



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Work & Pensions

Rolling out Universal Credit

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National Audit Office

Department for Work & Pensions

Rolling out Universal Credit

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

11 June 2018

This report examines the Department for Work & Pensions' progress in implementing Universal Credit. We describe the evolution of the Universal Credit programme since the reset and evaluate the Department's future plans.

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Key facts

£1.9bn	£8.0bn	113,000
spend to date on Universal Credit, comprising £1.3bn on investment and £0.6bn on running costs	Department for Work & Pensions' expectation of the annual net benefit of Universal Credit, which remains unproven	Number of late payments of new claims in 2017

	Position as at March 2018	Forecast (2024-25)
Caseload (claimants)	815,000 (490,000 on full service and 325,000 on live service)	8.5 million
Caseload (households)	660,000 (Most recent figures December 2017)	6.6 million
Number of claimants per work coach (those who have a dedicated work coach)	85	373
Number of claimants per case manager	154	919
Cost per claim	£699	£173
Percentage of claimants able to verify identity online	38%	80%
Payment in full and on time in the first assessment period	79%	No target

Summary

1 The Department for Work & Pensions (the Department) is introducing Universal Credit to replace six means-tested benefits for working-age households: Jobseeker's Allowance, Income Support, Housing Benefit, Employment and Support Allowance, Working Tax Credit and Child Tax Credit. In doing so, it aims to:

- encourage more people into work by introducing better financial incentives, simpler processes and increasing requirements on claimants to search for jobs;
- reduce fraud and error; and
- reduce the costs of administering benefits.

2 The Department started work on Universal Credit in 2010 with an original completion date of October 2017. However, the government reset the programme in 2013 after a series of problems with managing the programme and developing the necessary technology. In our 2014 report, *Universal Credit: progress update*, we reported that the Department had stabilised programme management, but had introduced a complicated overlapping set of systems and rules.¹ In 2016 the Department announced a revised plan to complete in March 2022. On 7 June 2018 it announced a further delay to the completion of the programme to March 2023.

3 The delays to the programme and changes in scope mean Universal Credit cannot be easily compared with its original plans. The complicated legacy of early failings means the Department has adopted a more adaptive, iterative and incremental approach to implementation. In order to assess the value for money of the Department's introduction of Universal Credit in this more incremental approach, we consider:

- how the Department's plans for Universal Credit have evolved (Part One);
- whether its adaptive and incremental approach is ensuring Universal Credit works for claimants and the organisations supporting them (Part Two); and
- ultimately, the prospects for Universal Credit achieving its aims (Part Three).

¹ Comptroller and Auditor General, *Universal Credit: progress update*, Session 2014-15, HC 796, National Audit Office, November 2014.

Key findings

Evolution of Universal Credit

4 Universal Credit is a highly ambitious reform programme that struggled with early development. The Department set out in 2011 that in return for £2.2 billion investment it would transfer eight million households to Universal Credit by 2017. It expected that 300,000 more people would move into work, that it would reduce fraud and error by £2.1 billion a year and that it would save £0.4 billion a year in administering benefits. However, the Department struggled with the early development, with problems with governance, contractors and developing a full working system. This led to the programme being reset in 2013 (paragraphs 1.4 and 1.5, and Figure 1).

5 Following the reset, the Department chose a twin-track approach to rolling out Universal Credit. From 2013, the Department chose to develop two different strands for Universal Credit. It started to build its long-term digital solution, known as *full service* over many years, while making use of the systems it had built before the reset for its *live service*. This dual approach was more expensive but the Department expected that rolling out live service would bring forward many of the benefits and reduce risks. The Department spent £837 million on live service, making it available to single claimants nationwide and to couples and families with children in north-west England from 2015. The Department closed live service to new claims in December 2017 and expects to decommission it in July 2019 (paragraphs 1.6 and 1.8 to 1.10).

6 The Department's programme plans have changed several times since the reset. The agile approach to developing systems and managing the programme has allowed the Department to adjust its plans based on what it learns about what does and does not work, and to re-prioritise activities to allow policy and other necessary changes to be incorporated as the system is developed. However, in order to incorporate the changes, the Department has needed to delay or slow down the rollout of Universal Credit. For example, since July 2016 the Department has slowed the rollout of full service to jobcentres three times as a result of policy and other changes, and in early June 2018 it announced an additional year until the completion of migration. In addition, the Department has developed additional functionality in response to its iterative approach, which has delayed the automation of the full service (paragraphs 1.11, 1.12, 1.16, 1.18, 1.19 and Figures 2, 4 and 5).

7 Universal Credit is still at a relatively early stage of progress. The Department started to make its new full service system available to all claimants from 2016 and expects it to be available in all jobcentres by the end of 2018. It has spent £1.3 billion of its investment so far on creating Universal Credit, and £600 million on running costs. About 10% (815,000) of the eventual number of claimants are now claiming Universal Credit. Once the full service is available nationwide, and once regulations are in place, the Department will start to migrate existing claimants from legacy benefits on to Universal Credit. The Department now expects this to complete in March 2023 (paragraphs 1.20, 1.21 to 1.24, 3.7 and Figures 6 and 21).

8 The Department does not have a realistic alternative but to continue. Its incremental approach has led the Department to make many changes to its jobcentres, its digital systems and the working practices of the 12,000 people working on Universal Credit. As it has rolled out Universal Credit to more claimants and areas, these changes have become increasingly embedded across the Department. It would be both complex and expensive to revert to legacy benefits at this stage (paragraphs 1.12 and 1.13).

Current experience of Universal Credit

9 Some elements of Universal Credit are working well. By 12 April 2018 the Department had rolled out its digital system to 258 jobcentres. A survey of live service claimants found that claimant satisfaction levels were similar to those on legacy benefits and in our visits to jobcentres we observed good relationships between work coaches and claimants. The staff that we spoke to told us the systems had improved significantly since their first introduction (paragraphs 1.13, 1.17, 2.2 and Figure 7).

10 Some claimants have struggled to adjust to Universal Credit. We spoke to local and national bodies that, together, work with a significant minority of claimants. They showed us evidence that many of these people have suffered difficulties and hardship during the rollout of the full service. These have resulted from a combination of issues with the design of Universal Credit and its implementation. The Department has found it difficult to identify and track those who it deems vulnerable. It has not measured how many Universal Credit claimants are having difficulties because it does not have systematic means of gathering intelligence from delivery partners. The Department does not accept that Universal Credit has caused hardship among claimants, because it makes advances available, and it said that if claimants take up these opportunities hardship should not occur. However in its survey of full service claimants, published in June 2018, the Department found that four in ten claimants that were surveyed were experiencing financial difficulties (paragraphs 2.5 to 2.11).

11 One in five claimants do not receive their full payment on time. The Department paid around 113,000 new claims late in 2017, approximately 25% of all new claims. On average these were paid four weeks late. The Department improved payment timeliness from 55% to 80% over the course of 2017. However, it does not expect payment timeliness to improve significantly in 2018. It believes 100% payment timeliness is not feasible because the Department depends on claimants supplying information to verify the claim to ensure it makes payments in accordance with the law. We estimate that between 270,000 and 338,000 claimants will be paid late during 2018 (paragraphs 2.12 to 2.20 and Figures 9 to 12).

12 Universal Credit is creating additional costs for local organisations that help administer Universal Credit and support claimants. Local authorities told us that they have faced additional burdens during the development of Universal Credit, such as through increased administration for processing Housing Benefit stop notices. Local authorities, housing associations and landlords have seen an increase in rent arrears since the introduction of Universal Credit full service, which can often take up to a year to be recovered. There has been an increase in the use of foodbanks in at least some areas where Universal Credit full service has been introduced, and a greater demand for advisory and advocacy services. The Department has acknowledged and compensated local authorities for some additional costs. It told us that it will pay for additional costs if authorities can prove them. The Department places the burden of proof on authorities, uses its discretion in assessing claims, and has not sought to systematically collect data on these wider costs. However, these extra costs are not included in the Department's estimates of the programme's costs (paragraphs 2.26 to 2.38, 2.43, 2.44 and Figures 14 to 17).

13 Organisations told us that the Department has been unresponsive to issues they raise. The Department holds discussion forums with external organisations, and attributes many differences to views about policy rather than the implementation of Universal Credit. It has responded to purely operational concerns – for example, by improving the wording of claim forms – but has not been clear about how it tracks and responds to the operational impacts of policy design choices. Where cumulative concerns have led to parliamentary interest and the government has announced changes to the policy, the Department has helped to design and implement changes (paragraphs 1.14, 2.39 to 2.44 and Figure 3).

Future prospects for Universal Credit

14 The Department has a lot to do to improve the efficiency of Universal Credit systems. So far the Department has provided enough functionality to run a basic system, but many processes are still manual and inefficient. For example, the Department significantly overestimated the number of claimants that would be able to confirm their identity online with only 38% (compared with its expected 90%) succeeding in using Verify, the government's online identity verification tool. The Department intends to improve automation over the next few years, but until then it will need more staff so it can undertake work manually (paragraphs 1.15, 1.16, 3.18 to 3.22 and Figures 20 and 22).

15 The Department expects Universal Credit eventually to deliver £8 billion of net benefits a year, but this depends on some unproven assumptions. The Department now expects that an additional 200,000 people will move into work because of Universal Credit, that it will save £99 million a year in administering benefits, and will reduce fraud and error by £1.3 billion a year. These benefits remain theoretical (paragraphs 3.3 to 3.6 and 3.16). We have significant doubt about the main benefits:

- **It is not known whether the employment impact identified by early evaluation can be replicated across the programme.** Early evaluation run by the Department found claimants on Universal Credit live service were four percentage points more likely to find work compared with claimants on Jobseeker's Allowance at some point within the first six months of their claim. But these studies of offices that adopted live service early in the programme covered claimants with relatively simple needs and with more resources spent on them (paragraphs 3.11 to 3.15 and Figure 19).
- **It is not clear that Universal Credit will cost less to administer than the existing benefits system.** Planned efficiency savings are negated by the extra costs of providing the benefit system to those that are in work and any local costs, the costs for which are not included in the business case. Furthermore, planned efficiencies are uncertain. Universal Credit currently costs £699 per claim. This is more than the target unit cost that the Department set itself in order to accelerate the rollout in October 2017, and four times as much as it intends when the systems are fully developed (paragraphs 3.18 to 3.23 and Figure 20).
- **The Department does not know whether Universal Credit is reducing fraud and error.** The Department is developing a fully automated risk analysis and intelligence system for fraud and error. But it has not developed this enough to understand and assess fraud and error or to provide staff with effective reporting to allow them to identify potential fraud. The Department does not plan to finish developing its risk analysis and intelligence system or publish Universal Credit full service figures on fraud and error until spring 2019 (paragraphs 3.25 to 3.29).

16 The Department will never be able to measure whether Universal Credit actually leads to 200,000 more people in work, because it cannot isolate the effect of Universal Credit from other economic factors in increasing employment.

The 200,000 is based on the Department's modelling. Instead of measuring the exact number of additional people in employment as a result of Universal Credit, the Department plans to evaluate whether Universal Credit is more likely to get people into work compared with legacy benefits. However, it has yet to complete the evaluations of live service it had originally planned for families and couples without children (originally by December 2016) because the way it has rolled out Universal Credit means it lacks appropriate control groups of legacy claimants in its live service areas. It still hopes to set up evaluations when it has enough claimants on the full service. The Department has also started to develop alternative approaches, which provide a more rapid but less robust assessment of Universal Credit's impacts. The £5.2 billion value of employment gains in the Department's full business case remains uncertain, and sensitive to how it is modelled (paragraphs 3.15 and 3.16).

Conclusion on value for money

17 We think that there is no practical alternative to continuing with Universal Credit. We recognise the determination and single-mindedness with which the Department has driven the programme forward to date, through many problems. However, throughout the introduction of Universal Credit local and national organisations that represent and support claimants have raised a number of issues about the way Universal Credit works in practice. The Department has responded to simple ideas to improve the digital system but defended itself from those that it viewed as being opposed to the policy in principle. It does not accept that Universal Credit has caused hardship among claimants, because it makes advances available, and believes that if claimants take up these opportunities hardship should not occur. This has led it to often dismiss evidence of claimants' difficulties and hardship instead of working with these bodies to establish an evidence base for what is actually happening. The result has been a dialogue of claim and counter-claim and gives the unhelpful impression of a Department that is unsympathetic to claimants.

18 The Department has now got a better grip of the programme in many areas. However, we cannot judge the value for money on the current state of programme management alone. Both we, and the Department, doubt it will ever be possible for the Department to measure whether the economic goal of increasing employment has been achieved. This, the extended timescales and the cost of running Universal Credit compared to the benefits it replaces cause us to conclude that the project is not value for money now, and that its future value for money is unproven.

Recommendations

19 The Department is now approaching the task of migrating existing benefit and tax credit claimants to Universal Credit. After that, Universal Credit needs to provide the basis for future development and refinement of the working age benefit system. To succeed it must ensure its flexible approach to delivery helps it learn from its own experiences, those of claimants, and those who support them. The Department should:

- a Improve the tracking and transparency of progress towards Universal Credit's intended benefits.** It should set out clearly how it calculates those benefits and encourage third parties to review and monitor assumptions. The Department should assess the impact of Universal Credit on third parties and include this in its calculation and budgeting of the implementation costs.
- b Ensure that operational performance and costs improve sustainably before increasing caseloads through managed migration.** It should formally assess the readiness of automation and digital systems to support increased caseloads before migration begins, and ensure the programme does not expand before business-as-usual operations can cope with higher claimant volumes.
- c Work with delivery partners to establish a shared evidence base for how Universal Credit is working in practice.** The Department needs to ensure that delivery partners' feedback on both implementation issues and the impact on claimants is considered alongside the existing feedback from frontline staff and programme managers. It needs to systematically collect, analyse and publish data and evidence from delivery partners and produce a shared understanding of what is happening on the ground and how it is addressing any issues raised.
- d Make it easier for third parties to support claimants.** This might include:
 - extending the concept of the landlord portal to simplify verification processes (for example, for childcare costs);
 - sharing, with the claimant's consent, appropriate information with third parties, such as information on additional support requirements;
 - allowing the bulk upload and download of information helpful to the support of claimants, such as changes in rent; and
 - allowing those supporting claimants access to a version of the journal through which they can view appropriate shared information and communicate with the Department.

Part One

The evolution of Universal Credit

1.1 This part of the report sets out:

- Universal Credit's aims and early history;
- the development of the full service;
- the current status of Universal Credit; and
- the cost of implementing Universal Credit.

Universal Credit's aims and early history

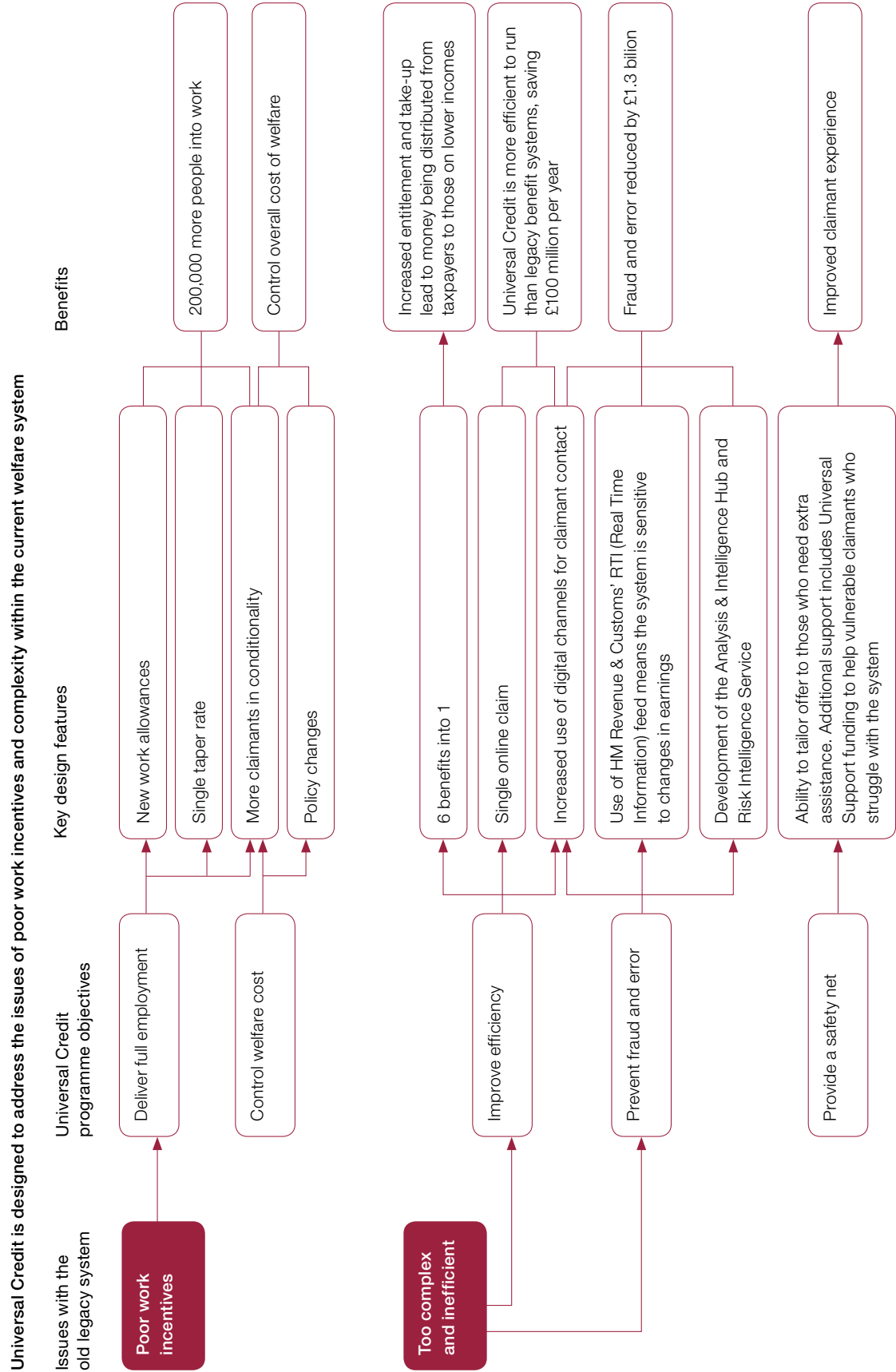
Universal Credit's aims

1.2 The Department for Work & Pensions (the Department) is introducing Universal Credit to replace six means-tested benefits for working-age households: Jobseeker's Allowance, Income Support, Housing Benefit, Employment and Support Allowance, Working Tax Credit and Child Tax Credit (legacy benefits).

1.3 Universal Credit's overarching aims are to: encourage more people into work through better financial incentives, simpler processes and increasing requirements on claimants to search for jobs; reduce fraud and error; and be cheaper to administer than the benefits it replaces (**Figure 1**). It does this by introducing new features to the benefits system, including claimants:

- receiving a single monthly payment covering all elements of their claim;
- being responsible for maintaining their claim; and
- making and maintaining their claim online.

Figure 1
Universal Credit's objectives



Early changes to the approach

1.4 The Department announced its plans to introduce Universal Credit in November 2010.² In return for £2.2 billion investment it planned to transfer eight million households to Universal Credit by 2017. It expected that around 300,000 more people would move into work, it would reduce fraud and error by £2.1 billion a year and it would save £0.4 billion a year in administering benefits. But it struggled initially and the timetable was delayed. Problems included governance, contractors and system development.

1.5 In February 2013 the then Major Projects Authority expressed serious concerns in its project assessment review. This led to a reset of the programme between February 2013 and May 2013. In September 2013 we reported on the Department's early progress in implementing Universal Credit, including events leading up to the reset.³

1.6 Following the reset, the Department proposed a twin-track approach comprising:

- **Live service.** In April 2013 the Department started rolling out the Universal Credit service to limited claimant types. 'Live service' used IT assets developed largely before the 2013 reset.
- **Full service.** In parallel the Department started to develop and test a new digital 'full service'. This provides more features and functionality than live service operation, including allowing claimants to make online applications and to communicate with their work coach and case manager by an online journal.

1.7 The Department developed a 'test and learn' approach during the twin-track phase. It expected this approach to help it learn from the live running of Universal Credit, inform the development of the digital service and achieve the societal and employment benefits of the policy as early as possible.

1.8 We reported on this approach in November 2014.⁴ We concluded that the twin-track approach was more expensive than waiting for the digital service, but that, in principle, it should allow the Department to learn from experience, improve the design and readiness of services, and reduce risks.

² Department for Work & Pensions, *Universal Credit: welfare that works*, Cm 7957, November 2010. Available at: [.gov.uk/government/uploads/system/uploads/attachment_data/file/48897/universal-credit-full-document.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48897/universal-credit-full-document.pdf)

³ Comptroller and Auditor General, *Universal Credit: early progress*, Session 2013-14, HC 821, National Audit Office, September 2013.

⁴ Comptroller and Auditor General, *Universal Credit: progress update*, Session 2014-15, HC 796, National Audit Office, November 2014.

The interim live service

1.9 In April 2013 the Department began rolling out Universal Credit to claimant groups whose claims were simple to manage – mainly single, childless, out-of-work adults with no housing costs – through its live service. This was available to single claimants in jobcentres nationwide, and extended to couples and families in north-west England from April 2016 until the end of December 2017, when live service stopped accepting new claims.

1.10 Live service remains open for ongoing claims until three months after the Department rolls out the digital service to an area. The Department currently expects to decommission live service in July 2019. Including running costs, the Department has spent £837 million on the live service up to March 2018 (see Appendix Three).

It does not plan to reuse most of the systems it developed for live service. Nevertheless, some staff will have greater familiarity with the work coach role and with how Universal Credit works as a result of using live service.

The development of the full service system

1.11 The Department has used an agile approach for the full service.⁵ Universal Credit is the largest agile development attempted by the government. We checked the full service development against our assessment framework for agile projects, and found the Department's agile team works well together and mainly follows good practice.

1.12 This approach has allowed the Department to adjust its plans based on what it learns about what does and does not work, and to reprioritise activities to incorporate policy and other necessary changes as it develops the system. It has allowed the Department to add functionality and improve processes in a controlled way, but has led to scope creep and delays in the automation of the service.

Feedback on the system

1.13 The Department's agile development process focuses on getting feedback from start to finish (**Figure 2** on pages 16 and 17). The Department now has 12,000 staff using Universal Credit, and those we spoke to were positive about the way the programme is being delivered and the programme's response to feedback from staff. In April 2018 operational staff provided more than 1,500 pieces of individual feedback.

1.14 The Department includes input from claimants and third parties throughout the development stage. It recognises that it is not possible to collect feedback from the full user community owing to its sheer scale, but that it needs to continue to develop effective mechanisms for identifying and responding to issues as the programme is rolled out. We discuss the Department's response to how the programme is working in practice in Part Two.

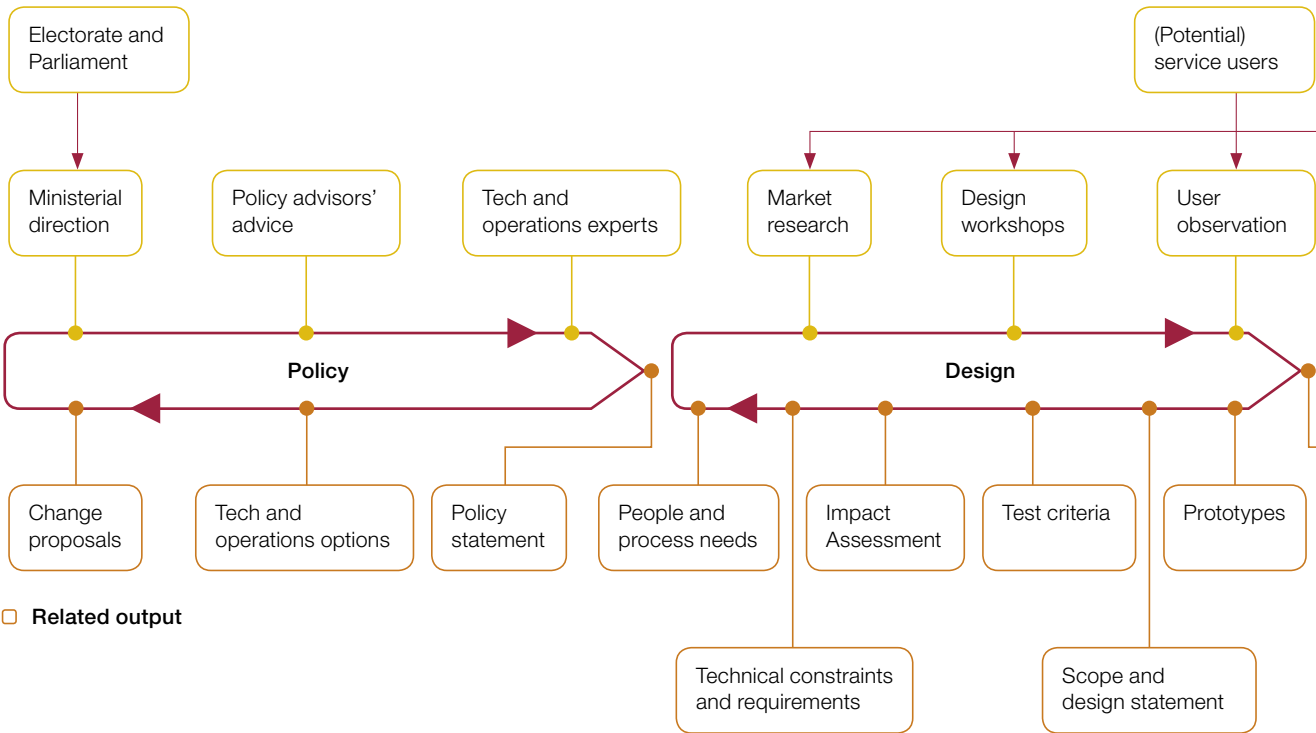
⁵ 'Agile' is a software development approach characterised by the division of tasks into short phases of work and frequent reassessment of plans to reflect changes in priorities and feedback from customers testing and using the system. It differs from traditional 'waterfall' approaches in that it builds and releases software in phases instead of trying to deliver it all at once near the end.

Figure 2
The Department’s agile development process showing user inputs and related outputs

Each service and element of the systems’ functionality follows the agile process of development

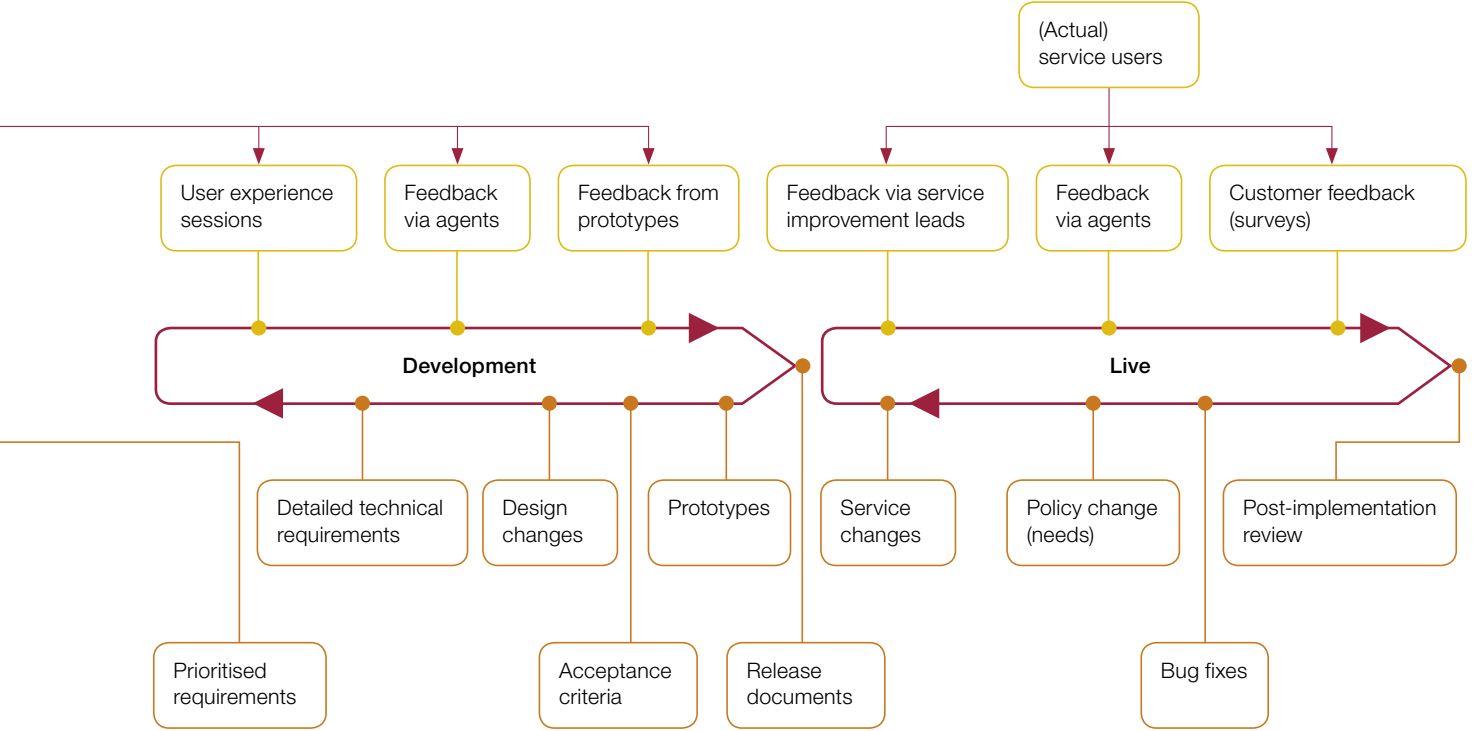
The Department has designed its agile service development approach to ensure it captures feedback as it develops its systems and makes adjustments as required. The Department recognises that it needs to continually improve its processes to ensure the needs of all user types are met.

User input



Related output

Source: National Audit Office analysis of the Department for Work & Pensions’ agile approach



Current functionality of full service

1.15 The current system is not as automated as envisaged in the Department's operating model for the start of transition. It expected that functions including payment calculation, appointment booking and management of advances would be fully automated by the start of the national rollout of full service. Much of the remaining development time will be spent replacing manual processes and achieving the automation required. The Department has not set out future milestones for delivering this automation and the remaining functionality. It believes this is in line with its agile approach and it does not need to tie down delivery dates for the system in this way (**Figure 3** on pages 20 and 21).

1.16 Alongside planned work, the Department has developed additional functionality into the system in response to its test and learn approach. In 2017, the Department responded to feedback from social landlords and local authorities, and developed the landlord portal to speed up the verification of claimants' social rent details. It has responded to policy requirements including reducing the waiting period for initial Universal Credit payments and changes requested by the Scottish Government to allow claimants to be paid fortnightly. The Department introduced these changes within the agreed timescales by reprioritising other work.

The rollout of the full service to all jobcentres

1.17 The Department has been rolling out full service since May 2016. This extends Universal Credit to all claimant groups previously eligible for the legacy benefits.⁶ As at 12 April 2018, it had been rolled out to 258 jobcentres. The Department plans to complete the rollout of its digital service in December 2018, when it will be available in 638 jobcentres.

⁶ From 6 April 2017 claimants with three or more children have been unable to make a new Universal Credit claim. From February 2019 the Department plans to accept claims from claimants with three or more children, but Universal Credit will not pay an additional amount for any third or subsequent child, unless special circumstances apply.

1.18 Since the Department started rolling out full service, it has changed its rollout schedule four times (**Figure 4** on pages 22 to 25).

- In July 2016, it announced it would roll out full service more slowly, ending in September 2018. It also said it would complete the programme by March 2022, a year later than then expected. This was to accommodate policy changes announced in the summer Budget 2015. The Department also built contingency into its timetable to allow for further slippage.
- The November 2017 Budget introduced several policy changes to Universal Credit and a further three-month delay to December 2018 to completing full service rollout. The Department used some of its contingency timing to accommodate these changes.
- In March 2018, the Department announced a further change to its rollout schedule for jobcentres in Wales. This was because of delays completing its Welsh language service. This has not affected the Department's plans to complete full service rollout to all jobcentres by December 2018.
- On 7 June 2018, the Department announced that it would extend the timetable to completion of Universal Credit to March 2023, in order to adapt the system to accommodate changes to transitional protection, which is designed to ensure claimants moving from legacy benefits are no worse off (paragraph 1.21).

Current status

The current number of people on Universal Credit

1.19 As a result of all the above, the Department has repeatedly pushed back the rollout of Universal Credit (**Figure 5** on page 26). The Department originally planned to move all claimants to Universal Credit by October 2017.

1.20 In March 2018, 815,000 claimants received Universal Credit.⁷ This is about 10% of the total caseload expected when all claimants are migrated from legacy benefits. Claimants move to Universal Credit in three ways:

- A new claim. This depends on whether full service has been rolled out to where they live.
- Transition from existing benefits. This happens if an individual's or household's circumstances change and full service has been introduced to their area.
- Managed migration from existing benefits, starting in 2019.

⁷ Of the 815,000 claimants on Universal Credit, 490,000 are on full service and 325,000 are on live service.

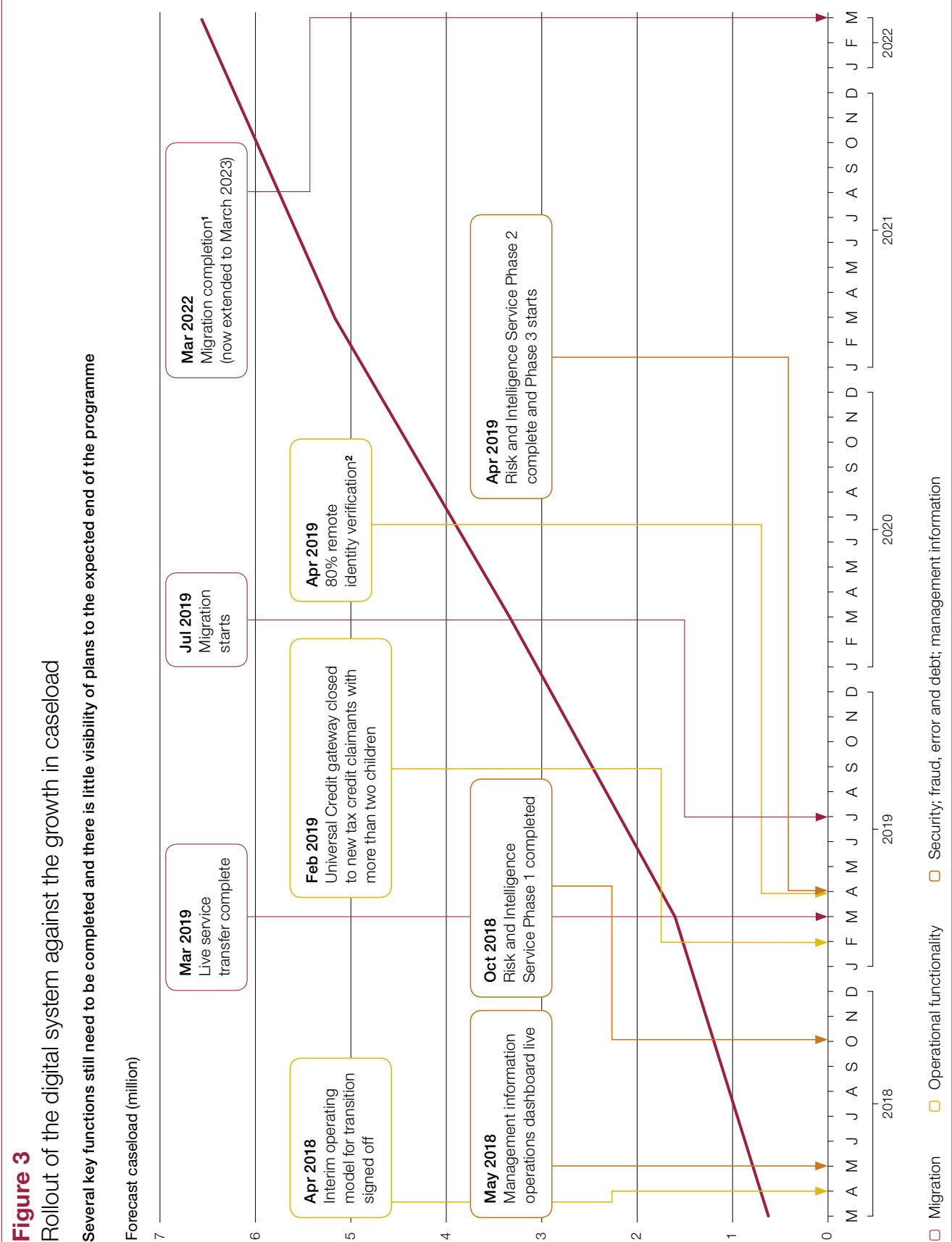


Figure 3 *continued*

Rollout of the digital system against the growth in caseload

Several key functions still need to be completed and there is little visibility of plans to the expected end of the programme

Notes

- 1 Dates are latest published, but the migration schedule is currently being replanned following the one year extension to managed migration announced on 7 June 2018.
- 2 In March 2018 the programme board agreed to remove the dependency on achieving 80% remote identity verification.

Source: National Audit Office analysis of Department for Work & Pensions documents

The next stage of managed migration

1.21 Managed migration is the transfer of existing claimants whose circumstances have not changed from legacy benefits to Universal Credit. The Department estimates they will migrate 3.95 million claimants. Claimants who move through managed migration will receive payment protection so they are no worse off than they would have been on legacy benefits.

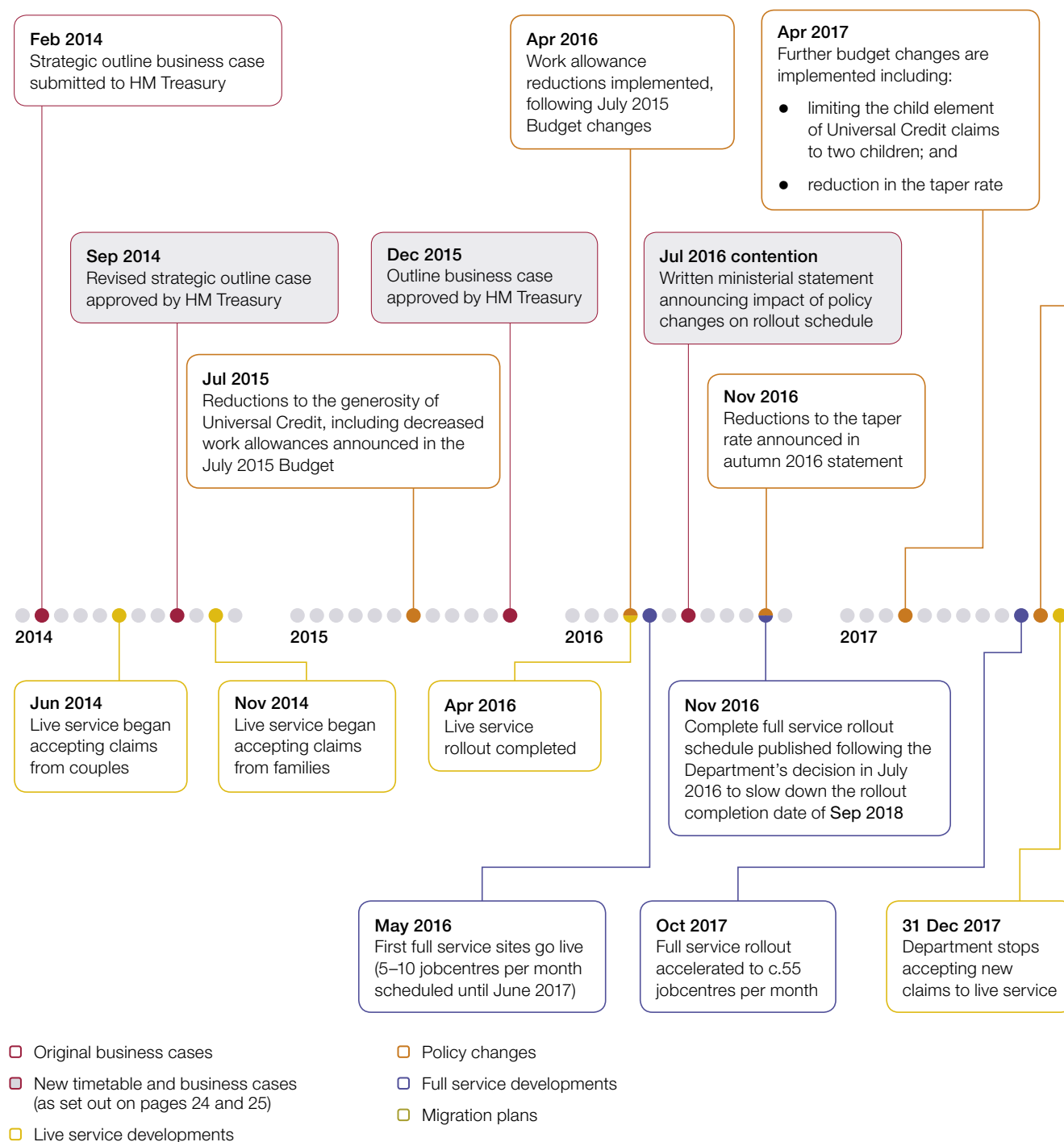
1.22 The Department currently plans to migrate claimants onto Universal Credit from July 2019 through to March 2023. This timetable depends on:

- Parliament passing enabling regulations, the timing of which is uncertain, before testing can begin;
- the Department successfully testing the service, which it expects will take 12 months; and
- the number of claimants remaining on legacy benefits and the speed with which the Department migrates them.

Figure 4

The timetable for Universal Credit

The timetable has changed several times



Source: National Audit Office analysis of the Department's agile approach

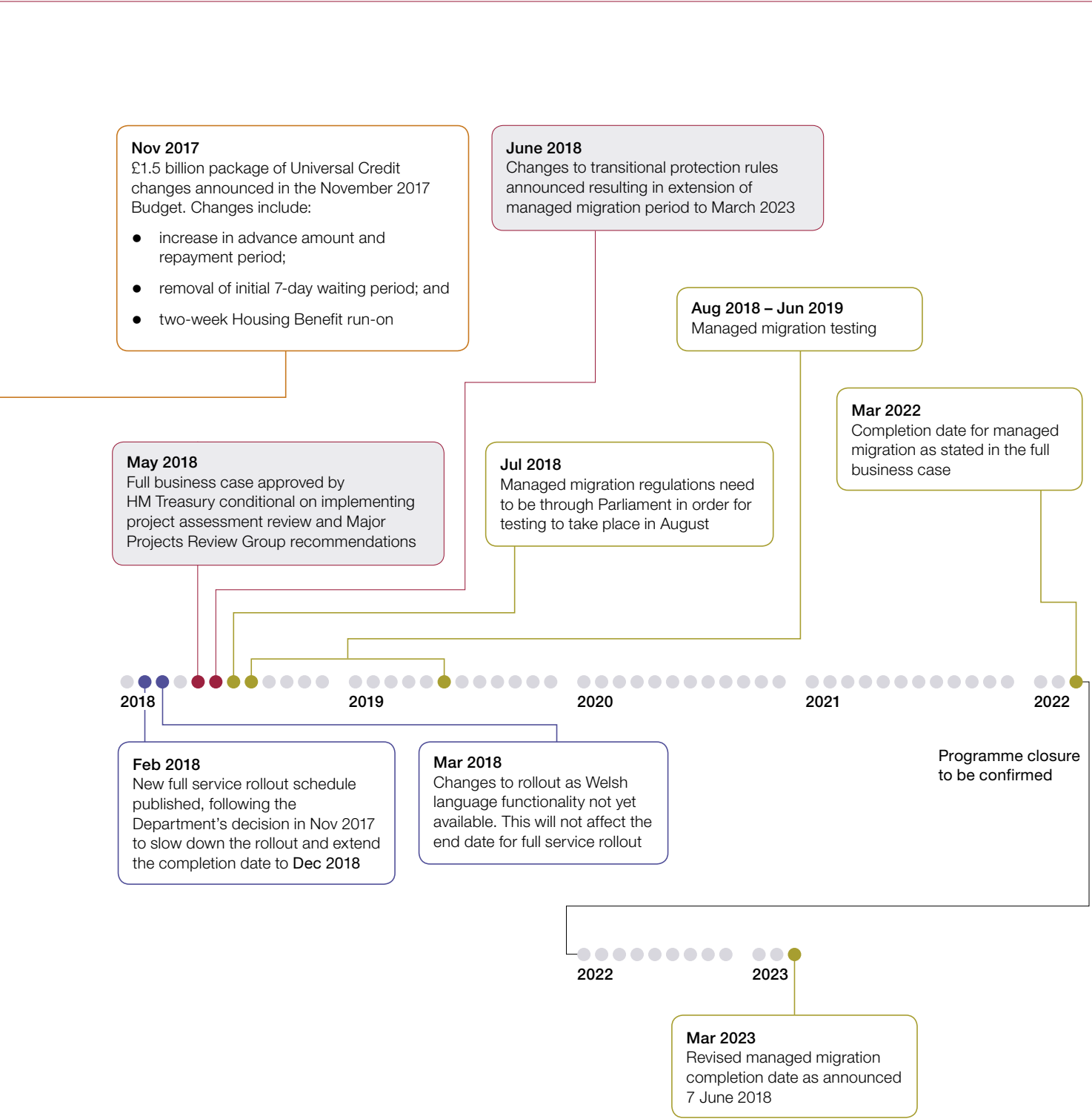


Figure 4 *continued*

The timetable for Universal Credit has changed

Changes to rollout schedule



Live service rollout started in April 2013

Revised strategic outline business case (Sep 2014)



Outline business case (Nov 2015)



July 2016 announcement



Reason for changes: Full service rollout is slowed to allow policy changes announced in the November 2017 Budget to be made

Full business case (March 2018)



June 2018 announcement



Source: National Audit Office analysis of business case timetables of Department for Work & Pensions

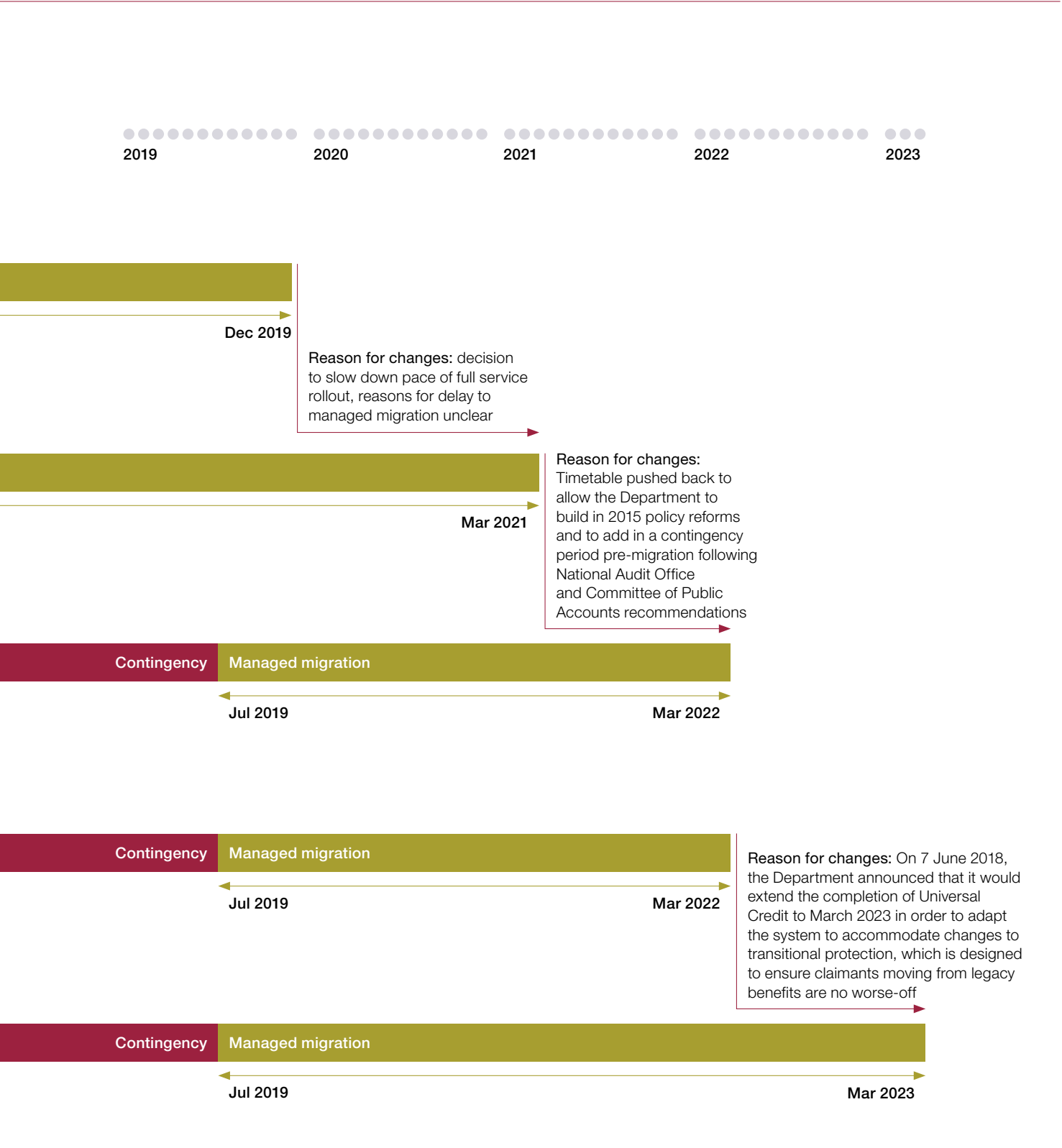
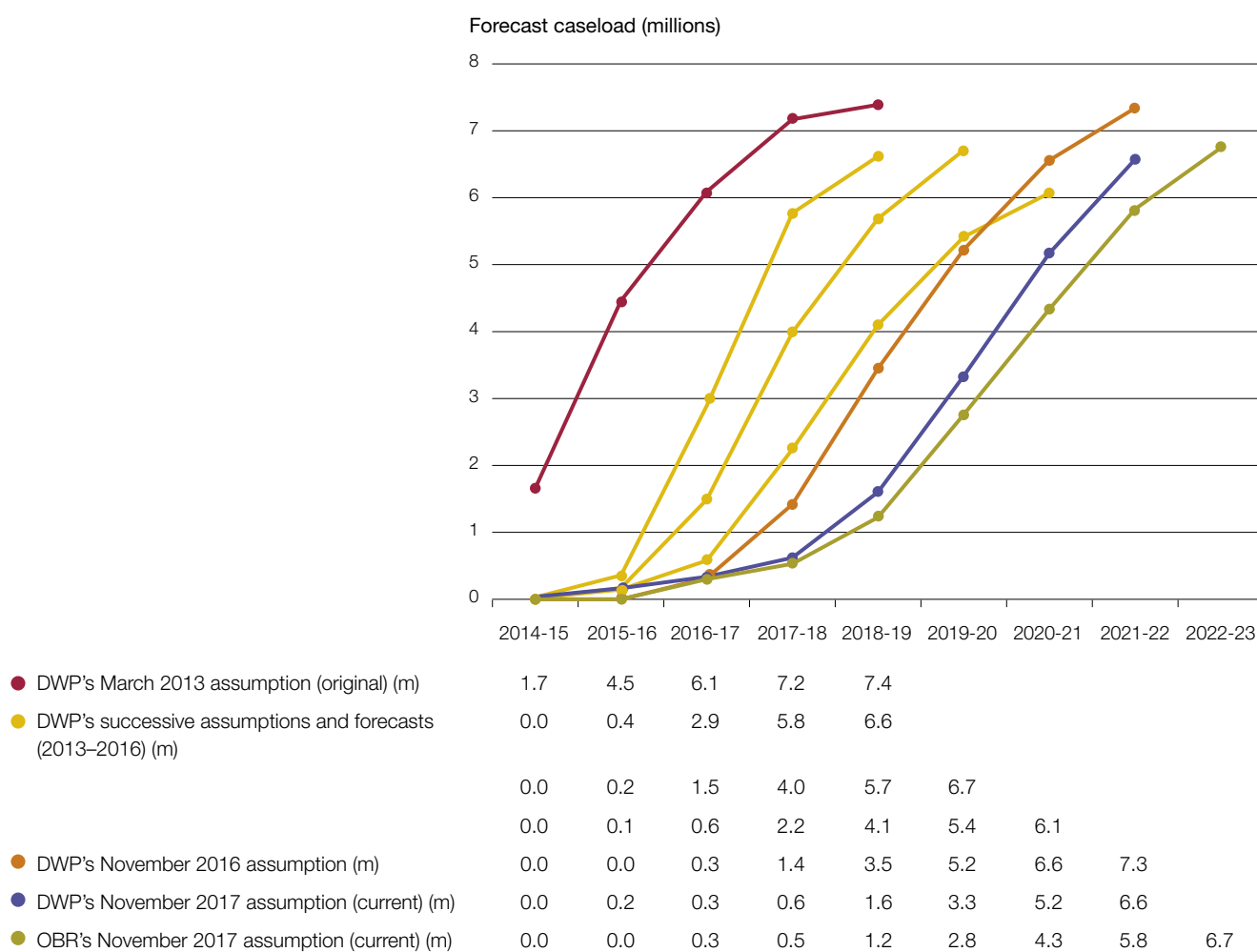


Figure 5

Evolution of Universal Credit rollout forecasts

The Universal Credit rollout has been repeatedly pushed back since 2013

**Notes**

- 1 The original forecast was that more than seven million households would be on Universal Credit by now, while the latest figures show that 660,000 households were on Universal Credit in December 2017. The Department forecasts this will increase to 6.6 million households by the end of migration.
- 2 In November 2016 the Department expected 1.4 million households to be on Universal Credit by March 2018. By December 2017 (its most recently published data) its caseload was under half of this. In November 2017, the Department amended its modelling assumptions to reflect the slower rollout and changing economic conditions. The Department reports the current caseload is within 10% of its revised figures.
- 3 The Department and the Office for Budget Responsibility (OBR) make forecasts based on the Department's data and assumptions.
- 4 On 7 June 2018 the Department announced that the completion of Universal Credit would be extended to March 2023. The Department has not revised its forecast caseload to take account of this change.
- 5 DWP = Department for Work & Pensions.

Source: Office for Budget Responsibility, *Economic and Fiscal Outlook*, November 2017

1.23 In May 2018 the Major Projects Review Group, which included officials from both HM Treasury and the Cabinet Office, noted that in order for Universal Credit to be successful, it is crucial that managed migration is not subject to significant policy changes. It asked the Department to:

- work towards agreeing the exact plan for managed migration as soon as possible and communicate this with stakeholders;
- agree a set of success criteria with stakeholders, which enables progress against the plan to be monitored regularly;
- update the contingency scenarios described in the full business case; and
- ensure that the consequences of any changes on the programme arising from the EU exit are fully analysed.

HM Treasury has made meeting these recommendations a condition of it approving the full business case (see paragraph 3.2).

1.24 On 7 June 2018, the Department announced four changes to its transitional protection rules:

- individuals who live alone and receive the Severe Disability Premium (an extra amount paid to those that cannot work because of their disabilities or health) will not be moved to Universal Credit until they qualify for transitional protection. In addition, the Department will provide both an on-going payment to claimants who have already lost this Premium as a consequence of moving to Universal Credit, and an additional payment to cover the period since they moved;
- it will ensure that the award of, or increase in, support for childcare costs will not erode transitional protection;
- it proposes to re-award claimants' transitional protection that has ceased owing to short-term increases in earnings within an assessment period, if they make a new claim to Universal Credit within three months of when they received the increased earnings; and
- for tax credit claimants, it will disregard any of their capital in excess of £16,000 for 12 months from the point at which they are moved to Universal Credit.

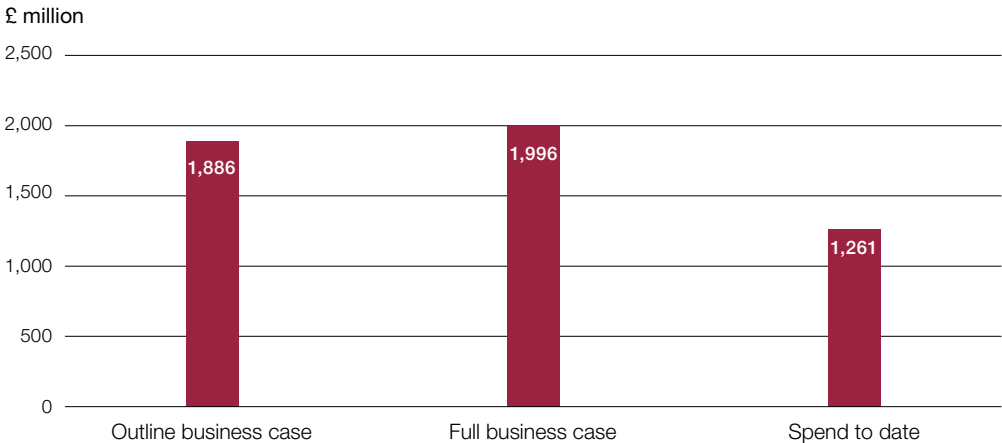
In order to make the necessary changes to the system the Department announced it would extend the completion of Universal Credit to March 2023.

The cost of implementing Universal Credit

1.25 The Department plans to invest £2 billion in developing Universal Credit services. This has remained broadly stable since the outline business case from 2015 (**Figure 6**). To March 2018 it has spent £1.3 billion developing Universal Credit services, and £600 million on running costs.

Figure 6
The investment costs of developing and implementing Universal Credit

The projected costs of developing the Universal Credit system have remained steady at just under £2 billion between 2010-11 and 2024-25



Notes

- 1 The full business case uses 2017-18 prices.
- 2 The outline business case uses 2015-16 prices.
- 3 The outline business case figure includes £239 million allocated to Universal Support delivered locally, which was originally classified as a recurrent cost. In the full business case this was reclassified as an investment cost.
- 4 The increased cost of investment in the full business case is mainly due to including £170 million for Universal Support delivered locally, and £32 million increased programme costs because of welfare reform announcements not included in the outline business case.
- 5 Future years' costs have not been discounted.

Source: National Audit Office analysis of business cases and the Department for Work & Pensions' management accounts

Part Two

The impact on claimants and third parties

2.1 This part of the report sets out:

- the impact of Universal Credit on claimants;
- its impact on third parties; and
- the Department for Work & Pensions' (the Department's) response to the issues.

Impact on claimants

Claimant satisfaction

2.2 The Department's most recent claimant satisfaction survey showed that 83% of Universal Credit claimants expressed satisfaction with the service, a similar level to those claiming other benefits (**Figure 7** overleaf). However, the survey only captured the views of live service claimants and did not show an increase in satisfaction above existing benefits. The Department set increased satisfaction as a measure of Universal Credit's success in its outline business case.

Support available to vulnerable claimants

2.3 Universal Credit is an online means-tested benefit, designed to be "like work" and to "maximise claimants' responsibility and self-sufficiency" by paying claimants monthly in arrears and paying all elements direct to the claimant, including housing costs. The Department assumed this design of Universal Credit would work for the majority, but recognised that some claimants would struggle. It sought to provide extra support to 'vulnerable' claimants as an additional safety net (**Figure 8** on page 31).

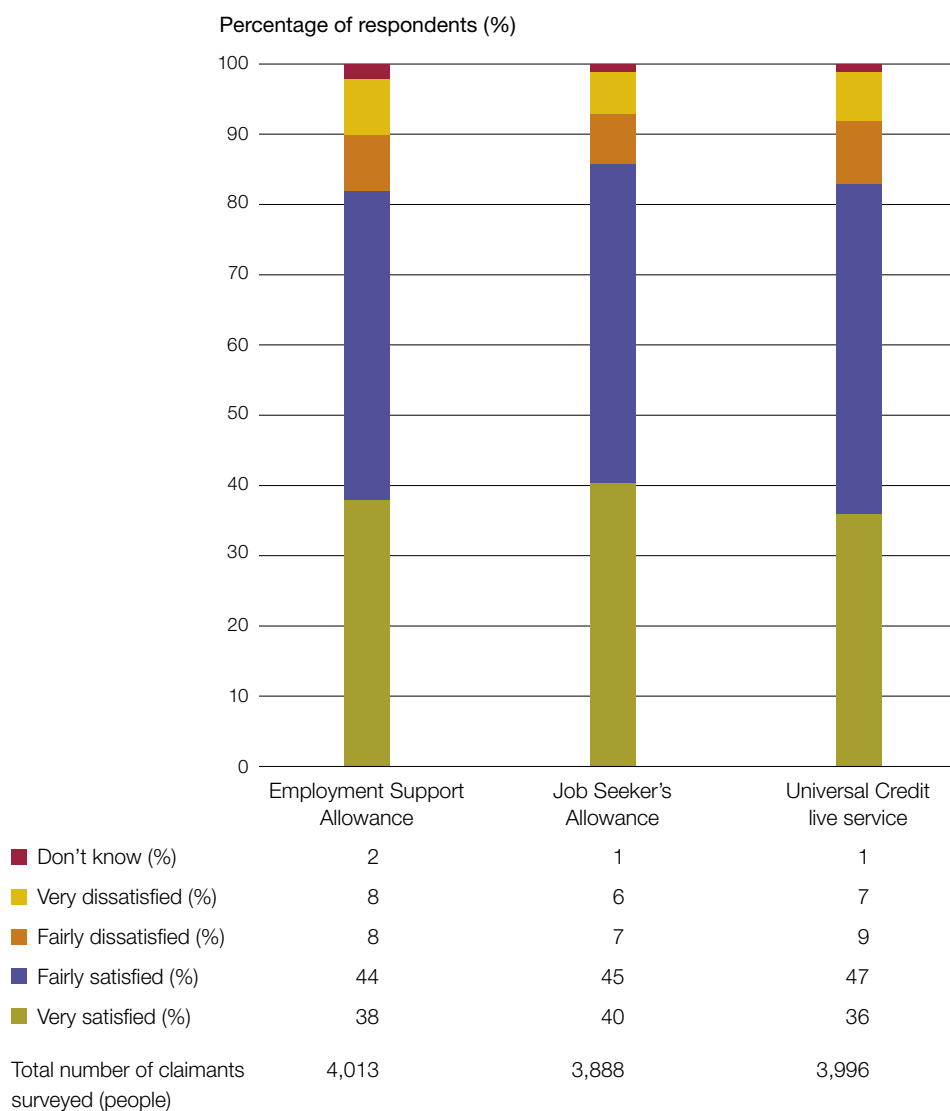
2.4 The Department states there are many definitions of vulnerability, or 'complex needs', including mental and physical health issues, life events, and poor skills or limitations such as literacy or language comprehension problems. It also recognises there are additional vulnerabilities that must be taken into account because of the policy or process design of Universal Credit, for example claimants with limited online access or skills, and those who struggle to budget.

Figure 7

Results of the Department's 2016-17 customer satisfaction survey

The Department's customer satisfaction survey shows that Universal Credit live service claimants express a similar level of satisfaction to those claiming other benefits

Satisfaction with the overall service provided by Department for Work & Pensions (2016-2017)



Source: The Department for Work & Pension's claimant service experience survey 2016 to 2017

Figure 8

The Department for Work & Pensions' support for vulnerable claimants

The Department has put in place various types of support for claimants it considers to be vulnerable

Provision	Description
Universal Support delivered locally	
Assisted Digital Support	To provide more assistance in helping claimants to claim Universal Credit.
Personal Budgeting Support	To assist claimants in transitioning to managing their own rent and monthly budgeting.
Alternative payment arrangements	
Managed Payment to Landlord	Claimants who have longer-term problems paying their rent can have rent paid direct to their landlord.
Split Payment	In exceptional circumstances payment can be divided between two members of a household to prevent domestic/financial abuse.
More Frequent Payment	Claimants who are struggling to budget monthly can have their Universal Credit amount paid more frequently, for example, twice a month. However, the Department has used this very rarely.
Work coach	
Tailoring of claimant commitments	Work coaches can adjust work search requirements and conditionality requirements to allow claimants to prioritise solutions to their issues.

Notes

- 1 In Scotland under Scottish choices, Universal Credit claimants in full service areas can choose to get paid once or twice a month and can also choose to have their rent paid directly to their landlord.
- 2 It is a government requirement that all departments building a digital system must provide assisted digital support to people who need to use it, but who do not have the skills or access to do so on their own.

Source: National Audit Office analysis of Universal Credit business case and guidance

Identifying vulnerable claimants

2.5 Identifying which claimants are vulnerable is important so that the Department can properly target support and set appropriate conditions on welfare (for example, reduced work search requirements). However, the Department's research in October 2017 shows that some staff found it difficult to support claimants because they:

- lacked the time and ability to identify claimants who needed additional support;
- lacked the confidence to apply processes flexibly and make appropriate adjustments; and
- felt overwhelmed by the volume of claimants reporting health problems.

Some jobcentres we spoke to had introduced resilience training to support work coaches to deal with the greater range and severity of health issues among claimants.

2.6 The Department has recognised the need to make changes to the way it identifies and provides support to vulnerable claimants. This includes making it easier for work coaches to record information about claimants' needs. In 2017 the Department issued guidance to staff, instructing them to record information on a claimants' needs using a text box in their journal. This followed research that showed that work coaches were often not aware that claimants were vulnerable before meeting them. The Department is developing an approach to allow work coaches to pin this text to the top of a claimant's journal, so it is more obvious to staff picking up a claimant's case. It has also provided more training to staff, for example mental health training. Each jobcentre has developed a complex needs plan which helps staff to direct claimants to third-party support.

2.7 The Department lacks the ability to monitor the treatment of vulnerable claimants nationally. It has not yet developed means to record different vulnerabilities in its data systems. Jobcentre managers told us the lack of vulnerability identification markers makes it difficult to understand the types of local provision needed. The Department has told us it is developing a text-mining approach to allow it to identify different vulnerability groups within the pinned information.

The impact of Universal Credit on claimants

2.8 The Department's assumptions about how Universal Credit would work in practice underestimated the impact it would have on some claimants (see Appendix Four). For example, the Department at first assumed that most claimants would have enough money to manage over the initial waiting period. However, the Department's most recent data show that 60% of new claimants ask for and receive a Universal Credit advance to help them manage as they wait for their first payment (Figure 13).

2.9 The local delivery organisations and national representative bodies that we met during this study gave us evidence of how Universal Credit was not working for all claimants, particularly the vulnerable, despite the support measures the Department has put in place. Issues they shared as evidence included claimants experiencing:

- hardship because of not having savings to last the initial wait for payments;
- problems with monthly budgeting because of fluctuating Universal Credit payments; and
- difficulties making and managing a claim online, because of a lack of digital access and skills.

The Department has made several changes to accommodate the problems with its initial design (see Appendix Four).

2.10 We cannot quantify how many Universal Credit claimants are experiencing difficulties with Universal Credit or experiencing hardship as a result. The organisations we spoke to told us they have seen an increase in demand for support services and referred to sufficient numbers of individual cases to indicate at least a significant minority have been adversely affected.

2.11 The Department has not measured the impact on claimants or assessed how much hardship Universal Credit claimants suffer. It told us that the policy intent is to help people get used to monthly budgeting, and it does not accept claimants have suffered hardship as a result of Universal Credit. It said that there is no need for hardship in Universal Credit as it makes advances available, and that if claimants take up these opportunities hardship should not occur. However, in its survey of full service claimants, published on 8 June 2018, the Department found that four in ten claimants that were surveyed stated they were experiencing financial difficulties.

The Department's ability to pay claimants their full payment on time

2.12 Delays in receiving the initial payment can exacerbate the hardship some claimants face. The Department considers payment timeliness to be a core indicator of its own performance, and thought that 74% was high enough to support accelerated rollout. It measures this for both the initial assessment period and for all later payments.

Delays in making an application

2.13 The Department's measurement of payment timeliness starts after the claimant has made an application. Some claimants struggle to complete the stages required to make a claim or do not claim straight away (**Figure 9** on pages 34 and 35). The Department's survey of Universal Credit claimants found that only 54% of claimants reported that they could make a claim online without help; those with health conditions were significantly more likely to report difficulties than those without a condition. A further 21% could make a claim online with help. Twenty-five percent were not able to submit their claim online at all. Support agencies we spoke to told us that issues can include claimants:

- being given the wrong information about which benefit to claim;
- struggling to complete the requirements to submit a claim, for example, because of language barriers; and
- not having a bank account or identification.

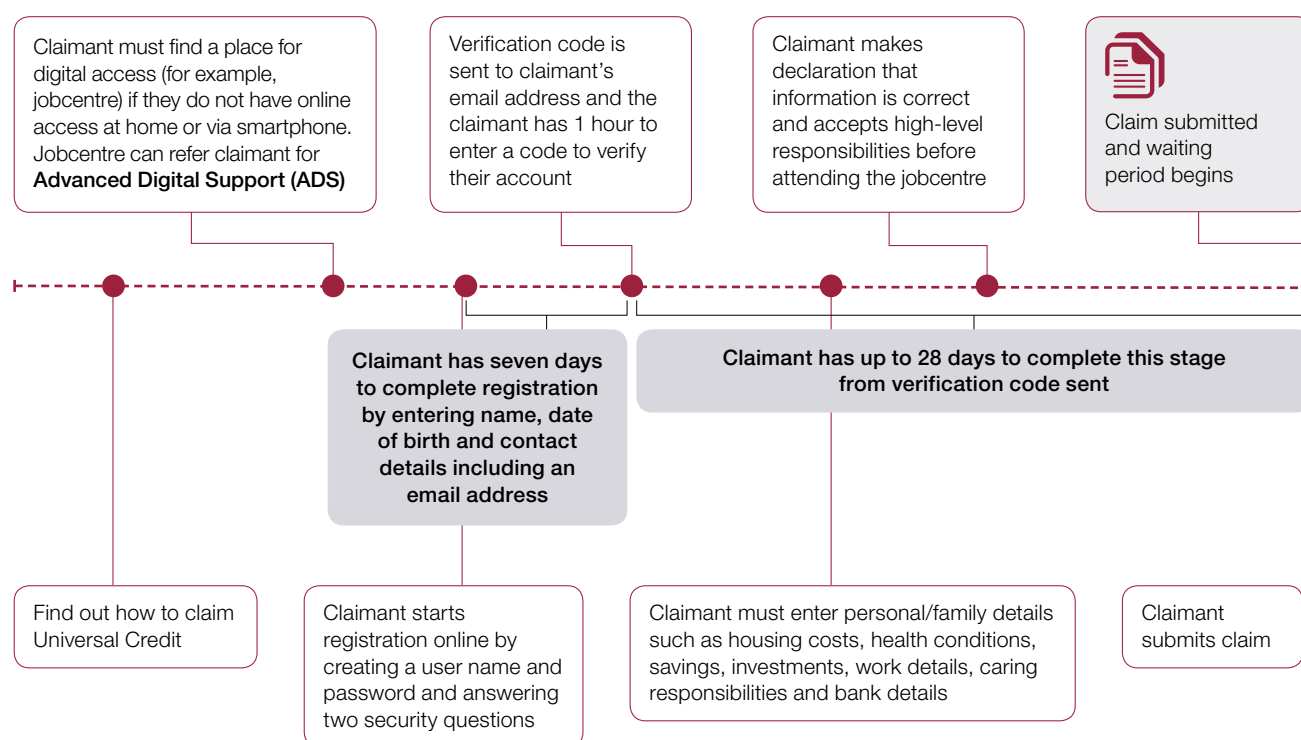
2.14 Claimants can access support to make their claim (**Figure 8**). Claimants can also apply to have their applications backdated in very limited circumstances, such as illness or because the Department's systems were down, for a maximum period of one month. This compares with three months for Jobseeker's Allowance.

Figure 9

Getting to first payment

There are several stages to get through before a claim is submitted and the initial waiting period begins. This can increase the initial waiting period for claimants who struggle

Some claimants can complete the necessary stages in a day; for claimants who struggle the waiting period is lengthened.



Support agencies we spoke to told us that issues can include claimants:

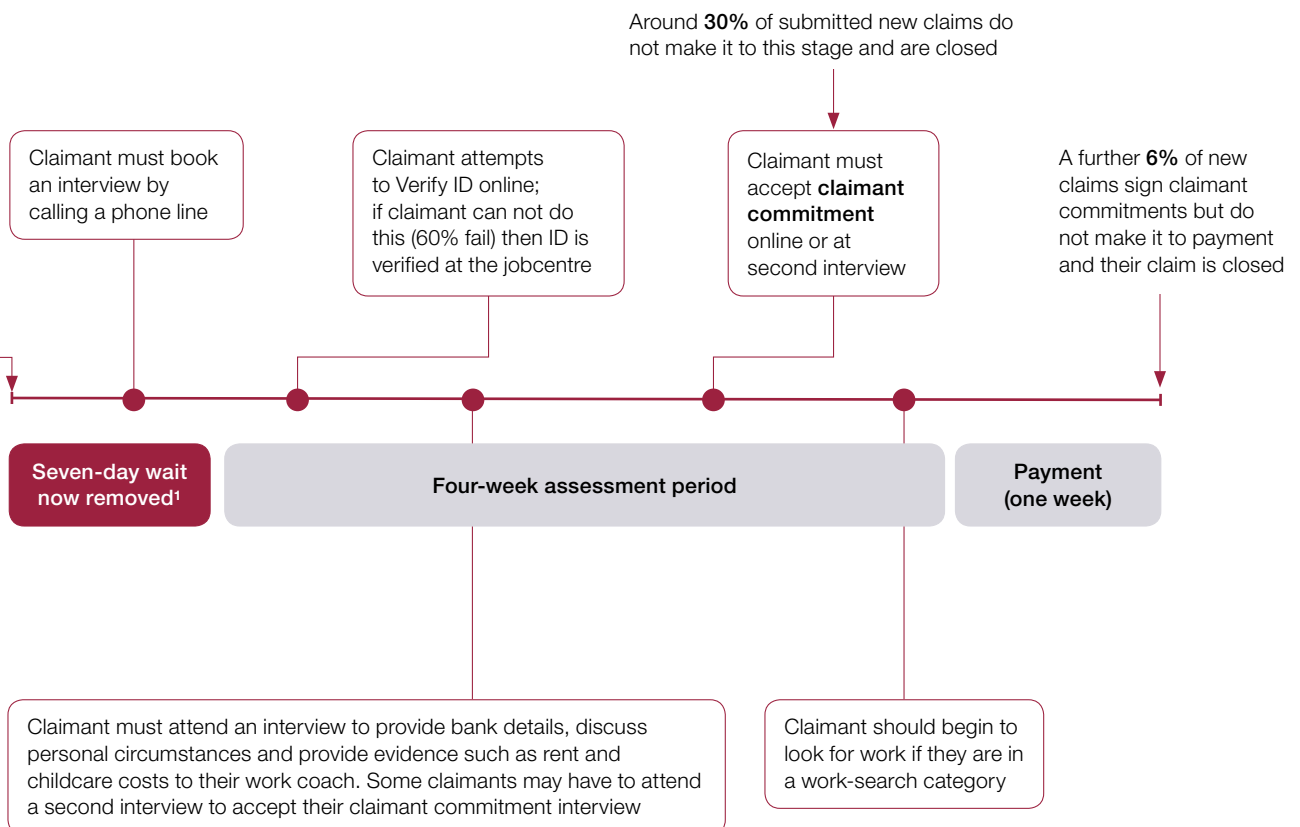
- being given the wrong information about which benefit to claim,
- struggling to complete the requirements to submit a claim, for example, because of language barriers; and
- not having a bank account or identification.

Note

- 1 Claimants originally had a six-week wait for payment or five weeks if they were within the 'All work-related requirements' conditionality group, with several exemptions such as those with certain vulnerabilities. In February 2018 the Department reduced the initial wait to five weeks for all claimants.

Source: National Audit Office analysis of Universal Credit processes

The official measure for the wait to payment is from the claim being submitted. The target for this is now 5 weeks



The Department's analysis showed that reasons for claimants dropping out after signing a claimant commitment included claimants:

- failing to book an initial appointment;
- withdrawing a claim; and
- failing a residency test.

Delays to payment

2.15 In March 2018 the Department's latest forecast showed that it failed to pay 21% of claimants their full benefit entitlement on time following their initial claim.⁸ Around 13% did not receive any payment on time. In 2017, there were around 113,000 such late payments affecting around one quarter of new claims. Claimants also face delays in subsequent assessment periods.

2.16 The Department's performance on paying claimants on time improved over the course of 2017 (**Figure 10**): in January 2017 it paid 55% of full service claimants in full on time after their first application; by September 2017, around 74% of payments were in full and on time. The Department decided that this was an acceptable level to increase the pace of rollout in October 2017; at the time this equated to around 7,000 full service claims not receiving full payment on time each month. In March 2018, this was around 15,000 claims.

2.17 The Department has said that it is unreasonable to expect that all claimants will be paid on time because of the need to verify each claim. The Department has told us there are various reasons why it might not pay a claimant on time and it is important that the claimant proves they are eligible for the benefits. Therefore, a claimant must verify their identity, sign a claimant commitment and prove that they reside in the UK. They must also prove they are eligible for each element they claim, such as housing or childcare. This means that claimants must provide information to the Department, and the Department must verify the information with third parties such as landlords or childcare providers. Where things go wrong operationally or claimants struggle with processes, they wait longer for payment.

2.18 Overall payment timeliness figures are lower for claims which include elements that need verification, as well as the standard allowance (**Figure 11** on page 38). The Department has struggled with many elements of verification, for example confirming rent or childcare costs. It has improved some of its verification processes. For instance, it has now developed a landlord portal so landlords can more easily verify some claimants' rent details. From October 2017 to December 2017 payment in full and on time for claims including housing rose from 68% to 76%.

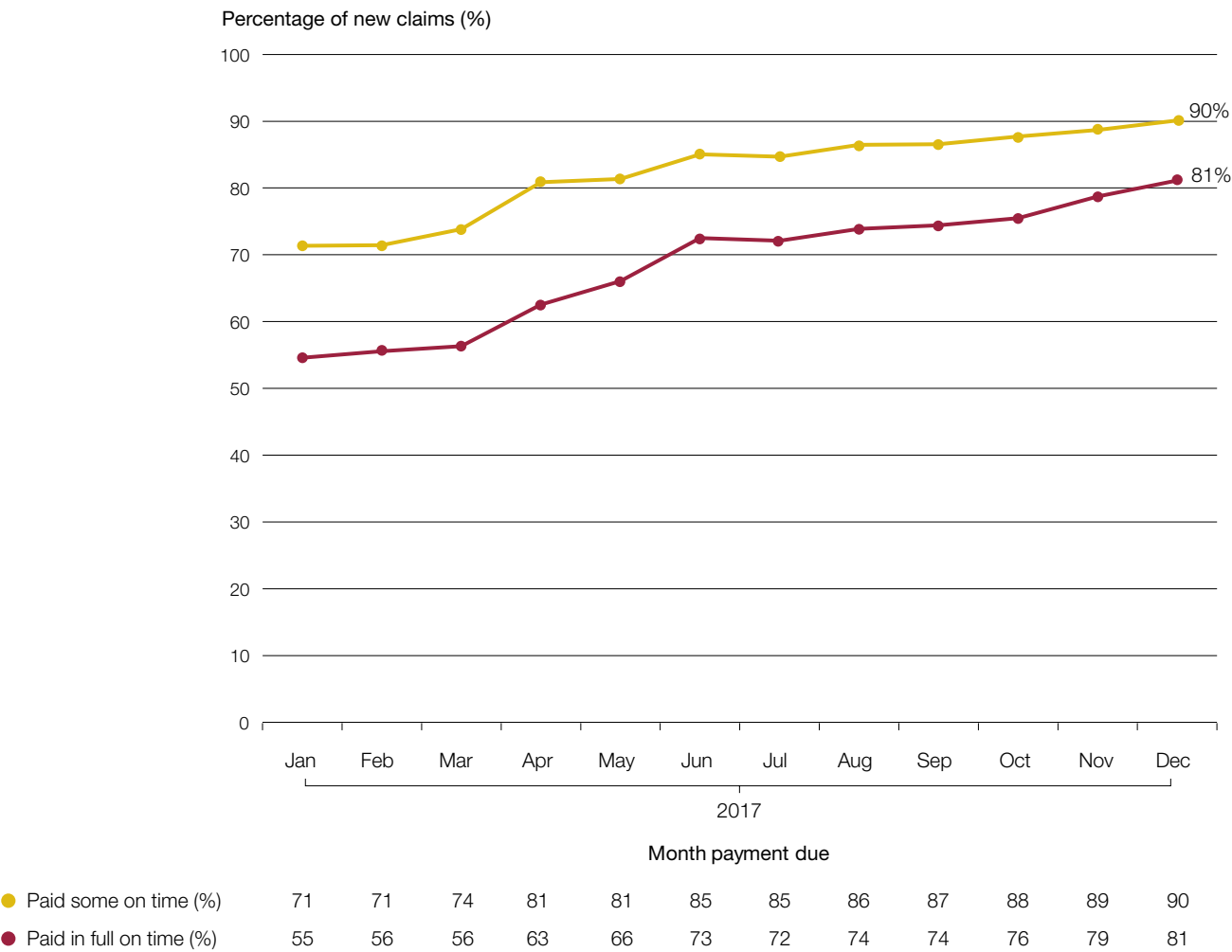
2.19 Claimants who do not receive full payment on time have faced average delays of four weeks in addition to the five- or six-week waiting period.⁹ From January to October 2017, of those new claims to full service that were not paid in full and on time, 40% (20,000 households, which equates to one in ten of new full service claims) waited in total around 11 weeks or more for full payment; and 20% (10,000 households) waited almost five months or more (**Figure 12** on page 39).

⁸ The Department uses a forecast measure to calculate payment timeliness for recent months. This estimates the proportion of claims that will or will not be eligible for payments outstanding. It considers figures to be stable eight weeks after a claimant's payment due date.

⁹ Claimants originally had a six-week wait for payment or five weeks if they were within the 'All work-related requirements' conditionality group, with several exemptions such as those with certain vulnerabilities. In February 2018 the Department reduced the initial wait to five weeks for all claimants.

Figure 10
Payment timeliness

Payment timeliness has increased over 2017



Notes

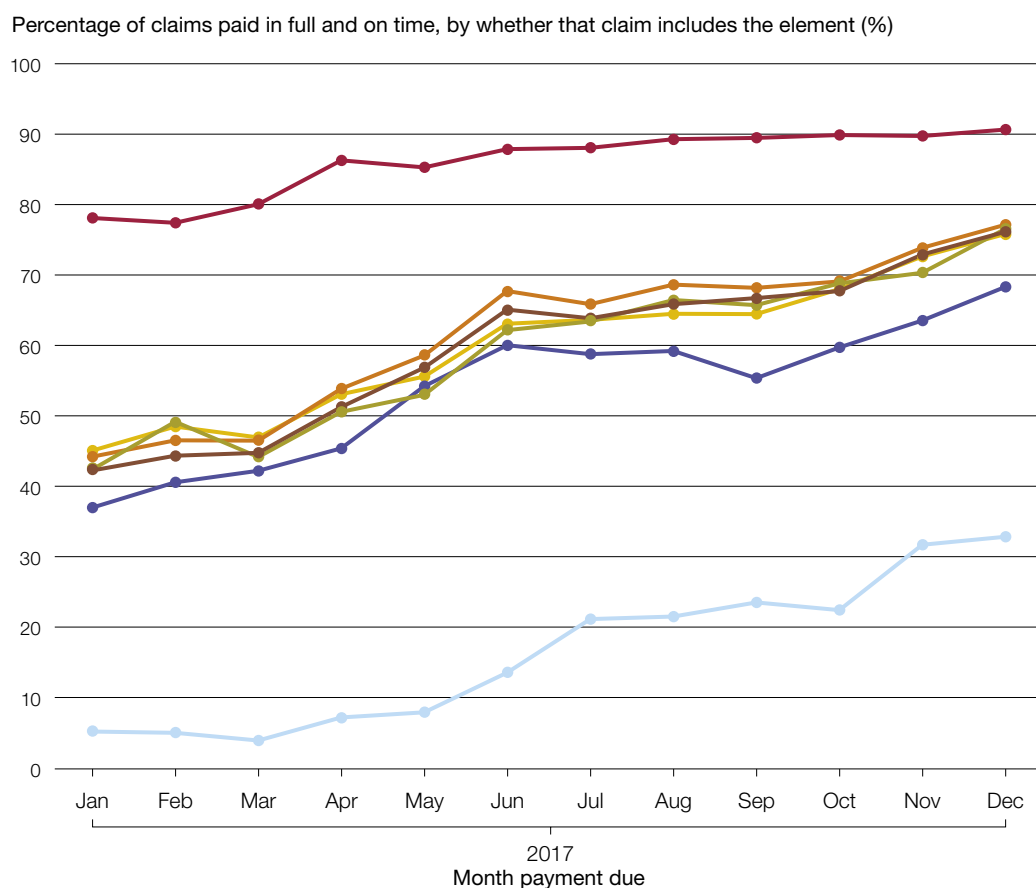
- 1 Data for full service only.
- 2 The Department's most recent forecast showed that payment in full and on time was at 79% in March 2018.

Source: National Audit Office analysis of Department for Work & Pension's data

Figure 11

Payment timeliness for individual elements

Claims that include elements other than the basic allowance are less likely to be paid on time



Percentage of claims paid in full and on time, by whether that claim includes the element (%)

Standard allowance only (%)	78	78	80	86	85	88	88	89	90	90	90	91
Carer (%)	45	49	47	53	56	63	64	65	65	68	73	76
Child (%)	44	47	47	54	59	68	66	69	68	69	74	77
Childcare (%)	37	41	42	46	54	60	59	59	55	60	64	68
Disabled child (%)	43	49	44	51	53	62	64	67	66	69	70	77
Housing (%)	42	44	45	51	57	65	64	66	67	68	73	76
Limited capability to work (%)	5	5	4	7	8	14	21	22	24	23	32	33

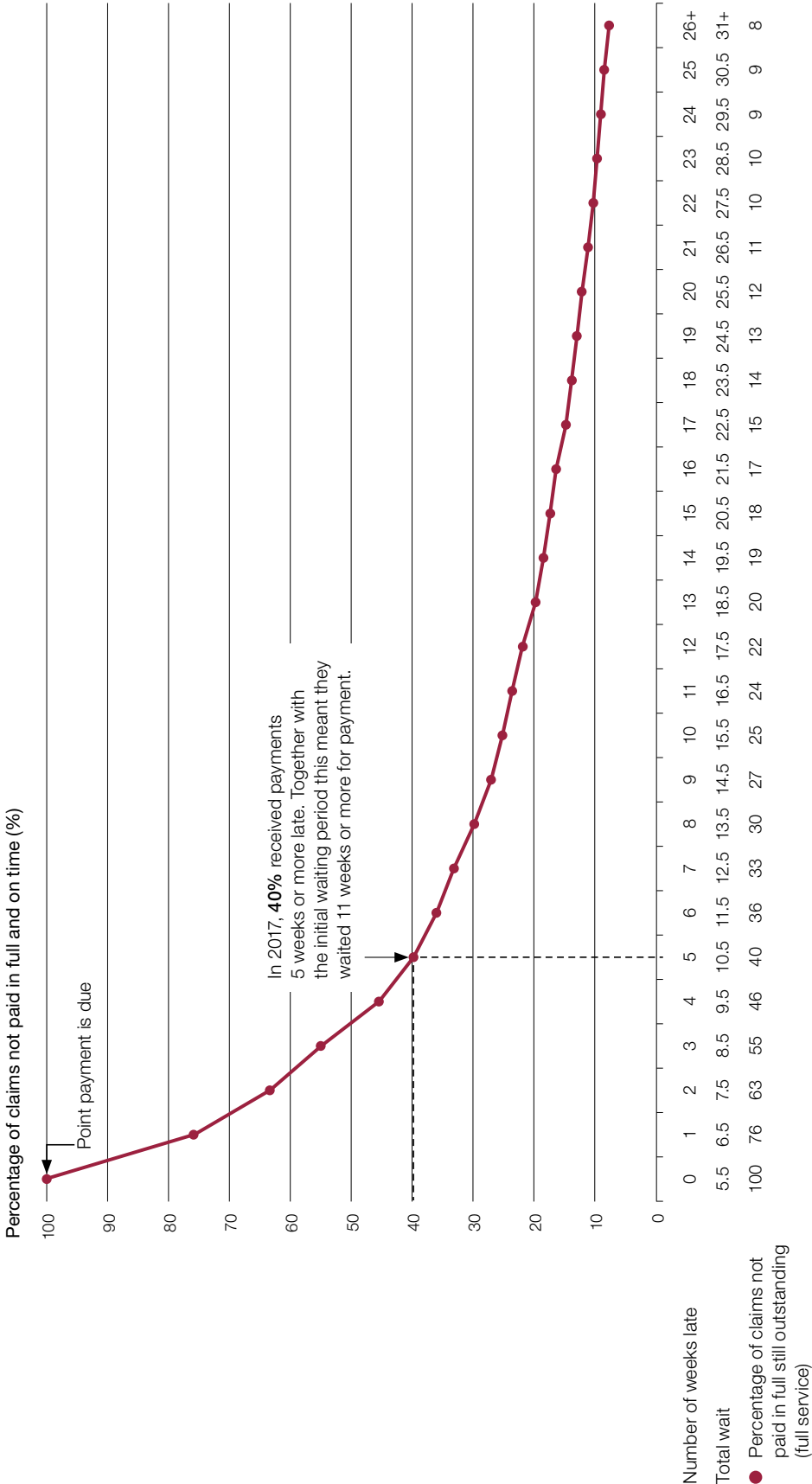
Notes

- 1 Data for full service only.
- 2 Delays to payment for the limited capability to work element are often due to long waits for work capability assessments, which the Department uses to establish entitlement to this payment.

Source: National Audit Office analysis of Department for Work & Pensions' data

Figure 12
Length of payment delays

Some claimants have faced long delays for initial payments



Note

1 Total wait starts at five and a half weeks as claims during 2017 may have had a five or six week wait for initial payment.

Source: National Audit Office analysis of Universal Credit full service data

2.20 The Department does not expect its payment timeliness performance to improve significantly above 80% in 2018. The Department's most recent management information suggests that payment in full and on time declined slightly in recent months to the beginning of April 2018.¹⁰ The Department has told us that the performance had declined because payment timeliness is sensitive to staff availability. It believes the lower performance can be attributed to:

- poor weather leading to office closures;
- February being a shorter month and therefore incorporating fewer working days to administer payments; and
- the Easter bank holidays.

If payment timeliness does not improve, we estimate that during 2018 around 270,000 to 338,000 new claims will not be paid in full at the end of their first assessment period.

Advances

2.21 The Department has increased the availability of advances to claimants. The Department provides new claim advances to support claimants who cannot manage financially until they receive their first payment, regardless of whether that payment is on time.

2.22 Take-up of advances has increased over time. Throughout the earlier parts of 2017, between 30% and 40% of claimants received an advance. However, organisations that support claimants commented that the Department had not been routinely making claimants aware of the availability of advances. In October 2017 the Department updated guidance for its staff about informing claimants of advances. Following this, the take-up of advances increased sharply, rising to around 60% by February 2018 (**Figure 13**).

2.23 Initially claimants could receive an advance of up to 50% of their estimated Universal Credit payment, repayable within six months. In November 2017, the Department announced changes which made it easier for claimants to claim an advance. It also changed its rules so that claimants can now: receive up to 100% of their estimated award, repayable within 12 months; request an advance prior to verification; and, in extreme cases, receive the advance the same day.¹¹

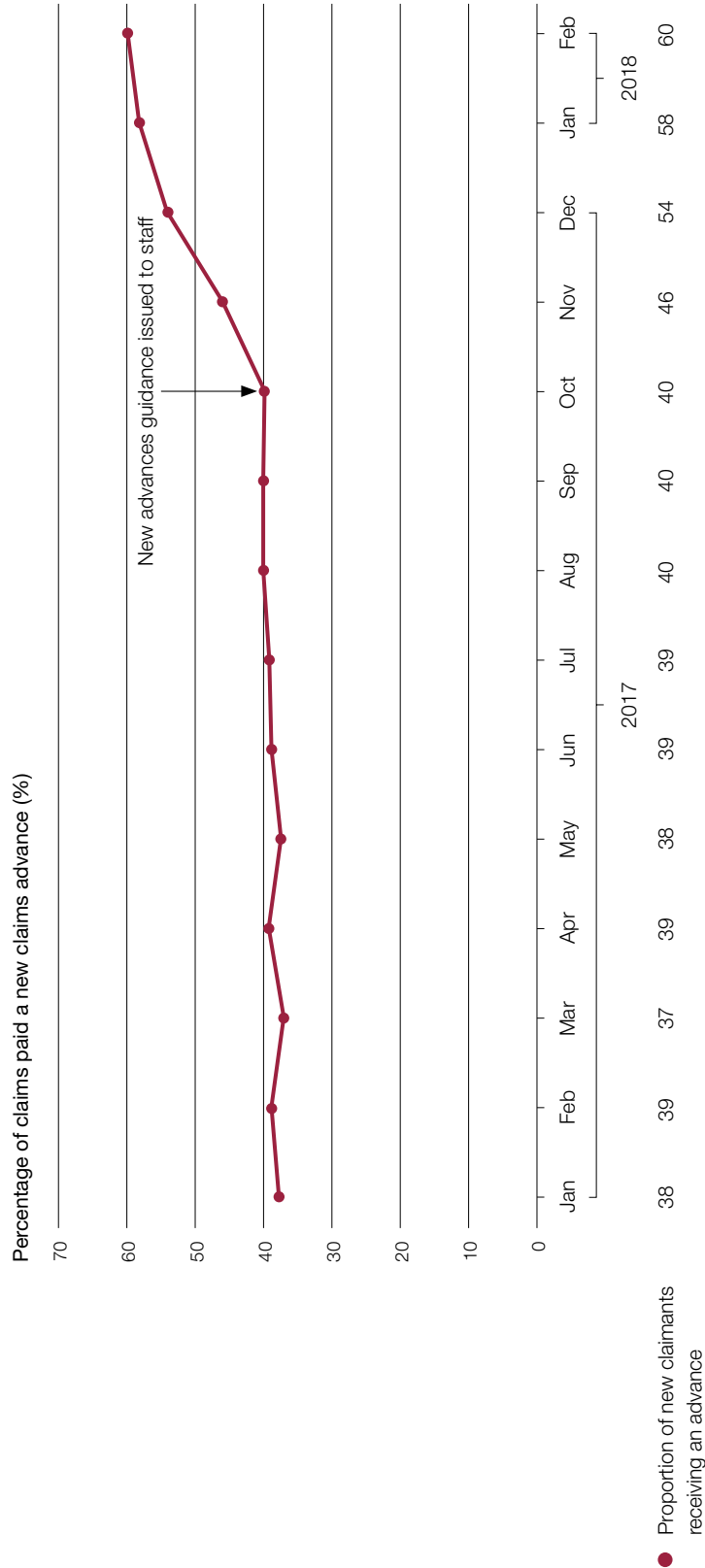
2.24 The changes to the rules regarding advances creates some challenges for the Department. Some people request an advance at a very early stage in the claim process. However, having received the advance, they do not continue with their claim and the claim is closed. This can make it harder for the Department to ensure the advance is repaid. The Department's research found some individuals have made multiple claims, including one individual who has received 18 advances without following through to a fully completed Universal Credit claim.

¹⁰ The Department has told us that the figures in its management information may not be accurate.

¹¹ The rules for maximum advance amount and repayment months vary by advance type. The 'benefit transfer' advance could already be paid over 12 months. The 'new claim' advance went from 50% to 100% and from six months to 12 months, and the 'benefit transfer' advance went from 50% to 100%.

Figure 13
New claim advance payments

The proportion of claimants receiving new claim advance payments increased rapidly, after the Department issued new guidance to its staff



Notes

- 1 The proportion of new claims which receive an advance is estimated from the number of claims paid a 'new claim' or 'benefit transfer' advance in a month, and the number of claims made in a month that are entitled to Universal Credit. Numbers for recent months can be subject to revisions.
- 2 Data are for full service only.

Source: Department for Work & Pensions' analysis of the proportion of claimants who receive a new claims advance

2.25 While advances can help claimants manage financially in the very early stages of a claim, they are loans, which are usually repaid to the Department through deductions from future Universal Credit payments. These deductions start in the first month after receiving the advance. In 2017, average new claim advance repayments were around £43 per month, or around 8% of the average monthly payment. However, claimants may also face deductions for other reasons, for example rent arrears, utility repayments and repayment of tax credit overpayments. Total deduction rates can be up to 40% of the claimant's standard allowance – at which point the Department normally caps deductions.¹²

Impact on third parties

2.26 External organisations face increased demands for their services supporting Universal Credit claimants. To understand how Universal Credit is working for those supporting claimants we spoke to national representative bodies and visited five local authority areas. In each area we carried out a range of interviews with: local authority officials; housing providers; jobcentre staff; and advisory services. Our analysis of the impact on third parties is based on what we heard during these interviews, and subsequent data provided by these organisations. Examples of the issues are given in Appendix Five and we set out more details below. We acknowledge that the views may not necessarily be extrapolated to all areas. The Department believes that much of this evidence was provided by organisations which are facing funding constraints and are lobbying for policy changes.

Universal Support delivered locally

2.27 The Department recognised at an early stage that it would need to engage with local authorities and other organisations to provide a safety net for claimants who need help adapting to Universal Credit. Following pilot tests, the Department developed its 'Universal Support delivered locally' strategy. Under this it has allocated £170 million over the implementation period to local authorities to deliver Assisted Digital Support and Personal Budgeting Support (Figure 8).¹³

2.28 Universal Support providers told us that the Department's funding does not cover their full costs, and that Universal Support does not meet the needs of claimants. Issues include insufficient time to assist claimants, the limited nature of the support that can be provided, and a lack of funding for encouraging claimants to engage (**Figure 14**).

¹² The standard allowance (£317.82 a month for single claimants over 25 and £498.89 a month for couples over 25) does not include extra amounts that claimants receive if they have children, a disability or receive help paying their rent. Where a claimant is already facing high deductions, for example through a conditionality sanction, fraud penalty or 'last resort deduction', such as repaying mortgage interest or rent arrears, deductions can exceed the 40% maximum in certain circumstances.

¹³ Some local authorities commission other providers to provide these services.

Figure 14**Limitations of Universal Support delivered locally****Local organisations told us that there are limitations to Universal Support delivered locally**

Issues raised	Description of issue raised
Insufficient time to assist claimants	Providers can only claim funding for one session per claimant for a maximum of two hours. This is not enough for those who struggle to maintain their claim such as claimants who speak English as a second language.
Timing of support	Claimants can only be referred for budgeting and digital support at the start of a claim. Often claimants need this help later, or ongoing support, when they are trying to adjust to receiving monthly payments, or receiving their own rent costs for the first time.
The limited nature of support that can be provided	Budgeting support providers cannot claim funding for debt advice given during a budgeting session.
Low take-up of support	Jobcentres must refer claimants to Universal Support but they do not always identify and refer claimants who require support.
A lack of funding for time involved chasing referrals	Providers often have to spend time chasing claimants who have been referred to them by the Department for Work & Pensions to get them to engage.
Funding does not meet actual costs	Universal Support funding does not cover providers' full costs when the additional support claimants needed is also taken into consideration.

Source: National Audit Office analysis of interviews with local providers of Universal Support delivered locally during our case study visits

Advice and support

2.29 Local authorities, advisory and advocacy service providers have seen demand for advice rise since Universal Credit was introduced in their area. Support agencies expressed concerns to us that the current level of support they provide to claimants will not be sustainable as the caseload increases. Some have invested in additional resources to support claimants. The Department does not include these wider costs to the system in its Universal Credit business case.

2.30 The Department's decision to make claimants responsible for their own claim has made it difficult for providers to support claimants. The Department removed 'implicit consent', which allowed external bodies to act on a claimant's behalf without the need for written authority or the claimant being present.¹⁴ We spoke to a range of such providers who explained that while they understood the Department's rationale for this it hindered, and increased the burden on, external bodies that provide support to claimants. For example, while the Department allows some advocacy, it is on a short-term basis (one assessment period) only. Claimants must renew their consent monthly to allow advocacy to continue on their behalf.

¹⁴ In March 2017 the Department reinstated implicit consent for MPs helping constituents claiming Universal Credit, but stated that this approach will not be extended to other bodies.

Rent arrears

2.31 Local authorities, housing associations and landlords have seen an increase in rent arrears since the introduction of Universal Credit, which can take up to a year to recover. The Department has not undertaken any national, representative analysis of whether Universal Credit is creating additional rent arrears but has produced a very limited analysis with one housing association. It found there is an increase in average rent arrears as claimants move on to Universal Credit (**Figure 15**). This increase starts to accelerate before they make their Universal Credit claim, indicating that there could be a delay before they make their claim. Arrears rise starkly as claimants wait a month for their first payment. On average this starts to plateau 10 to 12 weeks following a claim, after which individuals start to repay their arrears. The Department has told us that it intends to extend its analysis to an additional five housing providers to gain a greater understanding of the impact of Universal Credit on rent arrears.

2.32 As a result of the delay in receiving rent payments the private landlords and their representatives that we spoke to told us that from a business perspective there is increasing reluctance to rent to Universal Credit claimants. For example, during our research, a private landlord, who had previously worked closely with his local council to house people, told us he no longer rented to Universal Credit claimants because of delays in getting payments and the loss of certainty of income. He felt that given the demand for rental accommodation in his local area that it was no longer cost-effective to rent to Universal Credit claimants. In the Hastings area, a property agent told us that only one in 10 private landlords using their agency in the town will rent to benefit claimants. The precise impact will vary depending on the local area and the housing economy.

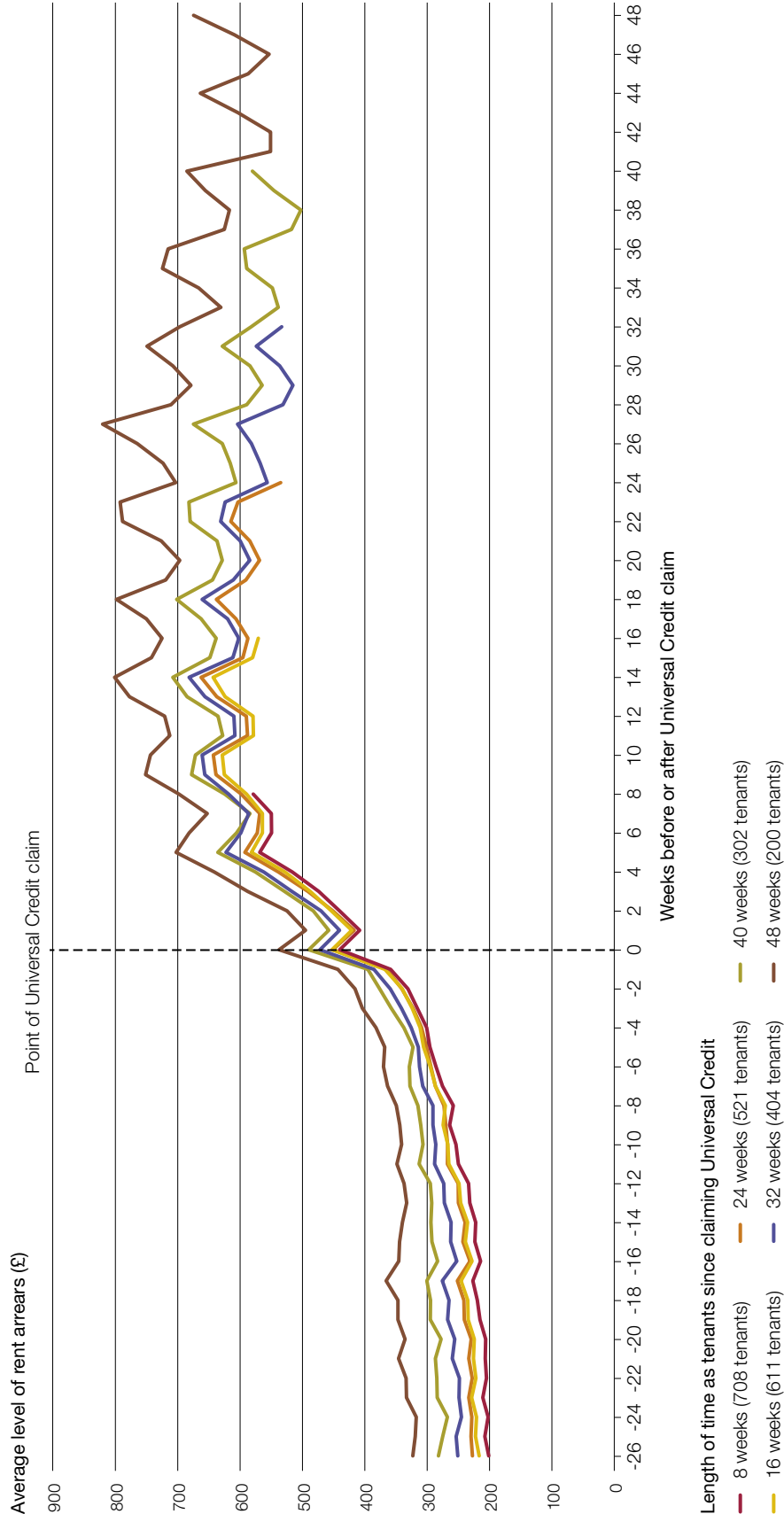
2.33 Universal Credit has also led to a loss of information-sharing with local authorities on the status of a tenant's benefit claim. This information would previously have been available to the local authority as they processed the claimant's Housing Benefit. While the Department has now developed a landlord portal, currently this is a means by which social landlords can provide information to the Department, rather than a means of two-way communication. The Department has said it intends to add this functionality in the future.

2.34 The Department has acknowledged that claimants who had previously received Housing Benefit were facing difficulties when they transferred to Universal Credit. Therefore from April 2018 those already on Housing Benefit continue to receive their award for the first two weeks of their Universal Credit claim. This means claimants' housing costs are now paid twice in that period, which will cost an additional £540 million up to 2022-23. It is too early to assess the impact of this change. The Department has also made it easier for private landlords to request a direct payment to them.

Figure 15

Rent arrears before and after Universal Credit is introduced locally

The Department's analysis with one housing association showed an increase in rent arrears as claimants move onto Universal Credit. This reduces over time but has not reached its pre-Universal Credit level



Notes

- 1 The cyclical pattern in arrears is due to weekly debits on rent accounts, but Universal Credit payments are made monthly.
- 2 The shortest line includes all 708 tenants who were tenants 26 weeks prior to their Universal Credit claim to eight weeks after their claim. The longest line includes a smaller number of claimants who were tenants 26 weeks prior to their Universal Credit claim to 48 weeks after their claim.
- 3 The Department states that this analysis took place when payment timeliness was lowest and functionality for recovering arrears was not in place. It intends to update the analysis with a further five housing associations.

Source: Department for Work & Pensions' analysis of rent arrears

Foodbank use

2.35 A report by the Trussell Trust suggested foodbank use had increased by 30% in the six months after Universal Credit full service rolled out in an area, compared with 12% in non-Universal Credit areas.¹⁵ In three of the four areas we visited for which we have data, the use of foodbanks increased more rapidly once full service had rolled out. Hastings foodbank saw an increase of 80% following the rollout of full service in the area (**Figure 16**). There were also increases prior to full service being rolled out, which aligns with the Trussell Trust's analysis of a general increase nationwide.

Additional administration requirements on local authorities

2.36 Local authorities told us they have seen an increase in administrative requirements for Universal Credit claimants (**Figure 17** on page 48). While local authorities receive some funding from the Department, it is insufficient to cover the workload required to administer the necessary changes under Universal Credit.

2.37 Local authorities receive funding from the Universal Credit programme for the administration of Universal Credit requirements. At the same time the Department is reducing the amount it provides to support Housing Benefit administration, as the number of Housing Benefit claims reduces. The Department now provides just over one-third of the costs of Housing Benefit administration to local authorities. The Department recognised in 2017 that it was claiming too much in savings from Housing Benefit subsidy and has since slowed the rate at which it is removing funding for future periods.

2.38 In some cases the administrative burden stems from the Department's prioritisation of system enhancements, meaning that the systems to automate more of these processes are not yet available. For example, the Department told us that it is developing a solution to make payment and administration of alternative payment arrangements easier and expects this to be available by the end of 2018.

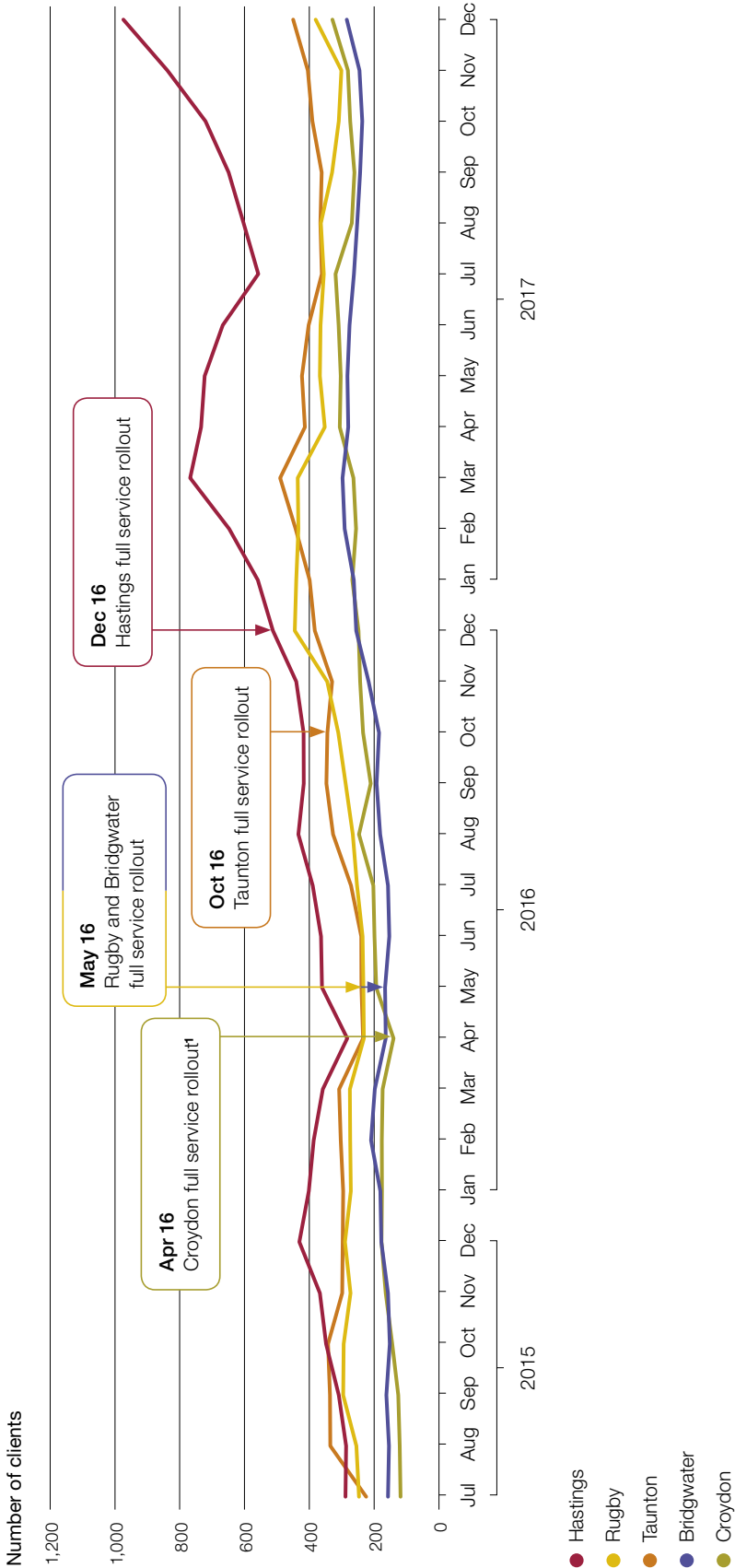
The Department's response to the issues

2.39 The Department's view of the success of Universal Credit contrasts sharply with those of the external organisations we spoke to. Over the summer of 2017, several organisations told us they had concerns about the impact Universal Credit was having on both claimants and delivery partners, including local authorities and housing associations. Our local visits found the same issues between January and March 2018. Some of these organisations said that they had raised these issues early, but felt the Department had not initially taken them seriously (see Appendix Four). The Department has pointed out that many of the issues raised were extensively debated and voted on during the passage of the welfare reform legislation. Where cumulative concerns have led to parliamentary interest and the government has announced changes to the policy, the Department has helped to design and implement changes.

¹⁵ Trussell Trust, *Left Behind: is Universal Credit truly universal?*, April 2018. Available at: <https://s3-eu-west-1.amazonaws.com/trusselltrust-documents/Trussell-Trust-Left-Behind-2018.pdf>

Figure 16
Use of foodbanks

The use of foodbanks was increasing in some of the Universal Credit areas we visited



Notes

- 1 Croydon foodbank covers three jobcentre areas. Full service was rolled out to Croydon jobcentre in June 2015 and Purley and Thornton Heath jobcentres in April 2016.
- 2 Data have been smoothed using a four-month rolling average.

Source: National Audit Office analysis of Trussell Trust data

Figure 17

Administrative requirements on local authorities

Local authorities told us that they have experienced increased administrative burdens after the rollout of full service in their areas

Requirement	Description of issue reported to us
Housing Benefit stop notices	When an individual claims Universal Credit the Department sends a stop notice to the Housing Benefit team in the local authority. Local authorities pay Housing Benefit on different bases (some in advance, some in arrears) so in some cases the Housing Benefit has been paid before the stop notice arrives. The local authority must work out how to claim back the overpayment.
Council tax reduction schemes	Local authorities are responsible for designing their council tax reduction schemes. Local authorities can receive high volumes of change in circumstance notifications which must be processed in order to update a claimant's eligibility for council tax reduction schemes that they have designed. All must be processed but only a small percentage actually affect claims. Rugby Council estimates that only around 12% of notifications it receives from the Department are relevant to claims. Hastings Council estimates that it receives almost five times as many change of circumstance requests for Universal Credit compared to Housing Benefit, despite the caseload being a third of the size of Housing Benefit. The Department believes this issue could be alleviated if local authorities redesigned their schemes.
Alternative payment arrangements	The Department sends managed payments to landlords in one batch without details of which claimants the payments are for. It then sends a separate file with claimant details, which requires manual work by local authorities to match payments to specific claimants. Social housing providers also told us that the misalignment between claimants' payment cycles and when the Department makes direct payments to landlords can result in missed payments. The Department plans to make changes to this process (see paragraph 2.38).

Note

1 Claimants are paid monthly whereas the Department for Work & Pensions pays local authorities four-weekly.

Source: National Audit Office analysis of data from local authorities

2.40 The Department holds a number of forums to discuss Universal Credit.

For example, through the local authority partnership forum, the Department engages with local authority chief executives. However, in February 2018 the Department told its programme board that the forum had not met since September 2017 due to low attendance on both sides. Where forums do go ahead, some local organisations told us that these meetings sometimes felt like a public relations exercise and they did not routinely receive a response from the Department on the issues that they raised.

2.41 The Department has responded quickly to some purely operational concerns, for example by improving the wording of claim forms. It has not always been able to examine and respond promptly to wider concerns raised by these organisations. This is because it does not systematically capture the views of external organisations and has not been clear about how it tracks and responds to the operational impacts of policy design choices. The Department told us that there are some cases “where the anecdote is stronger than the management information”. It told us that it could not publicly comment on the accounts given by stakeholders of specific claimants’ experiences because of claimant confidentiality, but that the facts as presented were incorrect and misrepresented.

2.42 Communications with external organisations have started to improve.

The Department told us it has started to recognise the needs of third parties and work more closely with organisations such as local authorities and Citizens’ Advice. This improvement was recognised by some of the organisations we spoke to, who also acknowledged the importance of building a strong relationship with the area partnership manager within the jobcentre.

2.43 In March 2018, the Department provided a one-off payment of £4.7 million to local authorities where full service was rolled out before August 2017. In its letter the Department stated that while it could debate the case that Universal Credit had created additional costs, it would provide a one-off payment.

2.44 The Department informs us that it has told local authorities that it will pay them for additional costs associated with administering Universal Credit if they provide evidence of the expenses. The Department places the burden of proof on the local authorities, and uses its discretion on assessing claims and has not sought to systematically collect data on wider costs. It will therefore have no means to assess the full monetary impact that Universal Credit is having.

Part Three

The long-term aims of Universal Credit

3.1 In this part we look at:

- the evolution of the Universal Credit business case; and
- the future prospects of achieving Universal Credit's objectives.

The evolution of the business case

3.2 The Department for Work & Pensions (the Department) submitted its full business case for Universal Credit to HM Treasury in March 2018, which HM Treasury approved on 31 May 2018. The Department sought funding for the period to July 2019, so this will not cover managed migration (see paragraphs 1.21 to 1.24). The full business case should have been the final check on the decision to invest in a major programme, but it was produced at a time when the government was already committed to rolling out the programme using an agile approach. HM Treasury approved funding up to the start of migration in 2019 and noted that:

- while the full business case sets out a strong case for Universal Credit, significant progress is needed on monitoring and evaluating the benefits of the programme going forward; and
- the Office of Budget Responsibility has set out concerns the Department's "monitoring and forecasting architecture for Universal Credit is less than ideal". HM Treasury expects the Department to update it on how these concerns have been addressed ahead of the start of forecasting for the autumn 2018 Budget.

Comparison of the full and outline business cases

3.3 In the business case the Department estimates large economic benefits for Universal Credit. The outline business case in 2015 included net benefits of £20 billion over the 10 years from 2015-16 to 2024-25.

3.4 The full business case now includes net benefits from Universal Credit of £34 billion over 10 years from 2017-18 to 2026-27. The effect of including two additional steady-state years in the business case is to increase the net benefit by £17 billion. HM Treasury has confirmed that this is in line with its Green Book guidance.

3.5 Figure 18 overleaf compares the expected benefits of a single year once Universal Credit is fully implemented. The estimate of net benefits includes large differences driven by policy changes and amendments to the way the net benefits of the programme are calculated.¹⁶

3.6 Apart from the timing of the programme, changes in the method of calculation increased the business case benefits over 10 years by around £4 billion. Policy and other changes then reduced benefits by around £7 billion.¹⁷ The main changes are:

- the full business case includes fraud, error and in-year tax credit overpayments savings, whereas the outline business case only included fraud savings. This change increases net benefits in the full business case by more than £1 billion each year in steady state;
- changes to the way the economic impact of employment is calculated, which increases the net benefit assumed for each additional person in work;¹⁸
- a reduction in the number of people expected to move into work, which lessens the expected economic benefit of Universal Credit. This has fallen to 200,000 people, driven by: reduced work allowances and incentives, particularly for lone parents; and policy changes.¹⁹ The combined impact of this and the preceding point is an increase in net benefits of £0.9 billion each year in steady state;
- a reduction in the generosity of Universal Credit relative to legacy benefits, which will reduce net benefits because of how transfers to low income households are weighted.²⁰ This reduces net benefits by £0.7 billion each year in steady state; and
- the Department no longer includes the cost for recovering debt transferred from legacy benefits in its full business case.

¹⁶ For example, the Department now bases increased economic activity on the additional employment it creates, calculated as the market value of wages and employers' National Insurance contributions.

¹⁷ The Committee of Public Accounts recommended that the Department should update the outline business case in light of the policy and programme changes that had already been announced at the time (Committee of Public Accounts, *Universal Credit: progress update*, Nineteenth Report of Session 2015-16, HC 601, February 2016). The Department has not provided this calculation, using the outline business case methodology. As a result it does not have a complete comparative baseline.

¹⁸ See footnote 16

¹⁹ In 2011 the Department estimated that Universal Credit would reduce workless households by around 300,000. In 2014 the Department revised this to 250,000. The Department says there are three main reasons why it has reduced this estimate: policy changes, such as the reduction in work allowances, has reduced incentives to work; economic changes, because by 2018 employment has increased and unemployment fallen compared to when it made its previous estimates, meaning it is now harder to get people into work; and changes to the methodology calculating this number, to align it with revised HM Treasury guidance.

²⁰ The Department calculates the value to society of spending or saving an amount of money on Universal Credit, as opposed to on another government programme. This figure is the net of: the positive impact of claimants taking up their full entitlement to benefit, facilitated by combining six working age benefits into one; the negative impact on claimants of changes to entitlement when Universal Credit is compared to legacy benefits; and the negative impact on claimants of removing the income disregard that operates in tax credits.

Figure 18

Comparison of full business case and outline business case net benefits in steady state (the benefits to be achieved in 2024-25)

Changes to policy and methodology have resulted in net benefits increasing by £1.3 billion a year in steady state

		Outline business case (£bn)	Full business case (£bn)
Impact of Universal Credit on recurrent running costs³	Costs of administering Universal Credit	(1.4)	(1.1)
	Reduced costs of processing legacy benefits	1.4	1.2
	Net impact on running costs	0.1	0.1
Impact of increased employment^{4,5}	Additional economic output	3.0	3.9
	NHS savings from health benefits of increased work	0.2	0.2
	Distributional value	1.1	1.1
	Total employment gains	4.2	5.2
Net wider impact of increased welfare payments⁶	Total redistributive value	2.2	1.4
Other savings⁷	Fraud and error savings	0.2	1.3
Net benefits of a single year		6.7	8.0

Notes

- 1 The full business case uses 2017-18 prices.
- 2 The outline business case uses 2015-16 prices.
- 3 Costs of administering Universal Credit are those incurred by the Department for Work & Pensions. Reduced costs of processing legacy benefits cover the Department, HM Revenue & Customs and local authorities.
- 4 In the outline business case, the Department recorded gains to individuals (£1.1 billion) and gains to government (£1.9 billion) separately. In the full business case, the Department has changed its method of calculating this and classified it as additional economic output. The new method is based on the increased wages and employers' National Insurance contributions resulting from more people entering work, and those already in work working additional hours.
- 5 Distributional value: the Department reweights changes in people's income as a result of more people entering work, and those already in work working additional hours because of Universal Credit. Its rationale is that people on lower incomes will place greater value on an extra pound of income than someone who is better off.
- 6 Redistributive value: the Department calculates the value to society of spending or saving an amount of money through Universal Credit compared to on another government programme. This figure is the net of: the positive impact of claimants taking up their full entitlement to benefit, facilitated by combining six working age benefits into one; the negative impact on claimants of changes to entitlement when Universal Credit is compared to legacy benefits; and the negative impact on claimants of removing the income disregard that operates in tax credits.
- 7 In the outline business case, the Department only included fraud in 'other savings'. In the full business case fraud, error and in-year tax credit overpayments are included.
- 8 If the Department had retained the methodology used in the outline business case for the full business case, net benefits would have been £7.0 billion, comprising £5.3 billion total employment gains, £1.4 billion total non-cash impact, and £0.2 billion fraud and error savings and £0.1 billion running costs saving.
- 9 Columns may not sum exactly because of rounding.

Source: National Audit Office analysis of Universal Credit business cases

3.7 The outline business case included managed migration from July 2018 to March 2021, whereas the full business case included managed migration from July 2019 to March 2022. On 7 June 2018 the Department announced changes to its transitional protection rules. As a result of this, it extended the completion of managed migration by one year to March 2023. The impact of this change is not included in the full business case costs and benefits. The Department told us that the policy changes are designed to be cost neutral. We were not able to verify this as the information was provided on the day this report was agreed with the Department.

Debt recovery

3.8 In the full business case the Department assumes that it will recover debt at the same rate as on legacy benefits. However, the Department expects that Universal Credit will enable it to recover more debt, more efficiently than legacy benefits. These debts pass to the Department as Universal Credit is implemented, and it estimates they will total £9.8 billion once all claimants have transferred.²¹ The Department recognises that this will affect its debt profile and introduce new factors and risks, and that it needs to develop its use of data analytics and automate its processes further to ensure debt is targeted and managed effectively. The Department expects to have some of the technology and processes it will need in place by 2020-21.

3.9 The Department is currently discussing with HM Treasury how it will fund these additional debt management activities, and it plans to undertake further work to establish what its future debt management and resourcing requirements will be. In May 2018 the Major Projects Review Group asked that within the next two months the Department urgently develops a forecast for Universal Credit debt recovery that sets out: how it expects debt stock in the Department will change as the programme rolls out; how that debt will be recovered; what impact that has on the debt stock; and what will need to be written off. This is to demonstrate that performance will be as good as in legacy benefit systems with the resource levels identified in the business case. HM Treasury has made meeting this recommendation a condition of its approval of the full business case.

Future prospects of achieving Universal Credit's objectives

3.10 The Department had committed to demonstrating the benefits of Universal Credit in practice by the time it submitted its full business case. However, while the Department has made some progress in understanding the impacts of Universal Credit, these findings have been limited and have not led to major changes in the evidence underpinning the business case.

²¹ The estimated value of outstanding debt transferring over time to the Department for claimants migrating to Universal Credit is: £5.9 billion from HM Revenue & Customs for tax credits; £1.8 billion from local authorities for Housing Benefit; £1.5 billion from Employment and Support Allowance, Jobseeker's Allowance and Income Support; and £0.6 billion from Social Fund loans.

The employment effect

3.11 The overall net present value in the business case is highly sensitive to the assumption about how many additional people Universal Credit will put into work. This is because it drives the gains from increased employment, which is the largest benefit in the business case.

3.12 The Department expects that Universal Credit will get an additional 200,000 people into work through financial incentives, a simpler and smoother system, and applying conditionality to more claimants. The Department also estimates that claimants already in work will work an additional 113 million hours each year, and that working mothers will account for 95% of this.²²

3.13 The Department says it cannot measure whether it is achieving 200,000 additional people in work because of Universal Credit (the employment impact). This is because it cannot isolate the effect of Universal Credit from other economic factors in increasing employment. It does, however, seek to evaluate whether individuals who receive Universal Credit are more likely to then go on to employment than those receiving legacy benefits (the individual's employment outcome). This is not the same as it does not fully capture the net impact on the nation's employment rate.

3.14 The Department believes that evaluation of the employment outcomes for claimants at jobcentres that were early adopters of live service in north-west England supports its estimated employment impact. These early adopters showed promising results (**Figure 19**). The most recent analysis, based on claims made up to April 2015, found that Universal Credit claimants are four percentage points more likely to have been in work at some point in the six months after making their claim than they would have if they were on legacy benefits. However, the evaluation only compared single claimants, without children, making new claims to Universal Credit and Jobseeker's Allowance.

3.15 The employment outcomes for different groups of Universal Credit claimants will vary because work incentives differ from group to group.²³ The Department had intended to assess the employment outcomes of Universal Credit live service for families and couples without children by December 2016.²⁴ It has not done so. It now believes that it cannot extend its current method of analysing the employment outcomes in the live service to other claimant groups because it needs a control group of legacy claimants. These are becoming unavailable as full service rolls out.

²² The Department estimates that lone mothers will work an additional 78 million hours, women in couples with children 29 million hours, and single women without children six million hours.

²³ Institute for Fiscal Studies discussed the impacts on incomes and incentives of introducing Universal Credit in its *Green Budget 2016*, available at: www.ifs.org.uk/publications/8136.

²⁴ Comptroller and Auditor General, *Universal Credit: progress update*, Session 2014-15, HC 796, National Audit Office, November 2014.

Figure 19

The results of early trials of the employment outcomes of those on Universal Credit

Early analysis of the employment impact of Universal Credit showed promising results. However, it only evaluated effects for a small subgroup of its expected caseload

Evaluation	Date	Sample	Claims	Percentage of Department's forecast caseload	Outcomes
Estimating the early labour market impacts of Universal Credit	Feb 2015	6,000 single unemployed claimants in four pathfinder offices	July 2013 – April 2014	0.07%	Universal Credit claimants five percentage points more likely to work in four months after claim made than matched Jobseeker's Allowance claimants.
Universal Credit: estimating the early labour market impacts: updated analysis	Dec 2015	8,000 single unemployed claimants in 10 pathfinder offices	July 2013 – Sept 2014	0.09%	Universal Credit claimants eight percentage points more likely to work in nine months after claim made than matched Jobseeker's Allowance claimants.
Employment impact analysis update	Sep 2017	27,000 single unemployed claimants in 94 offices	July 2014 – April 2015	0.32%	Universal Credit claimants four percentage points more likely to work in six months after claim made than matched Jobseeker's Allowance claimants.

Source: National Audit Office analysis of the Department for Work & Pensions' published evaluations of the impacts of Universal Credit

3.16 The Department acknowledges that it must look at other ways to measure Universal Credit's performance, and has begun to develop a number of different approaches. Alongside its formal evaluation of employment outcomes, the Department is developing a suite of measures which will allow it to assess the impact of Universal Credit more rapidly. The Department recognises that these alternative approaches will not be as robust as its original methodology. It has started to compare measures from the Labour Force Survey, such as unemployment and earnings, across areas with and without Universal Credit. While this method does not take account of the local economy and sample sizes are currently small, initial findings from this approach do not show an impact of Universal Credit on employment or earnings. The Department plans to extend its analysis to include earnings data from HM Revenue & Customs' Real Time Information system in the next year, to give more timely analysis. It intends to start publishing results for this from autumn 2018.

3.17 In May 2018 the Major Projects Review Group said that in the next two months the Department should work with HM Treasury and the Infrastructure and Projects Authority to develop and agree a clear plan that sets out the empirical evidence it will gather, and when, and what this will be compared with in order to demonstrate that the labour market and fraud and error benefits (see paragraphs 3.25 to 3.29) are continuing to be delivered. HM Treasury has made meeting this recommendation a condition of its approval of the full business case.

Efficiency savings

3.18 The Department believes that Universal Credit will cost £99 million less a year to administer than legacy benefits. This requires Universal Credit to save £335 million through automation of processes and streamlining six benefits into one. The Department then expects to reallocate about £237 million of this to spend as support for work searches for up to one million additional claimants who are not subject to conditionality under legacy benefits.²⁵

3.19 However, we cannot be certain that Universal Credit will ever be cheaper to administer than the benefits it replaces. Achieving the overall efficiency savings depends on:

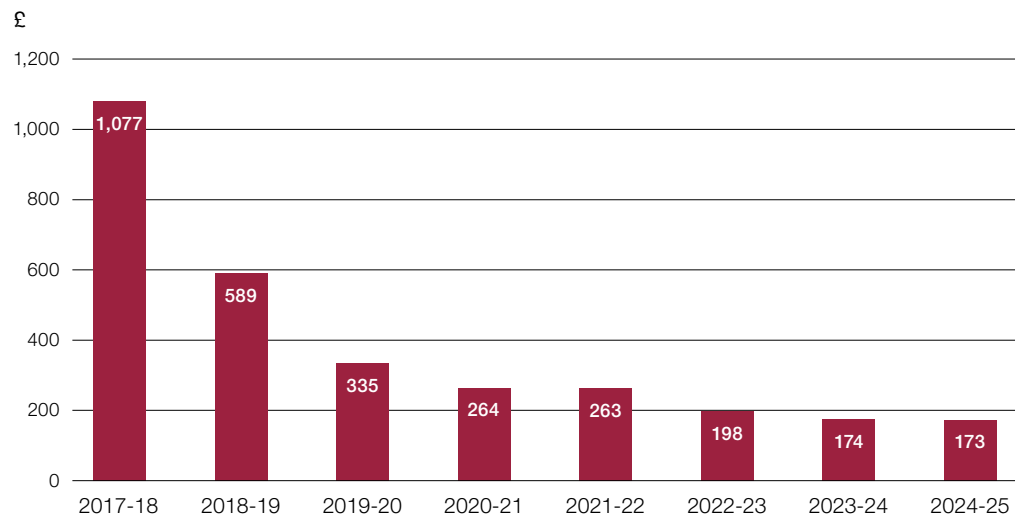
- reducing the running costs of each claim from an average of £1,077 in 2017-18 to £173 by 2024-25 (**Figure 20**). In March 2018 the unit cost, excluding training, was £699. The Department rated this as 'red' because it was more than 5% greater than the target. The Department plans to reduce unit costs by increasing the number of claimants each case manager deals with to 919. The Department anticipates that changes in the conditionality caseload mix and future automation will help it achieve this.²⁶ The current average caseload for each case manager in the back office operation centres is 154, and at the best performing sites it is 277. Work coaches in jobcentres are expected to increase their caseload from an average of 85 claimants now to 373 in steady state;
- no additional costs for local bodies. However, as we discuss in Part Two (paragraphs 2.29 and 2.36, and Appendix Five), local bodies told us that Universal Credit was creating additional costs. The Department has said it will not measure these additional costs until local organisations can demonstrate they are being caused by Universal Credit;
- Universal Support delivered locally not extending beyond the implementation period, during which it will cost £170 million. However, as we set out in Part Two (paragraphs 2.28 to 2.30), local bodies and vulnerable claimants are likely to require some support beyond this period; and
- debt recovery not costing more than it does under legacy systems (see paragraphs 3.8 and 3.9).

²⁵ These include claimants who had previously claimed only Housing Benefit or Child Tax Credit, claimants' partners, and claimants awaiting or appealing against work capability assessments.

²⁶ The Department says that currently 49% of the caseload is subject to full conditionality, but it expects this to reduce to 17% by March 2024. Conversely, at present only 36% are not subject to any intervention, because they are either above conditionality or are subject to no conditionality; the Department expects this to increase to 64% by March 2024.

Figure 20

Planned reduction in running costs for each claim, 2017-18 to 2024-25

The Department must achieve significant efficiencies in the costs of administering each claim**Note**

1 Unit costs in this figure are the average across the year.

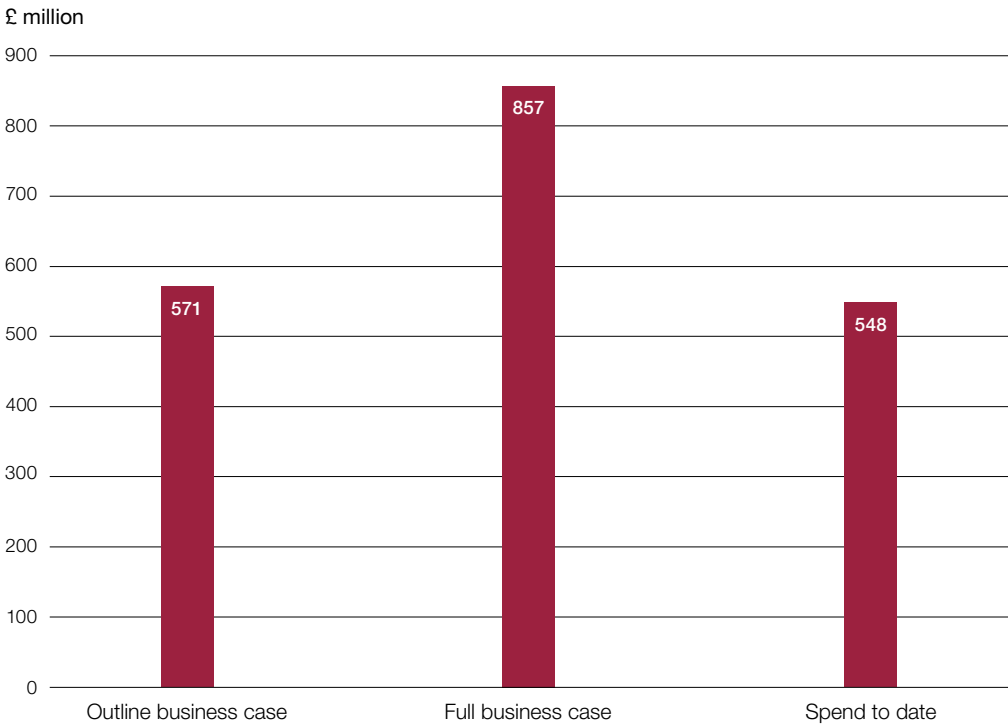
Source: National Audit Office analysis of Department for Work & Pensions' full business case

3.20 There are additional running costs during the implementation of Universal Credit, because legacy systems will continue until all claimants migrate to Universal Credit, and Universal Credit will not be efficient until case managers manage more cases.

3.21 These additional running costs have risen from £571 million to £857 million since the outline business case (**Figure 21** overleaf). This increase is mainly because Universal Credit has not achieved the efficiencies that it expected at this stage, because its processes are not as automated as anticipated. For example, only 38% of claimants who attempt to use the GOV.UK Verify online system to confirm their identity are able to do so, against the Department's plan of using it for 90% of claimants (**Figure 22** on page 59). The total proportion of claimants that successfully use the service is lower, as around 30% of claimants do not attempt to use the system. The Department is now reducing its ambitions for online verification. It estimates that manual verification could cost in the region of £40 million over 10 years.

Figure 21
The costs of running Universal Credit, 2010-11 to 2024-25

There is an additional net present cost of £0.86 billion for running Universal Credit and the legacy systems together during the implementation period

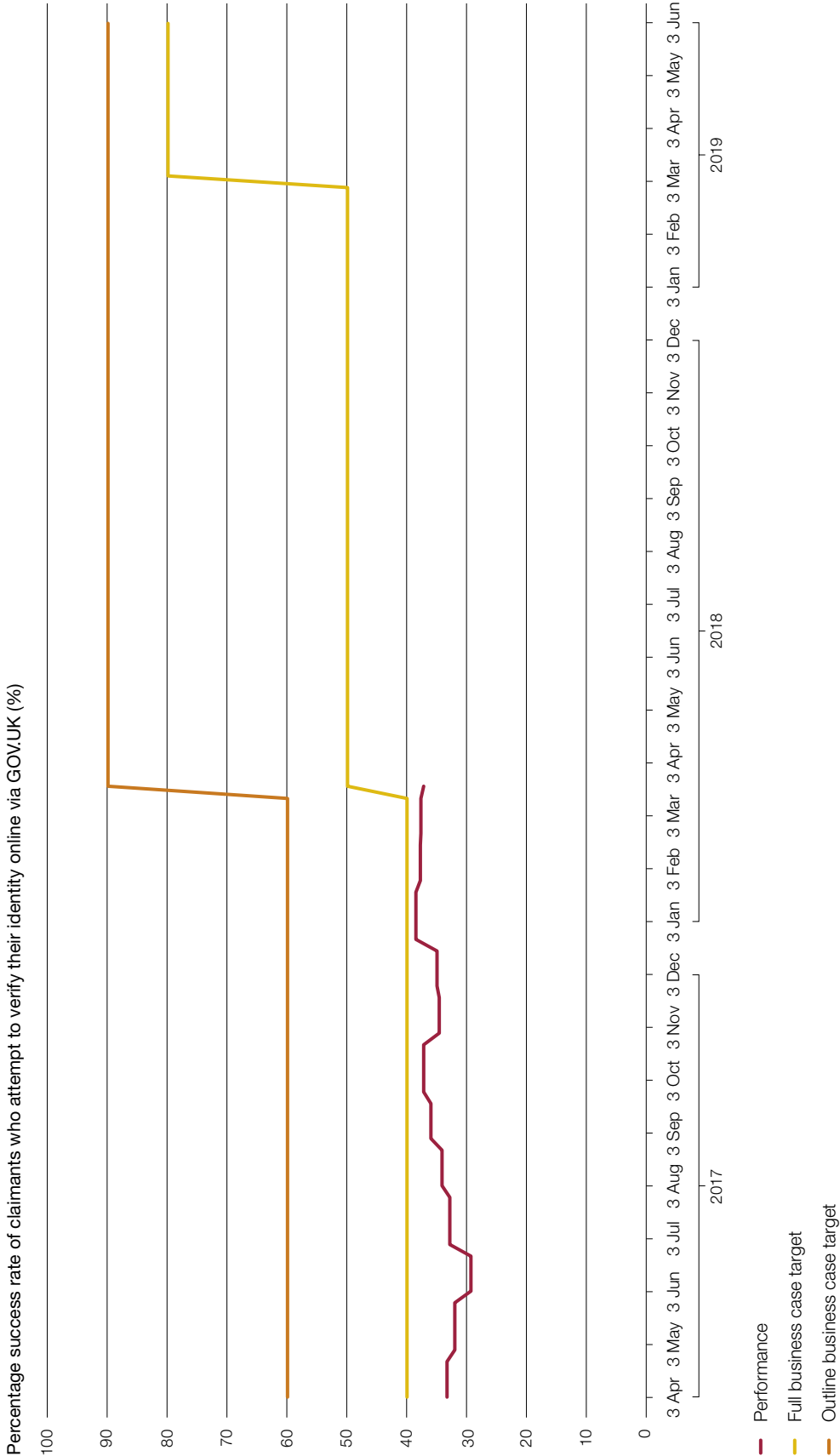


- Notes**
- 1 Future year costs are discounted at 3.5%.
 - 2 The full business case uses 2017-18 prices.
 - 3 The outline business case uses 2015-16 prices.
 - 4 The outline business case figure excludes £239 million allocated to Universal Support delivered locally, which was originally classified as a recurrent cost. In the full business case this was reclassified as an investment cost.

Source: National Audit Office analysis of business cases and Department for Work & Pensions' management accounts

Figure 22
Performance of the Verify service

The Department for Work & Pensions has reduced its ambition for online verification, and the proportion of claimants able to verify their identity online remains below its current target. The Department has a long way to go to reach its 80% assumption for online verification, before it begins managed migration in July 2019



Notes

- 1 In 2017 the Department amended its target for online verification.
- 2 In March 2018 the programme board agreed to remove the dependency on achieving 80% remote identity verification.

Source: National Audit Office analysis of Universal Credit programme board and business case documents

3.22 The Department expects to increase automation and efficiency over the next few years, but in the meantime Universal Credit will be more expensive to run during the rollout than previously anticipated. The Department set itself a target of achieving a unit cost of £603 by October 2017 (the point at which it increased the pace of the full service rollout), but it did not achieve this. In 2017-18 it used £46 million contingency funding to bring forward recruitment.

3.23 The business case efficiencies are very sensitive to these additional running costs during implementation. The Department estimates that if Universal Credit achieves only 90% of the intended efficiencies during the implementation period, it will cost an additional £1.2 billion to run between 2018-19 and 2024-25.

3.24 In May 2018 the Major Projects Review Group said that within the next two months the Department should set out numerically what each of the key drivers of this efficiency are expected to deliver, and set out the metrics that it will use to track performance, so it can respond if required in the event of significant deviations from assumptions. HM Treasury has made meeting this recommendation a condition of its approval of the full business case.

Fraud and error

3.25 The Department expects that Universal Credit will reduce fraud and error by £1.3 billion a year, including by:

- using automated Real Time Information from HM Revenue & Customs to provide monthly information about PAYE earnings and non-state pension payments, in order to adjust Universal Credit entitlement according to monthly earnings;
- in-work claimants reporting changes of circumstances that affect their eligibility throughout the year, replacing the tax credit annual renewals process; and
- claimants not over-declaring their hours as Universal Credit entitlement is calculated on earnings rather than hours worked.

3.26 The Department estimates that approximately £470 million of the assumed £1.3 billion savings in fraud and error comes from eliminating some of the in-year overpayments from tax credits. We disagree that this is a reduction in fraud and error. Tax credits are awarded on an annual basis. HM Revenue & Customs makes a provisional award based on the information it holds and then calculates the final amount after the end of the year. Differences between the provisional award and the amount due at the end of the year are designed into the tax credit system and are not included in the reported fraud and error statistics issued on tax credits. We calculate that this misclassification of tax credit overpayments means that steady-state savings are overstated by approximately £462 million each year.

3.27 The Department recognises that Universal Credit also creates some new fraud and error risks. It is sensitive to any change in claimants' monthly income. The Department relies mainly on Real Time Information to provide this figure, but not all income is captured by it, such as earnings from self-employment. Furthermore, employers sometimes supply information that is late or which contains errors. The Department also expects fraud and error to arise due to claimants failing to declare capital over the £16,000 threshold.

3.28 The Department has begun to measure fraud and error in Universal Credit, although the initial estimates produced cover live service only and it does not plan to publish separate Universal Credit full service estimates until spring 2019. The Department's preliminary estimates for 2017-18 indicate overpayments of 7.2% and underpayments of 1.3% (2016-17 preliminary estimates: 4.8% and 1.2% respectively).²⁷ It is likely the level of fraud and error in Universal Credit will fluctuate as claimants increase, systems and procedures continue to roll out, and the methodology for estimating fraud and error develops.²⁸ It is therefore too soon to comment on trends, but we have previously commented that the Department must understand the causes of Universal Credit fraud and error identified to date and respond to these promptly.

3.29 Fraud and error systems and reports are not yet complete. The Department intends to develop a fully automated risk analysis and intelligence system on fraud and error. But it has not developed this sufficiently to understand and assess fraud and error or to provide staff with effective reporting to enable them to identify potential fraud.²⁹

²⁷ In November 2017 the Department published its final 2016-17 estimates for fraud and error in the benefit system. These reported overpayments of 5.5% and underpayments of 1.3%, available at: www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2016-to-2017-estimates.

²⁸ Comptroller and Auditor General, *Department for Work & Pensions 2016-17 Accounts: Fraud and error in benefit expenditure*, National Audit Office, July 2017, available at: www.nao.org.uk/report/department-for-work-and-pensions-accounts-2016-17/

²⁹ The Department is currently planning to develop the Risk and Intelligence Service in three stages: the first stage from April 2018 to October 2018, the second from October 2018 to April 2019, and the third from April 2019 onwards.

Appendix One

Our audit approach

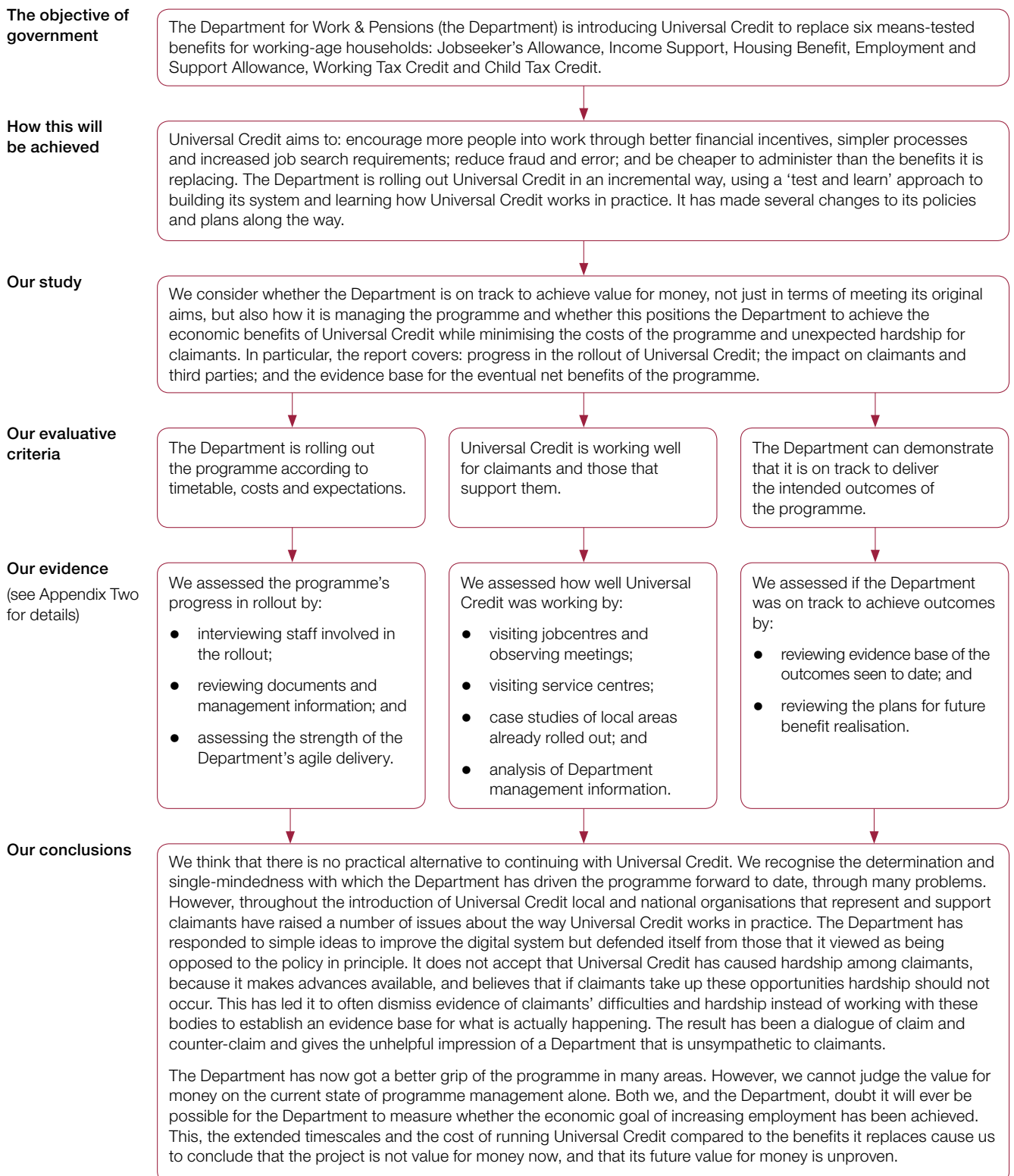
1 This report examines the Department for Work & Pensions' (the Department's) progress in implementing Universal Credit. We describe the evolution of the Universal Credit programme since the reset and evaluate the Department's future plans.

2 In order to assess the value for money of the Department's introduction of Universal Credit, we consider how the Department's plans have evolved, whether its adaptive and incremental approach is working for claimants and organisations supporting them, and ultimately how likely it is to achieve the aims of Universal Credit. In particular, the report covers:

- the evolution of Universal Credit;
- how well Universal Credit is working in practice; and
- the likelihood of achieving Universal Credit's long-term aims.

3 Our audit approach is summarised in **Figure 23**. Our evidence base is described in Appendix Two.

Figure 23
Our audit approach



Appendix Two

Our evidence base

1 We completed our independent review of the Universal Credit programme after analysing evidence that we collected between August 2017 and April 2018.

2 We used an evaluative framework to consider the implications for value for money by reviewing how the Department for Work & Pensions' (the Department's) plans have evolved and progress against plans. We also examined whether Universal Credit is working well for claimants and those organisations that support them, and assessed whether the Department can demonstrate that it is on course to deliver the expected benefits from the programme. Our audit approach is outlined in Appendix One.

3 To assess how the Department's plans have evolved and its progress in rollout:

- we reviewed the Department's documents to understand how its policy and plans for Universal Credit evolved, and how this impacted on implementing the programme;
- we interviewed Department officials to understand how the programme has developed and the progress of both live service and digital service;
- we reviewed the Department's use of agile methodology to deploy Universal Credit, including a deep dive into the development of two aspects of its system: the additional flexibilities requested by the Scottish Government and the development of the landlord portal;
- we reviewed programme board papers and minutes, to examine how well senior officials engage with the decision-making process, and if they have sufficient information to make informed decisions;
- we interviewed Department staff and reviewed documents to understand how much the Department has spent on implementing Universal Credit to date, and any areas which may require additional funding;
- we analysed Department data to assess how far the Department had progressed in moving claimants to Universal Credit from legacy benefits;

- we reviewed documents and interviewed staff to assess the Department's plans for the managed migration phase of the programme; and
- we interviewed staff within the Infrastructure and Projects Authority, the Cabinet Office Implementation Unit and HM Treasury to understand their views on the progress of implementing Universal Credit.

4 To assess whether Universal Credit is working in practice for claimants and those who support them, and how well the Department learns from experience:

- we reviewed and analysed Department data relating to payment accuracy, payment timeliness, advances, support for vulnerable claimants and alternative payment arrangements;
- we reviewed departmental management information to look at what and how information is shared on Universal Credit's progress. We also reviewed documentation relating to the programme's 'deep dives' into specific areas, for example support to claimants with complex needs;
- we undertook visits to five case study areas: Croydon; Hastings; Newcastle; Rugby; and Sedgemoor. We chose these areas on the basis that: they have been using full service for at least one year, and therefore were well-established in supporting claimants on Universal Credit; and there was a range of types of area: London borough; metropolitan city; rural area; coastal area; and a smaller urban area. This allowed us to examine whether differing areas face different challenges with Universal Credit's implementation;
- in each case study area, we spoke to a range of organisations involved in the delivery of Universal Credit, including: local authorities; Citizens Advice; foodbanks; advisory and advocacy services; Credit Unions; funding providers for advisory services; housing associations and landlords. In total we have spoken to 20 organisations across the case study areas;
- we collated information from our five case study areas on the impact that Universal Credit has had on the area, in terms of costs and demand for services;
- in each of the five areas we also visited the central Jobcentre Plus office. We observed claimant interviews and interviewed jobcentre staff, including: work coaches; work coach managers; self-employment leads; service innovation leads and partnership directors;

- we acknowledge the views we heard in the five case study areas may not be extrapolated to all areas;
- additionally we have interviewed more than 20 organisations about their interactions with Universal Credit. These include the London Boroughs of Hounslow and Southwark, Shelter, Crisis, the Trussell Trust and the National Landlords Association. We spoke to these organisations to develop a greater understanding of how Universal Credit affects the wider support systems for claimants;
- we visited a service centre where we listened to telephone calls from claimants and interviewed staff involved in case management, decision-making and operational control. Additionally, at the service centre we examined its use of management information to assess progress of case managers; and
- we reviewed programme board minutes and assurance reports to examine whether the Department was acting on recommendations regarding governance and programme management.

5 The Department has struggled to provide us with some of the information we requested in a timely manner. In August 2017 and October 2017 we requested provision of data or analysis relating to payment timeliness; payment accuracy; alternative payment arrangements; use of advances; and analysis of waiting days. Additionally, we requested access to its data systems to allow us to undertake our own analysis. In late November 2017 the Department informed us that it would not be able to provide the information we had requested until January 2018 because of challenges in extracting the information we required and due to other work commitments. The analysts provided analysis in January 2018 and updated this in May 2018. We also asked the Department to provide us with all available management information. We received limited access to information in December 2017 but did not receive much of the data requested until March and April 2018.

6 On 8 June 2018 the Department published a survey based on full service claimants.³⁰ The Department did not provide us with access to this analysis prior to its publication. We have therefore been unable to fully incorporate its findings into our report.

³⁰ Department for Work & Pensions, *Universal Credit Full Service Survey*, June 2018, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/714842/universal-credit-full-service-claimant-survey.pdf

7 To assess if the Department is on track to achieve its long-term aims:

- we reviewed departmental documents and modelling to understand how the business case for Universal Credit has been developed and changed over time;
- we interviewed key analytical staff within the Department to understand how the benefits in the business case have developed and have undertaken analysis to assess how and why these have changed over time;
- we analysed Department data to assess the strength of evidence to support Universal Credit's objectives;
- we have reviewed Department documents and modelling against its progress to date to assess the likelihood of achieving the intended outcomes of the programme; and
- we reviewed the Department's progress in developing some of the essential functions for the full service, such as automation, the use of Verify for identity verification and assessing fraud and error.

Appendix Three

Programme spend 2011-12 to 2017-18

Figure 24

Programme spend 2011-12 to 2017-18

The Department for Work & Pensions has spent £1.9 billion on Universal Credit up to March 2018

	Internal costs (£m)	External costs (£m)	Total costs (£m)
Live service, of which:	443.8	392.8	836.5
Investment	37.2		37.2
Operations	352.8		352.8
Digital expenditure	11.8	387.6	399.4
Central programme team	41.9		41.9
Local authorities		5.2	5.2
Full service, of which:	370.9	206.6	577.5
Investment	103.1	93.5	196.7
Operations	122.3		122.3
Digital expenditure	5.4	64.3	69.7
Security	5.4	10.4	15.8
Central programme team	62.2	0.0	62.2
Local authorities		31.8	31.8
Digital jobcentres	1.8		1.8
Pilots and trials	18.5	1.9	20.4
Project recharges	52.1	4.6	56.7

Figure 24 *continued*

Programme spend 2011-12 to 2017-18

	Internal costs (£m)	External costs (£m)	Total costs (£m)
Rest of programme, of which:	349.5	132.1	481.6
Investment	3.9		3.9
Digital expenditure	1.5		1.5
Claimant commitment	20.3		20.3
Security	22.6		22.6
Central programme team	248.1	3.5	251.7
HM Revenue & Customs		89.9	89.9
Local authorities		17.6	17.6
Digital jobcentres	14.5		14.5
Consultancy support		21.0	21.0
Project recharges	38.7		38.7
Programme total	1,164.2	731.4	1,895.6

Notes

- 1 Net running costs during implementation are the additional costs of running parallel Universal Credit and legacy systems.
- 2 Local authorities' payments under 'rest of programme' is net of savings (£11.3 million) and Universal Support payments (£28.9 million).
- 3 Columns may not sum exactly because of rounding.

Source: National Audit Office analysis of Universal Credit management accounts

Appendix Four

The impact of Universal Credit design

Figure 25
The Department for Work & Pensions’ (the Department’s) intended design of Universal Credit and the changes it has made to deal with claimants’ issues

Universal Credit design	Department’s aim/rationale	Evidence/reality
Initial 5-6 week wait	The 5-6 week wait for initial payment was made up of three parts: 1 Seven-day wait for some claimants – to discourage people from claiming Universal Credit for short gaps between jobs. Claimants should use earnings from their last pay packet to manage over this period. 2 Four-week assessment period – to mirror the world of work – the Department states that 75% of people are paid monthly. 3 One week to process payment.	The majority of claimants do not have the money to manage over this period. Take-up of new claim advances is now at 60%, an indication that claimants manage over this period by taking on additional debt.
Monthly payment to household	Universal Credit is paid monthly in arrears – to mirror the world of work by encouraging people to budget on a monthly basis. The Department states that 75% of people are paid monthly.	A smaller proportion of people on low incomes are paid monthly. The Department’s own briefing stated that 50% of all households earning below £10,000 are paid on a cycle other than monthly.

Support provided by the Department

Advances, which are an upfront loan available for those who need help, which the claimant starts to pay back immediately.

Until January 2018 this was up to 50% of the claim value and needed to be repaid over six months maximum.

Impact

The initial wait has led to rent arrears, debt and hardship for some claimants.

Mitigations

Changes to Universal Credit announced in the autumn 2017 Budget included:

- removal of the initial seven-day wait;
- a two-week Housing Benefit run-on for claimants with a housing element in their claim; and
- increase in the amount available as an advance and a longer repayment period (12 months).

For those that cannot manage the Department will provide Personal Budgeting Support through Universal Support delivered locally, and will allow more frequent and split payments in certain circumstances.

Claimants with fluctuating incomes or non-monthly payments do not always know how much Universal Credit they will get each month, making it difficult for them to budget.

Claimants who receive an extra payday within an assessment period can face their Universal Credit claim being stopped and risk losing some of the means-tested benefits associated with Universal Credit, for example free school meals and local council tax support.

Self-employed claimants can lose out due to monthly reporting.

The Department's statistics show very limited use of more frequent and split payments (1% of full-service claimants).

Figure 25 *continued*

The Department for Work & Pensions (the Department) intended design of Universal Credit and the changes it has made to deal with claimants' issues

Universal Credit design	Department's aim/rationale	Evidence/reality
Rent paid directly to claimant	Rent is paid directly to the claimant to encourage personal responsibility .	Some claimants do not prioritise rent payments, or do not realise that their Universal Credit payment includes their rent as they are used to Housing Benefit being paid directly to the landlord. Providers of Personal Budgeting Support have said that claimants often do not take up the support until they are in arrears/debt. Rent arrears increase at the start of a claim, because claimants must wait five weeks before their first payment.
Claimant responsibility	Universal Credit aims to encourage personal responsibility by making the claimant responsible for their claim. External bodies can no longer access information about a claimant without their explicit consent.	Local authorities and support agencies have reported an increase in claimants needing support, following the rollout of Universal Credit.
Online claim	Having one online claim aims to simplify the system and make it more efficient .	The Department's survey of full service claimants found that only 54% were able to make a claim online without help. Most claimants do not have the documents needed to verify their identity online. The one-off Assisted Digital Support sessions funded by the Department are not always sufficient. Many claimants need ongoing support.
Increased conditionality	Increasing the conditions placed on claimants aims to encourage more people into work .	Sanction rates are high, and the majority of sanctions are overturned on appeal. Currently 8% of Universal Credit claimants who are meant to be seeking work receive a sanction, as well as 3% of claimants who are in work. Overall 81% of sanctions that go to tribunal are overturned, suggesting decisions are not always correct.

Source: National Audit Office analysis of Department for Work & Pensions and stakeholder data

Support provided by the Department	Impact	Mitigations
Managed payments to landlords are available to tenants who get into rent arrears or who are vulnerable. Personal Budgeting Support is also available to help claimants manage their money. Social landlords with 'Trusted Partner' status can request a managed payment without consent from the claimant.	Some claimants get into rent arrears before managed payment is put in place. Increased rent arrears for local authorities and social housing sector where rent was previously paid directly to the landlord under the Housing Benefit system.	The Department has made it easier for landlords to request a managed payment for claimants they think are likely to get into arrears via the landlord portal available to some social landlords. Private landlords can now request an alternative payment arrangement without consent from the claimant.
External bodies can apply for information using an explicit consent form, but this is applied on a short-term basis.	The support process for organisations which support claimants is time-consuming and frustrating due to the limited access to claimants' information. It takes longer to resolve issues for claimants who struggle and can delay payment.	The Department has reinstated implicit consent for Members of Parliament but has stated it has no plans to do the same for external bodies. Appointees can now apply for the right to deal with a claim on a claimant's behalf.
Assisted Digital Support will be available for those who struggle to make a claim online. Claimants who cannot manage a claim online can do so over the phone.	Claimants can struggle to get online. This can delay their claim and make their wait for payment longer. More claimants have to go into the jobcentre to verify their identity, which reduces efficiency.	

Appendix Five

The impact on third parties

Figure 26

The impact of Universal Credit on third parties

Type of organisation	Issues we have identified	Impact on organisation
Local authorities	Housing Benefit Central government funding has been reducing, but local authority staff numbers have not reduced at the same pace. Caseload is not declining as expected, and levels of customer contact remain high. Extra work has been generated by stop notices, with only limited scope to automate this process in the longer term.	Local authorities are having to fund continued work on Housing Benefit administration from other sources. For example in Croydon, the Department for Work & Pensions (the Department) Housing Benefit administration funding has reduced by £1,666,594 (52%) since 2013-14, but caseload has fallen by 11,614 (33%) since Universal Credit full service began there.
	Local council tax reduction schemes Increased number of change-in-circumstances notices. Limited scope for automation. For example, increased need to contact claimants to clarify information.	Local authorities are having to fund work on local council tax reduction scheme administration from other sources. For example, Croydon Council estimates that this will cost around £279,000 in 2017-18, while Hastings Council reports that the number of notices has increased from 2,500 in 2016 to 12,600 in 2017. Some local authorities are redesigning their schemes to reduce the impact of Universal Credit, for example, Hastings Council is consulting on adopting a banded scheme.
	Discretionary Housing Payments Increased pressure on funds, but claims from Universal Credit claimants take longer to process. Difficulty adapting a system designed to work with Housing Benefit to fit with Universal Credit.	Additional money added to Discretionary Housing Payment fund, for example, Croydon Council has paid an extra £0.5 million from its Housing Revenue account.
	Communications with the Department Communication with local jobcentres are generally good – and getting better. Interviewees stressed the role of the partnership manager, but have more issues with service centres. Interviewees feel they have not been consulted or listened to by the central Universal Credit programme.	Lack of data-sharing has increased burden on local authorities and reduced their effectiveness in dealing with complex cases. Universal Credit staff's knowledge of latest guidance has sometimes been variable and different staff have provided different advice for the same problem.

Figure 26 *continued*

The impact of Universal Credit on third parties

Type of organisation	Issues we have identified	Impact on organisation
Universal Support delivered locally	Providers are taking on risks of providing support without guaranteed income. Funding is insufficient for the time required to provide support to claimants. Support provided through Universal Support does not meet claimants' needs.	Croydon Council estimates that the cost of budgeting and digital support in 2017-18 is £286,000 more than the funding provided by the Department. Hastings Citizens Advice pays staff to deliver Universal Support delivered locally. It therefore needs to pay providers regardless of the number of people that are referred for support. But its income from the Department is not guaranteed.
Landlords	Arrears on average equate to 2-3 months' rent, and are reduced only slowly. Rent arrears for those already in debt worsen once they start claiming Universal Credit. Misalignment of alternative payment arrangements payment schedules means landlords cannot establish the precise rent situation. Landlords using the landlord portal report it has halved the time required to verify rents and apply for alternative payment arrangements.	Landlords are carrying extra debt – Croydon's rent collection rate has fallen from 92% to 58%, and its bad debt provision has doubled to £8 million. More resources are needed to help and support tenants – both workload and the complexity of cases has increased. For example, Homes in Sedgemoor has recruited more staff and created an income team to pursue arrears. Sedgemoor Council reported an increasing unwillingness, even with social landlords, to take on low-income tenants or those claiming Universal Credit.
Foodbanks	Significant increase in use, for example, an 80% increase at Hastings foodbank. Organisers have reported that the pastoral side of how foodbanks operate is being lost, while users are becoming more demanding and less patient.	More demand on resources – for example, Hastings foodbank has increased its opening hours, needs around two tonnes of stock each week to meet demand, and is considering building more storage space, costing £200,000.
Advisory bodies	Increased demand for advice, which is not offset by decline in help provided for legacy claimants. Funding for advisory services is uncertain and short term.	Need to secure funding from new sources. For example, NHS Hastings and Rother Clinical Commissioning Group funds its local advisory services. But this takes time to identify and secure. This hampers the ability of organisations to employ high-quality advocates because of the uncertainty of future funding. Hastings Citizens Advice is considering scaling back on what it does in order to cope with increased demand.
Credit Unions	Increased demand for service, and more time dealing with Universal Credit claimants – both assuring identity, and managing their account. Increased frustration by Universal Credit claimants directed towards Credit Union staff, such as when money is delayed.	Some are considering scaling back their operations. For example, Hastings and Rother Credit Union no longer accepts Universal Credit claimants.

Source: National Audit Office analysis of interviews with and data provided by organisations in our case study areas

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