National Audit Office

Report
by the Comptroller
and Auditor General

Department for Work & Pensions

Universal Credit: progress update

HC 786 SESSION 2014-15 26 NOVEMBER 2014

Key facts

17,850	500,000	7m
claimants on Universal Credit in October 2014	claimants planned to be on Universal Credit by April 2016	claimants planned to be on Universal Credit by December 2019

Operational roll-out of live service

April 2013	the Department starts taking new claims for single jobseekers
June 2014	the Department starts taking some new claims for job-seeking couples, and singles who are also claiming housing benefits; expanding to around 100 jobcentres by the end of 2014
November 2014	the Department starts taking some new claims for families with children
February 2015	the Department starts to expand nationwide new claims for single jobseekers, reaching all 700 jobcentre areas by March 2016
£267 million	net present value of the expanded national roll-out of simple cases in 2015 and 2016 as estimated by the Department
£149 million	additional administrative cost to government of the expanded national roll-out of simple cases in 2015 and 2016 as estimated by the Department

Delivery of digital service

November 2015	the Department's planned date for testing its digital service at scale before nationwide adoption
May 2016	the Department's planned start for rolling out its new digital service to claimants nationwide; it expects no new claims to legacy benefits by December 2017
December 2019	the Department's planned date for completing the transfer of 93% of claimants on to Universal Credit
£20.7 billion	net present value of introducing Universal Credit in the Department's Autumn 2014 business case

Summary

1 The Department for Work & Pensions (the Department) is introducing Universal Credit which will replace 6 means-tested benefits for working-age households. It expects Universal Credit to encourage people to work through: better financial incentives; simpler processes; and clearer job search requirements. Universal Credit is a highly ambitious and challenging transformation programme.

2 The Department struggled with the early development of Universal Credit. In February 2013, the Major Projects Authority expressed serious concerns in its project assessment review, leading to a reset of the programme between February 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.[1]

3 Following the reset, the Department proposed a twin-track approach to delivering Universal Credit by developing a strategic digital service while learning from further roll-out of live service. A ministerial oversight group reviewed this in November 2013. This approach aims to bring together the Department's short-term operations and planned new systems:

- **Live service.** In April 2013, the Department started rolling out the Universal Credit service to limited claimant types. This 'live service' uses IT assets developed by suppliers largely before the reset in early 2013. The Department aims to use live service to roll out Universal Credit and 'test and learn' about processes and policy.
- **Digital service.** In parallel the Department is developing and testing a new 'digital service' which it intends will eventually enhance the features and functionality of the current live service operation. It is developing this service in-house using an agile approach. It plans to start early tests of this service in November 2014.

1 Comptroller and Auditor General, *Universal Credit: early progress*, Session 2013-14, HC 621, National Audit Office, September 2013.

Scope of our report

4 Reports in 2013 by the Committee of Public Accounts, Work and Pensions Select Committee and National Audit Office all raised concerns about how the Department managed the programme. In this report we update on the Department's progress since the reset in:

- Developing realistic and agreed plans (Part One). In November 2013, the Committee of Public Accounts recommended that the Department prepare realistic plans for implementation.
- Setting out a clear long-term operating model (Part Two). In response to concerns from the Major Projects Authority and National Audit Office about the lack of a clear model for Universal Credit, the Committee recommended the Department set out its long-term strategy for services and IT development.
- Designing short-term services to inform and prepare for full roll-out (Part Three). The Committee recommended that the Department revise its pilot roll-out (called pathfinder) to ensure it prepares for longer-term implementation and improvement of services.
- Improving programme management (Part Four). Based on evidence from the National Audit Office and Major Projects Authority, the Committee recommended that the Department improve its management and oversight of the programme, its culture of 'good news' reporting, and control of suppliers.

Key findings

Developing plans

5 **Following the reset the Department chose a twin-track approach which costs more than waiting for digital, but which it plans will yield higher benefits and reduce risks.** Guiding principles behind this approach were the Department's wish to de-risk delivery by making progress on two fronts, rather than relying on just one option, and learn how Universal Credit works in practice. The Department estimates that the twin-track approach yields a higher net present value overall by bringing forward the benefits of the programme (paragraphs 1.3 and 1.15 to 1.17).

6 **The Department developed and refined its 'test and learn' approach while continuing to expand live service.** The Department expects 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. From June 2014, the Department started expanding live service across North West England, and introduced claims for couples and tenants. It now plans to extend the roll-out to all new claims from families in the North West from November 2014, and from single jobseekers nationwide from February 2015. It expects that up to 500,000 people will receive Universal Credit by April 2016 (paragraphs 1.3, 1.6 and 1.19).

7 **The Department was slow to produce long-term plans for Universal Credit and HM Treasury required the programme to produce more realistic plans before approving the business case in September 2014.** In early 2014, the Department submitted a draft business case to HM Treasury, but this had little detail on plans beyond 2014. Following the reset, HM Treasury continued to provide funding in small increments. In early 2014, the Department needed to finalise the Universal Credit target operating model; develop more realistic roll-out plans; and provide contingency plans. Work on these is not yet complete but HM Revenue & Customs, local authority representatives and the Major Projects Authority are now more positive about the direction of travel. HM Treasury has approved the strategic outline business case, and the Department has started the considerable work needed to develop a more detailed business case (paragraphs 1.7 to 1.12).

8 **The Department has reduced risks in its planned transfer of tax credit claimants by extending the timetable by 2 years.** It was becoming increasingly unlikely that the Department could transfer over 1 million tax credit claimants on to Universal Credit in April 2016 as planned without significant operational risks. The Department has now introduced a 2 year extension for the transfer of the majority of tax credits claimants to Universal Credit to 2019. It does not yet have plans to transfer the remaining 555,000 tax credit and Employment and Support Allowance claimants before the end of 2019 (paragraphs 1.10 to 1.14).

9 **The Department continues to expect significant employment and societal benefits from Universal Credit.** In its business case the Department estimated that the net present value of Universal Credit was £20.7 billion. This includes higher earnings for people as they move into employment and reduced spending on benefits. The Department expects Universal Credit to help move 250,000 people into work. Impacts are uncertain and 64% of benefits are due to distributional benefits which are weightings applied to benefit transfers. The Department has a substantial programme of evaluation to determine the societal benefits of Universal Credit (paragraphs 1.15 to 1.18).

Developing a long-term operating model

10 **The Department continues to have ambitious plans for the Universal Credit service and is developing its design for how Universal Credit will work.** The Department has developed a clearer target operating model, which sets out some of the expectations for the service such as the proportion of claimants making and maintaining claims online. The target operating model consists of several 'layers', recognising the broader transformation of the Department, although this does mean that Universal Credit can be defined very broadly to cover changes already in place for Jobseeker's Allowance. The Department still needs to set out its detailed plans for Universal Credit systems and processes, and the interim stages it needs to reach over time. The programme board recognises the need for these more specific milestones against which to plan and assess progress (paragraphs 2.6 and 2.7).

11 **The Department's digital service has been delayed and is still in the very early stages of development but is soon to be tested with all claimant types, even the most complex.** Recruitment and capacity problems have delayed the new digital service by 6 months compared with plans at the start of 2014, and it has not yet reached its planned staffing level. In September 2014, digital service passed its Digital by Default Service Standard Alpha assessment, confirming that it had built a working prototype ready to be tested with a limited group of end users. The Department is starting to test aspects of its digital service from November 2014. The new digital service at this stage depends heavily on manual intervention and will only handle a small number of claims (paragraphs 2.15 to 2.20 and 3.10).

12 **The Department faces a challenging timetable with just 18 months before it plans to start to roll out its fully scalable digital service.** The Department is due to begin initial testing of the new service's efficiency in spring or summer 2015, and testing its scalability the following November. However, it has not set out how it will coordinate its agile approach with delivering the other parts of the programme set out in the target operating model. The Department is not yet able to start testing identity assurance security systems critical to trials in 2015. These systems depend on the successful development of the Government Digital Service's new GOV.UK Verify service (paragraphs 2.14, 2.21 and 2.22).

13 **The Department expects significant savings from its digital service, but does not yet have a contingency plan, should the digital service be delayed.** The Department expects the digital service to save money because it plans it to be predominantly online, integrated and accurate. If the digital service is delayed by 6 months the net present value of the programme reduces by £2.3 billion due to lost societal benefits. The Department does not yet have a plan should the digital service fail and has not evaluated whether it could use live service systems instead. We estimate that using live service systems rather than digital systems would cost £2.8 billion more in staff costs. The Department says that it would not use live service systems at full scale without substantial further investment and that it is already making improvements which would bring down the cost of live service (paragraphs 2.10, 2.11 and 2.17).

Learning from the expansion of live service

14 **The Department has a broad programme of learning from live service which has led to improvements within Universal Credit and for the wider Department.** The Department has been working to resolve problems, improve business processes and increase efficiency before expanding the nationwide roll-out. Where elements of Universal Credit are working well the Department is using them more widely across its existing benefits and activities. For example, following the early trials of the claimant commitment in Universal Credit, the Department has now rolled out this approach in all jobcentres nationally for new claimants of Jobseeker's Allowance (paragraphs 3.7 and 3.15).

15 **The Department expects that expanding live service will increase costs but also bring in significant wider benefits and reduce risks.** The Department estimates that the accelerated nationwide roll-out of simple claims will result in administrative costs of £149 million. However, it believes it will generate a net present value of £267 million. This is largely due to societal and distributional benefits from people earning more in work. But these benefits are heavily reliant on a number of assumptions and the eventual impact will be difficult to measure. It also expects the nationwide roll-out to reduce the risks associated with introducing the digital solution (paragraphs 1.18 to 1.21).

16 **The Department expects that the expansion of live service in 2015 will help it develop operational capability ahead of introducing the digital service, but does not see its main aim as enhancing learning.** The Department plans to expand operational roll-out for new single claimants to all 700 jobcentres and 10 service centres by April 2016. By this time, the Department plans to have trained 10,000 staff and established working relationships with local delivery partners in areas nationwide. The Department does not see the primary purpose of the nationwide roll-out as improving its learning about the impacts of Universal Credit. The roll-out will not allow the Department to understand how Universal Credit will work for claimants with more challenging requirements, unless an individual's circumstances change. The Department has dealt with relatively low volumes of complex cases to date (paragraphs 3.2 to 3.8 and 3.17).

17 **The Department will need to carefully manage risks to the costs and quality of the nationwide roll-out of live service.** The Department has developed a challenging schedule for nationwide roll-out. Based on its learning to date and limited available time and resources, the Department has significantly reduced its training costs and the time it allows staff to familiarise themselves with Universal Credit nationwide compared to its North West plans. The nationwide roll-out will also rely on some expensive manual processes. The Department has had problems with systems accuracy following an IT release, and had to reintroduce manual checks of all payments until it resolved the issues. It also introduced a new release management approach to maintain tighter control. The Department has 3 further major IT releases planned for the coming year, which it intends will increase automation in live service systems. If further problems occur, the Department will need to control the pace of roll-out (paragraphs 3.16 to 3.22).

Managing the programme

18 The Department has continued to struggle to stabilise senior leadership roles and responsibilities. Since the start of 2014, the senior responsible owner had been working only one day a week due to ill health. In autumn 2014, the senior responsible owner left the programme and programme director retired. The Department has taken some time to stabilise its new governance arrangements but staff confidence in senior leadership and programme culture have increased significantly. An internal audit report in September 2014 found that governance arrangements had become much clearer. In 2013, the Department also appointed an independent chair of the programme board, who has provided some continuity in oversight. However, the programme board has been hampered on occasion by limited time and information (paragraphs 4.2 to 4.8).

19 The Department has taken a more active approach to managing suppliers and establishing financial control within the programme. It has set up a new financial control framework, guidance and training for staff. The Department has improved processes for checking invoices and delegating authorities. In November 2014, internal audit reported that a 'Substantial Assurance' rating was appropriate for the programme's finanacial management at this time. The Department plans to review financial controls regularly as they are implemented in practice (paragraphs 4.12 and 4.13).

Conclusion on value for money

20 The Department set out to transform the benefits system with Universal Credit and suffered early setbacks. Since the reset, it has reduced the delivery risks by extending roll-out and choosing a more expensive twin-track approach to developing the service. It believes the additional costs of this approach are justified because it expects Universal Credit to achieve substantial benefits for society sooner and more safely. However, such benefits do not mean that Universal Credit will be value for money regardless of how they are implemented and the cost of doing so.

21 In principle, the Department's approach should allow it to learn from experience, improve the design and readiness of services and reduce risks. However, in our view the Programme is at too early a stage to determine if the Department will achieve value for money in its implementation of Universal Credit. Given the gradual progress of live service roll-out to date and the early stage of digital service development, the Department has not yet tested its new digital approach, or gone through the process of integrating this with live service. We consider it important that the Department, having reset the programme on a sounder basis at significant costs in terms of resource and elapsed time, confirms its plans for delivering Universal Credit in terms of cost, time and functionality, against which it can be held to account for the good use of public resources.

Recommendations

22 The Department has adopted a ‘test and learn’ approach under which it is continuing to bring on new claims while developing its digital service. As it proceeds with this approach the Department must:

a **Ensure it has a clear basis for making decisions across the strands of the programme**

- The Department will need to develop a detailed service architecture for Universal Credit that aligns with its work on the wider departmental operating model.
- In developing the service architecture it will need to learn from planned tests and set out how it will handle complex issues such as family formation and break-up, and in-work conditionality.
- The Department will increasingly need to monitor progress and control decisions against its service architecture, and establish strong governance and decision-making across strands of the programme.

b **Develop specific milestones for both digital and live services before each additional stage of roll-out**

- The Department should continue to develop and monitor operational criteria for further live service expansion, including payment accuracy and backlogs in nationwide operations.
- It should also review progress in developing the digital service and include this among the criteria for the timing and speed of expanding live service.
- If there are actual or expected delays or limitations to the digital service the Department should set out how it will adjust live service expansion to avoid unnecessary costs or risks to services.

c **Set out more clearly how and at what point live service and other test and learn activities will inform the development of Universal Credit**

- The Department should differentiate between its learning activities on the basis of how service development would be affected, and at what point it could make decisions on the basis of the learning.
- Where decisions are likely to affect the design of services substantially in the short term or be difficult to accommodate at a later point, the Department should ensure it has appropriate flexibility in development.