



REPORT

Progress in implementing Universal Credit

Department for Work & Pensions



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National Audit Office

Progress in implementing Universal Credit

Department for Work & Pensions

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

21 February 2024

Key facts

£2.9bn

the Department for Work & Pensions' (DWP's) estimate of the total cost of implementing Universal Credit (UC)

346,550

number of migration notices DWP had sent to legacy benefit claimants by the end of December 2023

21%

proportion of households claiming legacy benefits sent migration notices by DWP who did not apply for UC and had their legacy benefit stopped, at December 2023

6.3 million people claiming UC across Great Britain at December 2023

£10.4 billion DWP's 2022 estimate of the annual net benefits that UC will generate once fully implemented, including economic benefits and efficiency savings

£349 million DWP's estimate of operational efficiency savings in 2022-23 as a result of the introduction of UC

Two percentage points the increased likelihood of single new UC claimants getting a job at any point in the six months after starting their claim, compared with new Jobseeker's Allowance claimants

Around 900,000 number of households claiming legacy benefits that DWP plans to move to UC by December 2024

80% estimated proportion of Tax Credit claimants moving to UC with outstanding debt from previously overpaid Tax Credits, an average of £1,222 per claimant since 2019-20

51% estimated proportion of income-related Employment and Support Allowance claimants, not now due to move to UC until 2028, who would be better off on UC

Summary

1 In 2010, the Department for Work & Pensions (DWP) announced its plans to reform the welfare system by introducing Universal Credit (UC), an integrated benefit to support people in and out of work. UC is replacing six means-tested benefits for working-age people: Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance, and income-related Employment and Support Allowance (ESA). Together, these are known as legacy benefits.

2 UC is a benefit to help with living costs, paid to people who have a low income or are out of work. A key purpose of UC is to make clear to people that they will be better off in work – they will not experience a 'cliff edge' of entitlement that would mean they may be worse off should they take a job. Through UC, DWP aims to encourage more people into work through better financial incentives, simpler processes and increasing requirements on claimants to search for jobs. It also expects UC to reduce fraud and error as well as the costs of administering benefits.

3 In 2010, DWP set out to transfer eight million households to UC by 2017. DWP struggled with the early development of the system, which led to it resetting the programme in 2013. DWP rolled out UC for new claims nationwide in 2018 and, in its 2018 full business case which detailed its delivery plans at the time, set out its intention to complete the transition to UC by March 2022. In November 2022, DWP updated elements of the 2018 business case.

4 At March 2023, some 2.2 million households were still receiving legacy benefits. DWP intends to move a large proportion of these to UC through a process it calls 'managed migration'. It started to roll out the migration exercise nationally, following testing, in April 2023 starting with Tax Credit claimants.

5 At December 2023, there were 6.3 million people claiming UC across Great Britain. Most of these were claimants who had made new applications for financial support or who had moved from legacy benefits through 'voluntary migration' (most likely because they would be better off) or 'natural migration' (as a result of a change in circumstances). In 2022-23, DWP paid £41.2 billion in UC benefit payments.

Focus of our report

6 UC is a fundamental change to the welfare system and is one of DWP's major change programmes, part of the Government Major Projects Portfolio. We have been scrutinising UC for over a decade, publishing a series of reports on overall progress and particular aspects of the programme. In our 2018 report *Rolling out Universal Credit*, we concluded that DWP had got a better grip of the programme in many areas but the extended timescale, cost and not being able to measure the economic impact meant that its future value for money was unproven.¹

7 This report examines whether DWP is making good progress in replacing legacy benefits with UC in Great Britain. The Department for Communities is undertaking parallel work to move claimants to UC in Northern Ireland, which is outside the scope of this report. The evaluative criteria we used to assess value for money included whether DWP: is making the progress expected in its 2018 business case in implementing UC; is well-placed to undertake the managed migration of claimants from legacy benefits to UC effectively; and has a plan to complete the move of all claimants from legacy benefits to UC.

8 The report covers: overall progress in implementing UC (Part One); progress in moving claimants from legacy benefits to UC under the managed migration process (Part Two); and the position on completing the move of all claimants from legacy benefits to UC (Part Three). Details of our evidence base are set out in Appendix One.

Key findings

Overall progress

9 **Since DWP's business case in 2018, the expected cost of implementing UC has increased by £912 million and the date of completion delayed by at least six years to 2028.** The estimated cost of implementing UC has continued to rise but the increase has been smaller in recent years. In 2020, we reported that DWP had forecast it would cost £2,850 million to implement UC, an increase of £834 million (41%) in cash terms compared with the 2018 full business case. DWP's latest estimate, made in December 2023, is that implementation will cost £2,928 million, a further increase of £78 million (an additional 4% compared with the business case estimate). The cost rises are mainly due to inflation, new measures to address fraud and error, and extensions to the programme's timetable. In 2018, DWP planned to complete the implementation of UC by March 2022. It extended the completion date to September 2024 before the COVID-19 pandemic, and set a new date of March 2025 after the pandemic. The most significant delay to full implementation has resulted from the government's subsequent decision to delay the move of ESA claimants to UC until 2028 in order to make savings. This means that completion will be at least six years later than DWP planned in 2018 (paragraphs 1.3, 1.4, 1.6 and 1.10 and Figures 1 and 2).

¹ Comptroller and Auditor General, *Rolling out Universal Credit*, Session 2017–2019, HC 1123, National Audit Office, June 2018.

10 The number of people claiming UC grew rapidly during the COVID-19 pandemic, reaching six million in 2020-21. In February 2020, 2.9 million people were receiving UC. From 1 March to 26 May 2020, DWP received 2.4 million new claims for UC. As a result of the increase in claims, in 2020-21, 6.0 million people received UC. To cope with the volume, DWP suspended some controls so it was able to process cases quickly, online, and without face-to-face contact or with social distancing. Its response to the pandemic meant those in need received prompt support, which DWP concluded it would not have been able to provide under the legacy benefit system, although there was an increase in fraud and error. The number of UC claimants fell to 5.5 million by March 2022, following the COVID-19 pandemic, but is now rising again with 6.3 million people claiming UC at December 2023. The number of households claiming legacy benefits has continued to decline steadily (paragraphs 1.11 and 1.12 and Figures 4 and 5).

11 DWP has some evidence to indicate that UC is having a sustained positive impact on the labour market based on its evaluations of the short-term impact. In updating its business case in 2022, DWP concluded that the value for money case for UC remained strong. It estimated that UC would generate £10.4 billion of net benefits a year once fully implemented, with the largest contribution (£6.1 billion) coming from increased employment and the related impact on economic output. In 2018, we reported that DWP would never be able to measure whether UC has achieved its objective for increased employment because it could not isolate the effect of UC from other factors. Instead DWP is evaluating whether UC is more likely to get people into work than legacy benefits. Its five evaluations to date suggest that UC has a positive effect. Its first four evaluations covered single claimants without children – the most recent of these, based on data from the early months of 2018, found new UC claimants were two percentage points more likely to have been in employment at any point in the six months after starting their claim than new Jobseeker's Allowance claimants. In February 2024, DWP completed a fifth evaluation, also based on data from early 2018, which found single parents were five percentage points more likely to have been in work within six months of making a new UC claim compared with being on legacy benefits. DWP's evaluations have considered only the short-term impact of UC on the labour market. It cannot compare outcomes for people who claimed UC after 2018 since the comparison group of legacy benefit claimants would be too small. Based on the positive, but limited, evidence from its evaluations, DWP takes assurance that UC is having a sustained positive impact on the labour market (paragraphs 1.14 and 1.17 to 1.20 and Figure 6).

Moving claimants from legacy benefits to UC

12 DWP has a clear plan to move around 900,000 households claiming legacy benefits to UC by December 2024, starting with Tax Credit claimants. DWP is moving claimants from legacy benefits to UC through a process it calls 'managed migration'. In 2022, DWP tested the design of the process and the communications with 1,848 claimants and adapted its approach to take account of the lessons arising. Before starting to roll out the process to Tax Credit claimants in April 2023, DWP assessed its readiness to migrate claimants to UC in large numbers. In the nine months to December 2023, DWP sent 342,580 migration notices – 99.9% of the number it planned to have sent by that point. In total, including its earlier testing, DWP had sent 346,550 notices by December 2023. It intended to increase gradually the volume of notices sent, building to a peak of 91,000 per month by January 2024. After Tax Credit only cases, DWP plans to extend the migration process to cover other legacy benefits. It plans to finish sending migration notices in September 2024, so that it can provide people with three months' notice to apply for UC and complete the process by the end of December 2024 (paragraphs 2.2 to 2.7, 2.9 and 2.10 and Figure 11).

13 So far, around one in five households on Tax Credits who received a migration notice did not claim UC and had their benefit stopped. Initially, DWP assumed in its migration plans that, overall, 3% of households claiming legacy benefits would not move to UC after receiving a migration notice. At December 2023, 31,500 (21%) of the 148,700 cases closed resulted in the household not claiming UC and having their legacy benefit stopped. Nearly all (99.5%) of these cases involved single Tax Credits only and the cases closed represent 14% of all households due to move. DWP expects the proportion of people not claiming UC to fall, as it found during its testing that take-up for Tax Credit claimants was lower than for claimants of other legacy benefits. DWP revised its migration plans in November 2023 and now assumes that 26% of households claiming only Tax Credits will not move to UC and 4% of households claiming other legacy benefits, or combinations of benefits, will not move to UC (paragraphs 2.11 and 2.12 and Figure 12).

14 DWP does not fully understand why some people on legacy benefits do not claim UC. In 2022, DWP commissioned Ipsos to conduct qualitative research with 30 claimants to understand their experiences and why some had not claimed UC. It identified real and perceived barriers to claiming UC, including where people believed that the migration notice did not apply to them, that they would not be eligible for UC due to a recent change in circumstances, or that they would be moved automatically. DWP made changes to the migration notice and process following this research, including sending a second reminder to claimants through one of a variety of communication channels. It is monitoring the proportion of people who do not claim UC after receiving a migration notice and, at the time of our work, had further research underway or planned to examine claimants' experiences including why they do not claim or claim late. DWP is reassured that the non-claim rate is not a cause for concern as it has received few complaints. However, it has limited positive assurance that people are claiming the benefits they are entitled to. The stakeholders who responded to our consultation raised concerns about claimants not applying for UC when invited who may risk suffering financial hardship as a result (paragraphs 2.13 to 2.15).

15 DWP provides support on request for claimants who are moving to UC and gives financial protection to claimants moving under managed migration to make sure they are not worse off at the point of moving. DWP offers practical support to claimants moving to UC under managed migration, including through a telephone helpline which received more than 30,000 calls between May 2022 and September 2023. However, the stakeholders responding to our consultation raised concerns about the availability and effectiveness of support. DWP also funds Citizens Advice to support people to claim UC, either as a new claimant or someone moving from a legacy benefit. It is providing total funding of £41.0 million across 2022-23 and 2023-24 for this 'Help to Claim' service. Of the 136,000 claimants it estimates will use the service in 2023-24, DWP expects 12,000 will be people moving from legacy benefits. Where a claimant is moving to UC under managed migration, DWP provides 'transitional protection' to top up a claimant's UC entitlement where it is lower than the legacy benefit being replaced so people are not worse off at the point of moving. Transitional protection is not time-limited and reduces over time as the government increases benefit levels and a claimant's UC entitlement rises. Transitional protection may end if a claimant's circumstances change (paragraphs 2.17 to 2.24 and Figure 13).

16 An estimated 80% of Tax Credit claimants migrating to UC have outstanding debt owed to government, which DWP aims to recover without causing undue financial hardship. HM Revenue & Customs (HMRC) typically pays Tax Credits based on a person's income for the previous tax year and adjusts payments once a year to take account of changes in circumstances. This means that Tax Credit claimants often accumulate debt through overpayments during the period between a change in circumstances and HMRC's annual review of their entitlement. HMRC transfers this debt, after informing the claimant and if it is not under dispute, to DWP when a claimant moves to UC. DWP recovers debt by reducing the amount of benefit paid by up to 25%. Claimants can ask DWP for a repayment plan if they are facing hardship, for example, reduced repayment rates or a temporary suspension of deductions. HMRC transferred £3.6 billion of Tax Credit debt to DWP from April 2016 to March 2023, and expects to transfer a further £1 billion by the end of 2024-25. Since 2019-20, the average debt held by Tax Credit claimants at the point when they moved to UC has been £1,222 (paragraphs 2.26 to 2.31).

Completing the move of all claimants from legacy benefits to UC

17 The government decided to delay the move of income-related ESA claimants to UC until 2028 to save £1 billion. The decision to delay was announced in the 2022 Autumn Statement and was part of the government's response to the significant economic challenges the country faced at the time. DWP estimated that the delay would achieve net savings of nearly £1 billion in benefit payments over the period 2024-25 to 2027-28. DWP told us that 600,000 ESA claimants will need to migrate to UC in 2028-29. At the time of our work, DWP had not yet developed a plan for moving these claimants to UC (paragraphs 3.3 to 3.6).

18 The delay in moving ESA claimants is expected to generate savings in benefit payments because, taken as a whole, the people involved would have received more under UC than under ESA. DWP made the savings estimate quickly to be ready for the 2022 Autumn Statement, used a simplified model to estimate a range of complex variables, and was not able to update some of its assumptions. The estimate is therefore subject to uncertainty, for example DWP assumed no change in the rate at which ESA claimants choose to move to UC voluntarily before 2028. The Office for Budget Responsibility reviewed and certified the savings estimate ahead of the 2022 Autumn Statement. The estimated saving excludes any impact on the costs of implementing the programme, including the costs of restarting activity in 2028 (paragraphs 3.6 to 3.9 and Figure 14).

19 DWP estimates that 51% of ESA claimants, who are likely to include some of the more vulnerable claimants due to migrate, would have been better off on UC by around £130 a month on average. Claimants of ESA have a disability or health condition that affects how much they can work. These claimants could move to UC voluntarily but would not qualify for transitional protection should their UC entitlement be lower than their legacy benefit income. Some advice organisations provide benefit calculators and will help a claimant calculate their entitlement so they can make an informed choice. Claimants may also have to switch to UC should their circumstances change. DWP estimated that some 41% of ESA claimants would be worse off on UC, by around £217 a month on average. In practice, DWP would have topped up the income of these claimants under the transitional protection arrangements (paragraphs 3.2, 3.7 and 3.10 to 3.12).

Conclusion on value for money

20 DWP has a clear plan and is on track in moving most legacy benefit claimants to UC, which it aims to do by the end of 2024. It has started with Tax Credit claimants whose cases are expected to be relatively straightforward, and is likely to face greater challenges as it moves on to claimants of other legacy benefits who are potentially more vulnerable and in need of more support. The main issue arising to date relates to the proportion of Tax Credit claimants not applying for UC. DWP needs more positive assurance that those claimants who do not transfer to UC, who may be at risk of financial hardship, are receiving the benefits they are entitled to.

21 The early months of the COVID-19 pandemic in 2020 tested UC in a way that DWP could not have foreseen. UC proved capable of meeting a sudden, large increase in demand for support, albeit with increased fraud and error as DWP relaxed some controls to cope with the volume of claims. In terms of overall progress, since the 2018 business case, DWP has extended the completion date for implementing UC by at least six years in total and increased its estimate of implementation costs by over £900 million (45%). Despite the cost increases, DWP's latest assessment in 2022 concluded that the value for money case for UC remained strong. DWP's evaluations indicate that UC is having positive impact on the labour market for some claimants at least in the short term. It is confident that in practice the overall benefits of UC are exceeding the costs. It does not, however, have evidence to demonstrate that UC is achieving the scale of benefits projected in the business case. In taking UC forward, DWP should continue to develop its assessment of the impact, both to provide assurance on value for money and to learn lessons so it can secure maximum value when UC is fully implemented.

Recommendations

22 DWP should:

- a** continue to build its evidence base on how effectively UC is working, through monitoring, research and evaluation, as part of its ongoing work on benefits realisation generally and on assessing labour market impact specifically;
- b** update its cost and benefit estimates to reflect the impact of the delay to the move of ESA claimants to UC;
- c** continue the research and testing needed to develop a better understanding of why some legacy benefit claimants do not claim UC and take prompt action, where the evidence indicates it is needed, to adapt its approach and address barriers to claiming; and
- d** put in place appropriate arrangements, informed by its research and testing, to provide effective support for DWP legacy benefit claimants as potentially more vulnerable claimants move to UC.