Department for Work & Pensions

From the Permanent Secretary

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Frank Field MP
Work and Pensions Committee
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Dear Frank

Thank you for your letter of 23rd May detailing queries relating to DWP's 2018-19 Main Estimate Memorandum. I have set out answers to your queries below. I apologise for not meeting your requested date of 6th June, but this was in order to ensure my reply to your question eight was aligned to the written statement on Universal Credit issued by the Secretary of State last week.

Carers and disability benefits

Question 1: Improvements to the Personal Independence Payment (PIP) forecasting approach were implemented within 2017-18 to address historic underestimation within forecasts.

As the Office for Budget Responsibility (OBR) described in its Economic and Fiscal Outlook (EFO) at Autumn Budget 2017, disability benefits spending was revised up by progressively larger amounts, reaching £1.9 billion in 2021-22. This was due to a revision of the forecast methodology, with the new model focusing on age-specific trends in the share of the population claiming disability benefits rather than the previous 'operational model' that focused on the flow of claims onto PIP and the outcomes of those claims. The EFO explains that the OBR hopes these changes will "...help to address our consistent under-estimation of disability benefits spending". As the change in forecast methodology was implemented prior to the end of 2017-18, our expectation is that the 8.5% increase in overall disability benefit expenditure reported in the Memorandum still represents the best forecast of the difference between 2018-19 and the prior year.

Question 2: The increase in the combined forecast of PIP and Disability Living Allowance (DLA) has led to an increase in the Carer's Allowance (CA) forecast. PIP expenditure is forecast to increase in 2018-19 compared to 2017-18 due in part to higher inflows to the benefit. Child DLA is also forecast to increase in 2018-19. In order to claim CA the person the carer is caring for needs to be on a disability related benefit, and DLA and PIP are two of those qualifying benefits. As such, any change in the underlying forecast of these benefits will have an effect on the CA forecast.

Employment and Support Allowance

Question 3: I can confirm that the Employment and Support Allowance (ESA) forecast does include an adjustment to account for the additional arrears payments expected to be paid out in 2018-19 as a result of the exercise to address underpayments. However, the overall ESA forecast is falling in 2018-19 due to the continued rollout of Universal Credit.

Arm's Length Bodies

Question 4: The variance you have identified in the Main Estimate Note results from a timing difference between the Main Estimate production and finalisation of DWP's internal budgets. The £73m shown in the Estimate was an early view of the Pensions Regulator (tPR) budget which DWP recognised would be subject to change on agreement of the 2018-19 tPR Business Plan (subsequently published in May 2018). Following publication of the Business Plan, DWP has agreed a budget of £88.6m for tPR which recognises its growing regulatory impact, as referred to in your question.

Budgets for tPR and other Arm's Length Bodies will be updated as normal in the 2018-19 Supplementary Estimate.

Question 5: In accordance with HMT rules, the Main Estimate has been prepared on the basis of current organisational structures and, as such, budgets for individual bodies have been set for a full year. The budgets for predecessor organisations making up the Single Finance Guidance Body will be transferred to the new organisation when it is created and these changes will be reflected in the 2018-19 Supplementary Estimate. The 2018-19 The Pensions Advisory Service budget shown in the Main Estimate shows an increase from the prior year due to increased levels of customer contacts.

State Pension Equalisation

Question 6: The fall in Housing Benefit for people over State Pension age is 2.8%, as shown in table 8. I apologise for the error in the text in paragraph 45 which was not updated from an earlier version.

Equalisation of State Pension age does lead to a reduction in the amount of Housing Benefit that is paid to pensioners, but this will be largely offset by a corresponding increase in the amount paid to working age claimants.

DWP has not conducted a detailed analysis of how much those affected by state pensions equalisation will see their Housing Benefit differ from what they might have claimed if Pension Credit qualifying age did not increase in 2018-19. An Impact Assessment and an Equality Impact Assessment were published for the faster State Pension age timetable that was introduced by the Pensions Act 2011, but these did not include specific analysis of the impact on Housing Benefit claimants.

Support for Mortgage Interest

Question 7: I can confirm that DWP will not seek to recover the costs of any SMI loans via repossession. We will not seek to recover loans until the property is sold and will not place any pressure on claimants to sell their homes to repay outstanding debts.

DWP is making a provision for the potential that debts may not be fully recovered in accordance with the relevant accounting standard IFRS 9 Financial Instruments: Classification and Impairment (introduced 1st April 2018) along with any interpretation guidance from HMT contained within the FReM (Financial Reporting Manual). IFRS 9 is an expected credit loss model and therefore looks to provide for losses associated with potential economic, social and policy changes.

Universal Credit

Question 8: As announced in the written ministerial statement on 7th June, it is necessary to extend the completion date of managed migration to March 2023. The main reasons contributing to this change are to bring forward Regulations to ensure severely disabled claimants will not miss out on Transitional Protection and that claiming childcare costs or a temporary increase in earnings will not affect transitional protection. Furthermore, we want to protect incentives to save, so capital over £16,000 will be disregarded for a period of 12 months for claimants who we transfer onto UC from Tax Credits.

In light of last week's announcement we estimate the number of claimants on UC will become higher than those on the legacy benefits it replaces in 2020-21.

Spending Review

Question 9: DWP has indeed acknowledged previously that operating within funding constraints of the SR15 Settlement represents a major challenge. It should be noted though that the SR15 settlement did not apply a linear reduction in funding. Due to the pattern of both planned expenditure and savings from our Change Programmes, funding for 2017-18 was the highest of all the years covered by the SR15 period. As such the comparison of 2017-18 to 2019-20 can be misleading. To illustrate this point, investment expenditure on the People and Locations Programme within 2017-18 has resulted in substantial estates contract savings from April 2018 which will continue next year.

You are correct however to highlight that the plan for some of our major reforms has changed since our SR15 settlement resulting in changes to our cost profile over the period. As a department we have lived within available funding for the first two years of SR15 and have recently set a balanced budget for 2018-19 to help ensure this continues. The financial management of 2019-20 remains one of the key priorities of the Department. We have undertaken considerable work already, in conjunction with Ministers and Non-Executive Directors, to identify efficiency options, and that work continues through our regular financial planning processes.

Question 10: DWP will have reduced its estates footprint by 11% and we forecast to reach an 18% reduction by March 2021 and a 22% reduction by 2023.

DWP is committed to retaining an accessible Jobcentre network. We have ensured that where services were relocated, it was, so far as possible, to buildings a short distance away. The key finding based on data available from the NAO journey time model (covering England only) as at September 2017 is that the planned changes to the DWP estate will increase average journey time to a Jobcentre by less than 1 minute.

Yours sincerely

Peter Schofield

Peter Schofield
DWP Permanent Secretary