Scottish Fiscal Commission

How we forecast social security: disability and carer's payments

May 2021

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ISBN: 978-1-911637-32-5

Published by the Scottish Fiscal Commission, May 2021

Foreword

As Scotland's independent forecaster, the Commission is committed to openness and transparency in all of our work. We regularly produce reports to inform users of our forecasts and about the approaches used to develop them.

This report sets out our approaches to forecasting disability and carer's payments: Attendance Allowance, Disability Living Allowance (Adult), Personal Independence Payment, Industrial Injuries Disablement Scheme, Severe Disablement Allowance and Carer's Allowance. We also set out the approaches we use in our policy costings for Child Disability Payment and Adult Disability Payment, the new Scottish forms of disability assistance, which we include in our reports in anticipation of the launch of these payments.

The report is intended for a general audience, so we have endeavoured to capture the most important aspects of each forecast model, alongside the most important assumptions we have to make during the creation of our forecasts. Readers who are interested in additional details of our models can get in touch with us directly by e-mailing info@fiscalcommission.scot

By being transparent in our forecasting, we aim to help people interested in our forecasts understand how they are constructed and we welcome any feedback to help us improve them.

Dame Susan Rice DBE

Professor Francis Breedon

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26 May 2021

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Introduction

Scope

1.1 We are Scotland's independent official forecaster. It is our role to prepare forecasts of Scottish Government spending on devolved social security to inform the Scottish Budget.[1] Our forecasts cover spending on devolved social security but do not cover the associated administrative costs, such as the cost of running Social Security Scotland, as these are determined by the Scottish Government.

1.2 We previously set out how we forecast social security payments in September 2018.[2] At the time disability payments, such as Personal Independence Payment, Disability Living Allowance and Attendance Allowance, had not been devolved and were not included.

1.3 The disability payments were devolved in April 2020 and we have developed new models to forecast spending on these in Scotland. This paper focuses on our new models and how we forecast spending on disability payments. We also discuss Carer's Allowance since our approach has changed from that set out in September 2018 and is closely aligned to forecasts of spending on disability payments.

1.4 This report sets out the Scottish Fiscal Commission's approach to producing our forecasts for:

- Attendance Allowance
- Carer's Allowance
- Disability Living Allowance
- Personal Independence Payment
- Industrial Injuries Disablement Scheme
- Severe Disablement Allowance

1.5 The spending on these benefits is significant and accounts for over 90 per cent of total forecast social security spending for 2021-22, as shown in Figure 1.1.

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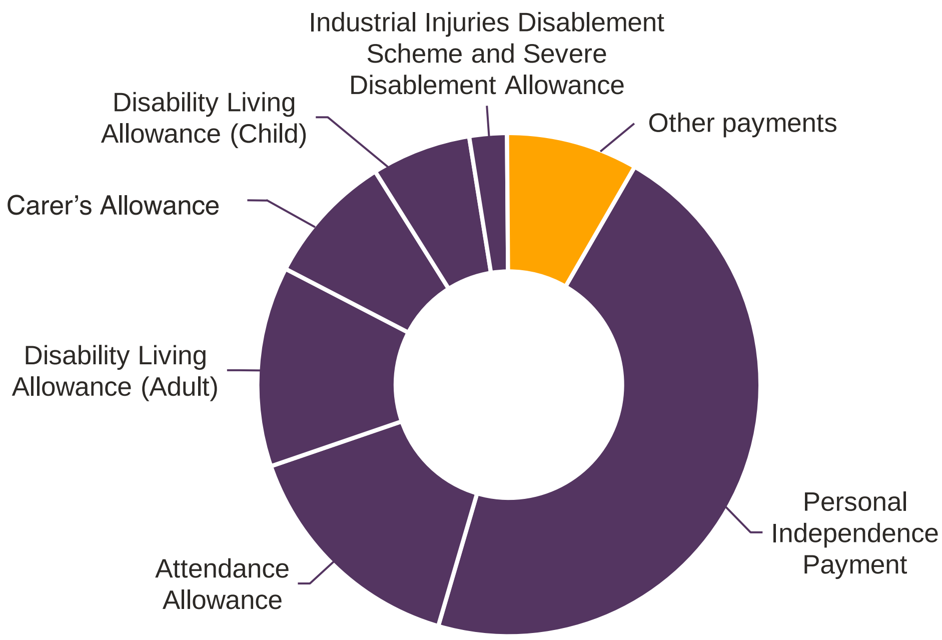
[1] Further information on the funding arrangements for social security can be found in Scottish Fiscal Commission (2021) Funding for the Scottish Budget (link)

[2] Scottish Fiscal Commission (2018) Approach to Forecasting Social Security (link)

Figure 1.1: Social security spending forecast for 2021-22



Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021(link)
Disability Living Allowance (Child) also includes spending on Child Disability Payment.

1.6 We also provide policy costings – our best estimates of the change in spending resulting from Scottish Government policy changes. To date, our main role has been to compare the expected spending on new payments launched by the Scottish Government with spending on the existing UK Government payments. In this paper, we describe our approach to producing policy costings for Child Disability Payment, which will be piloted in summer 2021 ahead of the national launch in Autumn, and Adult Disability Payment which is expected to be piloted in spring 2022 ahead of a national launch in summer 2022. These will be the first forms of disability assistance that will be administered by Social Security Scotland.[3]

Our models

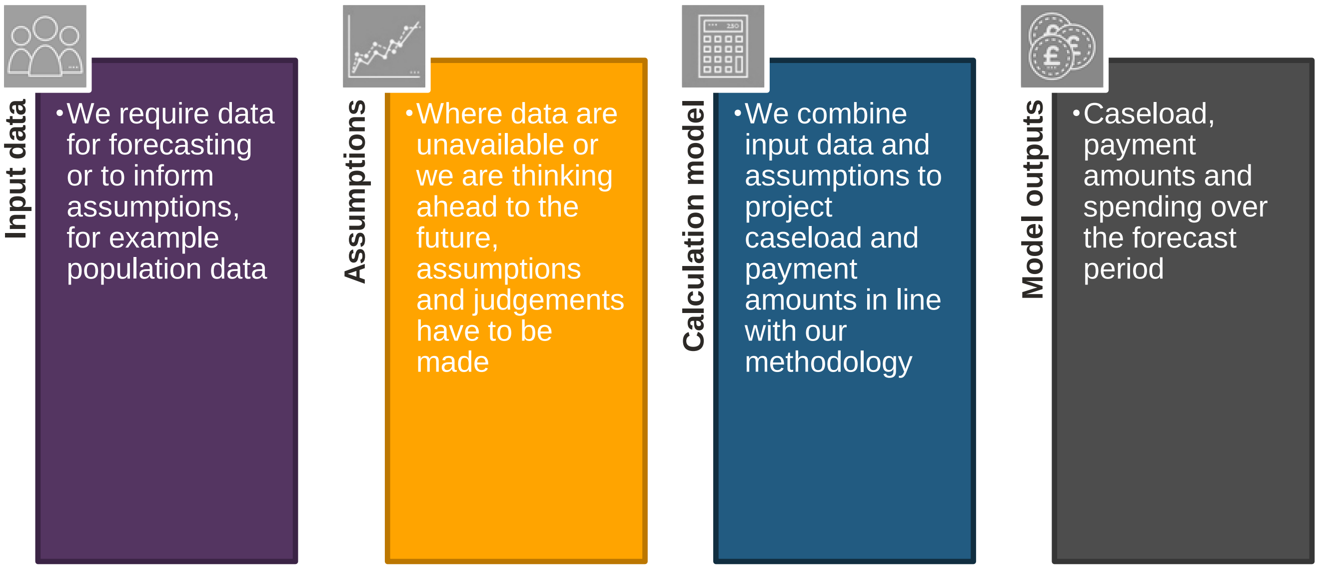
Overview

1.7 For each social security payment, we develop an approach to determine the number of individuals expected to receive payments, also referred to as the **caseload**, and the **payment amount** we expect them to receive. We consider each payment separately as there are often different factors that affect caseload and payment amount. For example, we may split the caseload into working age and pension age groups to distinguish possible differences in the historic trends or known reasons for caseload changes for that group in the future. We then combine our forecasts of caseloads and payment amounts to forecast spending.

1.8 Although we have developed individual forecast models for each payment, each model follows the same structure, as set out in Figure 1.2. Forecasting is an iterative process and we evolve our choice of input data, assumptions and methodology as we review the model outputs.

[3] At a later date it is expected that Pension Age Disability Payment will replace Attendance Allowance and Employment Injury Assistance will replace Industrial Injuries Disablement Benefit. Severe Disablement Allowance will continue to be administered by DWP.

Figure 1.2: Overview of our social security models



Source: Scottish Fiscal Commission

Data

1.9 Data are an essential input into our forecasting models. We use a wide variety of data sources in our modelling of disability and carer's payments. The common data that we require for all our forecasts are historic caseload and payment amount information.

1.10 For the payments discussed in this paper, we source caseload and payment amount information from DWP because the disability and carer's benefits are currently administered by DWP on behalf of the Scottish Government. Most of this information is publicly available from the Stat-Xplore application.[4] Anyone can register to use Stat-Xplore and it is free of charge. For transparency and accessibility it is our preference to use publicly available data where possible.

1.11 We receive spending information from Social Security Scotland. In the future when new payments are launched we will receive caseload and payment amount information from Social Security Scotland.

Assumptions

1.12 Sometimes the data we need for our models is not available in any form (published or unpublished) or the data available is not consistent enough to be used in our calculations. In such cases we make judgements based on other available data that we think reasonably approximate the missing data. For example where data for Scotland are not fully available, such as the average payment amount for Industrial Injuries Disablement Scheme (IIDS), we use the GB-wide payment amount.

1.13 We also make judgements when thinking ahead to the future. Will the trends we have observed in the historic data continue for future years? For example, we have learned from experience that a key determinant of caseload is the amount and nature of the efforts taken to promote a benefit and these may vary over time. Forecasting the caseload varies significantly across models, unlike the payment amount which in most models is simply uprated using inflation, as discussed in Box 1.

[4] DWP Stat-Xplore (link)

Box 1: Uprating

In all our forecast models for disability and carer's benefits, we allow for increases in the payment rates. Increasing social security payments to account for inflation is known as **uprating**.

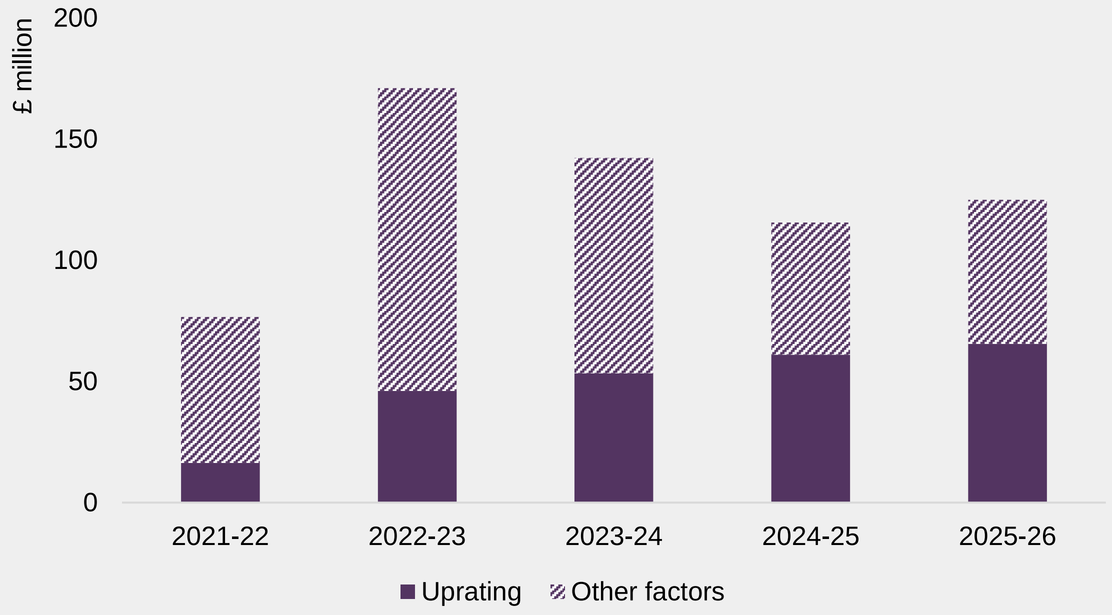
Scottish Ministers have a statutory duty to review the payment rates for disability and carer's benefits and uprate them in line with inflation. An agency agreement is currently in place to enable DWP to administer disability and carer's benefits on behalf of the Scottish Government. As part of that agency agreement, it has been agreed that disability and carer's benefits will be uprated at the same rate as DWP.

DWP has a long established policy of using the Consumer Price Index (CPI) as the measure of inflation to uprate disability and carer's benefits. The September CPI rate, published by the Office for National Statistics (ONS) each October, is used to uprate payments for the following financial year. The Scottish Government's uprating policy is also to use CPI for other benefits which it has a statutory duty to uprate.

To produce our forecasts, we need to estimate the future payment rates and we therefore need a forecast of CPI rates. We obtain this from our economy team to ensure consistency with other economic assumptions.

Uprating has a significant effect on overall social security spending as shown in Figure 1.3.

Figure 1.3: Forecast growth in social security spending



Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link)
Other factors include new payments being introduced.

1.14 We do not make assumptions about eligibility and take-up of disability and carer's benefits as it is not possible to identify an eligible population who would be entitled to support.[5]

1.15 We also calibrate our model outputs to align with outturn spending data. Often the spending data slightly differs from our model output which is based on the statistical data on caseloads and payment amounts. Such differences may arise from backdating of awards (not always captured in

[5] We discussed the challenges of setting take-up rates in this letter to Social Security Committee regarding benefit take up – Correspondence (2019) Scottish Fiscal Commission to Social Security Committee (link)

the caseload statistics), how the statistics are aggregated, recipients that may not yet be captured in published statistics and other accounting adjustments. For all our disability and carer’s benefits forecasts, if necessary we adjust our model outputs to better align with the outturn spending data.

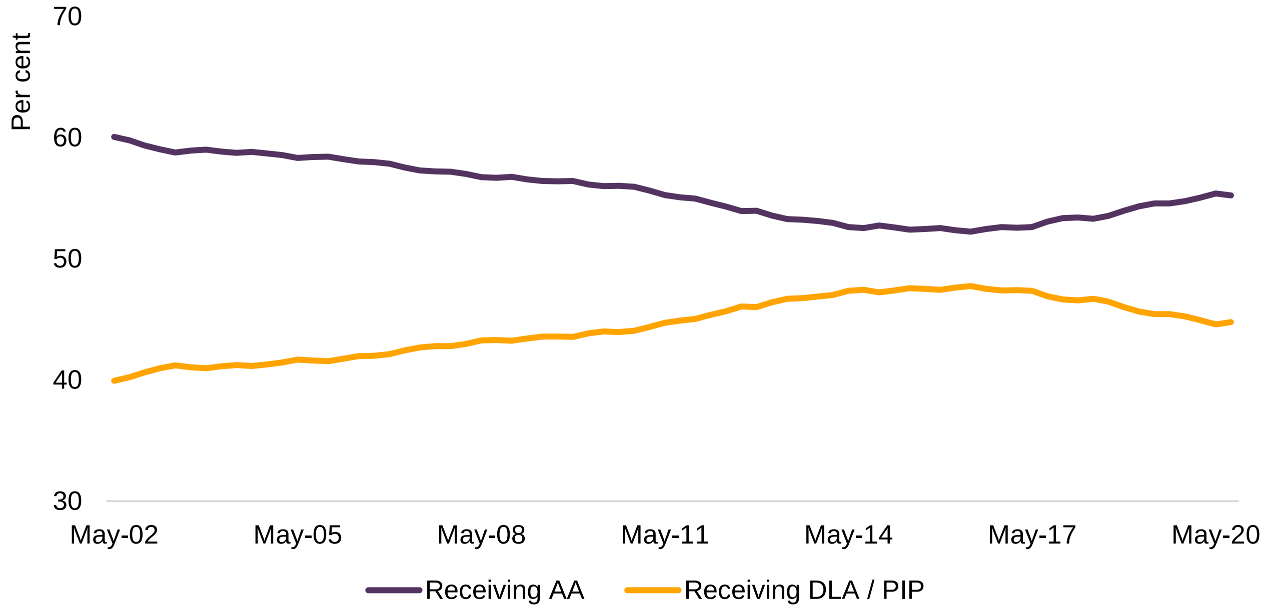
Attendance Allowance

Overview

2.1 Attendance Allowance helps with extra costs if someone has a disability severe enough that they need someone to help look after them and they are State Pension age or older. Attendance Allowance is paid at two rates – a lower and higher rate. There is no mobility component, unlike working-age disability assistance such as DLA and PIP.

2.2 Those receiving Attendance Allowance account for a lower share of all pension-age adults receiving disability payments than in the early 2000s. Some of this decline in the share is related to what is happening with other DWP payments. People can remain on DLA and PIP as pension-age adults. Since you cannot receive both Attendance Allowance and DLA/PIP, and working-age disability support is often seen to be more generous as it has a mobility component, there have been an increasing number of people who retain their working-age disability support as they move past State Pension age. This has had the effect of reducing the number of people receiving Attendance Allowance, though Figure 2.1 shows that more recently this trend has reversed.

Figure 2.1: Proportion of pension age disability payments



Source: Scottish Fiscal Commission based on data from DWP Stat-Xplore

2.3 Another factor to consider in forecasting Attendance Allowance spending is the rising pension-age population in Scotland. The proportion of people receiving support increases with age, so as people are living for longer this factor alone could increase spending significantly. Using the data snapshot from DWP on Attendance Allowance recipients at August 2020, we estimate that five per cent of 70 year olds in Scotland received Attendance Allowance, compared with 29 per cent of 85 year olds.

Modelling approach

Caseload forecast

2.4 Given the interaction of Attendance Allowance with other social security payments available at the time, we consider the date at which someone joined the caseload, along with their age, to be the most important factors for forecasting. We split the caseload into smaller cohorts.

Figure 2.2: Cohort forecasts for Attendance Allowance (AA)

	1) We split the caseload by single year of age	2) We calculate what proportion of the Scottish population receives AA	3) We estimate what proportion of that group will still receive AA next year	4) We repeat this for each year of the forecast
Example	• How many 70 year olds are receiving AA?	• What proportion of 70 year olds in Scotland are receiving AA?	• What proportion of 70 year olds will still be receiving AA when they are age 71? • To do this, we look at the group who are currently aged 71 (the previous cohort)	• For our group of AA recipients currently aged 70, we estimate how many many of them will still be receiving AA when they are 71, 72, 73 and so on. • We are always using the previous cohort (one year older) to inform this.

Source: Scottish Fiscal Commission

Payment amount forecast

2.5 The payment amounts for the lower and higher rate are uprated at the start of each financial year as described in Box 1.

2.6 In recent years the division of the caseload between the two rates has been relatively stable with approximately one third receiving the lower rate and two thirds receiving the higher rate.

2.7 We monitor the change in the proportions of the caseload receiving each payment rate each quarter when DWP release new data. We take an average of the quarterly changes, over 4 quarters, and assume this average change applies in future quarters. This gives us a forecast of the proportion of the caseload receiving each payment rate. Combining this with our caseload forecast and our uprated payment amounts gives us our spending forecast.

Assumptions

2.8 We do not estimate take-up rates for Attendance Allowance but we do monitor external factors that we believe may increase spending. We can see there is a close link between take up of Pension Credit and Attendance Allowance. The Office for Budget Responsibility (OBR) reported in their Welfare Trends report that DWP launched an awareness campaign when Pension Credit was introduced in 2003 and that this was a possible explanation for increased spending on Attendance

Allowance during this time.[6] A more recent example is the change that over-75s will need to receive Pension Credit to continue to receive a free TV licence. We also expect an increase in the number of people applying for Attendance Allowance as there is a greater awareness in the pension-age population of what they may be entitled to receive.

2.9 The size of the pension-age population in Scotland has been growing steadily. We make assumptions about how we expect the pension-age population to change. We use information from National Records of Scotland to inform these assumptions but we also have to apply our judgement. For example, in our recent forecast we had to consider how many of the people who died of COVID-19 may have been receiving Attendance Allowance and whether these deaths would have been likely to occur anyway in the next five years of our forecast.

[6] Office of Budget Responsibility (2019) Welfare trends report – January 2019 (link)

Carer’s Allowance

Overview

3.1 Carer’s Allowance (CA) is available to people who provide full-time care for someone who receives a disability related payment. To be eligible, the carer must meet certain CA qualifying criteria and the care recipient must already be receiving one of the disability payments.[7]

3.2 In Scotland people who receive CA receive an extra top-up payment, named Carer’s Allowance Supplement (CAS), which is paid twice a year and was introduced to ensure that support for carers in Scotland matched the level of Jobseeker's Allowance.

3.3 In our September 2018 publication we described the approach used to forecast CA.[8] This approach considered the proportion of the population that provide care and claim CA support. It focused on demographic factors such as gender and age groups as key factors for forecasting the number of people who receive CA.

3.4 We have recently developed a new approach to forecasting the number of people who receive a CA payment based on the direct link between CA caseload and the caseload of the qualifying disability payments. This approach enhances internal consistency with other social security forecasts that we now produce and it is consistent with the approach used by the OBR.

Modelling approach

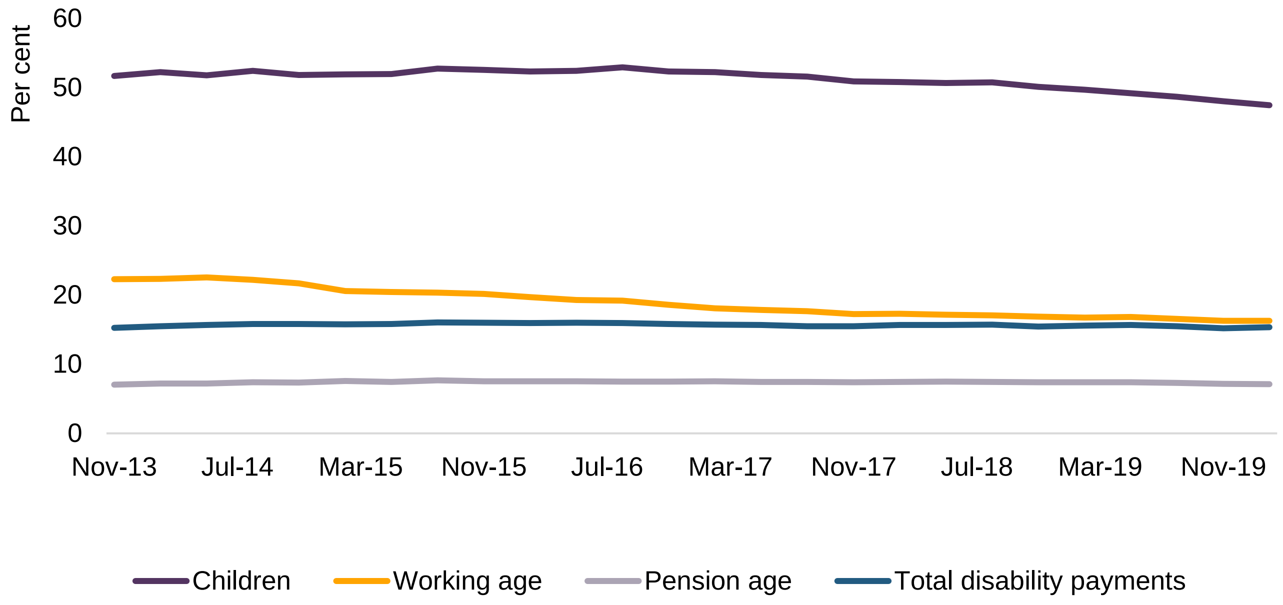
Caseload forecast

3.5 Our approach to forecasting CA caseload is built on the link with the qualifying disability payments caseloads, which are higher and middle rates of care for Personal Independence Payment (PIP) and Disability Living Allowance (DLA); and both higher and lower rates of Attendance Allowance (AA). We consider the trends in the number of people receiving these qualifying payments and analyse the proportion of these which have a CA payment.

3.6 As shown in Figure 3.1, the proportion of total qualifying disability payments with an associated CA payment has remained stable. The figure also shows on average about half of disability payments for children result in a CA payment, though that proportion has fallen in recent years. The working age proportion has stabilised since 2017 following a slight decline in 2014. This was mainly driven by movements in PIP caseload following its introduction in 2013.

[7] UK Government guidance on Carer’s Allowance (link)
[8] Scottish Fiscal Commission (2018) Approach to Forecasting Social Security – September 2018 (link)

Figure 3.1: Historic proportions of qualifying disability payments with a CA payment



Source: Scottish Fiscal Commission based on DWP data

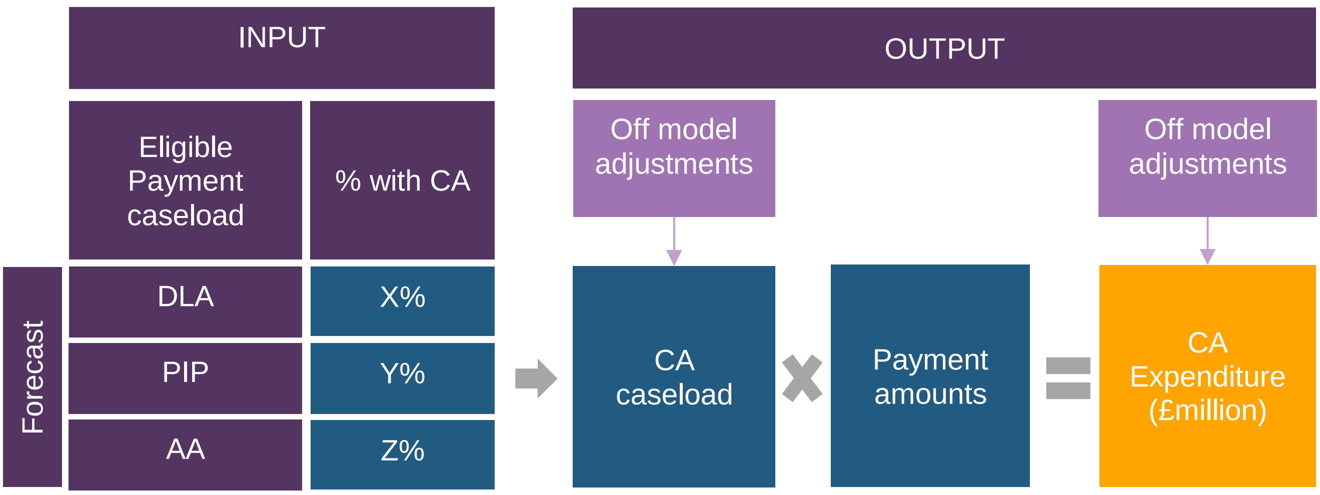
3.7 We project these proportions over the forecast period, first using a linear trend through the historic data. Then we make assumptions and judgements to reflect factors that may have affected the proportions in the past or based on information about upcoming changes. We adjust the projected trends based on these judgements to create the most reasonable pathway for the forecast proportions.

3.8 We use our forecasts for PIP, DLA and AA and apply the projected proportions of qualifying disability payments with a CA payment to produce our CA caseload forecast.

Payment amount forecast

3.9 We forecast the payment amount by uprating the weekly payment rate as described in Box 1. Finally, we combine the caseload forecast with the projected payment amounts to produce the forecast for CA spending in Scotland. Figure 3.2 shows how all these components fit together.

Figure 3.2: Carer's Allowance model overview



Source: Scottish Fiscal Commission

Assumptions

3.10 The most significant judgement relates to the trajectory for the proportions of qualifying disability payments with a CA payment. For example, will the recent decline in proportions of working age and child disability payments associated with a CA payment (see Figure 3.1) persist over the forecast period? Other factors we consider include State Pension age changes and social security reforms such as new disability payments and upcoming introduction of the Scottish replacement for Carer's Allowance. These may affect the number of people receiving both the qualifying disability payments and CA.

3.11 Additionally, we adjust the forecast to account for the response of CA recipients to the introduction of Universal Credit (UC). The absence of the Severe Disability Premium (SDP) in UC could lead to more people opting for CA. On the other hand, UC has a Carer's Element which could lead people not to make a separate claim for CA (even though this would usually be beneficial given availability of Carer's Allowance Supplement) potentially reducing the CA caseload. In our January 2021 forecast, we assumed the interaction with UC would increase the caseload overall.

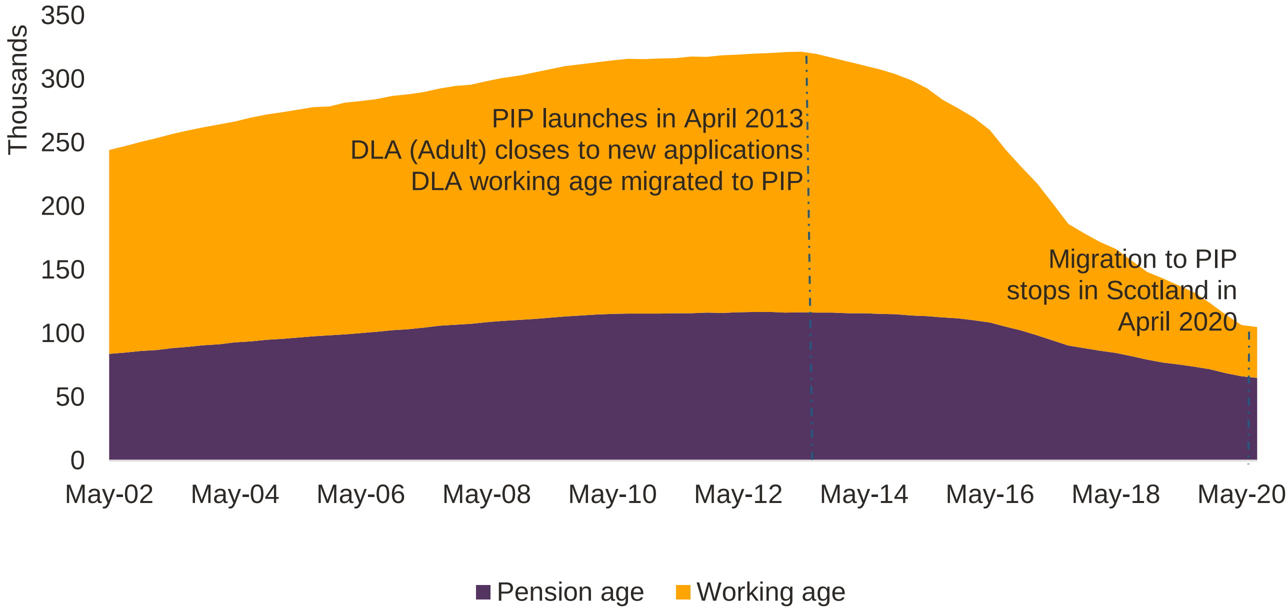
Disability Living Allowance (Adult)

Overview

4.1 Disability Living Allowance (DLA) was previously the main form of support for working-age adults who needed financial support for care and/or mobility. It is no longer open to new applications from the adult population. Personal Independence Payment (PIP) is now the main form of working-age disability assistance and pension-age applicants must apply for Attendance Allowance.

4.2 The UK Government was migrating DLA (Adult) recipients to PIP from April 2013 through to April 2020. This managed migration has now stopped in Scotland and the sharp decline in the caseload that we see in Figure 4.1 will not continue in future years. There is a significant number of adults still receiving DLA (Adult) in Scotland and we estimated spending in 2020-21 of £0.5 billion for this group.[9]

Figure 4.1: Disability Living Allowance (Adult) caseload



Source: DWP Stat-Xplore

Modelling approach

Caseload forecast

4.3 There have been no new entrants to this group since April 2013 so the number of people receiving support has been decreasing since then. This decrease will not be at the same rate that we observed since April 2013 when a large number of people left DLA (Adult) because of the managed migration to PIP, but we would still expect people to exit the group. A person will exit DLA (Adult) if they reach the end of their award and are unsuccessful at award review, their circumstances change meaning they are no longer eligible for support or on death.

[9] Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link)

4.4 Every quarter there is a DWP data update which provides the latest snapshot of the number of adults receiving DLA (Adult) in Scotland. We take this is a starting point and then apply an exit rate to reduce the caseload each financial year.

Payment amount forecast

4.5 We monitor the change in the real average payment amount. This is the weekly payment amount calculated using a fixed payment rate (for example 2020-21 rates). This allows us to understand changes in the payment amount that are being driven by changes in the rates people are being awarded for the care and mobility components, rather than changes because of uprating. For the pension age group the real average payment amount has remained stable and we would expect this as it is a closed group of people and award reviews are less frequent for pension age recipients.

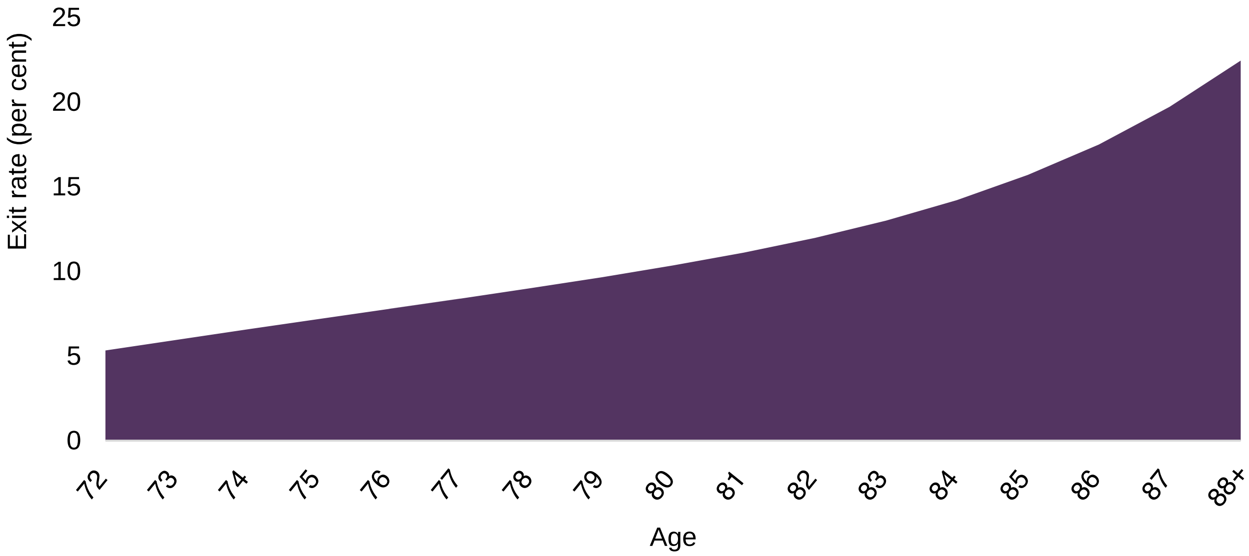
4.6 We then assume that the trend in the real average payment will continue in the future. We also uprate for inflation as described in Box 1.

Assumptions

4.7 The main assumption we make is how quickly we expect the caseload to decline, also referred to as the exit rate. We use different approaches to set the exit rate based on whether a person was working age or pension age when PIP was introduced. The reason for this split is because the working age group have been migrated to PIP and this is evident in the data, and the pension age group were not.

4.8 For people who were pension age when PIP was introduced in April 2013, we can use the publicly available data from DWP about how quickly the size of the group has declined. We do not need to make any adjustments to the data. This group of people are now over 72 years old and tend to have long-term awards so award reviews are not common. The exit rate of people in this group is driven by mortality and increases with age. We use the information from DWP to determine an exit rate based on the age of the recipient.

Figure 4.2: Age based exit rate



Source: Scottish Fiscal Commission
This is the percentage of the caseload that we expect to leave each year, by single year of age.

4.9 The exit rate for people who were working age when PIP started is more difficult to determine. The decreases in the caseload shown in the publicly available information are largely driven by the managed migration to PIP which has now stopped. We set the exit rate by thinking separately about the reasons why someone may leave the caseload and trying to estimate the likelihood of each of these events happening. For example, the likelihood that an individual has an award review or requests a change of circumstance as that will trigger a potential move to PIP. We also separately estimate the likelihood that someone leaves because of death.

Industrial Injuries Disablement Scheme

Overview

5.1 Industrial Injuries Disablement Scheme (IIDS) provides non-contributory and no-fault payments for disablement because of an accident at work or a prescribed disease known to be associated with certain jobs. Payments are paid to employees who were employed earners at the time of the accident or when they contracted a prescribed disease.

5.2 IIDS comprises a number of payments that can be claimed including Industrial Injuries Disablement Benefit (IIDB), Reduced Earnings Allowance (REA), which is replaced by Retirement Allowance (RA) when an individual reaches state pension age, Exceptionally Severe Disablement Allowance (ESDA) and Constant Attendance Allowance (CAA).[10]

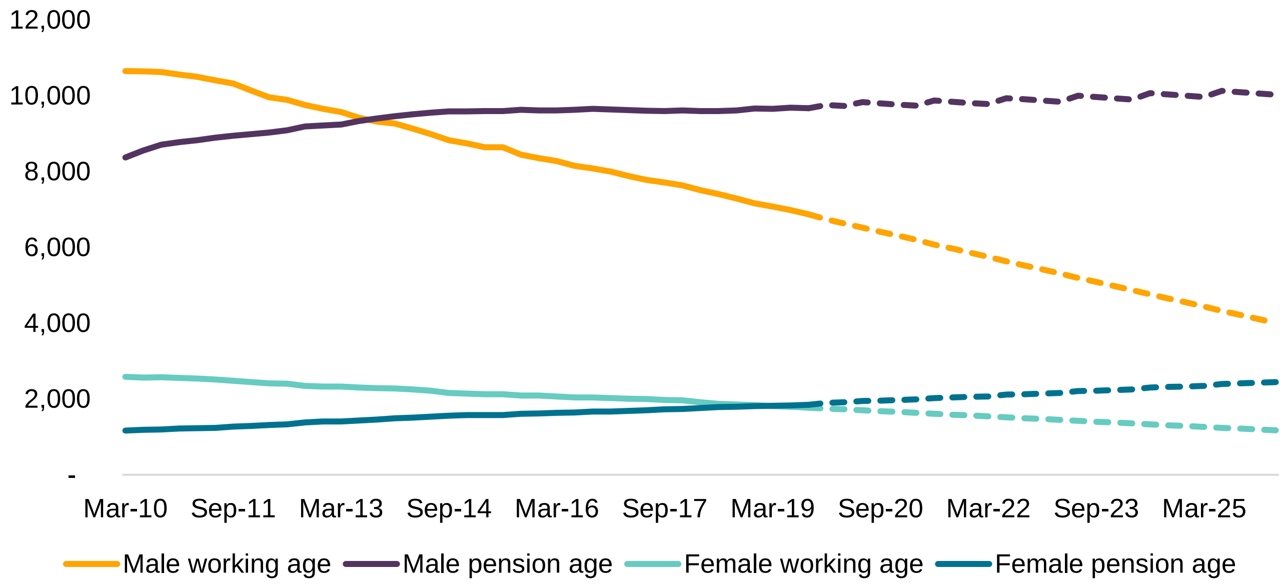
Modelling approach

5.3 To produce our estimate of spending for IIDS in Scotland, we have separate forecast models for the main IIDB payment; REA and RA; and for those receiving a combination of the payments. We discuss in detail the methodology for forecasting the main payment in the scheme, IIDB. For the other two models, we use a different approach which we explain briefly.

Caseload forecast

5.4 To estimate the caseload for IIDB only, we split the caseload according to gender and also into working age and pension age. We then calculate 'per capita caseload' which expresses the caseload for each group as a proportion of the total population for that group.

Figure 5.1: Number of people receiving IIDB only payments



Source: Scottish Fiscal Commission based on DWP data

[10] UK Government (2019) Industrial Injuries Disablement Benefits: technical guidance (link)

5.5 Next we use a linear trend to project the per capita caseload over the forecast period. We combine this with our population projections, also disaggregated into similar demographic groups, to generate the caseload forecast for each group. The sum of these sub-groups gives our IIDB only caseload forecast.

5.6 We use a different approach to estimate the caseload forecast for REA and RA as well as for those receiving a combination of IIDB and REA. For these two models, we forecast the caseload by taking the average annual change in the caseload over the previous three years.

Payment amount forecast

5.7 The average weekly amount paid under each of the modelled schemes is different, so we forecast the average amount separately within each model.

5.8 For IIDB only, we uprate the Scottish average payment amounts by inflation as described in Box 1. Analysis of the historic payment amounts shows that CPI has been a good indicator of previous increases in the average payment amount so no further calculations are required.

5.9 For REA and RA we do not currently have data on the average amounts in Scotland so we base the forecast on data for GB.[11] The GB average payment amount has been increasing at a lower rate than CPI. We first calculate the difference between the annual growth in the average amount and CPI for each year. We then scale down the annual CPI forecast using a three year average of the difference. The resulting series is used to forecast the average payment amount.

5.10 We combine the caseload and payment amount forecasts in each model to get spending for each model separately. We add them together to get our total baseline expenditure forecast for IIDS.

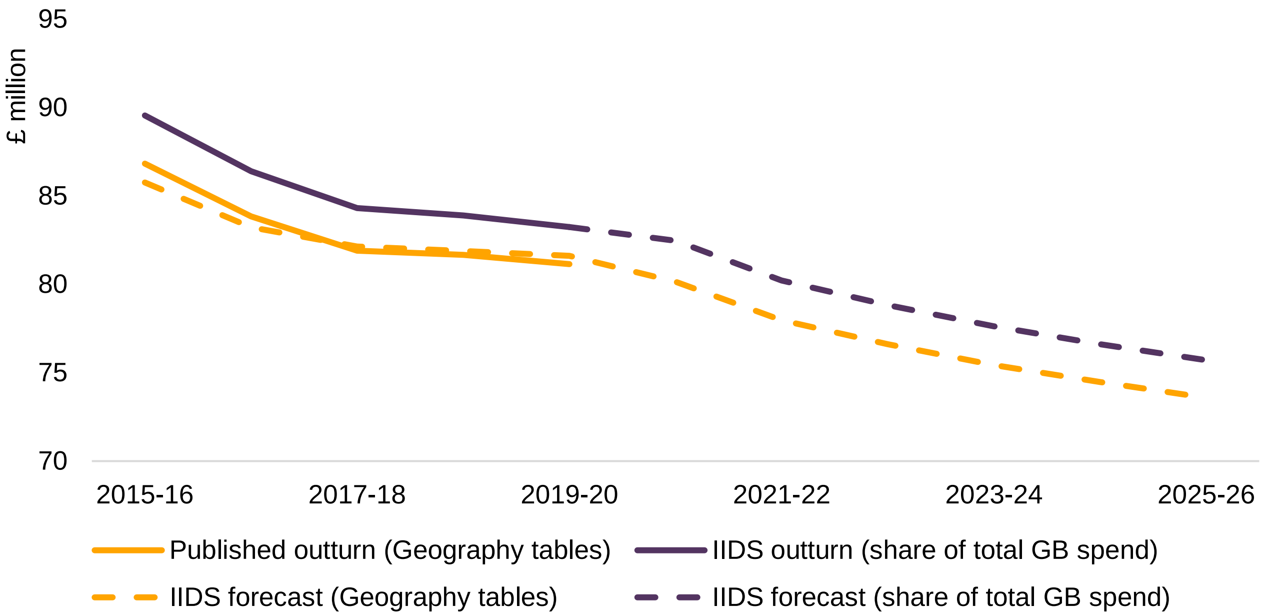
Assumptions

5.11 We adjust the baseline IIDS forecast produced based on DWP's geography tables to align with final GB expenditure outturn. The final spending data are slightly higher than implied by the statistical model, so we calibrate the forecast in order to match the published spending data.[12]

[11] We expect to be able to improve on this when DWP release IIDB statistics on Stat-Xplore (link)

[12] The difference arises in part because IIDS expenditure published in the geography tables does not include any expenditure on Industrial Death Benefit or Other Industrial Injuries Benefit

Figure 5.2: IIDS expenditure forecast



Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), Office for Budget Responsibility (2020) Economic and Fiscal Outlook – November 2020 (link), Department of Work and Pensions (2020) Benefit expenditure by country and region, 1996/97 to 2019/20 (link)

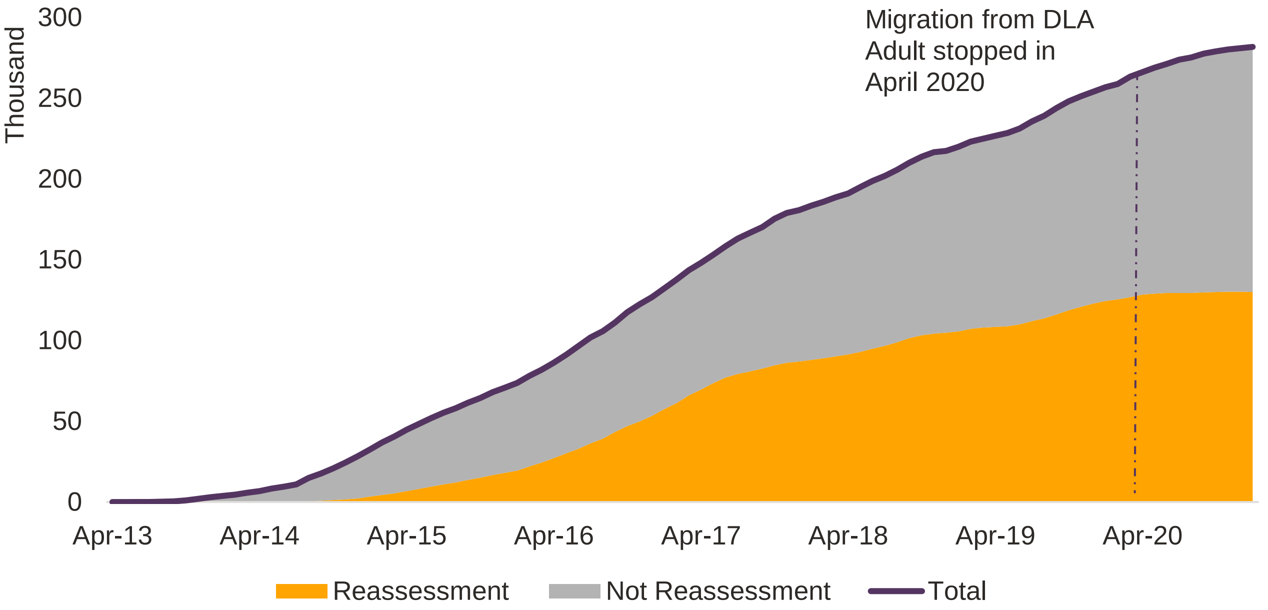
Personal Independence Payment

Overview

6.1 Personal Independence Payment (PIP) was introduced in April 2013 to replace the working age component of Disability Living Allowance (DLA). PIP helps with some of the extra costs if someone has a long term physical or mental health condition or disability.

6.2 In recent years, one of the main causes of the increase in PIP caseload was DWP proactively migrating DLA recipients to PIP. From April 2020, the managed migration stopped in Scotland.[13] We expect there to continue to be a small number of new PIP claims from DLA recipients such as young people reaching age 18 and moving from DLA to PIP or people reporting a change in circumstances or those due for an award review. Figure 6.1 shows the growing PIP caseload split into people who were new applicants and those reassessed from DLA. The reassessed group has now reached a peak and we expect it to get smaller in the future.

Figure 6.1: PIP caseload in Scotland

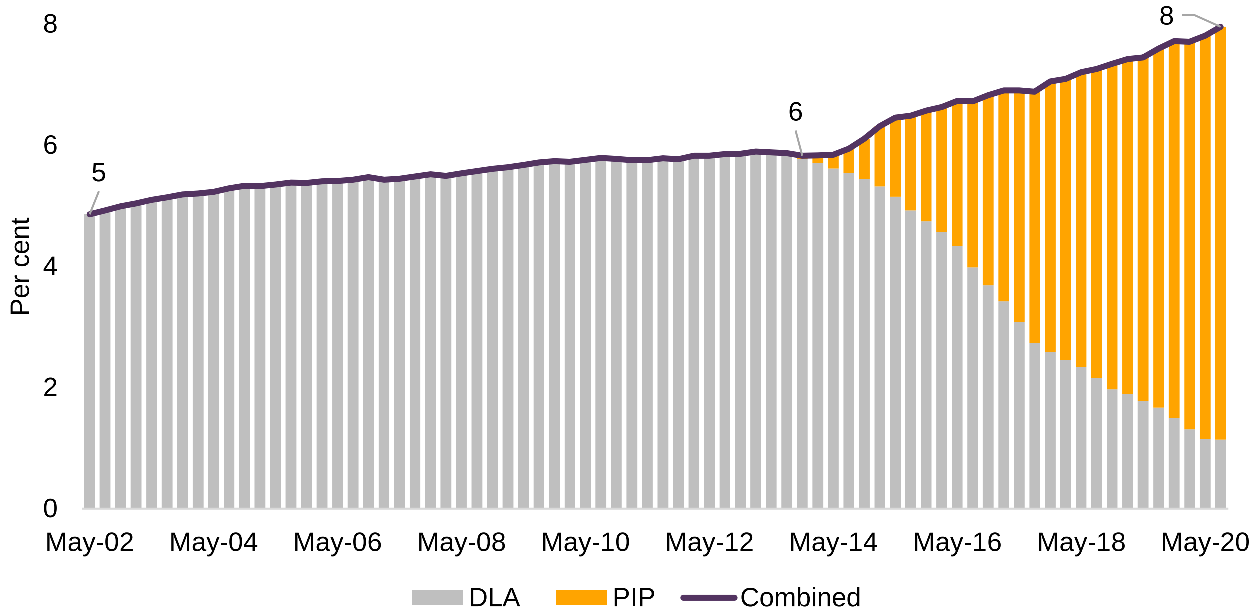


Source: DWP Stat-Xplore

6.3 The proportion of working-age population receiving a disability payment has been continuously increasing and Figure 6.2 shows that the rate of increase has been much faster since the introduction of PIP. The increase could reflect the increase in reported disability prevalence among younger people, particularly as regards mental health, behavioural and learning disabilities.

[13] The managed migration of working-age Disability Living Allowance recipients to Personal Independence Payment stopped in Scotland from 1 April 2020 whereas it continues under UK Government policy that applies in England and Wales.

Figure 6.2: Proportion of working-age population receiving DLA or PIP



Source: Scottish Fiscal Commission based on DWP Stat-Xplore

6.4 The Scottish Government will replace PIP with Adult Disability Payment. This new payment will be delivered by Social Security Scotland and following a pilot in spring 2022, is due to launch nationally for new applications in summer 2022. We discuss our approach to forecasting Adult Disability Payment in more detail in the Policy Costing section.

Modelling approach

Caseload model

6.5 To produce our caseload forecast, we split the caseload into five groups shown in Figure 6.3. We expect the caseload to change differently for these groups either because historic trends suggest differences or because there are particular reasons why the caseload for that group may increase or decrease in the future. For example, the number of people who previously received DLA and were migrated to PIP was heavily influenced by DWP's managed migration and that has now stopped in Scotland.

6.6 Another reason to consider a group separately is that they may receive a higher or lower award than other PIP recipients. For example those who are terminally ill can make an application under special rules.

6.7 For each group we estimate the inflows, people joining the caseload, and outflows, people exiting the caseload. We look at historic information for each group and also factor any legislative or operational changes that may affect inflows and outflows. For example, the managed migration from DLA to PIP finished in April 2020 reducing the inflows into the reassessed group.

Figure 6.3: PIP caseload groups

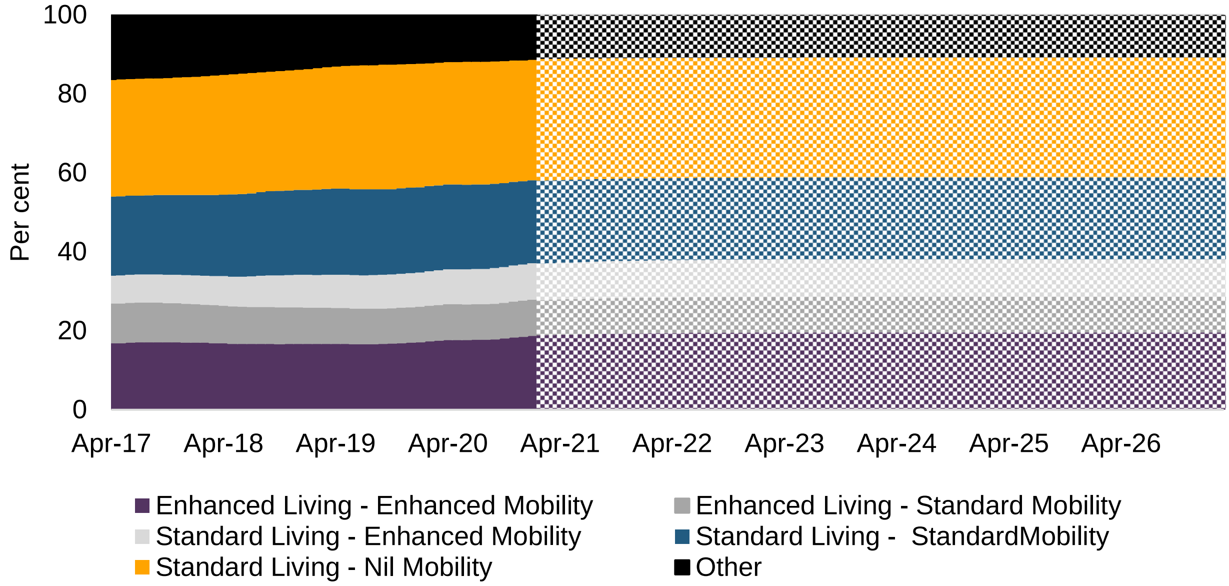
Group	Who is in this group?	Considerations for our caseload forecast
Reassessed – Working Age	Working-age people who had been receiving DLA payments, and after receiving an invitation were reassessed to PIP	The managed migration from DLA to PIP has now stopped so this group is likely to get smaller over time as people leave the caseload. The only entrants to this group are people on DLA reaching the end of their award, or requesting a change in their circumstances. This group are likely to receive a PIP award and the award payment tends to be higher.
Reassessed – Risings	Young people receiving DLA who reach age 16 and apply to PIP	We monitor this group separately, because whilst the transfer to PIP from re-assessed working age claims was temporary, young people moving from DLA Child to PIP will be ongoing. Scottish Government have increased the age that young people can remain on DLA Child from 16 to 18.
New applications	People submitting a new application to PIP	This group tends to receive shorter awards and a lower payment amount compared to those that have previously been receiving DLA.
Terminally ill	People with a progressive disease who are not reasonably expected to live for longer than six months	Given their conditions, they have the highest exit rate. They are entitled to the daily living component at the enhanced rate; however, a large percentage also receive the mobility component at the enhanced rate.
State Pension age	People who have reached State Pension Age while receiving PIP	This group are able to remain in PIP as long as they are eligible. DWP introduced a move away from award reviews to light touch reviews. We don't have much data for this group given PIP launched in 2013 so our oldest PIP recipient would now be aged 73.

Source: Scottish Fiscal Commission

Payment amount forecast

6.8 We monitor the proportion of the caseload receiving each combination of mobility and living awards. We do this for each of the groups we described for our caseload forecast. We then estimate these proportions in the future, based on the historical trends we have observed. An example is shown in Figure 6.4 for the new application group, showing the proportion receiving each award combination is relatively stable.

Figure 6.4: Proportion of the caseload receiving each award rate combination – new application group



Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021(link)
The checked area is the forecast.

6.9 The projected award combinations allow us to estimate the number of people in each caseload group that we expect to receive each award combination. We then combine this with the payment rates uprated in line with inflation, as described in Box 1.

Assumptions

6.10 The number of awarded new applications has been increasing since PIP was launched in April 2013. The rate of increase has started to slow down in recent years. We have to make an assumption about the future increase in inflows. For our January 2021 forecast, we assumed an almost constant number of new inflows.

6.11 People can remain in the PIP caseload as long as they are eligible, so the average age of the people in the State Pension Age group will increase. The exit rate for this group is based on historical data and has been stable for the last few years. We expect the exit rate will increase over time as the people in this group age and mortality becomes a more dominant factor.

6.12 Our forecast includes further adjustments to account for spending changes because of outstanding legal cases against DWP not reflected in the data. We are heavily reliant on information from the OBR on the assumptions they have used for the England and Wales forecast to determine these adjustments. To date, we have typically taken a population share of the OBR's adjustments for legal cases.

6.13 We also have to consider that there may be other factors that mean the future changes in the caseload will not follow the same trend as historic data. An example of this from our January 2021 forecast was our assumption that the COVID-19 pandemic results in long-term health effects which increase the number of people receiving PIP. These long-term health effects relate to the recession, directly to COVID-19 and to lockdown effects, and cover both mental and physical health effects.

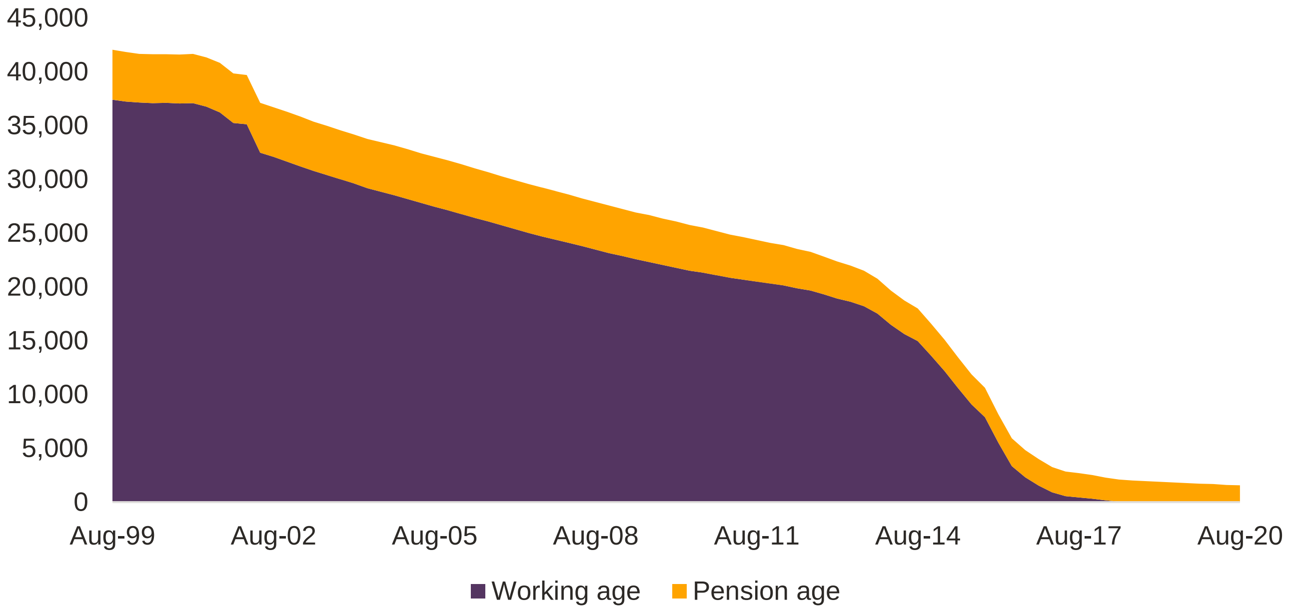
Severe Disablement Allowance

Overview

7.1 Severe Disablement Allowance (SDA) is a form of disability assistance that is designed to replace income lost due to someone being unable to work because of illness or disability. Severe Disablement Allowance was closed to new applications in 2001. The equivalent payment available now for people unable to work due to illness or disability is Employment Support Allowance which is not being devolved to Scotland and is one of the payments being replaced by UC. The Scottish Government intends that DWP continues administering Severe Disablement Allowance on its behalf.

7.2 Given the payment has been closed to new applicants for 20 years, the caseload in Scotland is small and declining. In August 2020, there were around 1,500 recipients in Scotland with annual spend for 2020-21 estimated at £7.7 million.

Figure 7.1: Severe Disablement Allowance caseload in Scotland



Source: DWP Stat-Xplore (link)

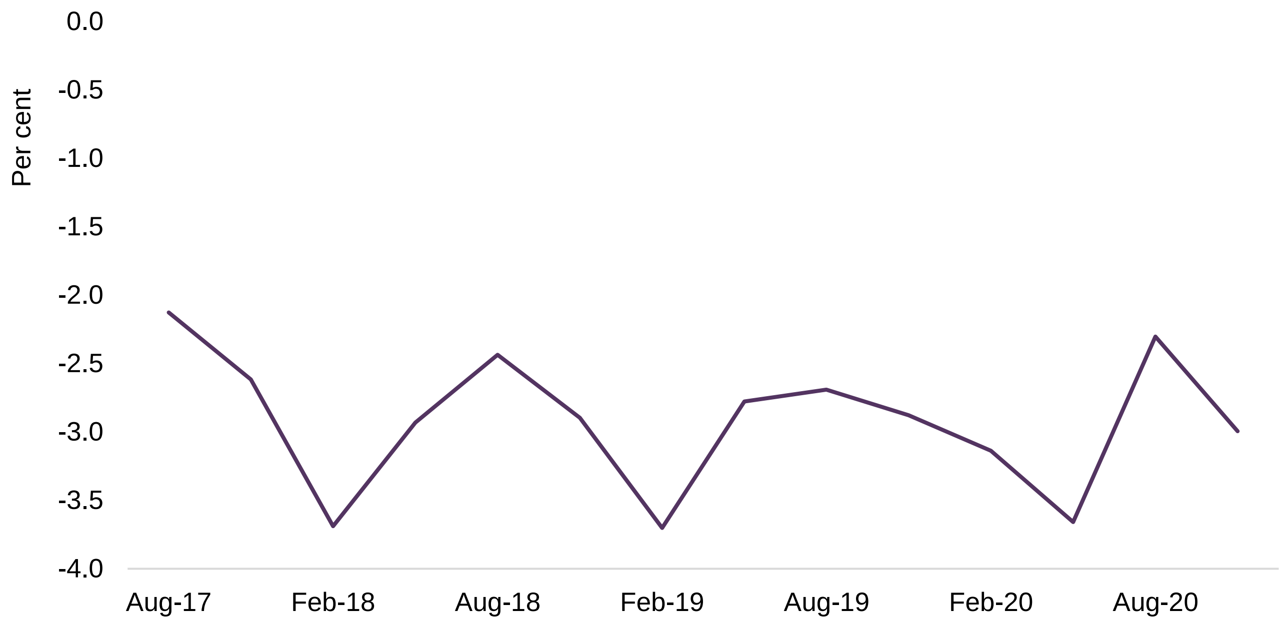
Modelling approach

7.3 We use the most recently published caseload from DWP as the starting point for our forecast. We then make an assumption about how quickly the caseload will decrease in future years, based on the quarterly decreases we have observed in the published data. The payment rates are increased in line with inflation each year as described in Box 1. The caseload and payment rate forecasts are combined to produce our overall forecast of spending.

Assumptions

7.4 The most important assumption is how quickly the caseload will decline. We base this solely on the published information from DWP on how the caseload has decreased each quarter. We revisit this assumption each time we produce a forecast so sometimes we take an average of the recent values or we may take the most recent value.

Figure 7.2: Change in pension age SDA caseload in Scotland



Source: Scottish Fiscal Commission based on DWP Stat-Xplore

7.5 Another judgement we make is how to allow for variation between the reported spending in Scotland each financial year and the spending calculated using DWP caseload and payment rate statistics from Stat-Xplore. There have been historic differences between these figures and we may be understating the true spending by looking at the caseload and payment rate statistics alone. Part of this difference may be because some recipients do not appear in the DWP caseload and payment rate statistics as Severe Disablement Allowance is a legacy payment and there may not always be digital information available. We take an average of the historic difference and assume this applies in future years.

Policy costings

Overview

8.1 When the Scottish Government introduces a new policy or makes changes to an existing one, we may be required to produce a policy costing – our best estimate of the resulting change in spending. In September 2019 we published a paper that provided detail of our general approach to producing policy costings.[14]

8.2 We begin from a baseline of the existing policy. We estimate the population that will be directly affected by the policy change and calculate the effect of the policy change on that group. This provides an estimate of the direct effect of the policy change.

8.3 A policy change may alter people's incentives and decisions. This may include people's choice to apply for and receive a payment. We consider such behavioural effects and estimate their cost to include in our policy costing.

8.4 The final policy costing combines the direct effect and behavioural cost resulting from the policy change.

8.5 Policy costings have challenges that are different from those associated with the forecasts we have discussed so far in this paper. We are often costing the Scottish Government's new social security payments that have not yet launched. We do not have any information available on how many people will receive the new payment or how much they will receive on average. We have very little data for our forecast model and have to make a significant number of judgements.

8.6 As a result, there is a lot of uncertainty around these policy costings. New policies are always harder to forecast as it is inherently more difficult to predict the caseload and the payment amount. Over time as we receive data from Social Security Scotland, our forecasts will increasingly be driven by data rather than by assumptions. We would expect our forecasts of new payments to become more accurate as time goes on.

8.7 The Scottish Government intends to launch two new disability payments in the next couple of years: Child Disability Payment (CDP) which will replace the UK Government's Disability Living Allowance (DLA) Child and Adult Disability Payment (ADP) will replace PIP. The following sections provide information on how we have costed, or intend to cost, these new payments.

Child Disability Payment

Overview

8.8 Child Disability Payment (CDP) is intended to support children and young people with disabilities, as well as their families, to mitigate the increased costs they incur as a result of having a disability or long-term condition. We produced our first CDP policy costing in February 2020,[15] and provided an

[14] Scottish Fiscal Commission (2019) – Approach to policy costing (link)
[15] Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link)

updated forecast in January 2021 as the payment is now expected to launch in 2021-22.[16] Our overall approach is unchanged and is described in more detail in the following sections. Our forecast is based on the Scottish Government's policy as set out in secondary legislation.[17]

Modelling approach

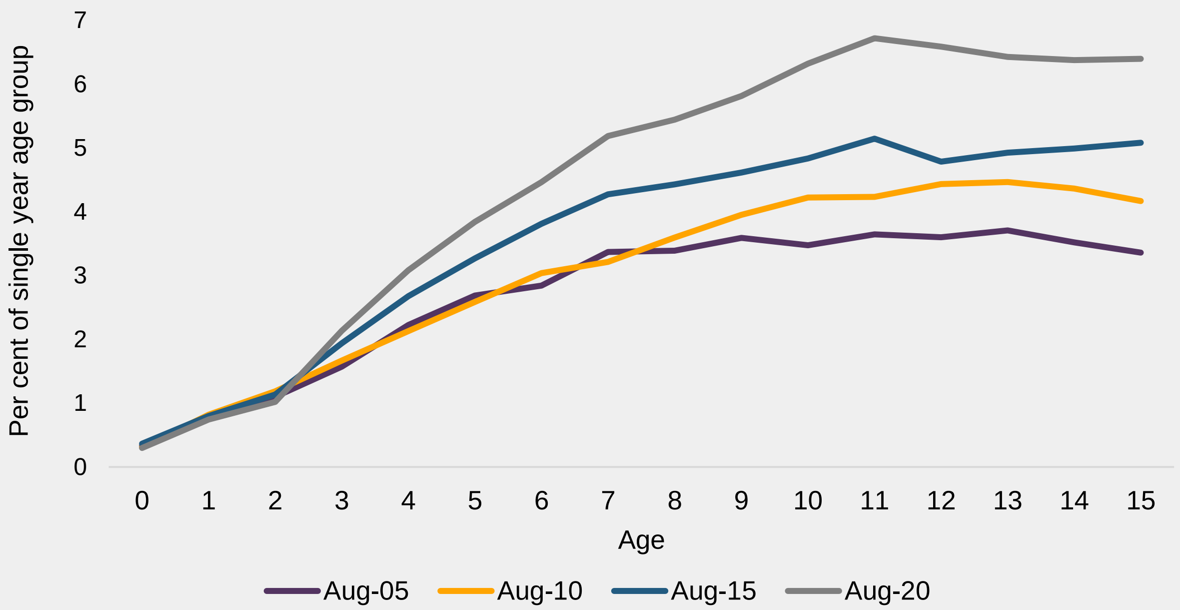
8.9 When we forecast a new Scottish Government payment, we do this in relation to the existing UK Government payment so in this case the UK Government's Disability Living Allowance (Child) payment. This is for two reasons: there will continue to be costs for this payment until all existing recipients are transferred to CDP and we also have a long history of data on how many children have received the DLA (Child) and how much they received. Box 2 sets out how we forecast spending on the UK Government's DLA (Child), our baseline forecast.

Box 2: Disability Living Allowance (Child) forecast

Caseload forecast

We use a cohort-based forecast approach, very similar to that described for Attendance Allowance. The proportion of the child population which receives DLA (Child) has been increasing over time as shown in Figure 8.1. As a result, we consider the timing of when someone first started receiving DLA (Child) as the most important factor for forecasting. We split the caseload into cohorts, based on when they joined the caseload, and then estimate how many of that cohort we expect to still be receiving payment next year and so on for all years of the forecast.

Figure 8.1: Proportion of Scottish population receiving DLA (Child)



Source: Scottish Fiscal Commission based on DWP Stat-Xplore

Payment amount forecast

To forecast the payment amount, we consider three groups separately: under 5s, aged 5-15 and aged 16 and over. This allows us to distinguish between different levels of support available at very young ages and also different trends observed across all three groups. We assume trends seen in the real

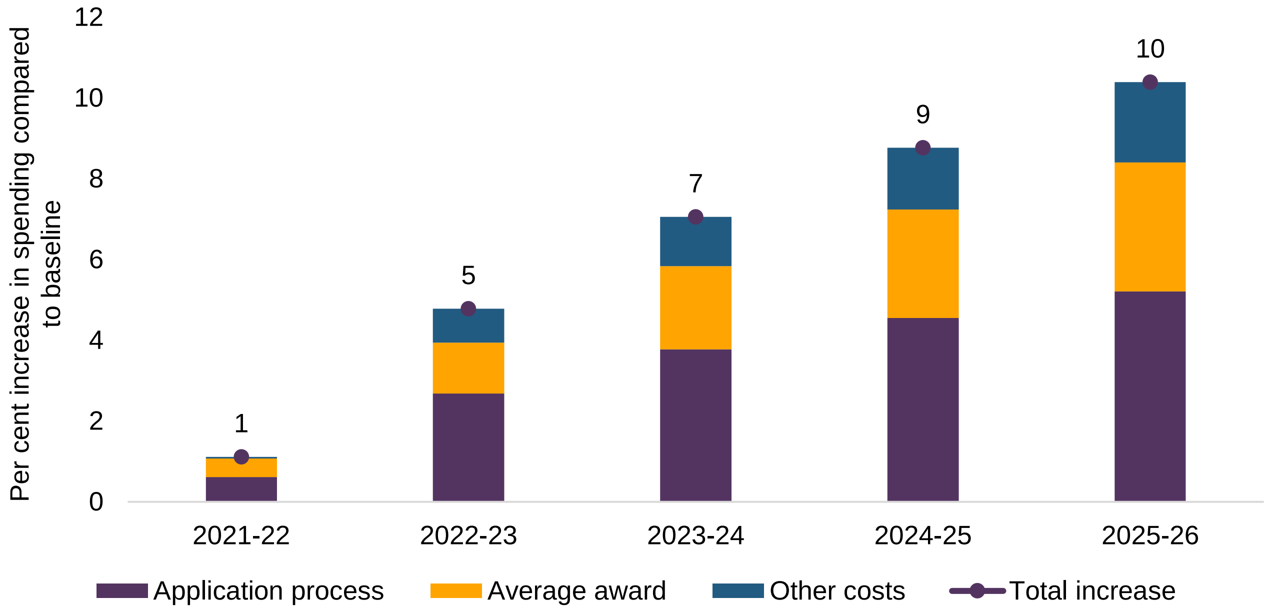
[16] Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link)
[17] The Disability Assistance for Children and Young People (Scotland) Regulations 2021 (link)

average award (stripping out the effects of inflation) continue in the future. We uprate for inflation separately as described in Box 1.

8.10 To produce our estimate of how much will be spent on Child Disability Payment, we consider the policy and operational differences compared with the current policy for DLA (Child). Although for Child Disability Payment the structure of the payment is broadly unchanged compared to DLA (Child), the new payment will have different application routes and different approaches for determining and reviewing awards.

8.11 The Scottish Government has set out its policy intent for Child Disability Payment but as this is the first disability assistance to be launched it is highly uncertain how these new policies will affect spending. The increase in spending is dependent on the behaviour of those applying for support and the Social Security Scotland staff who will be making decisions. In Figure 8.2 we show the expected increase in spending for each of the main changes, with further commentary on each change in the next section.

Figure 8.2: Forecast increase in spending for Child Disability Payment



Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021(link)
Other costs include Short Term Assistance, terminal illness and award duration changes.

Assumptions

Increased applications

8.12 The first assumption we make is on the number of successful applications we think there will be to CDP. The new application process aims to remove barriers to applying to CDP and provide support to clients throughout the process, in order to maximise take-up of the new payment. We therefore think that the number of new people joining the CDP caseload each month will be higher than it was for DLA Child. In the absence of data, we have to make judgements on how much higher we think the caseload will be.

Average award

8.13 We have to make an assumption about how much CDP recipients will be paid, on average. After considering detailed policy information about how Social Security Scotland will make award decisions, we decided it was not reasonable to assume that clients on CDP would receive the same payment awards on average as on DLA (Child). We therefore have to make an assumption about how much higher the average award would be for CDP.

Award duration and award reviews

8.14 We also have to make judgments on whether clients will stay on CDP for more or less time than on DLA Child. CDP awards have no fixed end date, but do have award reviews scheduled for when a young person's circumstances are likely to change. This involves making a judgement on whether the average length of award given by Social Security Scotland is longer than the average length of award given by DWP for DLA Child. We also need to make a judgement about how successful clients will be, on average, at award reviews.

Terminal illness

8.15 One of the main differences between DLA Child and CDP is the removal of the requirement for a client's death to be reasonably expected within 6 months due to their illness, in order to receive an award under special rules. Instead the judgement as to whether a person should be considered terminally ill for the purposes of determining eligibility for Disability Assistance will be made by clinicians, based on guidance prepared by the Chief Medical officer (CMO). This is one of the trickiest areas to forecast; however, for the child payment it has a relatively small effect on total spending as the number of children with a terminal illness in Scotland is small.

Adult Disability Payment

Overview

8.16 In summer 2022, following a pilot that commences in spring 2022, the Scottish Government will launch the new Adult Disability Payment (ADP) for new applications nationally. This is a new Scottish payment which will replace the UK Government payment, Personal Independence Payment, and will be delivered by Social Security Scotland. The Scottish Government has consulted on draft regulations for ADP which set out their intended policy position.[18]

8.17 For our next forecast in August 2021, we will provide our first forecast of spending on ADP. Here we discuss how we intend to produce this forecast.

Modelling approach

8.18 We consider the UK Government's PIP as the starting point for our forecasts. There will continue to be costs for PIP until all existing recipients are transferred over to ADP.

8.19 PIP launched in 2013 so we also have several years of data showing how many people have received payment and how much they received. We use PIP as our baseline forecast, similar to the way that we have used DLA (Child) as the baseline forecast for CDP. It is not clear whether or not

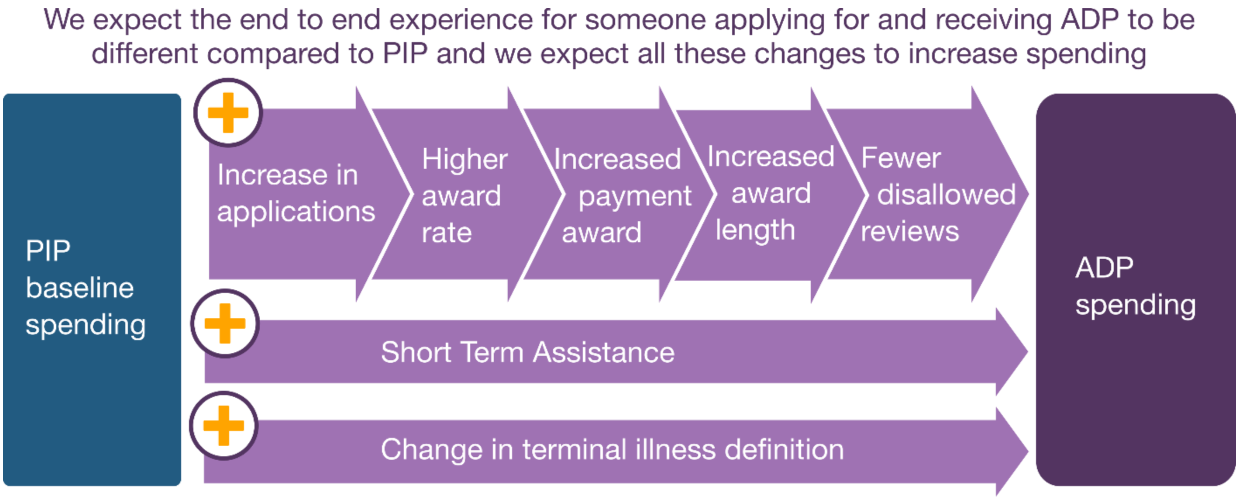
[18] Scottish Government (2020) Adult disability payment: consultation (link). The Scottish Government may adjust the draft regulations in light of feedback from the consultation and/or scrutiny from the Scottish Commission on Social Security.

ADP will also replace DLA (Adult) so we have not made any assumptions about this group being transferred over to Social Security Scotland.

8.20 We have highlighted in previous forecast publications that once new Scottish Government payments are included in our forecasts, we expect spending to increase given Ministerial announcements and policy position papers published to date.

8.21 Using our PIP forecast as a baseline view of spending, we then determine how much we expect spending to increase. We will be using a very similar approach to that used to forecast CDP.

Figure 8.3: Adult Disability Payment policy costing



Source: Scottish Fiscal Commission

8.22 Figure 8.3 is a simplified diagram of the main areas we will consider. For example we are expecting an increase in applications from new applicants but there may be an increase from people currently receiving PIP wanting their award reviewed by Social Security Scotland, triggering what is known as a change of circumstance review.

8.23 Our estimate of the increase in spending will require a significant amount of judgement as there is very limited relevant information on which to base this. We can look at other payments launched by Social Security Scotland but as these are not forms of disability assistance there may be significant differences. Similarly, DWP's changes to the UK welfare system such as the introduction of PIP and Universal Credit are not directly comparable.

Additional information

Abbreviations

AA	Attendance Allowance
ADP	Adult Disability Payment
CA	Carer's Allowance
CAS	Carer's Allowance Supplement
CDP	Child Disability Payment
CPI	Consumer Price Index
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
IIDS	Industrial Injuries Disablement Scheme
OBR	Office for Budget Responsibility
ONS	Office for National Statistics
PIP	Personal Independence Payment
SEFF	Scotland's Economic and Fiscal Forecasts
SFC	Scottish Fiscal Commission
UC	Universal Credit

A full glossary of terms is available on our website:

https://www.fiscalcommission.scot/explainers/glossary/

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All charts and tables in this publication have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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[19] OECD (2014) Recommendation on Principles for Independent Fiscal Institutions (link)
[20] Scottish Fiscal Commission (2018) Compliance with the Code of Practice for Official Statistics (link)

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ISBN: 978-1-911637-32-5

Published by the Scottish Fiscal Commission, May 2021