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Research and analysis

# February 2019: ESA underpayments: forecast numbers affected, forecast expenditure and progress on checking

Updated 21 February 2019

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## Policy background and introduction

Employment and Support Allowance (ESA) was introduced in October 2008 for people who have limited capability to work because they are disabled or ill. From March 2011 the Department for Work and Pensions (DWP) began reassessing people on incapacity benefits (for example, Incapacity Benefit and Severe Disablement Allowance) for eligibility for ESA.

More than 2 million claimants were receiving incapacity benefits before reassessment began and we have now reassessed around 1.5 million people, nearly all of those who required a reassessment.

The department is correcting some past underpayments of ESA, which arose while reassessing incapacity benefit claims.

## What you need to know

There are 2 main types of ESA:

- contributory, which is based on National Insurance contributions
- income-related, which is a means-tested benefit – income-related ESA can be paid on its own or as a top-up to contributory ESA.

Extra payments, called premiums, are available only to qualifying customers who are eligible for income-related benefits. These include the:

- Enhanced Disability
- Severe Disability
- Carer
- Pensioner Premiums

Largely between January 2011 and October 2014 some people receiving Incapacity Benefit and Severe Disablement Allowance had their claims converted to contributory ESA. However, the possibility of whether they may also have been entitled to income-related ESA was not considered for all cases. This means they may have missed out on the payment of premiums, such as the Enhanced Disability Premium.

The department became aware of some individual errors on cases in 2013 and revised guidance was issued in 2014 that all cases being converted from previous incapacity benefits must be considered for entitlement to income-related ESA.

In 2016, analysis of fraud and error national statistics highlighted the scale of the potential error on historical conversions. The department carried out a sampling exercise on 1,000 cases in the second half of 2017 to help inform the checking process and initial estimates of numbers affected and amounts owed. The department then began work to assess cases in December 2017.

## Purpose of publication

This analytical release follows a previous one on ESA underpayments on 17 October 2018. This publication provides an update of the number of cases estimated to be affected by underpayments of ESA on conversion from other incapacity benefits, and the forecast costs of repaying these cases that will form part of the Office for Budget Responsibility (OBR) forecast published at Spring Statement on 13 March 2019.

It also presents an update, from the department's management information, of progress on checking potentially affected cases as at 11th February 2019. It includes:

- the number of cases started the reassessment journey
- number of cases contacted to date
- number of cases completed to date
- number of cases found not to be due arrears payments to date
- number of cases found to be due arrears payments to date
- the total amount of historical arrears the Department has paid out in correcting these cases
- average arrears payment to date

## How many are affected and how much money is payable

The department is in the process of reviewing around 570,000 ESA cases that could be affected. It expects to complete the checking of the majority of around 320,000 cases by April 2019 (Phase 1). Phase 1 also includes around 20,000 cases where the claimant has sadly died. These cases are taking longer as the department needs to identify next of kin and the department expects to complete work on these cases by the end of December 2019. A further 250,000 cases (Phase 2), will also be reviewed following the Secretary of State's announcement in July 2018 to pay all cases back to the point of conversion, with an expectation that this work will be completed by the end of 2019.

As a precaution, the department has undertaken additional testing of cases converted in 2015 and placed in the Support Group to assure itself that the guidance changes implemented in 2014 were effective. This testing has shown that the level of error did not improve sufficiently following the issuing of new guidance to provide assurance that no further problems remained. For this reason, the department will also be reviewing around 30,000 cases that were converted from previous incapacity benefits from 2015 onwards. This results in around 600,000 ESA cases being reviewed overall.

The department's latest estimate of the number of people who will be due arrears and its expenditure forecasts are based on management information from the checking exercise, dating from 9 January 2019, together with scans of the potentially affected cases from the department's administrative data systems. These updated forecasts, which will feed into the Spring Statement 2019, suggest that by the end of the exercise around 210,000 arrears payments could have been made.

Actual numbers of people affected could be higher or lower than this forecast. The increase, compared to our previous estimate of 180,000, is based on assumptions made using evidence we have gathered from the checking exercise to date. The data shows an increase in the proportion of cases in error among some groups of cases. In addition, based on sample testing, we have included an assumption of the proportion of errors likely to be identified in the further 30,000 cases that have been added to the exercise.

The department estimates it will pay £920 million (forecast expenditure rounded to the nearest £10 million) in past underpayments over the financial years 2017 to 2018, to 2019 to 2020, a decrease from the £970 million forecast that informed Autumn Budget 2018. In addition, it will pay higher awards to active claimants after their claim is corrected. These amount to around £40 million in 2018 to 2019, £120 million in 2019 to 2020, and then decline over time to £90 million in 2024 to 2025 as claimants leave the benefit. Actual costs could be higher or lower than these amounts. Table 1 shows the department's lower, central and upper estimates of the amount of extra benefit that will be payable in each year, including both arrears payments and higher awards to active claimants.

**Table 1: total extra amount of ESA payable**

£ millions	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022	2022 to 2023	2023 to 2024	2024 to 2025

£ millions	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022	2022 to 2023	2023 to 2024	2024 to 2025
Lower estimates	20	460	450	110	100	90	90	80
Central estimates	20	500	570	120	110	100	100	90
Upper estimates	20	590	750	170	160	140	140	130

### Notes:

1. The central estimate is the department's best estimate of the likely level of costs. The lower and upper cases illustrate the department's estimate of the likely minimum and maximum amounts. The actual amount will depend on the number of people affected and the amount of arrears owed in each case.
2. The £500 million central estimate in 2018 to 2019 comprises £460 million in arrears payments, plus £40 million in higher award payments to active claimants after their claims are corrected.
3. The £570 million central estimate in 2019 to 2020 comprises £450 million in arrears payments, plus £120 million in higher award payments to active claimants after their claims are corrected.
4. Forecasts of higher awards to be paid on corrected claims have been adjusted to account for inflation. Historic arrears accounted for are the benefit rates applicable to each year of underpayment.
5. Estimates are rounded to the nearest £10 million.
6. Totals may not sum due to rounding.

Source: DWP analysis of management information from the ESA underpayment checking exercise at 9 January 2019, together with scans of the potentially affected cases from the department's administrative data systems.

There are a number of changes to these forecasts. The total forecast expenditure for arrears has declined for the period 2017 to 2018, to 2019 to 2020 from £970 million to £920 million. This decrease, compared to previous estimates is due to evidence we have gathered from the checking exercise to date, showing a lower average arrears payment particularly on active claims.

In addition, the increase in expenditure in 2019 to 2020 is due to:

- increases in the proportion of error seen among some dormant and deceased cases as well as cases that have changed to income-related payments or credits only benefit prior to review
- additional expenditure attributable to the further 30,000 cases that have been added to the exercise
- some work on the original 320,000 cases we identified being completed in the next financial year, including deceased cases

On average, the department estimates that affected individuals could be due around £4,000 in arrears (rounded to the nearest £1,000). However, the actual amount payable will vary among individuals and depend on their circumstances, including specific entitlements to premia, the period over which they were entitled and any transitional protection that may have been in payment on conversion to ESA because the previous incapacity benefit award was higher than the new ESA award.

## Progress on checking cases

Table 2 below summarises the Department's Management Information from the ESA Underpayments checking exercise at 11 February 2019 compared to 15 October 2018. It can be seen that all but around 10,000 deceased cases among the 320,000 cases in Phase 1 have started the reassessment journey. Around two thirds of the 320,000 group have completed the reassessment journey. Some of these cases were reviewed before the decision to pay cases to the date of their conversion, rather than 21 October 2014, and will therefore need to be revisited to assess entitlement in the earlier period

Approximately 58,000 cases have been found entitled to and paid arrears at an average of around £6,000 to date. Nearly 150,000 cases have been found not entitled either at or before assessment or declined to claim. A total of £328million in arrears payments had been awarded by 11 February 2019.

**Table 2: progress on checking cases potentially affected by underpayments of ESA on conversion from previous incapacity benefits**

<b>Out of the original 320,000 cases we identified as potentially affected</b>	<b>11 February 2019</b>	<b>15 October 2018</b>
Number of cases that have started the reassessment journey (see note 5)	310,000	270,000
Number of cases the department has contacted to gather data to review their claims (see note 6)	270,000	60,000
Number of cases that have completed the reassessment journey (see note 7)	207,000	61,000
Number of cases completed the reassessment journey without payment of arrears (see note 8)	149,000	43,000
Number of arrears payments made to qualifying cases	58,000	18,000
Total amount of historical arrears paid to date	£328 million	£120 million
Average arrears payment to date	£6,000	£7,000

## Notes

1. Data is reported without detailed verification.
2. The figures date from 11 February 2019. They are changing rapidly as around 1200 staff continue to check potentially affected cases.
3. The number of cases started the reassessment journey or contacted is rounded to the nearest 10,000, the number of cases completed is rounded to the nearest 1,000; the total amount of historical arrears paid is rounded to the nearest £1 million and the average arrears payment is rounded to the nearest £1,000.
4. Figures may not sum due to rounding.
5. Starting the reassessment journey includes checking information held on various departmental administrative systems to identify which cases needed to be contacted or contacting cases with a high risk of underpayment without conducting prior checks.
6. Around 30,000 cases identified on DWP administrative systems as not entitled have not been contacted.
7. Completing the reassessment journey includes cases identified on DWP administrative systems as not entitled or who have identified themselves as not entitled prior to assessment, and also cases which have been through the full journey to assessment.

8. Completing the reassessment journey without payment of arrears includes cases identified on DWP administrative systems as not entitled or who have identified themselves as not entitled prior to assessment as well as cases found not to be entitled at assessment.
9. The average arrears payment to date reflects a mixture of payments to point of conversion and to 21 October 2014. It is also affected by the prioritisation of cases more likely to have errors, among some of which there is a relatively high prevalence of higher value errors.
10. Cases paid arrears and completed the reassessment journey include some cases that were reviewed before the decision to pay cases to the date of their conversion, rather than 21 October 2014, and will therefore need to be revisited to assess entitlement in the earlier period.

Source: DWP management information from the ESA underpayment checking exercise at 11 February 2019.

## Statement of Compliance with the Code of Practice for Statistics

The Code of Practice for Statistics (the Code) (<https://www.statisticsauthority.gov.uk/code-of-practice/>) is built around 3 main concepts, or pillars:

- trustworthiness – is about having confidence in the people and organisations that publish statistics
- quality – is about using data and methods that produce statistics
- value – is about publishing statistics that support society's needs

The following explains how we have applied the pillars of the Code in a proportionate way.

### Trustworthiness

Professional analysts have independently produced the forecast numbers affected and forecast expenditure from management information from the ESA underpayment checking exercise at 9 January 2019, together with scans of the potentially affected cases from the department's administrative data systems.

Progress on the ESA Underpayments checking exercise is based upon DWP management information, supplied via a data capture tool built to allow consistent and efficient recording of case review progress in the ESA Underpayments checking exercise.

### Quality

The rigorous production of the forecast figures ensures they are our best central estimates of numbers affected and associated expenditure based on the information available. Figures have been independently quality-assured and validated against other ESA administrative datasets and modelling, where possible. The provision of upper and lower expenditure estimates indicate some of the uncertainty around the figures.

The data presented on checking progress is from the data capture tool developed to accurately record progress and levels of arrears payments. Drop down menus and built-in validation checks assist in reliable data recording. Data recording checks are carried out by operational staff. Small samples of figures have been cross-checked across jobcentres. The department's analysts have challenged some figures to ensure accurate representations of the activity undertaken

### Value

This release updates estimates of numbers of people affected and forecast expenditure currently in the public domain and latest figures will feed into DWP expenditure forecasts for Spring Statement 2019.

This release provides a progress update on the checking exercise following on from the last release on 17 October 2018, together with context for those figures.

In addition, it aims to reduce the administrative burden of answering Parliamentary Questions, Freedom of Information requests and ad hoc queries to ensure timely responses to public queries.

To support financial planning and management of departmental business, figures have been seen in advance by Ministers and officials, in line with the Code, where pre-release access does not apply for an ad hoc analysis release.

The department intends to release future updates on progress on checking cases on the Thursday preceding DWP Oral Questions in April, July, October 2019 and January 2020.

## Contact information

The department will be contacting all those identified as potentially impacted to get the information we need to look again at ESA claims. We have already contacted a large number of customers and aim to contact everyone affected by December 2019.

For press enquiries, contact DWP Press Office on: 0203 267 5144

## Where to find out more

- National Audit Office (NAO) report on their investigation into errors in ESA (<https://www.nao.org.uk/report/investigation-into-errors-in-employment-and-support-allowance/>) – (published on 21 March 2018)
- Public Accounts Committee (PAC) hearing on 21 May 2018 (<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/employment-and-support-allowance/oral/83259.html>) – based on the NAO report
- PAC report (<https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2017/employmentsupport-allowance-17-19/>) (published on 18 July 2018)
- Department for Work and Pensions response to the PAC report (<https://www.gov.uk/government/publications/treasury-minutes-october-2018>) (published on 9 October 2018)
- ESA underpayments: forecast numbers affected, forecast expenditure and progress on checking ([https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/749700/esa-underpayments-forecast-number-affected-expenditure-and-progress-on-checking.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749700/esa-underpayments-forecast-number-affected-expenditure-and-progress-on-checking.pdf)) statistical release (published on 17 October 2018)
- Written statements tabled on 14 December 2017 (<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2017-12-14/HCWS356/>), 15 March 2018 (<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-03-15/HCWS549/>), 18 July 2018 (<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-07-18/HCWS877/>) and 17 October 2018 (<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/?page=1&max=20&questiontype=AllQuestions&house=commons%2clords&use-dates=True&answered-from=2018-10-09&member=4071&dept=29&keywords=esa>)
- DWP benefit expenditure tables (<https://www.gov.uk/government/collections/benefit-expenditure-tables>)
- ESA underpayments FAQs (lodged in the Houses of Parliament library on 21 February 2019)