Office for **Budget Responsibility**

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25 November 2022

November 2022 *Economic and fiscal outlook* forecasts for welfare spending

Dear Lord Bridges,

Thank you for your letter in respect of our latest forecasts for welfare spending on health-related and disability benefits. There has been considerable interest in this issue since we published our November 2022 *Economic and fiscal outlook* (*EFO*) last week, so we have published a supplementary release that provides further detail on our latest welfare spending forecast and the sources of revisions to it since March. I will refer to some of the material from that release in answering the questions you have raised and have annexed it to this letter.

In preparing the supplementary release, we have corrected the way in which the upward revision to spending due to health-related and disability benefit caseloads has been calculated. As a result, the upward revision in 2026-27 is £8.2 billion rather than £7.5 billion (with an equal and offsetting correction to other forecasting changes, leaving the overall forecast for welfare spending unchanged).

We have also taken the opportunity to present the caseload revision on a narrower definition by focusing, as you suggested in your letter, on the limited capability for work (LCW) and limited capability for work and work-related activity (LCWRA) groups within universal credit (UC) and adding the employment and support allowance (ESA) caseload, which was revised down somewhat in our latest forecast. On this basis, the combined working age caseloads across health and disability benefits have been revised up by 0.5 million in 2026-27, which consists of a 0.2 million (7.4 per cent) upward revision to health-related UC and ESA caseloads (from 3.2 to 3.5 million) and a 0.3 million (9.1 per cent) upward revision to disability living allowance (DLA) and personal independence payment (PIP) caseloads (from 3.0 to 3.2 million). The combined caseloads in 2026-27 have therefore been revised up from 6.2 million in our March forecast to 6.7 million in our November one.

There is considerable uncertainty around these latest forecasts and the assumptions that underpin them. The movements in some outturn data that prompted the revisions are large, so future surprises with implications for future forecasts can be expected. We will be exploring the underlying drivers of the changes and will reflect any conclusions drawn in future forecasts.

Taking your questions in turn:

Is this the number who are expected to be on *at least one* of the benefits concerned? Or would this, for example, count one claimant twice if they are on two of these benefits?

Yes, this is the sum of the two caseloads, which are not mutually exclusive. We have not attempted to determine the extent to which the upward revisions to each caseload would include individuals in receipt of both a health-related or incapacity benefit and a disability benefit. When we looked in detail at disability benefits in our January 2019 *Welfare trends report*, we noted that "*there is a big overlap between the recipients – more than half the 2.5 million people in receipt of ESA in April 2016 were also in receipt of either DLA or PIP*".

Exactly which benefits are included here? Is this DLA, PIP and AA for the disability benefits? What about other "health-related" benefits? Is this ESA and Universal Credit for those in the LCW or LCWRA groups, or are other benefits included here too?

Disability benefits comprises: PIP, DLA, attendance allowance, severe disablement allowance and armed forces independence payment. Caseloads are presented in respect of working-age DLA and PIP only.

Health-related benefits comprises: UC LCW, LCWRA and awaiting work capability assessment (AWCA) groups; ESA and incapacity benefit. Caseloads are presented in respect of UC and ESA only.

Which of these benefits are driving the increase in expected caseload since March?

As described above and more fully in the supplementary release, the upward revision to working-age DLA and PIP caseloads is slightly larger than the upward revision to health-related UC and ESA caseloads, on the narrower definition we have focused on for this response.

Which recent data prompted our revisions?

The key data source that prompted our reassessment of trends in these benefits was the rise in monthly new claims for 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. Our forecasts have factored in higher caseloads since 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 also more persistent. We have therefore assumed that new claims will remain higher for longer than we did in March.

These data are publicly available via DWP's Stat Xplore website.

Is the change in expectation related in any way to the delay in migration from ESA to UC until 2028?

No, the upward revision to these trends was a 'pre-policy-measures' forecast judgement. It was not influenced by the Government's decision to delay migration from ESA to universal credit.

How many of the extra 1.1 million cases are expected to be economically inactive?

We have not mapped these administrative caseloads onto the Labour Force Survey (LFS) measures of economic inactivity. As we noted in the *EFO*, the trends visible in these benefits echo the rise in health-related labour market inactivity in the LFS, suggesting they may share a common cause. But at this stage we do not have evidence to support or refute that hypothesis.

In general, we would expect those in the universal credit LCW or LCWRA groups (particularly the latter) to be economically inactive given they will have been through a work capability assessment and deemed to have a limited capacity for work or work-related activity. For recipients of PIP, some will be in employment or seeking employment while some will be economically inactive.

What are the causes of the rise in numbers and in claim durations?

In terms of the numbers of new claims for PIP, we break them down by age and health condition in the annexed supplementary release. It shows a striking rise in the numbers of older working-age adults making new claims in respect of physical and other health conditions and the numbers of younger adults making new claims in respect of mental health conditions.

We have not assessed the underlying causes of the rise in claim durations, although in part this will reflect the fact that PIP and UC are still relatively new benefits.

What are the data on claim durations that you refer to when you say these have increased?

Data on durations of claims on different benefits are available via DWP's Stat Xplore website. They show, for example, that the share of claimants who had been on UC for two years or longer in September 2022 was 56 per cent, up from 31 per cent the previous September. As noted, we would expect average claim durations to be rising for PIP and UC as the respective caseloads mature. The forecast revisions due to this factor were the result of them rising somewhat faster than previously assumed rather than the fact that they are rising at all. But the revisions from this source were much smaller than those due to higher new claims.

Warmest regards,

Richard Hughes
Chair