2**	**-13.0**
Other measures affecting welfare spending						
Personal allowance: increase to £11,000 in 2016-17, with equal gains to higher rate taxpayers	0.0	0.0	0.0	0.0	-0.1	0.0
Childcare: 30 hour entitlement for working parents of 3 and 4 year olds	0.0	0.0	-0.1	-0.2	-0.2	-0.2
Tax Free Childcare: updated rollout	-0.2	-0.5	-0.1	0.0	0.0	0.0
Total effect on welfare spending	**-0.3**	**-5.6**	**-6.9**	**-9.7**	**-12.5**	**-13.3**
Effects of measures by category of welfare spending						
State pension and other pensioner benefits	0.0	-0.1	-0.2	-0.4	-0.5	-0.5
UC and its legacy benefit predecessors	-0.1	-5.0	-6.5	-8.9	-11.3	-12.2
Disability benefits	0.0	0.0	0.0	0.0	0.0	0.0
Child benefit	0.0	0.0	-0.1	-0.3	-0.6	-0.6
Other welfare spending	-0.2	-0.5	-0.1	-0.1	-0.1	-0.1
Total effect on welfare spending	**-0.3**	**-5.6**	**-6.9**	**-9.7**	**-12.5**	**-13.3**

2.6 The costings reported in Table 2.1 were arrived at through an iterative process between the Treasury, DWP and us ahead of Summer Budget 2015. We noted at the time that the process had been particularly difficult and that we had not had sufficient time to certify one measure – removing the first child premium in universal credit for new claims – as reasonable and central. We were able to certify that measure for our November 2015 forecast, but at the same time noted some effects that had been missed or misallocated in July 2015. We also made a large but neutral switch in their treatment so that it was consistent with how our forecast for UC and the legacy benefits works – namely based on the legacy system continuing unchanged and the effect of UC relative to that being added.[1]

2.7 Over subsequent forecasts, one policy costing that required fairly frequent revision was the two-child limit. Issues were revealed in how the interaction between tax credits, housing benefit and UC had been modelled, in part due to the complexity of the measure applying only to new births in some cases but also to new claims in others.

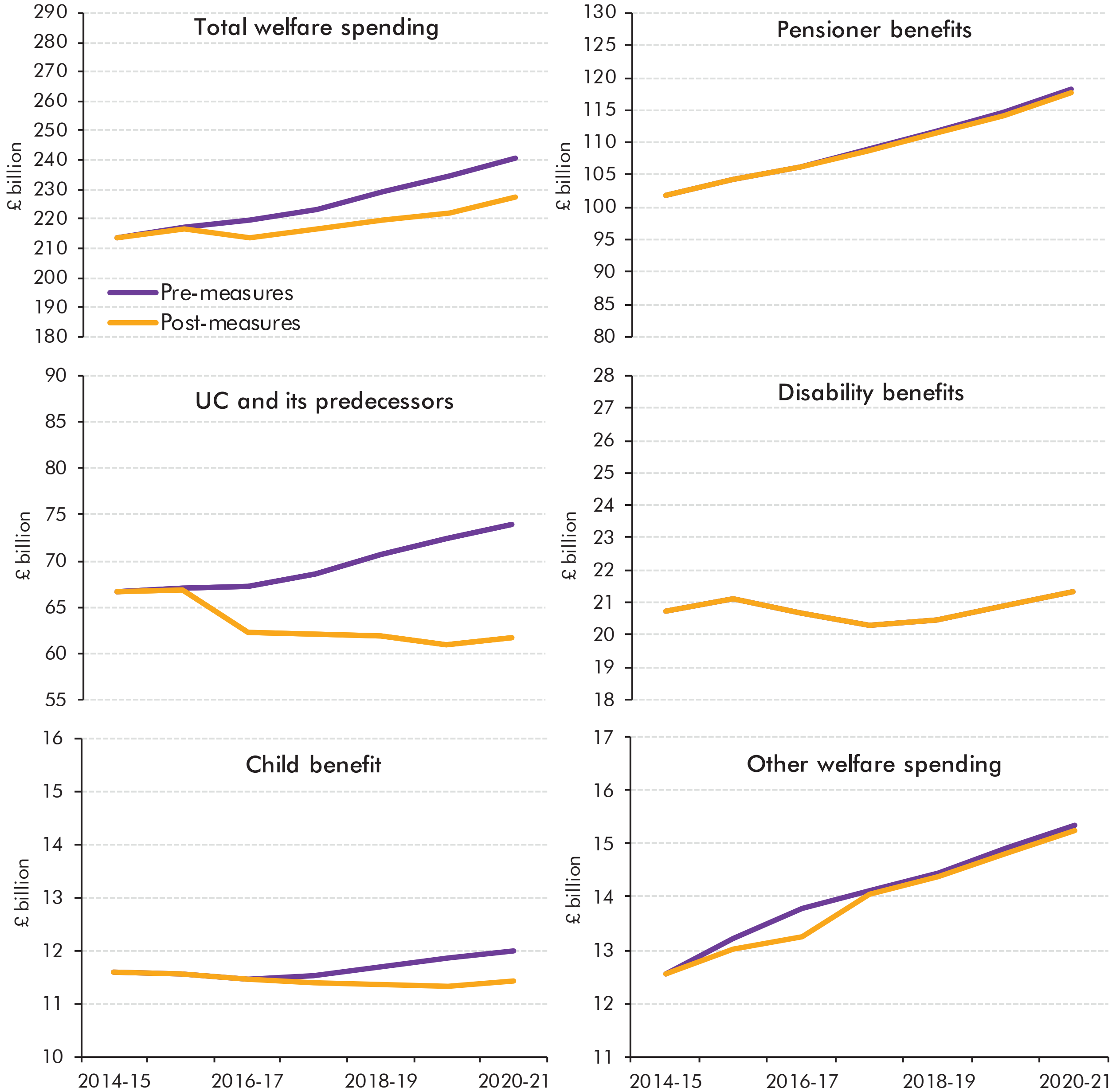
Pre- and post-measures forecasts

2.8 The six panels of Chart 2.1 show our pre- and post-measures forecasts for total welfare spending and the five categories of spending used in this chapter. It shows how spending on pensioners and in support of those with disabilities was little changed by the Summer Budget measures, whereas post-measures spending on child benefit was flat in cash terms instead of rising and post-measures spending on UC and its predecessors fell in cash terms (sharply in 2016-17) rather than rising gently. Other spending was also little changed.

2.9 The charts also show that the two categories of spending that were set to grow fastest in percentage terms in the pre-measures forecast ('other welfare spending' – by 17.7 per cent in cash terms between 2015-16 and 2020-21 – and pensioner benefits – by 13.4 per cent) were little affected by the Summer Budget measures. By contrast spending on UC and its predecessors went from rising 9.9 per cent in the pre-measures forecast to falling 7.7 per cent post-measures. Child benefit went from rising 3.4 per cent to falling 1.0 per cent.

[1] See Box 4.3 of our November 2015 *Economic and fiscal outlook* for a fuller discussion of this.

Chart 2.1: Our July 2015 pre- and post-measures welfare spending forecasts



Source: DWP, HMRC, OBR

What did the package mean for spending between 2014-15 and 2018-19?

2.10 Table 2.2 sets out our July 2015 forecast in cash terms, while Chart 2.2 summarises the change in total welfare spending and the five categories between 2014-15 and 2018-19 on three different measures: in cash terms, in real terms (relative to CPI) and as a share of GDP. It shows that total spending was forecast to rise by just 2.8 per cent in cash terms, thereby falling 2.3 per cent in real terms and by 1.5 per cent of GDP. Within that:

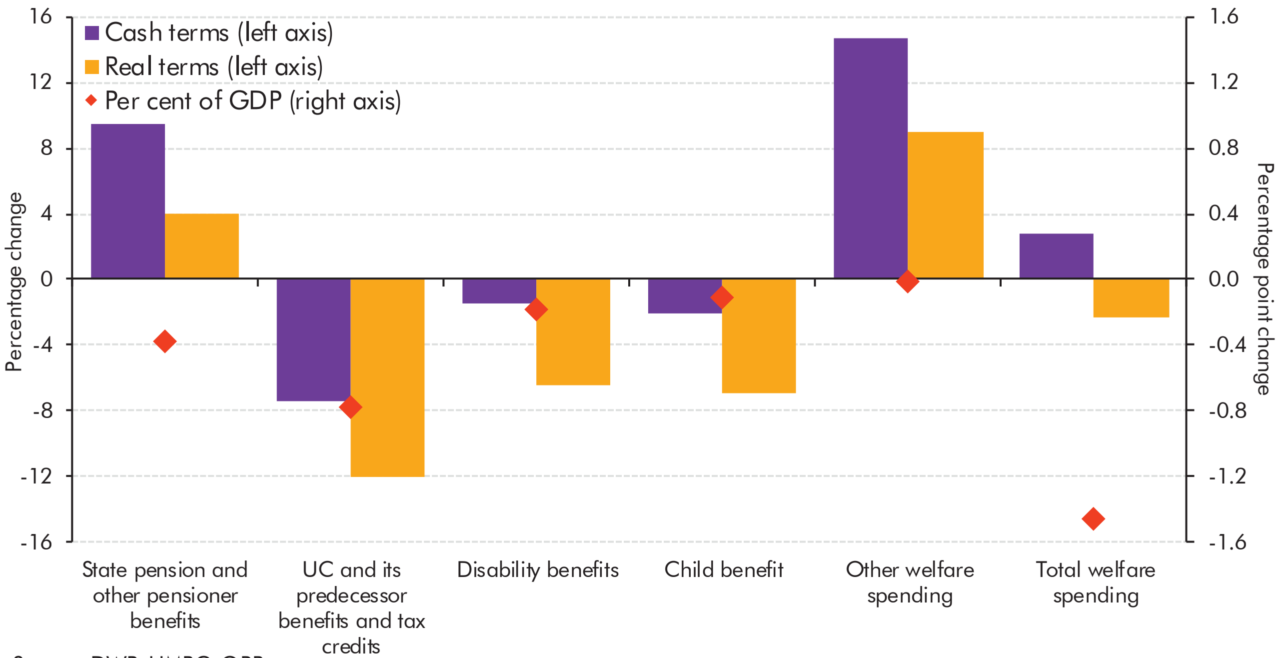
- **State pension and other pensioner benefits** spending more than explained growth in total welfare spending – thanks largely to 'triple lock' uprating (since rises in the state pension age for women largely offset the effect of population ageing on the caseload).

- **Other welfare spending** was also forecast to rise, with the rising cost of carer's allowance and the introduction of tax-free childcare the largest sources of increase.

- **UC and its predecessors** and **child benefit** were both forecast to fall in cash terms, and more significantly in real terms and relative to GDP, thanks to the Budget measures.

- **Disability benefits** spending was forecast to fall slightly in cash terms, despite not being subject to any Summer Budget measures. That reflected the assumed effects of moving working-age claims from DLA to PIP, with fewer claims expected to receive a PIP award than would have been the case if DLA continued. The working-age caseload was forecast to fall 10.6 per cent between 2014-15 and 2018-19, from 1.9 million to 1.7 million, by which point the rollout of PIP was assumed to have been completed.

Chart 2.2: Changes in welfare spending between 2014-15 and 2018-19



Source: DWP, HMRC, OBR

Table 2.2: July 2015 welfare spending forecast

	£ billion						
	Estimate	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
State pension and other pensioner benefits	101.8	104.3	106.2	108.7	111.4	114.2	117.6
UC and its legacy benefit predecessors	66.7	66.9	62.2	62.1	61.8	61.0	61.7
Disability benefits	20.8	21.1	20.7	20.3	20.4	20.9	21.3
Child benefit	11.6	11.5	11.4	11.4	11.3	11.3	11.4
Other welfare spending	12.6	13.0	13.3	14.0	14.4	14.8	15.3
Total welfare spending	**213.4**	**216.9**	**213.8**	**216.5**	**219.4**	**222.2**	**227.3**

Comparing our July 2015 forecast with outturn in 2018-19

2.11 Table 2.3 compares the outturn[2] in 2018-19 with our July 2015 forecast. Total welfare spending was £3.5 billion (1.6 per cent) higher than forecast. This was more than explained by underestimates of £4.0 billion (19.5 per cent) for disability benefits spending and £2.4 billion (3.9 per cent) for UC and its predecessors, partly offset by an overestimate of £2.3 billion (2.1 per cent) for pensioner benefits. Child benefit and other welfare spending were reasonably close to forecast.

2.12 Table 2.3 also breaks down the difference between forecast and outturn into the three components that we typically use when evaluating our past forecasts: those that relate directly to differences between our economy forecast and subsequent outturns (for example, for inflation); those that relate to subsequent policy announcements; and a residual 'fiscal forecasting difference' that captures all other assumptions and modelling issues.

2.13 Looking at the sources of difference:

- **Surprises relative to our economy forecast** explain £0.5 billion of the underestimate. Lower earnings growth and higher inflation raised spending on UC and its predecessors, but lower earnings growth also reduced triple lock uprating of the state pension. The cost of higher inflation was dampened by the cash freeze on most working-age payments, so that benefit recipients bore the burden of higher prices rather than the Exchequer.

- **Subsequent policy changes** explain £1.7 billion of the underestimate, in particular the policy reversals, delays and concessions related to the Summer Budget measures.

- **Other fiscal forecasting differences** explain £1.3 billion of the underestimate, with a large underestimate of disability benefits spending (related to the rollout of PIP) more than outweighing overestimates of pensioner benefits spending (thanks in part to higher-than-expected mortality) and UC and its predecessors (thanks largely to unexpectedly fast income growth among tax credits claimants).

Table 2.3: Welfare spending in 2018-19: changes since July 2015

	£ billion					
	July 2015 forecast	Outturn	Difference	*of which due to:* Economy	Policy	Other
State pension and other pensioner benefits	111.4	109.1	-2.3	-1.1	-0.4	-0.8
UC and its legacy benefit predecessors	61.8	64.2	2.4	1.3	2.4	-1.3
Disability benefits	20.4	24.4	4.0	0.2	-0.1	3.9
Child benefit	11.3	11.6	0.2	0.1	0.0	0.1
Other welfare spending	14.4	13.6	-0.8	0.0	-0.2	-0.6
Total welfare spending	**219.4**	**222.9**	**3.5**	**0.5**	**1.7**	**1.3**

[2] HM Treasury, *Public Expenditure Statistical Analyses 2019*, August 2019. We have abstracted from the difference between DWP outturn and the overall PESA outturn, which is likely to reflect mapping between welfare spending and other lines within total public spending.

The effect of surprises relative to our economy forecast

2.14 Welfare spending is affected by the state of the economy in many ways. Table 2.4 sets out our July 2015 forecasts for some of the key determinants of spending and compares them with the latest outturns. The extent to which surprises relative to forecast affect spending in 2018-19 depends on the level of each in that year. So, for inflation, earnings and the triple lock, what matters is cumulative differences from the start of the period, whereas for employment and unemployment it is simply the difference in 2018-19.

2.15 One of the most important determinants of yearly changes in welfare spending in cash terms is CPI inflation, which is typically used to uprate most benefits and tax credits other than the state pension. But the four-year cash freeze imposed on most working-age payments meant the 1.0 percentage point upside surprise in cumulative CPI inflation across September 2015, September 2016 and September 2017 had only a modest effect on spending in 2018-19. This was largely via its effect on disability benefits spending.

2.16 The largest item of welfare spending that retained an annual uprating during this period was the state pension, which is subject to the more generous triple lock that raises it by the highest of CPI inflation, average earnings growth or 2.5 per cent each year. Our July 2015 forecast predicted that average earnings growth would dominate in the triple lock in every year. In the event it was only uprated in line with earnings growth in 2016-17, with the 2.5 per cent minimum applying in 2017-18 and CPI inflation in 2018-19. The cumulative uprating surprise relative to forecast was -1.6 percentage points, somewhat less than the cumulative shortfall in earnings growth in the relevant periods. That took £1.2 billion off state pensions spending in 2018-19 relative to our July 2015 forecast. (Upratings in line with earnings growth in 2019-20 and 2020-21 were also lower than expected.)

2.17 Average earnings growth affects welfare spending in two other principal ways. First, for means-tested benefits like tax credits, housing benefit or universal credit, income growth reduces entitlement to the benefit via earnings tapers or other withdrawal rates. Second, it is used to uprate pension credit. Lower earnings growth boosted our tax credits forecast in particular – although as we describe later, this modelled effect of lower earnings growth leading to higher spending was swamped by the change in the relationship between income growth among the tax credits population and earnings growth at the whole economy level.

2.18 The effect on spending of surprises in other parts of our economy forecast were small by comparison. Lower unemployment reduced spending on jobseeker's allowance and the equivalent support provided through UC, but this is a small part of the total. Higher employment adds a little to cash spending on tax credits, housing benefit and UC, because some of that employment is assumed to be in low-paid work that is eligible for support.

Table 2.4: Forecast versus outturn: economic determinants of welfare spending

	Percentage change on a year earlier, unless otherwise stated					
	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015 forecast						
CPI inflation (previous September)	1.2	0.0	1.2	1.7	1.8	1.9
'Triple-lock' uprating	2.5	2.8	3.3	3.9	3.9	4.1
Average earnings[1]	2.3	3.6	3.9	4.0	4.2	4.4
Unemployment (ILO, millions)	1.74	1.69	1.74	1.79	1.82	1.83
Employment (millions)	31.3	31.5	31.6	31.8	31.9	32.1
Outturn						
CPI inflation (previous September)[2]	1.2	-0.1	1.0	3.0	2.4	1.7
'Triple-lock' uprating	2.5	2.9	2.5	3.0	2.6	3.9
Average earnings[1]	2.3	2.4	2.4	3.1		
Unemployment (millions)	1.75	1.59	1.45	1.35		
Employment (millions)	31.4	31.8	32.2	32.5		
Difference						
CPI inflation (previous September)	0.0	-0.1	-0.2	1.3	0.6	-0.2
'Triple-lock' uprating	0.0	0.1	-0.8	-0.9	-1.3	-0.2
Average earnings[1]	0.0	-1.2	-1.5	-0.9		
Unemployment (millions)	0.01	-0.09	-0.29	-0.44		
Employment (millions)	0.1	0.3	0.5	0.8		

[1] Average across the financial year. This metric is relevant for means-tested benefits, not uprating.
[2] Uprating is underpinned by a zero floor by convention so the outturn uprating was zero in 2016-17.

The effect of subsequent policy changes

2.19 Our forecasts are always based on Government policy as it stands at the time of the forecast, including the effect of new measures announced in the Budget or accompanying fiscal statement. So any policy changes announced after the forecast has been published will necessarily be a source of difference between forecast and outturn. As regards our July 2015 forecast for 2018-19, the differences these generated were relatively large – in particular for UC and the legacy benefits and tax credits that it replaces.

2.20 Table 2.5 groups the welfare spending measures announced since July 2015 into those that are closely related to the Summer Budget package and those that are not. The figures reflect the published costings at the time they were announced. We then present a fuller update of the Summer Budget measures and the subsequent changes to them.

2.21 Chronologically, subsequent measures affecting the Summer Budget package included:

- **Reversing the decision to cut the tax credits income threshold and increase the taper** in November 2015, before they had been implemented. This was by far the largest single change to the Summer Budget package. The estimated cost was £3.4 billion in 2016-17, falling to £1.7 billion in 2018-19 and £0.5 billion in 2020-21. The declining cost reflected the fact that equivalent cuts to UC were not reversed and the migration of cases to UC was expected to be largely complete by 2020-21. As a consequence, UC was at this point set to be significantly less generous and less expensive than the tax credits (and the wider legacy benefits system) it was replacing.

- In November 2015 **eligibility for tax-free childcare was reduced** and in March 2016 the **rollout was delayed**. In March 2018 the closure of the childcare vouchers scheme was further delayed as the rollout of tax-free childcare continued to lag plans. It was finally closed to new claims in October 2018.

- **Exemptions to the 1 per cent cut in social sector rents** were introduced and further modest changes made. In March 2016 and November 2016 there followed a one-year deferral for supported housing and then exemptions for almshouses, community land trusts, co-ops and refuges – costing around £45 million a year on average.

- In March 2016 **exemptions to the benefit cap** were announced for recipients of carer's and guardian's allowance, costings around £20 million a year on average.

- In March 2016 **the 'pay to stay' measure was tempered** by introducing a taper (rather than cliff-edge) for tenants affected, while housing associations were permitted to apply it voluntarily rather than it being mandatory. In November 2016 the policy was **reversed altogether**, with modest effects on welfare spending.

- In November 2016 the Government announced that it would **align the flow definition for removal of the first-child premium in UC with that in tax credits**. This was estimated to cost £0.2 billion a year on average.

- In November 2016 the Government **made the UC taper rate more generous**, cutting it from 65 to 63 per cent. Then in October 2018 it **made the UC work allowances for those with children or disabilities more generous**, raising them by £1,000 a year. These measures partly offset and partly reversed respectively the cuts to UC work allowances announced in the Summer Budget. Their combined cost was only £0.2 billion in 2018-19, but increased significantly thereafter. The Budget 2018 measure was sufficient to make UC more generous and more expensive overall than the legacy systems that it replaces – for the first time since our March 2015 forecast.

- **Exemptions and part-reversals to the two-child limit**. Exemptions were introduced in March 2017 covering claims related to multiple births, adoptions, some non-parental caring arrangements and children born as a result of rape or other non-consensual conception. In March 2019 the element in UC that would have applied to new claims for children born before April 2017 (as opposed to only new children) was dropped. Together these changes cost around £0.2 billion a year on average.

- In November 2017 the Government **reversed the seven waiting days policy and extended advances to 100 per cent in UC**, costing just over £0.1 billion a year.

- In November 2017 the **'targeted affordability fund' was increased** from 30 per cent to 50 per cent of the estimated savings from freezing the local housing allowance, costing £80 million a year on average. This 'fund' enabled the allowance to continue to be increased in the least affordable areas despite the overall freeze in rates.

- In October 2018 the Government **reinstated automatic entitlement to housing benefit for 18 to 21 year-olds**, costing £30 million a year on average.

2.22 Together these changes to the Summer Budget package, and closely related measures that tempered its effects, reversed between £2.3 billion and £3.4 billion of the cuts in each year. At the start of the period, that was dominated by reversing planned cuts to tax credits. At the end it was dominated by increasing the generosity of UC relative to the July 2015 settings.

2.23 On top of these measures, there have been just over 30 other welfare spending measures announced since July 2015, which together save less than £1 billion a year. These include several savings associated with delaying rollout of the managed phase of migration to UC (which delays the transitional protection payments to those who would lose under UC and the costs for those who would gain) and from delaying the merger of housing benefit for pensioners into pension credit (which is expected to boost take-up). Shelving implementation of the Dilnot reforms to adult social care also lowered our forecast for welfare spending, because it had been expected to boost attendance allowance take-up. More genuine savings came from linking the UC minimum income floor to the National Living Wage rather than the National Minimum Wage (making it more stringent) and freezing the pension credit 'savings credit' element. Modest UC giveaways were the main source of partly offsetting rises, including the package of measures announced in Budget 2018.

2.24 The overall effect of all new measures announced since Summer Budget 2015 has been to raise welfare spending by just under £2 billion a year from 2018-19 onwards. Looked at in terms of the five categories of welfare spending used in this chapter, the difference is more than explained by UC and its predecessors. The largest offsetting savings come from pensioner benefits, where these are dominated by delaying the cost of merging housing benefit and pension credit – so a giveaway deferred rather than a conventional takeaway.

Table 2.5: Policy changes announced since July 2015

	£ billion				
	2016-17	2017-18	2018-19	2019-20	2020-21
Changes to the Summer Budget 2015 package					
Childcare: revised eligibility criteria	0.0	-0.1	-0.1	-0.1	-0.1
Tax credits: maintain taper and income threshold	3.4	2.9	1.7	0.9	0.5
Universal Credit: reduce taper to 63%	0.0	0.0	0.2	0.4	0.6
Increase UC work allowances	0.0	0.0	0.0	0.5	0.9
TFC and childcare vouchers: rollout and grandfathering	0.0	-0.1	-0.1	-0.1	0.0
Child Tax Credit and UC: exceptions to two child limit	0.0	0.1	0.2	0.2	0.2
UC: remove 7 day wait and extend advances to 100%	0.0	0.0	0.1	0.1	0.1
Other measures	0.0	0.1	0.2	0.3	0.3
Total changes to the Summer Budget 2015 package	**3.4**	**2.9**	**2.3**	**2.3**	**2.4**
New welfare spending measures					
Fraud, error and debt: DWP and HMRC changes	-0.1	-0.1	-0.1	-0.1	-0.1
Temporary accommodation: impact of new funding mechanism	0.0	-0.2	-0.2	-0.2	-0.3
UC: updated delivery schedule	-0.1	-0.3	-0.2	-0.1	0.2
UC: uprate Minimum Income Floor with National Living Wage	0.0	0.0	-0.1	-0.1	-0.2
Pension Credit Savings Credit: freeze	-0.1	-0.1	-0.1	-0.1	-0.1
Social care reforms: updated implementation date	-0.1	-0.1	-0.1	-0.1	0.1
Universal Credit: reprofile	0.0	0.2	0.2	0.1	0.1
Revised timetable of transfer of pensioners' HB to PC	0.0	0.0	-0.2	-0.4	-0.5
Universal Credit: run on payment for housing benefit recipients	0.0	0.0	0.1	0.1	0.1
Universal Credit: revised implementation schedule	0.0	0.0	0.0	0.0	-0.2
Universal Credit: additional support for transition	0.0	0.0	0.0	0.2	0.1
Other measures	0.1	0.0	0.1	0.1	0.3
Total effect of new welfare spending measures	**-0.3**	**-0.7**	**-0.6**	**-0.8**	**-0.6**
Overall effect by spending category					
State pension and other pensioner benefits	-0.1	-0.2	-0.4	-0.6	-0.7
UC and its legacy benefit predecessors	3.3	2.8	2.4	2.5	2.4
Disability benefits	-0.1	-0.1	-0.1	-0.1	0.2
Child benefit	0.0	0.0	0.0	0.0	0.0
Other welfare spending	0.0	-0.2	-0.2	-0.2	-0.2
Total effect on welfare spending	**3.1**	**2.2**	**1.7**	**1.6**	**1.8**

Recosting the Summer Budget 2015 policy measures

2.25 By combining the effects of subsequent changes to the policies announced in the Summer Budget with updated assumptions about the July 2015 pre-measures forecast, we can revisit how much the package is estimated to have cut from welfare spending. The results of this exercise are reported in Table 2.6. Focusing on 2019-20, only around two thirds of the planned £12.5 billion of cuts materialised. The shortfall was dominated by two measures:

- The savings from **reducing income thresholds in tax credits and work allowances in UC** did not materialise. The tax credits cuts were dropped before implementation. The cost of this relative to the Summer Budget policy baseline was greater than assumed in November 2015 because the rollout of UC has been much slower than expected, leaving more tax credits cases in 2019-20 than were assumed. The UC savings were also reduced by slow progress in rolling out UC (meaning fewer UC cases facing those less generous work allowances) and by more recent giveaways (increasing the generosity of the UC taper rate and the work allowances themselves). These changes account for £3.5 billion of the shortfall relative to the Summer Budget scorecard.

- The savings from **increasing the tax credits taper rate to 48 per cent** also did not materialise as a result of being dropped before being implemented. This accounts for £0.3 billion of the shortfall in 2019-20 relative to the Summer Budget scorecard. (Using an updated July 2015 pre-measures baseline, the measure announced in the Summer Budget would have saved more in 2019-20 because of the slower UC rollout, so dropping it would have cost more. But the net effect would be the same.)

2.26 Updating the assumptions underpinning other measures has smaller effects. These include:

- **Updating pre-measures baselines to reflect what we now know** about inflation, whole economy earnings growth and income growth in the tax credits population. This increases the pre-measures baselines for DWP legacy benefits (thanks largely to higher inflation) but decreases it materially for tax credits (thanks to faster income growth among the tax credits population). These effects are broadly offsetting.

- **The cash freeze on most working-age benefits and child benefit** only saved a little more than expected despite cumulative inflation over the period being materially higher than expected. While this increased the cuts in recipients' real incomes relative to what was expected in July 2015, the effect of this on the overall saving was tempered by other factors reducing the numbers affected relative to the July 2015 pre-measures baseline – in particular the higher-than-expected income growth among tax credits cases. In 2019-20, the freeze saved just £0.3 billion more than expected.

- **Several other subsequent policy measures** described in paragraph 2.21 reduced the overall savings from the package. These related to removal of the family element in tax credits and UC and the family premium in housing benefit (£0.3 billion less than expected), the two-child limit (£0.3 billion) and the benefit cap (£0.1 billion).

- Aligning the **ESA WRAG rate with the main rate of jobseeker's allowance** saved £0.3 billion less than expected due to the work-related activity group caseload making up a smaller proportion of the overall ESA caseload than was assumed, and the original costing underestimating the extent of transitional protection for existing claimants.

- Only two elements materially increased the welfare spending savings from the package. Dropping the **pay to stay measure** came at a cost overall to the Exchequer, through lower rental income for local authorities. But it removed the higher housing benefit spending that was expected to accompany those higher rents. And the slower UC rollout increased savings from the **cut in the tax credits income rise disregard** as fewer cases had migrated to UC and so more were left to be affected by this cut.

2.27 On this basis, the Summer Budget 2015 measures will have reduced welfare spending in 2019-20 by £8.4 billion, a £4.0 billion shortfall relative to the original scorecard estimates.

Table 2.6: Latest and original estimates of the July 2015 welfare measures

	£ billion				
	2016-17	2017-18	2018-19	2019-20	2020-21
Original scorecard					
Uprating freeze for four years from 2016-17	-0.1	-0.9	-2.3	-3.9	-4.0
2-child limit on child element of tax credits and UC new claims	0.0	-0.3	-0.7	-1.1	-1.4
Cut income thresholds in tax credits and work allowances in UC	-2.9	-3.1	-3.2	-3.3	-3.4
Cut social sector rents by 1% a year for 4 years from 2016-17	-0.2	-0.7	-1.3	-1.9	-2.0
Increase tax credits taper rate to 48%	-1.5	-1.0	-0.6	-0.3	-0.2
Employment and Support Allowance: align WRAG rate with JSA	0.0	-0.1	-0.2	-0.4	-0.6
Benefit cap: reduce to £20,000, and £23,000 in London	-0.1	-0.3	-0.4	-0.4	-0.5
Remove family element in tax credits and UC, and the family premium in Housing Benefit, for new claims	-0.1	-0.2	-0.4	-0.6	-0.7
Reduce income rise disregard in tax credits	-0.2	-0.2	-0.3	-0.2	-0.1
Pay to stay: market rents for higher income social sector tenants	0.0	0.1	0.2	0.2	0.3
Other measures affecting welfare spending	-0.6	-0.2	-0.6	-0.6	-0.6
Total	**-5.6**	**-6.9**	**-9.7**	**-12.5**	**-13.3**
Revised costing					
Uprating freeze for four years from 2016-17	-0.1	-0.9	-2.5	-4.1	-4.3
2-child limit on child element of tax credits and UC new claims	0.0	-0.2	-0.5	-0.8	-1.1
Cut income thresholds in tax credits and work allowances in UC	-0.1	-0.1	-0.1	0.2	0.3
Cut social sector rents by 1% a year for 4 years from 2016-17	-0.2	-0.6	-1.3	-1.9	-2.0
Increase tax credits taper rate to 48%	0.0	0.0	0.0	0.0	0.0
Employment and Support Allowance: align WRAG rate with JSA	0.0	0.0	-0.1	-0.2	-0.2
Benefit cap: reduce to £20,000, and £23,000 in London	-0.1	-0.2	-0.3	-0.3	-0.3
Remove family element in tax credits and UC, and the family premium in Housing Benefit, for new claims	-0.1	-0.2	-0.2	-0.2	-0.3
Reduce income rise disregard in tax credits	-0.2	-0.3	-0.5	-0.5	-0.4
Pay to stay: market rents for higher income social sector tenants	0.0	0.0	0.0	0.0	0.0
Other measures affecting welfare spending	-0.6	-0.4	-0.6	-0.7	-0.7
Total	**-1.2**	**-2.9**	**-6.0**	**-8.4**	**-9.1**
Difference					
Uprating freeze for four years from 2016-17	0.0	0.1	-0.2	-0.3	-0.3
2-child limit on child element of tax credits and UC new claims	0.0	0.1	0.2	0.3	0.3
Cut income thresholds in tax credits and work allowances in UC	2.8	3.0	3.1	3.5	3.7
Cut social sector rents by 1% a year for 4 years from 2016-17	0.0	0.1	0.0	0.0	0.0
Increase tax credits taper rate to 48%	1.5	1.0	0.6	0.3	0.2
Employment and Support Allowance: align WRAG rate with JSA	0.0	0.0	0.1	0.3	0.4
Benefit cap: reduce to £20,000, and £23,000 in London	0.0	0.1	0.1	0.1	0.1
Remove family element in tax credits and UC, and the family premium in Housing Benefit, for new claims	0.0	0.1	0.2	0.3	0.4
Reduce income rise disregard in tax credits	0.0	-0.1	-0.2	-0.3	-0.3
Pay to stay: market rents for higher income social sector tenants	0.0	-0.1	-0.2	-0.2	-0.3
Other measures affecting welfare spending	0.0	-0.1	-0.1	0.0	-0.1
Total	**4.4**	**4.0**	**3.7**	**4.0**	**4.3**

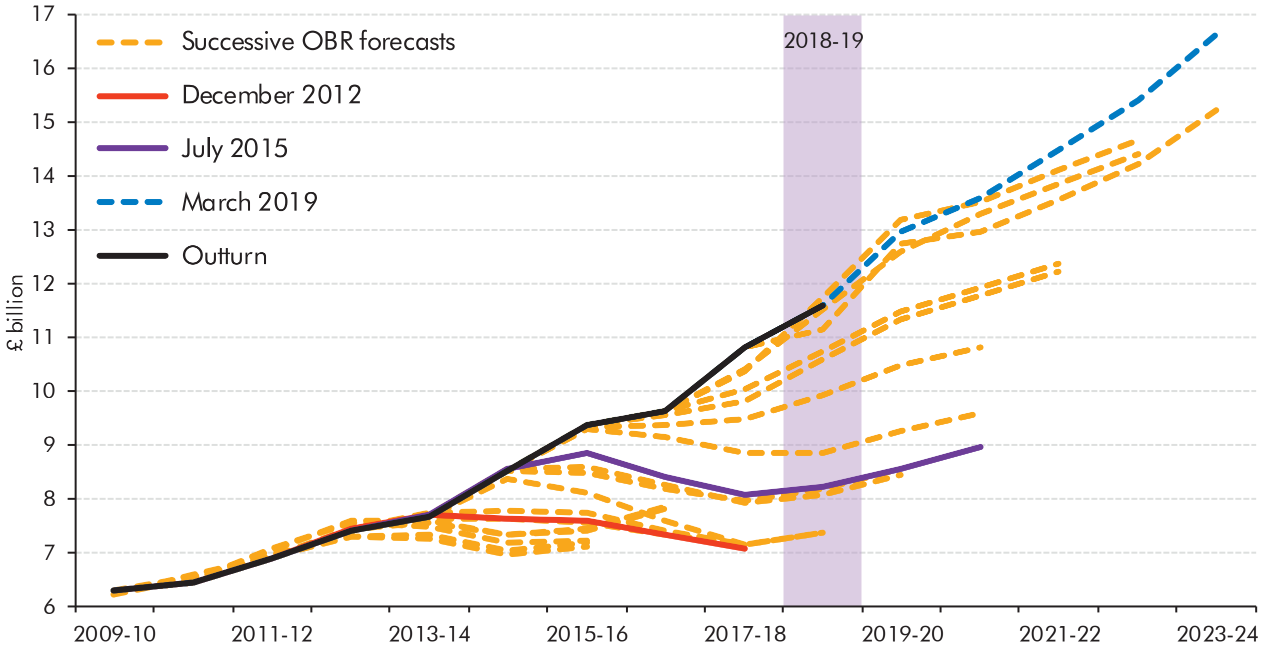
Other sources of difference between forecast and outturn

Disability benefits

2.28 The largest single reason for welfare spending in 2018-19 exceeding our July 2015 forecast was the £4.0 billion underestimate of disability benefits spending. Almost all of this upside surprise is attributed to 'fiscal forecasting differences' – i.e. to assumptions specific to the disability benefits forecast model. Of the overall difference, £3.4 billion related to unexpectedly high spending on working-age DLA and PIP claims, where the caseload outstripped our forecast by almost a third and average amounts paid by around 9 per cent. This largely related to assumptions about the effect on spending of the rollout of PIP to replace DLA for working-age claims. We considered this in detail in our January 2019 *WTR*.

2.29 Reforming DLA for working-age claims was announced in the June 2010 Budget, but with little detail about how the new system would work in practice. It was not until our December 2012 forecast that we were able to include an evidence-based costing of the effect of PIP relative to a continuation of DLA – one that proved to be wrong by a large margin. As Chart 2.3 shows, by July 2015 we had started to revise this forecast up relative to the savings assumed in December 2012 – spending in 2017-18 had been revised up by £1.0 billion. But July 2015 was the last forecast in which we expected spending to fall in cash terms between 2014-15 and 2018-19. In the event it increased by 36 per cent over that period.

Chart 2.3: Successive OBR working-age disability benefits forecasts since 2010

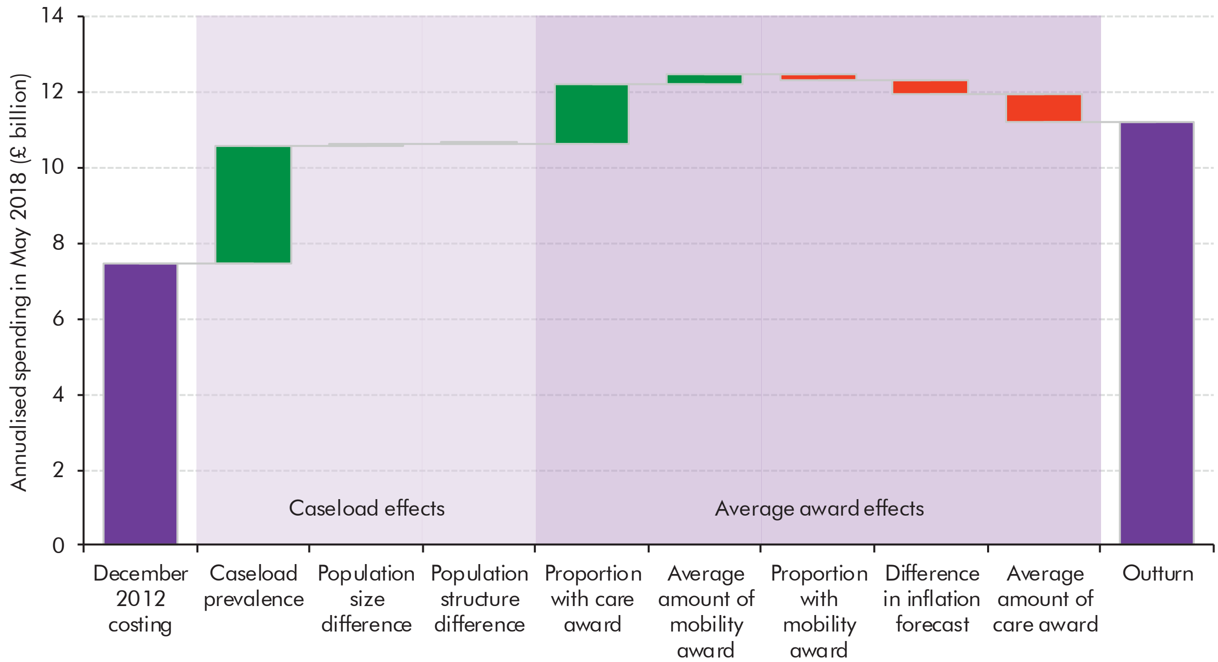


Source: DWP, OBR

2.30 Why did we underestimate spending by such a large margin? Chart 2.4 is drawn from our January 2019 *WTR*. It details the sources of difference between the costing that underpinned the December 2012 forecast, which referred to May 2018, and the annualised outturn for that month – a £7.5 billion forecast versus an £11.2 billion outturn. (The full-year forecast difference for July 2015 relative to outturn is £8.2 billion versus £11.6 billion, so the picture painted by Chart 2.4 should be reasonably representative of what explains this difference.)

2.31 The higher-than-expected caseload largely reflected higher prevalence of benefit receipt among the population. PIP had been expected to reduce the caseload substantially by replacing self-assessment for DLA with assessments by medical professionals. Higher volumes of new claims and a higher proportion of them resulting in an award were the main contributors to PIP yielding a higher rather than lower caseload. And that is despite the rollout being only 75 per cent complete by 2018-19. Our December 2012 and July 2015 forecasts both assumed it would be complete by then. Average awards also exceeded expectations, in particular due to the higher-than-expected proportion of cases receiving a care component award. The fact that PIP does not have an equivalent of the lowest care rate that exists in DLA was expected to reduce the caseload significantly, but instead it appears to have led to more PIP claims being awarded the equivalent of the middle care rate in DLA.

Chart 2.4: Sources of difference between December 2012 PIP costing and outturn

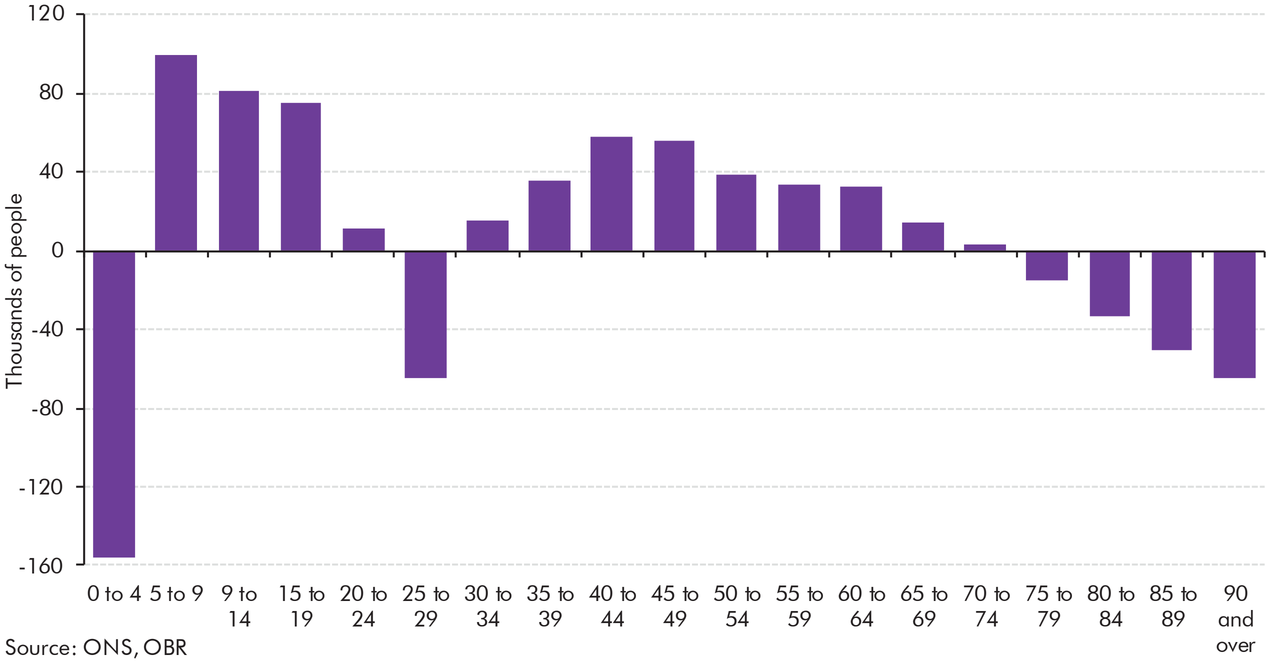


Source: OBR

Pensioner benefits

2.32 One of the larger sources of downside surprise relative to our July 2015 forecast came from a smaller pension-age population than expected. This was the final forecast that used the ONS 2012-based population projections, which had been published at the end of 2013. (The 2014-based projections were published later in 2015.) Chart 2.5 shows the difference between the projected population in 2018 in five-year age brackets and the latest mid-year estimate for that year. It shows increasingly large differences at older ages, with the overall population aged 65 and over 147,000 (1.2 per cent) smaller than projected.

Chart 2.5: Mid-2018 population by age group: projection versus outturn



Source: ONS, OBR

2.33 As Table 2.7 shows, we overestimated three of the four pensioner benefits that we have grouped together for this analysis. For the universal benefits – the state pension and winter fuel payments – the extent of the overestimate is reasonably close to that between the ONS population projections and outturn. For pension credit, the overestimate was considerably greater, as inflows to the caseload surprised to the downside. But we underestimated the pensioner housing benefit caseload, which increased faster relative to the pension credit and state pension caseloads than we had assumed in our July 2015 forecast.

Table 2.7: Pensioner benefit caseload forecasts and outturn

	Thousands, unless otherwise stated			
	July 2015 forecast	Outturn	Difference	
			Level	Per cent
State pension	12,888	12,589	-299	-2.3
Winter fuel payments	11,617	11,573	-44	-0.4
Pension credit	1,816	1,638	-178	-9.8
Housing benefit	1,174	1,238	64	5.5

Universal credit and its legacy benefit predecessors

2.34 Higher inflation, lower earnings growth and subsequent policy measures all pushed spending on UC and its predecessor benefits and tax credits above our forecast. Partly offsetting the £3.7 billion effect from these factors were other fiscal forecasting differences that amounted to £1.3 billion in total. These were more than explained by downside surprises in spending on tax credits, which was revised down in all but one of the forecasts that followed the large upward revision in November 2015 due to the policy reversals.

2.35 The personal tax credits system is large – before UC began to replace it, around 4 million families were in receipt of around £30 billion of spending. Two sources dominate the large downward revisions we have made to spending in 2018-19 since our July 2015 forecast:

- **Successive downside surprises in the monthly data flow** between forecasts led us to revise down the starting point of several of them. This type of adjustment is essentially agnostic as to the cause – it merely calibrates the model to start from the right level. Several forecasts included revisions that ran to hundreds of millions of pounds.

- In exploring possible reasons for these systematic overestimates, we reviewed and revised our assumption about **the rate at which the incomes of tax credits recipients grow relative to economy-wide earnings growth**. For many years, we had assumed tax credits income growth of 2 percentage points below economy-wide earnings growth, which had proved reasonable. In November 2017, we revised that to a 1 percentage point shortfall – which lowered our 2018-19 spending forecast by £0.5 billion. Then in March 2018, in the light of further analysis by HMRC, we revised it more significantly, to a 1½ percentage point excess over economy-wide earnings growth until 2020-21 (the period when the National Living Wage was rising faster than average earnings) and growth in line with wider earnings growth thereafter. This reduced spending in 2018-19 by a further £1.3 billion (rising to £2.5 billion in 2022-23). We discussed this assumption and the underpinning analysis in Box 4.3 of our March 2018 *EFO*.

2.36 Incapacity benefits have been the largest source of offsetting upside surprises in 2018-19:

- The **higher-than-expected disability benefits caseload fed through to a higher-than-expected cost of disability premia paid to ESA claimants**. This has had a continuing effect raising our forecasts for incapacity benefits spending in future years.

- More confined to 2018-19 has been the cost of **arrears payments to individuals that were underpaid ESA** when their incapacity benefit claims were reassessed by DWP in the early 2010s in the managed migration phase of rolling out ESA. These underpayments and the associated arrears were not known about in July 2015. They are estimated to have added £430 million to incapacity benefits spending in 2018-19.

Summary

2.37 Chart 2.6 summarises the sources of difference between our July 2015 forecast for welfare spending in 2018-19 and outturn, which exceeded it by £3.5 billion. On the upside:

- **Disability benefits** spending exceeded our forecast by £4.0 billion, with almost all the difference related to the rollout of PIP, which failed to save the sums assumed at the time – indeed, our January 2019 *WTR* suggested that it raised spending materially.

- **Policy reversals, delays and concessions** related to the Summer Budget cuts, plus other subsequent policy measures affecting UC and its predecessor benefits and tax credits, added £2.4 billion to spending. The largest effect came from dropping the planned changes to the tax credits income threshold and taper before they were implemented.

- **Lower earnings growth** (other things equal) raised spending on UC and its predecessors, while **higher inflation** raised spending on disability benefits.

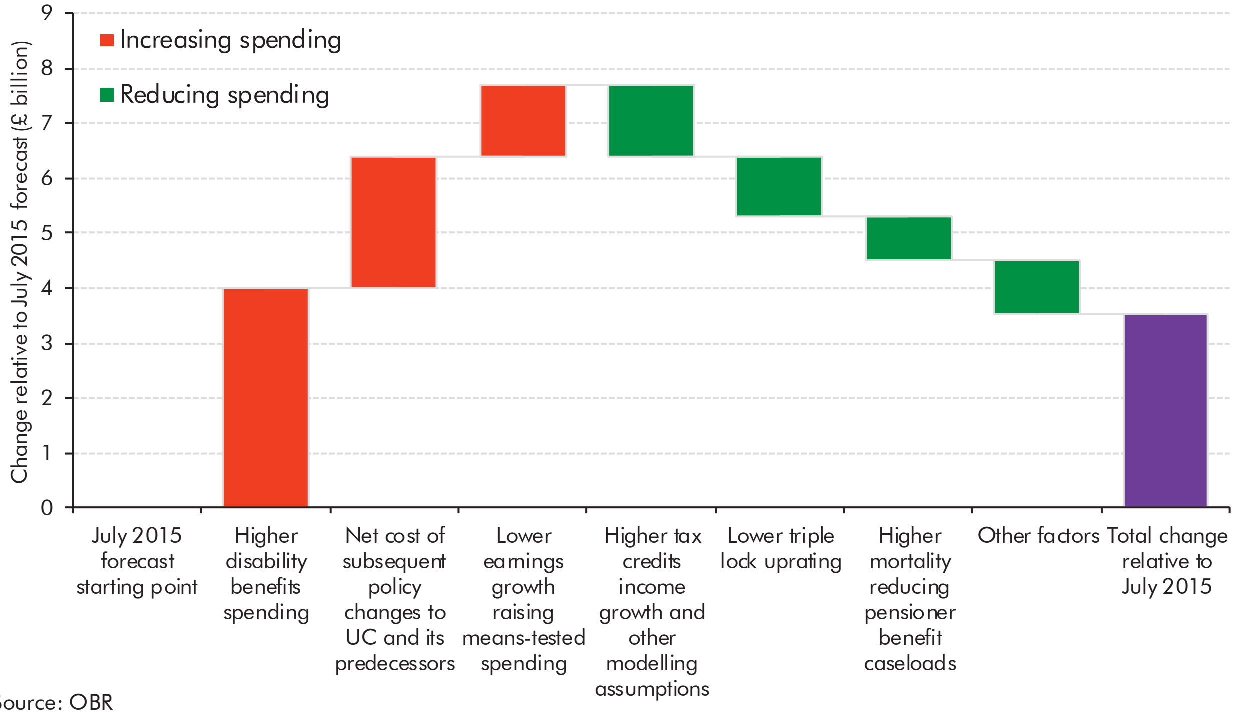
2.38 The main factors offsetting these upside surprises were:

- **Modelling assumptions related to UC and its predecessors** were a significant source of overestimate. In particular, income growth among the tax credits population exceeded our assumptions, leading to more tapering of awards and to lower spending.

- **Lower earnings growth** reduced the cost of triple lock uprating the state pension.

- **Higher mortality** resulted in fewer-than-expected claimants of the state pension and other pensioner benefits.

Chart 2.6: Why did welfare spending exceed our July 2015 forecast?



Source: OBR

Conclusions

2.39 Looking back at our July 2015 welfare spending forecast and the package of cuts announced in Summer Budget 2015, several conclusions can be drawn:

- As discussed at length in our January 2019 *WTR*, the **savings associated with reform of disability benefits for working-age claims did not materialise**. We highlighted several lessons from this experience in that *WTR*, which help guide our scrutiny of new policies.

- **The scale of spending on the state pension means that only modest differences between forecast assumptions and outturns can generate large differences in spending** – in this instance, the modest shortfalls in earnings growth relative to our forecast and in the size of the pension-age population relative to the ONS projections we used.

- **The Summer Budget cuts have saved less than intended**. The shortfall is dominated by various policy reversals, delays and concessions related to cuts to tax credits and UC.

- Echoing the conclusions of our 2016 *WTR*, which looked at all post-2010 welfare spending measures, **the most reliable sources of cuts were those that squeezed average awards** – notably the uprating freeze, which by 2019-20 will have cut the real value of the affected benefit rates by 6.1 per cent (versus the 4.6 per cent planned).

- The **measures that were reversed, delayed or watered down were typically those that generated cash losers from one year to the next** – most obviously the 2016-17 tax credits cuts that were quickly dropped, but also some of those affecting housing benefit and UC. This points to the greater political salience of families experiencing actual cash losses as opposed to seeing their spending power squeezed by real-terms cuts.

Index of charts and tables

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