



# Work and Pensions Committee

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From the Chair

14 December 2015

Robert Chote  
Chairman  
Office for Budget Responsibility  
20 Victoria Street  
London  
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*Dear Robert*

## **Universal Credit and policy costing**

### ***Policy costing process***

You explain in the latest EFO that the Government's original costings of the Summer Budget measures affecting the tax credit thresholds and tapers and UC work allowances needed to be re-costed as the interactions between the tax credit and benefit systems had not been estimated correctly by the Treasury. You noted that:

This reflects the challenge of estimating interactions between HMRC tax credits and DWP benefits in the run-up to a fiscal event, where the Treasury's policy costings process does not permit us to call on the expertise of officials across both departments on all measures that might be subject to interactions.<sup>1</sup>

According to the supplementary information release you published on 4 December, the short scrutiny timetable "contributed to some effects being underestimated and some effects not being identified as interactions that needed to be estimated". In particular, time constraints meant that the Housing Benefit consequentials of the tax credit cuts were estimated using an inaccurate ready reckoner rather than a detailed policy simulation model.<sup>2</sup>

You have expressed similar concerns about scrutinising policy costings at the past two Budgets. In your July 2015 EFO you wrote:

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<sup>1</sup> OBR Economic and Fiscal Outlook November 2015, Box 4.3, p138

<sup>2</sup> OBR, Supplementary forecast information release: Tax credits costings – November 2015



As in March, the policy costings scrutiny process was particularly difficult for this Budget as we were not given details of costings for a large proportion of significant policy measures until just before our deadlines. That contributed to us being unable to complete enough of the iterative process to reach a position where we could certify the costing that removes the first child premium in universal credit for new claims as reasonable and central.<sup>3</sup>

This raises serious concerns about the adequacy of the process by which policy costings are produced and independently validated in the lead-up to fiscal events.

- 1. How much extra time would you have needed for the tax credit cuts and all consequential effects on other benefits to be identified and properly estimated using the appropriate models?**
- 2. How much extra time would you have needed to certify the costing of the removal of the UC first child premium?**
- 3. Have you raised concerns about inadequate time for scrutiny and certification with the Treasury?**
- 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?**
- 5. Do you have any concerns about the quality of data you are receiving regarding the rollout of UC?**

#### **Costing of updated delivery schedule**

The Autumn Statement announced an updated rollout schedule for Universal Credit (UC), which included a six month extension of the transition period and an abbreviation of the managed migration phase.

According to the Treasury scorecard this policy decision generates savings to the Exchequer in the four years from 2016-17 to 2019-20.<sup>4</sup> You explain in the November 2015 *Economic and Fiscal Outlook* (EFO) that this is because the slower pace of rollout in the transition phase reduces the UC caseload in each of these years compared to the previous forecast and therefore reduces the marginal cost of UC relative to the legacy system.<sup>5</sup>

The reduction in the forecast UC caseload postpones the costs associated with those who stand to gain from UC compared with the legacy system, however, it also postpones the savings associated with those who will receive less under UC than in the legacy system. It is our understanding that the May 2016 - June 2018 transition period primarily concerns new claimants and claimants who experience a change in circumstance – claims which would not trigger the additional cost of transitional protection payments.

<sup>3</sup> OBR Economic and Fiscal Outlook July 2015, para A4, p183

<sup>4</sup> HM Treasury Spending Review and Autumn Statement table 3.1, line 24

<sup>5</sup> OBR Economic and Fiscal Outlook November 2015, para 4.96, p136-7



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?***

***OBR assumption about managed migration schedule***

You have “once again deemed necessary to push back” your assumption for the end of the managed migration phase of UC rollout.<sup>6</sup> You assume a further six-month delay relative to the DWP’s latest plan to complete this by the end of financial year 2020-21.

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?***

Best wishes and I look forward to hearing from you,

**Rt Hon Frank Field MP  
Chair**

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<sup>6</sup> OBR Economic and Fiscal Outlook November 2015, para 4.93, p133