National Audit Office

Report
by the Comptroller
and Auditor General

Department for Work & Pensions

Universal Credit: early progress

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Key facts

£2.4bn	£425m	5
expected cost of implementing Universal Credit, to 2023	spending, to April 2013	senior responsible owners since mid-2012

£38 billion	Department's estimate of the net benefit of Universal Credit between 2010-11 to 2022-23; from its December 2012 business case
£7 billion	Department's estimate of the annual net benefit of Universal Credit from 2022-23 onwards; from its December 2012 business case
184,000	projected number of Universal Credit claimants by April 2014, from the 2012 business case
£396 million	planned IT investment in the current spending review period, from the May 2011 business case
£637 million	planned IT investment in the current spending review period, from the December 2012 business case
£303 million	IT investment, to April 2013

Summary

1 Universal Credit is a significant reform to welfare in the UK. The Department for Work & Pensions (the Department) will use Universal Credit to replace six means-tested benefits for working-age households. The Department and HM Revenue & Customs spent £67 billion on these benefits in 2012-13 – one-third of their combined spending on benefits, state pensions and tax credits.

2 The government is using Universal Credit to try to encourage claimants to start work or to earn more, and to simplify the benefit system. In December 2012, the Department estimated that 300,000 workless households will move into work because of better work incentives, simpler processes for making a single claim and tougher job-search requirements managed through a 'claimant commitment'.

3 The Department also expects Universal Credit to reduce administration costs, fraud, error and overpayments, and increase take-up of benefits. In its most recent business case the Department estimated a net benefit from Universal Credit of £38 billion over 12 years to 2022-23, and then an annual net benefit of £7 billion.

4 The Department plans to spend £2.4 billion to implement Universal Credit up to April 2023. The programme spent £425 million up to April 2013 against the planned £431 million. Most spending so far (£303 million) has been on contracts for designing and developing IT systems.

5 The Department will run the Universal Credit service and has a programme to build and roll-out the service. HM Revenue & Customs provides the real time information system, which gives the Department information about claimant earnings. Local authorities currently administer housing benefit, which will become part of Universal Credit, and are trialling different future roles for supporting claimants.

6 While implementing Universal Credit, the Department has also been introducing, or making, other major reforms including Personal Independence Payments, the benefit cap, a new child maintenance scheme, and changes to state pensions. Universal Credit was one of the Department's 12 programmes in the Cabinet Office major projects portfolio in Q2 2012-13.

7 The Department is reducing running costs by £2.7 billion between 2009-10 and 2014-15. It plans to reduce costs by a further £565 million in 2015-16, to meet the recent spending review commitments.

Scope of our report

8 In this report we assess the implications for value for money of the Department's progress against its plans, and review the Department's management of the programme. This report considers the Department's:

- aims for Universal Credit (Part One);
- progress against plans (Part Two); and
- programme management (Part Three).

9 Universal Credit is a major long-running programme, which depends on, and has wider implications for, other reforms. Spending so far is a small proportion of the total budget.

10 We expect the programme to evolve in light of progress to date. We will report on it several times over the coming years. We do not evaluate the new plans that the current senior responsible owner has been working on since May 2013. This report provides a baseline against which to measure future progress.

Key findings

Progress against plans

11 The government 'reset' Universal Credit in early 2013, because of the Major Projects Authority's serious concerns about programme implementation. In February 2013, the Major Projects Authority's project assessment review expressed serious concerns about the Department having no detailed 'blueprint' and transition plan for Universal Credit. In response to these concerns, the head of the Major Projects Authority was asked to conduct a 13-week 'reset' between February and May 2013 (paragraphs 2.2 to 2.5).

12 The Department started a limited pilot scheme (a 'pathfinder') in April 2013. By the end of July, the Department had expanded the pathfinder to four sites and had taken around 1,000 new claims. The scope of the pathfinder is narrower than originally planned, covers only the simplest new claims and includes limited IT functionality. Some processes require intervention by staff, limiting the scalability of the pathfinder model without further IT investment. The Department believes that the pathfinder is testing claimant behaviour. Early indications suggest that over 90 per cent of new claims are started online (paragraphs 2.7 to 2.9 and 2.16).

13 The Department has delayed rolling out Universal Credit nationally. The Department will not introduce Universal Credit for all new out-of-work claims nationally from October 2013 as planned. Instead it will add a further six pathfinder sites from October 2013. It will also apply the claimant commitment to all Jobseeker's Allowance claimants by April 2014 but this will not depend on introducing Universal Credit payments. The Department is now reconsidering the timing of full roll-out. To keep to the 2017 completion date, the Department would have to migrate a large volume of claimants within a short time frame (paragraphs 2.11 to 2.14).

14 The Department does not yet know to what extent its new IT systems will support national roll-out. Universal Credit pathfinder systems have limited function and do not allow claimants to change details of their circumstances online as originally intended. The Department does not yet have an agreed plan for national roll-out and has been unclear about how far it will build on pathfinder systems or replace them. In May 2013, the Department identified the need to write off £34 million (17 per cent) of its new IT assets. The Department will undertake a further impairment review when it has confirmed its plans for the future of the programme. The current senior responsible owner took over in May 2013 and is revising plans (paragraphs 2.16 to 2.20).

15 The Department will have to scale back its original delivery ambition and is reassessing what it must do to roll-out Universal Credit to claimants. The current programme team is developing new plans for Universal Credit. Our experience of major programmes supported by IT suggests that the Department will need to revise the programme's timing and scope, particularly around online transactions and automation. It is unlikely that Universal Credit will be as simple or cheap to administer as originally intended. Delays to roll-out will reduce the expected benefits of reform (paragraphs 2.16, 2.17 and 2.22 to 2.24).

Programme management

16 When setting up the programme the Department adopted an ambitious timetable for national roll-out from October 2013. The Department recognised that the detailed policy for Universal Credit would not be approved by Parliament until 2012. It estimated that its traditional 'waterfall' approach to programme management, whereby systems are developed after policy is set, would lead to roll-out in April 2015. The Department was not able to explain to us how it originally decided on October 2013 or evaluated the feasibility of roll-out by this date. The ambitious timetable created pressure on the Department to act quickly and meant that it needed to manage progress tightly (paragraphs 3.4 to 3.7).

17 The Department tried to use an 'agile' approach to develop processes and systems at the same time as defining policy requirements. The agile approach uses iterative and collaborative project management to develop its IT and policy. This was the first time the Department had tried to use this approach on a major programme of this scale. The Department experienced problems incorporating the agile approach into existing contracts, governance and assurance structures. In January 2012, the Department introduced Agile 2.0, a hybrid approach which tried to combine elements of agile and traditional approaches to IT programme management (paragraphs 3.6 to 3.9).

18 Throughout the programme the Department has lacked a detailed view of how Universal Credit is meant to work. The Department was warned repeatedly about the lack of a detailed 'blueprint', 'architecture' or 'target operating model' for Universal Credit. Over the course of 2011 and the first half of 2012, the Department made some progress but did not address these concerns as expected. By mid-2012, this meant that the Department could not agree what security it needed to protect claimant transactions and was unclear about how Universal Credit would integrate with other programmes. These concerns culminated, in October 2012, in the Cabinet Office rejecting the Department's proposed IT hardware and networks (paragraphs 3.11 to 3.20 and Figures 7 and 18).

19 Given the tight timetable, unfamiliar programme management approach and lack of a detailed operating model, it was critical that the Department should have good progress information and effective controls. In practice the Department did not have any adequate measures of progress. Weaknesses in the management of Universal Credit included:

- **Lack of transparency and challenge.** The Department ring-fenced the Universal Credit team and allowed it to work with a large degree of independence. Major Projects Authority and supplier-led reviews in mid-2012 identified a 'fortress' mentality within the programme team and a 'good news' reporting culture (paragraph 3.23).

- **Inadequate financial control over supplier spending.** This includes limited understanding of how spending related to progress, poorly managed and documented financial governance and insufficient review of contractor performance before making payment (paragraphs 3.24 to 3.26).

- **Ineffective departmental oversight.** The lack of a detailed plan or management information meant that the Department has never been able to measure its progress effectively against what it is trying to achieve. The programme board has also been too large and inconsistent to act as an effective, accountable group. The Department has recognised problems with governance, repeatedly changed the programme's governance structures and, during the reset, suspended the programme board entirely (paragraphs 3.11, 3.27 and 3.38).

20 **From mid-2012, it became increasingly clear that the Department was failing to address recommendations from assurance reviews.** Although the nature and emphasis of its recommendations changed over time, the key areas of concern raised by the Major Projects Authority in February 2013 had appeared in previous reports. From mid-2012, the underlying concerns about how Universal Credit would work meant that the Department could not address recommendations from assurance reviews; it failed to fully implement two-thirds of the recommendations made by internal audit and the Major Projects Authority in 2012. Without adequate, timely management information, the Department relied on periodic external assurance reports to assess progress (paragraphs 3.33 to 3.35).

21 **By autumn 2012, the Department substantially restructured the programme in an attempt to address concerns, but by then had to focus on the short-term delivery of pathfinders.** The new senior responsible owner replaced the programme director and director of IT for Universal Credit, and adopted a 'phased approach' which gave individual directors responsibility for the pathfinder, October roll-out, and claimant migration on to Universal Credit. By late 2012, the Department had largely stopped developing systems for national roll-out and concentrated its efforts on preparing short-term solutions for the pathfinder. The senior responsible owner also took some action to try to improve supplier and programme management (paragraphs 3.9 and 3.36 to 3.38).

22 **Since mid-2012, the Department has experienced high turnover in the senior leadership of Universal Credit.** In December 2012, the senior responsible owner for Universal Credit died unexpectedly after only three months at the Department. Including the reset and the current director general for Universal Credit, the programme has had five different senior responsible owners since mid-2012 (paragraphs 3.22 and 3.29 to 3.32).

Conclusion on value for money

23 At this early stage of the Universal Credit programme the Department has not achieved value for money. The Department has delayed rolling out Universal Credit to claimants, has had weak control of the programme, and has been unable to assess the value of the systems it spent over £300 million to develop. These problems represent a significant setback to Universal Credit and raise wider concerns about the Department's ability to deal with weak programme management, over-optimistic timescales, and a lack of openness about progress.

24 Universal Credit is a key programme for the Department, and it is still entirely feasible that it goes on to achieve considerable benefits for society. But to do so the Department will need to learn from its early mistakes. As it revises its plans the Department must show it can: exercise effective control of the programme; develop sufficient in-house capability to commission and manage IT development; set clear and realistic expectations about the timescale and scope of Universal Credit; and, address wider issues about how it manages risks in major programmes.

Recommendations

25 During the remainder of 2013, the Department will finalise its response to the challenges raised in the reset, confirm supporting systems' design, revise the business case, and seek HM Treasury budget approval and Cabinet Office IT spending approval for the next stage. The Department will need to show that it has done the following:

a **Produced a realistic plan with clear programme objectives, linked to policy design and service requirements:**

- The Department's business case should review options for proceeding and distinguish between the impact of changes to administrative systems and wider efforts to encourage work.
- The Department should set out what minimum functionality it needs to operate an acceptable service for Universal Credit and establish where systems need to be robust to changes in welfare policy.
- The Department must identify and tackle conflicting requirements about security, level of automation and ease of access by claimants early in development.

b **Used a management approach that allows policy experts, operational teams and systems developers to work together:**

- The Department should set out when and how it will manage handovers between design and operational teams; particularly if it continues to use agile approaches in development.
- The Department should not allow arbitrary time pressures to drive decisions or justify lack of information.

c **Established effective governance processes and structures:**

- Programme team members and other stakeholders must be able to challenge the Department openly and escalate concerns.
- The Department must demonstrate that it is able to follow-up and implement assurance recommendations.

d **Tightened its financial management and control over spending:**

- The Department should improve management information that links spending to progress or value produced.
- The Department should improve checks and spending approvals.
- The Department should improve its ability to challenge suppliers and reduce its reliance on suppliers for important decisions.

e **Reassessed its existing programmes and capabilities in light of the experience on Universal Credit:**

- The Department should set clear expectations about how interdependent programmes should work together both within the Department and across government.
- The Department should review its other programmes to assess where dependencies are not fully understood.
- The Department should review its capacity and capability to deliver major IT projects which may suffer from similar risks to Universal Credit.