National Audit Office

Report
by the Comptroller
and Auditor General

Department for Work & Pensions

Universal Credit: progress update

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National Audit Office

Department for Work & Pensions

Universal Credit: progress update

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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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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Contents

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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.

Part One

Developing plans

1.1 The Department for Work & Pensions (the Department) is introducing Universal Credit which will replace 6 means-tested benefits for working-age households. Universal Credit is an ambitious and challenging transformation programme. In September 2013, we reported on the Department's early progress in implementing Universal Credit, including events leading up to the reset in early 2013.[2] In this part we consider:

- the approach the Department has adopted since the reset; and
- how its plans have developed.

Established a test and learn approach

1.2 In May 2013, the Department appointed a new senior responsible owner to lead the Universal Credit programme. He started a 100-day planning period to take forward the recommendations of the reset, resulting in new proposals for the programme. Staff from the Government Digital Service worked with the programme to start developing the new digital service recommended by the reset team. A ministerial oversight group for the programme was formed of ministers and senior officials from the Department, HM Treasury and Cabinet Office.

1.3 In November 2013, the ministerial oversight group reviewed the Department's 'twin-track' approach to delivering Universal Credit. The Department's guiding principles behind this approach were: its wish to de-risk delivery by making progress on two fronts, rather than relying on just one option; and to learn how Universal Credit works in practice. The new approach was announced in a written ministerial statement on 5 December 2013, which set out that the Department would:

- test and implement an enhanced online digital service, capable of delivering the full scope of Universal Credit and making provision for all claimant types; and
- expand the current 'live service' across North West England in order to learn from the live running of Universal Credit at scale and for more claimant types.

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

1.4 The Department does not regard digital service and live service as separate systems running in parallel. Rather, it now describes them as complementary parts of an integrated approach, whereby digital service will eventually enhance the features and functionality of the current live service operation, reinforcing behaviour change and reducing costs.

1.5 The Department will need to take care as it integrates the live service and digital service strands of the programme. In our view the twin-track nature of the programme creates uncertainty about the relative emphasis on the digital service as the end state for Universal Credit, or a more traditional view of benefit reform with planned updates to IT systems. We recognise that the Department has had to design this approach as a pragmatic response to what happened before the reset, but this uncertainty or ambiguity in approach could create risks later in implementation.

1.6 The Department has built on processes and systems developed for the programme before the reset to expand the current 'live service' to all jobcentres in North West England by December 2014. During 2014, it also introduced new claims to some couples and families (**Figure 1** overleaf). The Department now intends to expand live service for single unemployed claimants nationwide by 2016 as a contingency option, following its decision to extend its delivery timetable for the digital service by 2 years. Alongside its initial intention that the early roll-out of Universal Credit will inform the digital service, the Department now anticipates that expanding nationwide will help prepare the organisation for wider transformation and bring forward benefits.

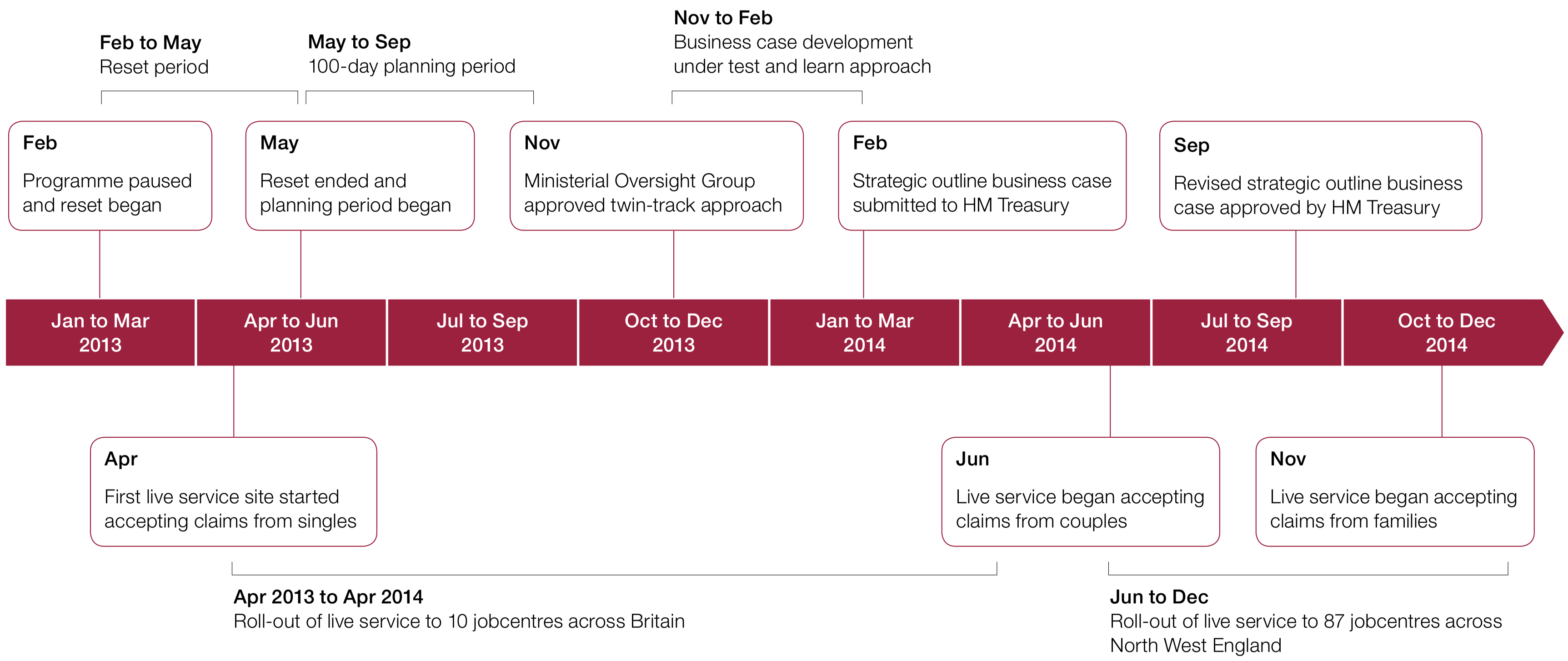
Incremental approvals for spending during 2013-14

1.7 While the Department continued to develop its business case during 2013-14, HM Treasury approved a series of funding requests for specific activities. **Figure 2** on page 15 shows that between December 2013 and October 2014 the Department spent £193 million on Universal Credit. It spent £8 million developing the digital service, substantially less than the £34 million it has spent with external suppliers to enhance live service systems.

Figure 1

Universal Credit developments since January 2013

The Department has established a test and learn approach



Source: National Audit Office analysis of Departmental documents and business cases

Figure 2
Expenditure on Universal Credit since December 2013

	Staff and non staff costs (£m)	External supplier costs (£m)	Total (£m)
Live service	**39**	**54**	**93**
Investment	22	34	56
Operations	18	20	37
Digital development	**2**	**6**	**8**
Rest of programme	**59**	**32**	**92**
Claimant commitment	20	–	20
Security	6	14	20
Central programme team	11	2	12
HM Revenue & Customs	8	7	15
Non-programme Department for Work & Pensions staff	11	0	11
Digital jobcentres	1	7	7
Consultancy support costs	–	3	3
Pilots and trials	–	–	1
Project recharges	2	–	2
Total	**100**	**93**	**193**

Notes

1 Figures up to and including October 2014.

2 Core programme staff and non-staff include HM Revenue & Customs programme team.

3 External supplier costs include Department for Work & Pensions and HM Revenue & Customs IT costs, IT security, consultancy, contractors, external legal costs, estates and Government Digital Service costs.

4 Expenditure on claimant commitment and digital job centres include both Jobseeker's Allowance and Universal Credit jobcentres.

5 Numbers do not sum due to rounding.

Source: National Audit Office analysis of departmental financial data

Business case approved in September 2014

1.8 The Department produced the Winter 2013 strategic outline business case for Universal Credit following the ministerial oversight group's review.[3] It submitted this to HM Treasury in February 2014, when the Major Projects Authority conducted a project assessment review of the programme post-reset. Following the Major Projects Authority's review, HM Treasury raised 3 main concerns (**Figure 3**).

1.9 Before HM Treasury would approve the business case, it required the Department to address concerns by: finalising a target operating model; developing more realistic plans for transferring new and existing claimants on to Universal Credit; and developing contingency plans in case the digital service is delayed or proves not to be possible. The Department worked closely with HM Revenue & Customs and local authority delivery partners to develop its revised plans.

1.10 The Department submitted a revised strategic outline business case to HM Treasury in September 2014. Key features of the revised approach are: completing the national roll-out of live service for single claimants by 2016; and delaying the completion of full roll-out of the digital service by 2 years (**Figure 4**).

Figure 3

HM Treasury concerns with the Winter 2013 draft business case

Business case sign-off depended on the programme addressing HM Treasury concerns

HM Treasury's concerns about the programme in April 2014	HM Treasury required the Department to provide
Little progress made on the later stages of the plan to transfer legacy benefit claimants on to Universal Credit.	Further detail on the transition and migration plans for the next Parliament.
No single coherent integrated plan or clear target operating model.	A more detailed target operating model.
Considerable work needed to prove the viability and affordability of the new digital approach.	Contingency plans in the event that the digital approach is not deliverable.

Note

1 HM Treasury's concerns and requirements were made in reference to the February 2014 Major Projects Authority project assessment review of the business case.

Source: National Audit Office analysis of Major Projects Authority's project assessment review, February 2014; and correspondence between HM Treasury and the Department in March and April 2014

3 The purpose of the strategic outline business case stage is to confirm the strategic context of the proposal and to make a robust case for change, providing stakeholders and customers with an early indication of the 'preferred way forward' (not the preferred option). (HM Treasury, *Public Sector Business Cases – using the five case model: Green Book supplementary guidance on delivering public value from spending proposals*, 2013, p. 18).

Figure 4
Changes to programme plans in September 2014

HM Treasury signed off the Department's Autumn 2014 business case in September 2014

	Winter 2013 plan	Autumn 2014 plan
Live service		
North West roll-out	New simple claims from singles, couples and families by the end of 2014	No change
North West tax credits	All new tax credit claims on Universal Credit from January 2015	Postponed until digital service
Nationwide roll-out to single 'simple' new claims	No plans	February 2015 to April 2016
New digital service		
Testing of digital service	May 2014 to October 2015	November 2014 to April 2016
Nationwide roll-out to new claims and claimants whose circumstances change	December 2015 to November 2016	May 2016 to December 2017
Managed transfer of existing legacy benefit claims		
Jobseekers' Allowance, Housing Benefit and Income Support	December 2016 to December 2017	January 2018 to December 2019
Tax credits	2 large mass transfers in April 2016 and April 2017	Natural migration from 2016 when claimants' circumstances change No managed transfer before end of 2019 when only 9% will be left on tax credits
Employment and Support Allowance	No plans before end of 2017	Natural migration from 2016 when claimants' circumstances change No plans before end of 2019 when only 9% will be left on Employment and Support Allowance

Notes

1 Live service uses the existing IT systems created prior to the reset in early 2013.

2 'Simple' claims include claims from single claimants without children who, in the absence of Universal Credit, could claim Jobseeker's Allowance.

3 During nationwide roll-out to new claims and claimants whose circumstances change, gateways for claiming legacy benefits and tax credits will close.

4 'Managed transfer' is where the Department moves claimants from legacy benefits on to Universal Credit without waiting for individual moves to be triggered by a change in circumstances. Movement from legacy benefits on to Universal Credit as a result of changes of circumstances is called 'natural migration'. The Department estimates that in December 2019, 390,000 (out of 4.4 million) tax credits claimants and 165,000 (out of 1.8 million) Employment and Support Allowance claimants will not have transferred on to Universal Credit through change of circumstances since the nationwide roll-out of digital service in May 2016.

Source: National Audit Office analysis of the Department's February 2014 and September 2014 business cases

1.11 In September 2014, the Major Projects Authority reviewed the Department's revised plans for national roll-out of live service and its new transition and migration approach. It recommended that the business case be approved and that not proceeding with the national roll-out would be a lost opportunity. It concluded, however, that the Department needed to do considerable work to develop an outline business case, which is the next stage before delivering a full business case.[4] In particular, the Department would need to provide detailed transition and migration plans, and progress on delivery of the digital service.[5]

1.12 HM Treasury signed off the strategic outline business case at the end of September 2014, in line with the Major Projects Authority's recommendation. As the next stage, the Department will produce a more detailed outline business case in summer 2015 to inform the next spending review.[6] HM Treasury has told the Department that it expects the outline business case to provide more detail on:

- The target architecture for digital service systems, based on an agreed position about the level of re-use of existing systems.
- The target operating model for Universal Credit in its steady state, incorporating evidence the Department has gained from its test and learn approach.
- The financial and economic case, with improved forecasts of costs and benefits based as far as possible on evidence from the live service.

Reduced risks by extending transfer period

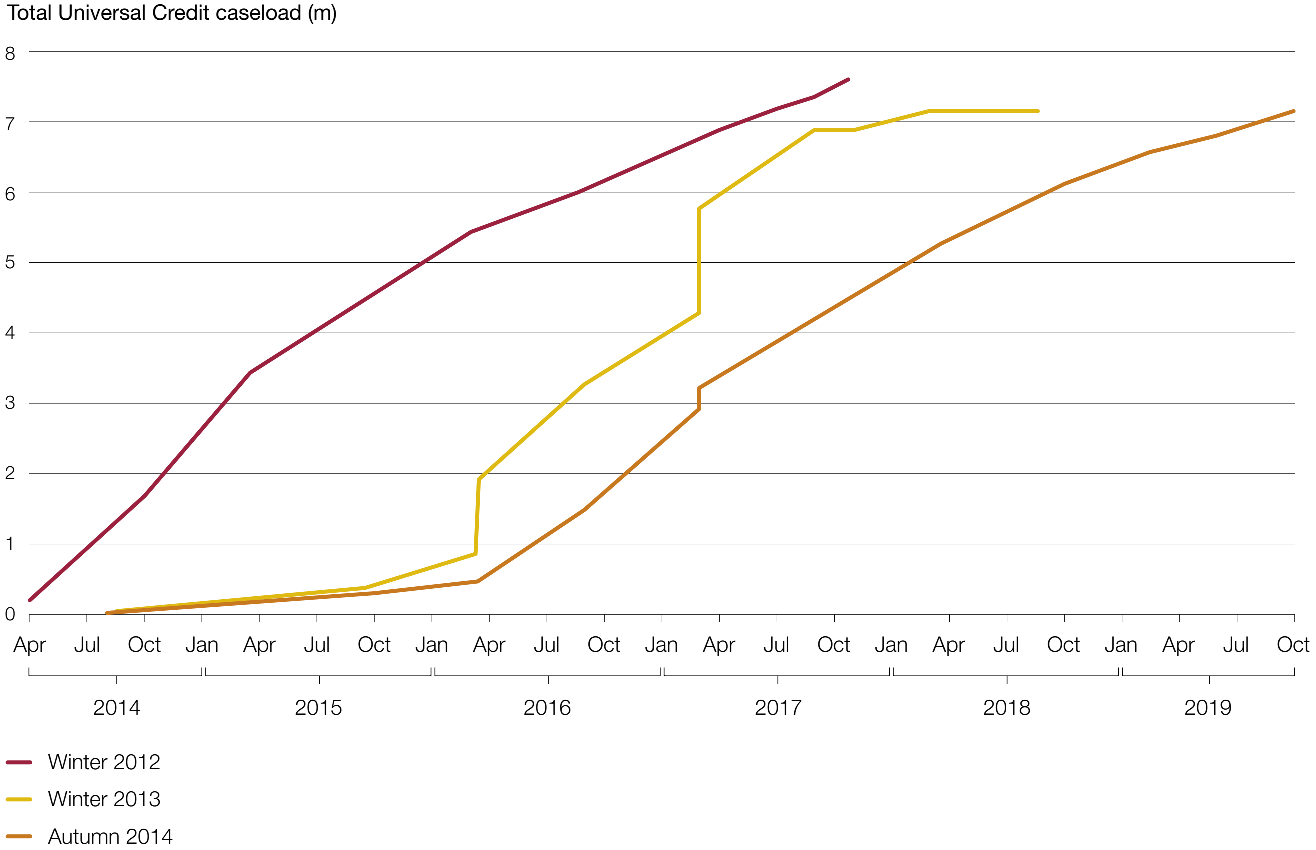
1.13 The Department has substantially reduced the risks in its plans. The Department had planned to transfer over 1 million tax credit claimants on to Universal Credit in April 2016 (**Figure 5**). It was becoming increasingly unlikely that the Department would have established fully-tested systems in time. Instead, the Department is now planning to introduce the new digital service for new cases between May 2016 and December 2017. This will reduce the extent and risk of transferring existing claims from January 2018 onwards.

1.14 Not all legacy benefit claimants will have moved to Universal Credit by the end of 2019. The Department has delayed the transfer of those claiming Employment and Support Allowance only and tax credits only beyond 2019.[7] Cases will transfer where claimants are also claiming one of the other benefits; or where claimants' circumstances change, for example, they become part of a Universal Credit household. The Department estimates that in December 2019, 165,000 Employment and Support Allowance claimants and 390,000 tax credits only claimants will not have transferred.

4 HM Treasury, *Public Sector Business Cases – using the five case model: Green Book supplementary guidance on delivering public value from spending proposals*, 2013, p. 17.
5 Digital service was not in scope of the Major Projects Authority's September 2014 review.
6 The purpose of the outline business case is to: identify the spending option which optimises value for money; prepare the scheme for procurement; and put in place the necessary funding and management arrangements for the successful delivery of the scheme (HM Treasury, *Public Sector Business Cases – using the five case model: Green Book supplementary guidance on delivering public value from spending proposals*, 2013, p. 46).
7 The Department had previously announced, on 5 December 2013, that it would postpone completing the transfer of existing Employment and Support Allowance claimants on to Universal Credit until all other claimants had been transferred.

Figure 5
Universal Credit caseload projections

Subsequent business cases have delayed the introduction of Universal Credit



Note

1 The caseload is the total of claimants on live and digital services.

Source: National Audit Office analysis of the Department's business cases of December 2012, February 2014, and September 2014

Continued expansion of live service

1.15 HM Treasury approved the Department's business case which assumes an integrated, nationwide 'twin-track' approach. In earlier drafts of the business case the Department estimated that the twin-track approach would bring forward the benefits of Universal Credit and increase the net present value of introducing the programme (**Figure 6**).

1.16 The Department has chosen to incur higher administrative costs under the twin-track approach and accelerated nationwide roll-out. In its winter 2013 business case, the twin-track option cost £1.9 billion more than its wait for digital option, but the two options were not based on consistent assumptions. The Department has recently recalculated the difference at £244 million on a comparable basis.[8] Given this late change we have not been able to audit this new estimate.

1.17 In Autumn 2014 the Department estimated that its nationwide twin-track approach would cost £270 million more than rolling out live service more slowly in a limited twin-track approach. The cost of the Autumn 2014 plan is lower than for Winter 2013, as are the estimated benefits, reflecting the slower roll-out of Universal Credit in the longer term. In choosing between its options in either the Winter 2013 or Autumn 2014 business cases, the Department has estimated that its preferred option has a higher overall net present value.

1.18 The Department's estimates of net present value are driven by societal benefits which are heavily dependent on a number of assumptions. The Department's business case includes sensitivity analysis to illustrate the impact of these assumptions on the Department's current estimate:[9]

- **Employment benefits.** The Department believes that it is cautious in its current estimate of net benefits. It believes this figure could be £7 billion higher if it used different, less conservative, assumptions.[10] The Department is evaluating the programme but it needs further time and claimant numbers before changing the assumptions in its business case.

- **Claimant numbers and baseline effects.** The Department's estimate of societal benefits is primarily based on its estimate of the number of Universal Credit claimants. If claimant numbers are 10% lower than forecast, the Department estimates that the net present value of Universal Credit would be reduced by £2.1 billion.

8 In the Department's estimates prepared for the ministerial oversight group in November 2013, the costs of both options were £0.6 billion. In preparing the subsequent Winter 2013 business case, the Department updated its estimates for the twin-track option, which increased administrative costs to £2.5 billion. It did not recalculate the costs of the 'wait for digital' option at that time, suggesting a difference in costs of £1.9 billion. On 24 November 2014 the Department told us it had now recalculated the comparable administrative costs of the wait for digital option in the Winter 2013 case as £2.2 billion.

9 Universal Credit impacts depend on policy assumptions. For example, there was a £30 billion movement between 2011 and 2012 in the Department's estimate of benefit spending, which went from a £19.7 billion cost to a £10.8 billion saving. The Department changed its methodology over this time but the size of this movement was largely due to changes in benefit entitlement and conditionality. See Appendix Six for further comparison of historic business cases.

10 The current business case assumes a 3-year time lag between rolling out Universal Credit in an area and achieving the labour market impacts. This assumption is based on academic research on the time it takes for the labour market to reach a new equilibrium and the Department's modelling work. The Department believes this to be a conservative approach to estimate and that there is evidence for more rapid labour market impacts.

- **Distributional benefits.** The Department estimates the changes in people's income as a result of Universal Credit. It reweights transfers or changes in income on the basis that people on lower incomes value a given change in income more than those on higher incomes. Net present value estimates are uncertain given the difficulty of estimating labour market impacts, and this uncertainty is magnified by the subsequent use of distributional impacts.[11]

Figure 6
Business case options: financial costs and benefits

The Department's business cases show benefits from twin-track

	Total value for the period from 2013-14 Q4 to 2023-24			
Business case	**Winter 2013**		**Autumn 2014**	
Option	**Wait for digital (£bn)**	**Twin-track (£bn)**	**Limited twin-track (£bn)**	**Nationwide twin-track (£bn)**
Government DEL savings (costs)	(0.6)	(2.5)	(1.1)	(1.4)
Government AME savings (costs)	7.7	10.2	8.9	9.5
Total savings (costs) to government	**7.1**	**7.7**	**7.8**	**8.2**
Gain to households from increased employment	3.7	2.7	0.9	1.6
Distributional benefits	16.0	24.3	16.3	17.5
Total benefits (costs) to wider society	**19.7**	**26.9**	**17.1**	**19.0**
Net saving	**26.9**	**34.6**	**25.0**	**27.2**
Net present value	**20.4**	**26.7**	**18.9**	**20.7**

Notes

1 See Figures 4 and 5 for assumptions behind the Department's Winter 2013 'twin-track' option and Autumn 2014 'nationwide twin-track' option.

2 The Winter 2013 'wait for digital' option assumed no further roll-out beyond the existing seven pathfinder sites until the digital solution was planned to be ready in mid-2015. It then assumed a roll-out profile which was slower than the Autumn 2013 twin-track option.

3 The Autumn 2014 'limited twin-track' option assumes no further roll-out beyond the North West couples and families until the digital solution is planned to be ready in May 2016. It then assumes a slower expansion compared to the 'nationwide twin-track' option. This is because this option does not include the nationwide expansion of live service and its operational preparation.

4 In November 2013, the Department estimated that the DEL costs of the 'wait for digital' and twin-track options were both £0.6 billion. For its Winter 2013 business case, the Department then updated its estimates for the twin-track option, which increased administrative costs to £2.5 billion. The Department says it has now recalculated the comparable administrative costs of the wait for digital option in the Winter 2013 case as £2.2 billion. At the time of this report we have not been able to audit the Department's recalculated costs.

5 The Department did not fully revise the Autumn 2014 AME figures to reflect changes since the Winter 2013 business case. The Department is doing further work to improve its estimates for the next stage of business case approval as requested by HM Treasury.

6 Departmental expenditure limit (DEL) impacts in this figure include administration costs and investment costs for programme implementation.

7 Annually managed expenditure (AME) impacts in this figure include both the programme's direct impact on benefit payments and fraud savings, and its indirect fiscal impacts on tax, benefits, and NHS spending through increased employment. Fraud savings were estimated to be £1.5 billion in all business case options, except in the Winter 2013 'wait for digital' option for which the estimate was £1.3 billion.

8 The Department's business cases are based on its central estimate that 250,000 more individuals will be in work because of Universal Credit in steady state. This includes: 145,000 more in work due to increased financial incentives, for example by increasing in work benefit entitlement; 60,000 more in work because Universal Credit is simpler, more transparent and removes barriers that deter some people from moving from out of work benefits to employment; and 50,000 more in work because they will become subject to greater conditionality requirements.

Source: National Audit Office analysis of the Department's business cases of February 2014 and September 2014

11 The methodology and research behind distributional impacts is set out in the HM Treasury *Green Book* guidance on business cases in Annex 5.

Expected benefits of nationwide roll-out

1.19 In its approved Autumn 2014 business case the Department set out plans for an accelerated nationwide roll-out of new claims for simpler single claimants from February 2015. It estimates that around 500,000 claimants will receive Universal Credit by mid-2016, and believes that nationwide roll-out will help to prepare staff and enable local services to adapt. We discuss the Department's approach to learning from live service in Part Three.

1.20 The Department estimates that the accelerated nationwide roll-out will generate a net present value of £267 million (**Figure 7**). This is largely based on the value of societal benefits which the Department estimates to be £457 million. This estimate includes labour supply benefits of £268 million from around 7,500 more people being in work in 2019 because of the early nationwide roll-out. The Department has also estimated that, with less conservative assumptions, the labour supply benefits could be £474 million (77% higher).

1.21 The Department estimates that the nationwide roll-out of Universal Credit will be a net administrative cost to government of £149 million. This is the net cost after taking into account the savings to government in the delivery of legacy benefits such as Jobseeker's Allowance and Housing Benefit. Of the net cost, 81% will be IT supplier costs, with £97 million in recurrent costs (systems maintenance) and £24 million in investment costs (infrastructure and hosting).

Figure 7
Nationwide roll-out costs and benefits

Societal benefits outweigh the costs to government

	10 years from 2014-15 to 2023-24 (£m)
Government DEL savings (costs)	(149)
Government AME savings (costs)	12
Total savings (costs) to government	**(138)**
Gain to households from increased employment	268
Distributional benefits	189
Total savings (costs) to wider society	**457**
Net saving	**319**
Net present value	**267**

Notes

1. Departmental expenditure limit (DEL) impacts in this figure include the additional operational and investment costs associated with live service expansion.
2. Annually managed expenditure (AME) impacts in this figure only include the direct impact of live service expansion on benefit payments.
3. Labour supply benefits in this figure take account of the indirect fiscal impact of live service expansion on tax, benefits, and NHS spending through increased employment.

Source: National Audit Office analysis of the Department's September 2014 business case

Part Two

Developing a clear operating model

2.1 In the early years of Universal Credit several reviewers raised concerns about the absence of a complete target operating model or blueprint for Universal Credit. This is necessary for the Department to manage priorities in a large and complicated programme, help establish a consistent basis for decisions about the design of services, and assess progress against objectives. In this part we consider the Department's progress in:

- setting out its target operating model; and
- developing the long-term digital service for Universal Credit.

Gradually developing a target operating model

2.2 The absence of a clear operating model was a main reason the Major Projects Authority recommended a reset of the programme in early 2013. The Major Projects Authority continued to raise the importance of a clear operating model with the Department in its review in February 2014, and in April 2014, HM Treasury made it a requirement for approving the Department's business case.

2.3 The Department commissioned consultants to help develop the Universal Credit target operating model, adapting a standard industry framework and drawing together existing work by the Department into a single document. The programme board agreed the new model in June 2014. The new target operating model outlines the programme's multi-layered approach to delivery and covers the range of factors it needs to manage, coordinate and change. The model is intended to show how Universal Credit will affect the way the Department will work in achieving its objectives. This addresses criticism from the reset team, in early 2013, that the programme had been overly reliant on its IT solution.

2.4 The Department plans to use an iterative approach to produce more detailed versions of the target operating model. It accepts that some areas of the current model need significant development and that it is not yet complete. For example, the Department has not confirmed plans for how it will support claimants who are in work, even though it expects that around 1 million in-work claimants will have conditions attached to their claim (Appendix Five). The Department's intention is to provide support that will help such claimants increase their earnings and skills. The Department has yet to decide the extent of any mandatory activities for claimants, or associated compliance-checking, and it plans trials in 2015 to test various approaches. The business case does not currently include funding to support claimants who are in work.

2.5 The Department is working with HM Revenue & Customs to develop plans for the transfer of tax credit debt to the Department, and the resource implication of this for both organisations. Tax credit debt arises when a tax credit recipient is paid more than they are entitled to receive. At 31 March 2014, tax credit debt was £5.5 billion, compared with the Department's existing debt stock of £3.5 billion.

Need for a clearer critical path

2.6 The Department plans to move towards its target operating model using a series of interim operating models, with a new one for each significant stage of the programme's development. Although the Department produced 4 new interim operating models in 2014, reflecting developments in both live and digital service, and a high-level plan for 2015 and beyond, it does not have detailed plans setting out this critical path. Our analysis suggests that there are several important questions that the Department still needs to resolve for every part of its Universal Credit target operating model (Appendix Three). The Department will also need to align the Universal Credit model with the target operating model for the Department as a whole, which is at a very early stage of development.

2.7 As the Department continues to develop its operating model and plans to achieve this, it will need to set out how all the components of the model interrelate along the programme's critical path. The plan should break the target operating model down into a set of deliverable items for which the Department can: estimate required resources, costs and effort; identify dependencies; mitigate risks; and identify appropriate delivery approaches. The programme board has recognised that the programme needs clearer milestones against which to plan and assess progress.

Digital service a longer-term requirement

2.8 The Department believes that the most effective way to deliver Universal Credit at scale is to develop a new digital service designed around user needs and behaviour, and which enables claimants to use online channels where appropriate. The Department aims to develop the digital service for £105 million. At present it expects to reuse 21% (£34 million) of the live service systems which it developed before the reset for £165 million (Appendix Four).

2.9 The Department intends that digital service will avoid technical limitations in current systems. For example, undertaking digital development in-house has helped the Department design security into new systems from the outset. It is working closely with CESG, the UK government's national technical authority for information assurance, to avoid the difficulty in addressing security problems which contributed to the decision to reset the programme in 2013.[12]

12 These included the systems at that time being unable to identify potentially fraudulent claims, and not having the security needed to allow claimants to make changes in circumstances online (*Universal Credit: early progress*, paragraphs 2.17 to 2.18 and 3.12 to 3.16).

2.10 The Department expects the digital service to save operating costs because it plans it to be predominantly online, integrated and accurate. This would increase automation and self-service, and reduce the need for manual intervention required to use the live service system. This automation will save the Department around £610 million more a year in staff costs than if it were to roll-out using unenhanced live service systems (**Figure 8**). On this basis, we estimate the net present value of savings from the planned digital service through to 2023 to be £2.8 billion compared to using live service systems instead.[13] The Department says that it would not use live service systems at full scale without substantial further investment.

Figure 8

Planned digital system features and savings

New digital systems are planned to significantly reduce staff costs

System feature	Improvement	Annual savings from 2020-21 (£m)	Net present value of savings from 2014-15 to 2022-23 (£m)
Online channel	Reduce need for telephony channel, and automate high volume changes in claimant circumstances.	330	1,600
System integration	Reduce need for clerical work by automating the interfaces between systems.	260	1,150
System accuracy	Reduce need for manual checks on system payments.	20	50
Total		**610**	**2,800**

Notes

1 Annual cost savings are the projected staff cost savings of operating the digital systems compared to the live service IT systems with the 7 million cases expected once roll-out is completed.

2 The Department provided volumetric estimates up to March 2021. The net present values in this figure include a National Audit Office extrapolation of savings to 2022-23.

3 Existing live service IT systems are online only for the initial application; claimants must declare changes of circumstances by telephone. Existing systems have not been fully integrated together and staff need to perform tasks manually which could be automated. Problems with live service payment calculation accuracy are explained in paragraphs 3.18–3.21.

Source: National Audit Office analysis of the operational cost models supporting the Department's September 2014 business case

13 The Department plans to complete roll-out using its new digital systems. Our estimated saving compares the planned cost of using digital systems with an extrapolated cost of using live service systems. We take the Department's estimate of the efficiency of live service systems and calculate the cost of using them for the total planned volume of Universal Credit claimants. This assumes that the Department does not make further substantial investments in live service systems (see paragraph 2.11).

2.11 The Department believes that further investment could make live service into a viable alternative option if the digital service fails, and it already plans to expand its use nationwide for single claimants. The Department is investing further in live service to increase its efficiency ahead of national roll-out but has not yet modelled the impact. Further investment will reduce the relative savings figures shown in Figure 8, by increasing live service efficiency further. However, functionality may be limited. To realise potential savings from a fully functional online channel, it would need to address security concerns over pre-reset systems.[14] The Department has not carried out detailed analysis of the potential cost and work required for this option. HM Treasury has expressed concerns about the value for money of further investment in live service systems.

2.12 Following the Major Projects Authority's review, HM Treasury requested, in April 2014, the Department provide it with contingency plans should the digital service be delayed or fail. The Department is due to update HM Treasury at the end of November 2014 on its progress in developing such plans.

More limited digital ambition

2.13 The Department has reduced the scope of its digital ambitions in some areas. It has moved away from the demanding interpretation of 'digital by default', whereby it expected claimants to use services online as a matter of course. It now aims for 'digital as appropriate' for the digital service.[15] For example, the Department no longer plans that claimants will make changes to bank account details online. The Department now expects that 37% of claimants' activity to maintain their claim will require assistance, rather than be through online self-service (**Figure 9**).[16]

2.14 This reduction in digital ambition is partly in recognition that for some claimants digital interaction with government will never be possible, and because the Department recognises that some interactions will be more effective with human intervention. This reduced ambition simplifies requirements for security. The programme's new plans for security use a multi-layered approach, a key element of which is successful integration with the Cabinet Office's identity assurance programme (called GOV.UK Verify). The government is currently using the identity assurance service in public testing with select services and plans to be using it at scale by January 2015. The Department expects to start using the identity assurance service in Universal Credit digital service trials from March 2015 onwards.

14 In June 2012, CESG found that security had not been properly considered from the start. The systems were developed by multiple suppliers without an overarching plan for how it would work as a whole. A Red Team review concluded that the programme lacked appropriate detail around the security measures it needed because of: ineffective links between design and security teams; invalid assumptions being made by technical teams about what was acceptable to the business; a lack of balance between usability and security; poor understanding of dependencies between components; and little consideration of the technical implications of business design activities. The Department was unable to address these concerns prior to the reset in February 2013.

15 *Universal Credit: early progress*, paragraphs 3.12 to 3.16.

16 The Department is unclear what impact these changes have had on the target running costs per claimant, which increased by 25% from £183 to £230 between the Department's 2011 plan and its current plan. Since 2011, the Department has refined its methodology for costing the operating model, which has contributed to the increase in target running costs per claimant since then.

Figure 9
Predicted channel use

Channel	Making a claim (%)	Maintaining a claim (%)	General enquiries (%)
Self-service online	74	63	66
Assisted self-service	12	14	14
Face-to-face	4	6	5
Non face-to-face human contact	10	17	14

Note

1 Non face-to-face human contact includes the use of telephones and digital channels.

Source: Department for Work & Pensions, Universal Credit programme: target operating model

Slow start to developing the digital service

2.15 Following the withdrawal of Government Digital Service (GDS) experts in January 2014, the Department has been slow to build up the in-house expertise it needs to develop the systems it requires. Following the reset in early 2013, the Department and GDS agreed that GDS staff would assist with the design and build of digital service up to the 'proof of concept' stage, which occurred in October 2013. In December 2013, the Department and GDS agreed a transition plan for the withdrawal of day-to-day GDS support of digital service by the end of January 2014. The Department told us that it had initially expected GDS to remain involved with the programme until the Department was ready to run the first test of the service, originally planned for May 2014, but there was no written agreement for this.

2.16 Since January 2014, the Department struggled to attract suitably qualified staff to meet its planned numbers. In September 2014, the Department benchmarked the salaries it offered for a range of digital posts against data on average salaries from 4 recruitment agencies and GDS. This indicated that the maximum salaries the Department was offering were between 8% and 22% lower than the average comparator salaries. At the end of October 2014, the digital service had 59 contingent labour hires in post. This was 11 less than the total requirement identified by the Department at that stage.

2.17 The resulting capacity problems have delayed the new digital service by 6 months (**Figure 10**). The Department estimates that a further 6-month delay reduces the net present value of the programme by £2.3 billion (11%), including a £58 million increase in administrative costs. A year's delay would reduce the net present value by £4.8 billion (23%), with administrative costs increasing by £133 million. Most of this reduction is because of lost societal benefits that cannot be recovered.

Figure 10
Digital development timeline

Development is up to 6 months behind schedule

Stage	Planned start	Actual (or revised plan)	Change
Proof of concept	May 2013	June 2013	1 month delay
'Test the service'	May 2014	November 2014	6 months delay
'Improve efficiency'	November 2014	Spring/summer 2015	6 months delay
'Make scalable'	May 2015	November 2015	6 months delay
Full service available	December 2015	May 2016	5 months delay

Source: National Audit Office analysis of Departmental documents

2.18 The Department's digital development team now combines IT expertise, mainly via contractors, with departmental staff who have operational and policy experience. They have combined to develop the digital service using an agile approach.[17]

Critical 18 months to develop the digital service

2.19 Work to date has focused on the short-term requirements of delivering the 'test the service' phase in late November 2014. The Department plans to test its new systems with all types of new claims (**Figure 11**). The Department is planning to test new processes and online systems and their impact on claimant behaviour. 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.[18]

17 Prior to the reset the Department sought to use an agile approach to manage the programme, but it struggled to adopt this appropriately (see *Universal Credit: early progress*, paragraphs 3.4 to 3.10). Since the reset, the Department has concentrated its use of agile on developing digital service using a co-located, mixed-skill team. In June 2014, consultants commissioned by the programme board reported that a good agile approach is in place, and that a strong agile culture and organisation has been found inside the digital service. The consultants also found that a focus on long-term planning and effective communication of progress is required to drive scale and delivery, and that adjustments to the team structure will be required to ensure scalability.

18 The Digital by Default Service Standard is a set of criteria for digital teams building government services to meet. The standard needs to be met by all new or redesigned transactional government services going live after April 2014 (www.gov.uk/service-manual/digital-by-default).

Figure 11
New claim types accepted

Legacy benefits	Live service Pathfinder from Apr 2013	Live service North West roll-out from Jun 2014	Live service National roll-out from Feb 2015	Digital service from Nov 2014
Jobseekers Allowance				
Single claims	Yes	Yes	Yes	Yes
Couples without children	No	Yes	No	Yes
Couples with children	No	Yes (from Nov 2014)	No	Yes
Lone parents with children	No	Yes (from Nov 2014)	No	Yes
Housing Benefit				
Rented accommodation	No	Yes (if JSA criteria met)	Yes (if JSA criteria met)	Yes
Owned or partially owned home	No	No	No	Yes
Income Support				
Couples	No	Yes	No	Yes
Lone parents	No	Yes (from Nov 2014)	No	Yes
Carers	No	No	No	Yes
Pregnant or unable to work	No	No	No	Yes
Tax credits				
Child tax credits	No	Yes (if JSA or IS criteria met)	No	Yes
Working tax credits	No	No	No	Yes
Employment and Support Allowance	No	No	No	Yes

Notes

1 Claimants remain on Universal Credit once they start claiming it, regardless of how complex their circumstances become. For example, a 'simple' single Universal Credit claimant may get married and move into work while continuing to claim Universal Credit.

2 Claimants are eligible for Universal Credit if they fall into one of the accepted groups above and have the following eligibility criteria: do not own or part own their home; have a bank or building society account; do not live in temporary accommodation; are not pregnant or given birth within the last 15 weeks; are not a carer; are not self-employed; are unemployed or have household earnings of less than £330 per month if over 25 or £270 if under 25; not challenging or awaiting a decision on Jobseekers Allowance, Housing Benefit, Employment and Support Allowance, Income Support or tax credits; not be staying away from their main home; not be responsible for a child or young person who is: adopted, fostered, being looked after, registered blind or have a disability benefit.

Source: National Audit Office analysis of the Department's September 2014 business case

2.20 The Department did not intend that digital service would be fully automated during the 'test the service' phase. For example, it planned not to use automated integration with existing Department-wide systems, such as its central payment system. In August, it re-prioritised the tasks it needed to complete to be ready for the test the service phase. Because the Department had not recruited as many digital staff as intended, it could not complete all the lower-priority tasks in time for launch. As a result, initially more processes than originally planned will be carried out manually by staff. The Department intends to gradually automate these manual processes through a series of planned regular update releases during the test the service phase. The programme board has signed off high level entry criteria for this phase, and is due to consider draft exit criteria at its December meeting. The Department will only be able to make an informed decision about how and when to proceed to the next phase of development, 'improve efficiency', once exit criteria have been defined.

2.21 To remain on track, the Department will have 18 months to increase functionality to create a fully integrated service eventually capable of handling up to 10 million claimants (**Figure 12**). It will use an agile approach to do this. The Department plans to trial new systems in spring 2015, when it intends to start testing efficiencies and delivery against policy intent. It then plans to test increased capacity from November 2015.

Figure 12
Digital service development

The Department plans to have developed a full digital service within 18 months of its initial testing

	Test the service	Improve efficiency	Make scalable	Full service
Start date	November 2014	Spring/summer 2015	November 2015	May 2016
Number of claimants	100 to 500	1,000 to 5,000	Up to 10,000	Rising to 10 million
Hosting of system	In-house	To be confirmed	Cloud	Cloud
Automated links to other systems	0	5	20	20

Notes

1 During 'test the service' there will be manual links between the new systems and 10 wider departmental systems.

2 Claimant numbers for improve efficiency and make scalable are broad estimates used to populate the business case. The actual numbers brought onto the digital service will be decided as part of the agile planning process in response to learning from test the service and to ensure a full range of claimant types are represented.

Source: National Audit Office analysis of Departmental documents

2.22 The Department has overarching plans for developing digital service. However, these do not set out how it plans to coordinate its agile approach for developing digital service in-house, with the other parts of the target operating model that are essential for delivering Universal Credit. For example, the Department will continue to use traditional approaches for buying and maintaining systems supplied commercially, such as existing Department-wide systems and cloud hosting. In June 2014, external consultants commissioned by the programme board reported that they had been unable to assess the depth and rigour of the Department's longer-term planning. The consultants recommended that the Department produce and publicise plans that include sufficient detail to confirm key activities and milestones; the Department has made some progress in doing so.

Part Three

Learning from the expansion of live service

3.1 The Department has continued to roll out Universal Credit since 2013 and now plans to expand operational roll-out nationwide for single unemployed claimants by April 2016. In this part we consider:

- The expected benefits from the continued expansion of live service; and
- Risks to maintaining quality and accuracy.

Expected benefits of expanding live service

3.2 The Department intends to use the expansion of live service to secure earlier economic and societal benefits and inform and prepare for digital development in different ways (**Figure 13**).

Developing operational capability through live service

3.3 Implementing Universal Credit is a very large operational challenge. By the time it has fully rolled out Universal Credit the Department expects to have trained nearly 38,000 staff across its jobcentre network and service centres. Expanding live service – both in terms of scope to more complex cases and in terms of scale to more jobcentre areas – helps to develop staff understanding and experience of Universal Credit.

3.4 Since April 2013, the Department has continued to expand new simple claims from single claimants from the 4 initial jobcentre areas in North West England to nearly 100 jobcentre areas by the end of 2014.[19] It has also started to take new claims in North West England from couples in June 2014, and families in November 2014, starting with a few jobcentres. In June 2014, it also started accepting claims from unemployed individuals and couples currently in receipt of housing benefit, provided they met all the eligibility criteria (see Figure 11, note 2).

19 'Simple' claims include claims from single claimants without children who, in the absence of Universal Credit, could claim Jobseeker's Allowance. They may also be eligible to claim a housing element. Claimants remain on Universal Credit once they start claiming it, regardless of how complex their circumstances become. For example, a 'simple' single Universal Credit claimant may get married and move into work while continuing to claim Universal Credit.

Figure 13
Possible benefits of live service learning

	Planned impact on stages			Impact of expanded national live service roll-out
	Live service Short-term	**Digital service Medium-term**	**Long-term**	
Operational capability Building understanding and experience of staff	High	High	Low	**Speeds up** the transition to digital by bringing forwards creation of nationwide capacity and infrastructure. Operational benefits are in the transition not long term running (paragraphs 3.3 to 3.6).
Process improvement Refining processes based on live experience	High	Medium	Low	**Partly speeds up** learning about simple cases and processes. No substantial increase in knowledge about complex cases or digital systems (paragraphs 3.7 to 3.9).
Labour market trials Testing claimant responses to support	Medium	Medium	High	**Limited impact** as roll-out only accepts new out-of-work single claimants. Some use for the digital service but not all trials are using online channels (paragraph 3.11).
Overall evaluation Testing long-term labour market impacts	Low	Medium	High	**Slows down** evaluation plans because it speeds up removal of the control group. However provides benefits of learning about single claimants at scale. Longer term impact subject to creation of control groups (paragraph 3.12 to 3.14).
Wider use of elements Using parts of Universal Credit in other benefits	n/a	n/a	n/a	**Little impact** as the scope for wider use has already been established. Some possible iteration of learning from other service back to Universal Credit (paragraph 3.15).

Note

1 Assessments of low, medium and high impacts are designed to show the possible impacts of live service on the development of Universal Credit to help decompose some of the effects. They are not our assessments of the actual test and learn programme within Universal Credit or the benefits of the programme itself.

Source: National Audit Office

3.5 The Department now plans to expand live service so that all 700 jobcentres nationwide support at least some claimants on Universal Credit. It is still developing plans but in broad terms it intends to expand new claims for single claimants in tranches between February 2015 and March 2016 (**Figure 14**). The Major Projects Authority has reviewed these plans and supported the nationwide roll-out, though it acknowledges risks and dependencies remain.

3.6 One of the major benefits the Department expects from nationwide roll-out is the opportunity this will give to form working relationships with local authorities and housing associations. For example, housing associations need to prepare for the payment of benefits directly to tenants rather than to the landlord as rent, and even small numbers of new claims could help them to understand the new benefit. The Department also needs to form local delivery partnerships to provide wider budgeting and digital support to claimants to help them manage the move to monthly payments and identify more work opportunities.

Figure 14

The Department's roll-out schedule for jobcentres and service centres

The Department is expanding roll-out of simple new claims but has not yet worked out its staffing requirements beyond February 2015

	Jobcentres	Jobcentre staff	Service centres	Service centre staff
Numbers added in period				
Apr 2013 to Apr 2014	10	117	2	213
May 2014 to Aug 2014	28	160	1	207
Sep 2014 to Jan 2015	59	988	1	600
Feb 2015 to Apr 2015 (Tranche 1)	150	To be determined	3	To be determined
May 2015 to Jul 2015 (Tranche 2)	160	To be determined	1	To be determined
Sep 2015 to Nov 2015 (Tranche 3)	180	To be determined	2	To be determined
Dec 2015 to Mar 2016 (Tranche 4)	110	To be determined	0	To be determined
Total planned in March 2016	**700**	**To be determined**	**10**	**To be determined**
Total planned in December 2019	**To be determined**	**23,700**	**To be determined**	**14,100**

Notes

1 These numbers are provisional and reflect the Department's latest planning assumptions. Jobcentre numbers in each tranche are based on plans developed in October 2014. The Department was not able to provide expected staff numbers for these roll-out plans and expects these to be complete in December 2014.

2 Staff numbers correspond to full time equivalents.

Source: National Audit Office analysis of departmental roll-out plans

Improving operational processes

3.7 The Department has been working to resolve problems, improve business processes and increase efficiency before expanding nationwide roll-out (**Figure 15**). For example, it is working on changes to social security regulations in response to problems in sharing information about claimants with landlords. Some landlords and claimants have struggled with rent arrears where support for housing costs is included in a single payment direct to claimants. The Department expects to resolve this problem before expanding nationwide.

3.8 As the digital service develops, the Department will continue to provide significant support to claimants, and will need to learn how best to interact with different claimant groups. However, the nationwide roll-out of live service will only accept new claims from single claimants so there will be limited learning about more complex cases unless an individual's circumstances change. The Department had hoped that the North West roll-out would include new in-work claims from January 2015 but this plan did not proceed following a feasibility study.

Figure 15
Examples of learning from live service

The Department has used live service to improve processes in some areas

Data sharing	Departmental staff have been unable to communicate effectively with landlords about tenants who may face financial difficulty due to the move from Housing Benefit to Universal Credit. The Department is working on changes to the Social Security Regulations 2012 to improve communication and help landlords identify tenants who may need budgeting support or alternative payment arrangements.
Direct payments	The Department ran Direct Payment Demonstration projects across the country to understand how well claimants cope when paid all their benefit directly in one single monthly payment. The projects demonstrated that a third of tenants could not adequately cope with direct payment. In those cases, the Department decided to switch back to making payments for housing direct to landlords instead of claimants. The Department is using the lessons from these projects to improve its support to claimants who cannot cope with direct payments.
Hardship payments	The hardship payment process was not working effectively. Universal Credit agents now call claimants back within an hour about hardship payments to help ensure they are processed efficiently. Since April 2014, around 220 claimants have requested hardship payments.
Personal budgeting support	Few claimants were taking up the personal budgeting support provided by the Department or local partnership provider. Work coaches now routinely tell claimants about personal budgeting support. Between April and October 2014 the Department has agreed 330 alternative payment arrangements and referred around 440 claimants to the local authority or money advice service for budgeting support.
Benefit calculation	Payments were delayed where Real Time Information did not match automatically to Universal Credit claimants records and had to be matched manually. The Department has now improved the data matching process.
Staff training	Staff training was not fully tailored to their different roles. The Department has redesigned staff training to tailor it to different staff roles and increase applied learning.

Source: National Audit Office analysis of Departmental documents on learning and management information

3.9 The Department does not see the main purpose of its nationwide roll-out as supporting its test and learn approach to improve the digital service. However, the Department will use the digital service test in November 2014 to identify problems with its new systems and complex cases, for example home owners and families with more challenging circumstances. This first test is small scale and will not immediately capture the full range of cases that Universal Credit will include.

Trialling different approaches

3.10 The Department has been conducting trials in Jobseeker's Allowance, tax credits and Housing Benefit, including approaches to in-work conditionality and claimant support (**Figure 16**). The Department is using trials to improve its live service processes in the short term and inform its longer-term plans for Universal Credit. While the Department has seen some early positive results in some of its trials, it is considering their cost-effectiveness as they are often based on face-to-face approaches which may increase costs in the long term. Its digital and remote trials have had limited success to date.

3.11 The Department aims to implement large scale randomised trials of in-work conditionality within Universal Credit in 2015. Within these trials, it plans to learn from families and couples from the North West roll-out in addition to single claimants that move into work nationwide. It will take some time before there are sufficient numbers of claimants in work to compare different approaches robustly.

Overall evaluation

3.12 The nationwide roll-out will expand Universal Credit to single claimants in different geographic areas. This may affect the Department's longer-term test and learn plans. It had planned to gather evidence about the effectiveness of Universal Credit by comparing claimants to similar legacy benefit claimants in areas outside the North West of England. An independent review of the Department's evaluation strategy for the North West noted that in most respects the strategy seemed entirely appropriate. It highlighted that one of the key strengths of the Department's evaluation plan was that the rest of the country would largely remain on legacy benefits for some time. While this remains the case for couples and families, the accelerated national roll-out to single unemployed claimants will reduce the number of areas where only legacy benefits are available.

3.13 The Department does not believe that their evaluation of single claimants will be undermined by its new approach as it provides an opportunity to study the impact of Universal Credit in different regions. It believes there will be sufficient time to follow-up the earlier cohorts of Universal Credit claimants before rolling it out to their chosen comparative areas. However, it will need to carefully manage the roll-out schedule to retain clean comparison areas for as long as possible.

Figure 16
Labour market trials

The Department has been conducting trials in legacy benefit areas

Stages	Trial	Date	Department assessment
Applies for Universal Credit	External digital platform to match micro-jobs to unemployed claimants	Jun 2013 to Jan 2014	Limited learning; challenges to engaging employers with this approach
	Intensive Activity Period trial	Aug 2013 to Apr 2014	Positive early results but expensive to deliver
Work search support	Face-to-face adviser support to low income households	Sep 2013 to Sep 2014	Challenges around identifying and engaging households
	Providing strong face-to-face adviser support to in-work JSA claimants	Sep 2013 to present	Positive early results; trial ongoing
Moves into work	Extending telephone support for up to 6 months after leaving JSA	May 2013 to present	Positive early assessment of activity
	Extending telephone support for up to 2 months after leaving JSA	Jun 2013 to May 2014	Trial ended due to limited impact
In-work conditionality and support	Providing external support to JSA claimants who are working	Jul 2013 to Apr 2014	Positive results but trial ended due to low value for money
	Local partnerships with colleges to provide in-work skills development	Jul 2013 to present	Refocused trial due to limited take up
	Digital in-work progression support after leaving JSA	Sep 2013 to May 2014	Positively received by claimants but limited engagement and impact
	Engaging employers and newly employed in progression discussion	Sep 2013 to May 2014	Limited impact; trial ongoing
	Extending face-to-face adviser support, after leaving JSA	Sep 2013 to Sep 2014	Limited impact and take up
	External face-to-face support to drive employer flexibility and broker high-paid work for low-paid household	Jan 2014 to present	Trial ongoing, too early to form judgement
	External support to change aspirations of people in low paid work	Aug 2014 to present	Trial ongoing, too early to form judgement
	Local area partnership	Sep 2013 to May 2014	Limited results, new trials up and running

Note

1 Trials conducted with Jobseeker's Allowance, Tax Credits and Universal Credit claimants. In some cases trials may have informed more than one step in the process.

Source: National Audit Office analysis of departmental documents on trials and evaluation

3.14 The Department's future test and learn plans have been limited to date by the slower increase in claimant numbers than expected, although this is in part due to lower than expected unemployment (**Figure 17**). As a rule of thumb it planned on the basis of 10,000 claims in each of its claimant groups are needed for a robust evaluation of the labour market impact of Universal Credit. This has reduced the scope for extensive and timely findings to inform the Department's development of new digital systems:

- **Couples.** In the 4 months after accepting new claims from couples, there were only around 400 applications compared to the 3,000 expected. The Department has revised its projections but still expects to achieve 10,000 claims by September 2015. This would require a large increase in the rate of couples applying.

- **Families.** The Department aims to start testing claims from families in sites from late November. This is 2 months later than the Department's original planning assumptions. It does not have plans to accept claims from more complex households with children outside of the digital service tests and roll-out.

- **In-work claimants.** The Department had planned to redirect all new tax credit claims on to Universal Credit in the North West from January 2015. It does not now expect large numbers of new claims from people in work until 2016.

Figure 17
Planned claimant numbers

Longer-term evaluation plans have been delayed by low numbers of couples and families

	Target date to reach 10,000 claimants			Actual claimant volumes
	Winter 2013 plan	Autumn 2014 plan	Delay	October 2014 actual
Singles	February 2014	June 2014	4 months	17,450
Couples without children	June 2015	September 2015	3 months	400
Couples with children	February 2015	September 2015	7 months	0
Lone parents	May 2015	June 2015	1 month	0

Note

1 In addition, 2,690 claimants had left Universal Credit up to October 2014. A total of 20,540 people have started Universal Credit.

Source: National Audit Office analysis of Departmental test and learn documents and claimant projections

Wider use of parts of the service

3.15 Where elements of Universal Credit are working well the Department is using them more widely across its existing benefits and activities (**Figure 18**). 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.

Figure 18
Reuse of Universal Credit Element

Elements of the Universal Credit programme have been reused in the Department's wider work

Real Time Information (RTI)	The Department is starting to use RTI more widely to reduce fraud and error by: • conducting a one off exercise to check reported earnings in Jobseeker's Allowance (JSA) and Pension Credit claims; • validating job outcomes claimed by Work Programme suppliers; and • developing strategic plans to routinely incorporate RTI into benefit streams.
Claimant commitment	The Department has applied its learning from implementing claimant commitment to: • inform new JSA Claimant Commitment design; • build better understanding of legacy benefit conditionality; and • develop a cross-government communications guide on the use of behavioural economics and social psychology to drive behavioural change.
Security	The Department has shared its learning from documenting online security patterns with Digital Leaders and security staff across Government.
Local partnerships	The Department has shared its learning from Local Authority-led pilots in face to face services with Departmental staff and other councils.

Source: National Audit Office analysis of Departmental documents

Risks to maintaining quality and accuracy

3.16 The Department acknowledges that the challenge will be to keep consistency of quality while rolling out at scale. The Department needs to have strong risk management in place to maintain standards of service. It will also be critical for the Department to have timely information on potential backlogs before and during its accelerated national roll-out from February 2015.

Rapid recruitment and training

3.17 The Department aims to open 3 more service centres and recruit an additional 600 to 700 people before February 2015. It also intends to train around 10,000 people by April 2016. The Department believes that it has learned from experiences in 2013 and 2014 and will be able to expand live services more efficiently in nationwide roll-out. It has reduced its learning and development costs, increasing risks to service quality. Planned changes include:

- **Reduced training plans and costs.** The Department has developed a challenging schedule for nationwide roll-out and acknowledges that the learning and development approach it used in the North-West would not be feasible at scale. As a result, it has reviewed and improved its training provision. The Department now plans to condense and tailor the training and mentoring it gives to staff compared to the North West roll-out in 2014. It has reduced planned training budgets up to April 2016 by 68% from £117 million to £37 million.
- **Reduced familiarisation period for live service.** The Department will halve the time it gives to new staff to familiarise themselves with Universal Credit compared to the North West roll-out in 2014. This reduces costs by £14 million.
- **No budgeted costs for digital system familiarisation.** In its plans for the digital roll-out from May 2016 onwards, the Department does not allow in its cost model for any familiarisation period. This avoids costs of £72 million over 5 years compared to its plans for nationwide live service familiarisation.

System accuracy problems

3.18 Universal Credit is not a mature service and the Department will need to tackle problems with technical systems as they arise, and also staff and claimant understanding of processes. The Department's operational performance improvement team has mapped live service processes and continues to identify areas for improvement, but the frequent changes also increase the risks of staff giving outdated or incorrect advice to claimants.

3.19 Since April 2013, the Department has been manually checking system payment calculations and correcting them prior to making payments. The Department has been working with the IT suppliers to improve system accuracy. The error rate fell below 5% in late 2013 (**Figure 19** overleaf). As a result, the Department stopped checking 100% of claims in December 2013 and concentrated on targeted checks.

3.20 In April 2014, a software update created new problems for calculations and inaccuracy increased again. Between April and June 2014, over 10% of payments made to claimants were incorrect. This damaged staff and stakeholder confidence in the system and the Department had to reintroduce 100% manual checking of payments in June 2014. The Department reduced the error rate to below 5% in September 2014 before committing to the nationwide roll-out plans from February 2015 and intends to revert to targeted checking.

3.21 The Department does not intend to continue checking all payments as it rolls out Universal Credit nationwide. Manually checking payments would be expensive if required at scale. We estimate that the Department spends £10 per claim monthly for manual checking assuming no further investment to improve the system. For example, if further problems occur, the Department would have to spend around £5 million per month for manual checking once live service caseload peaks in May 2016.[20]

3.22 The successful nationwide roll-out of Universal Credit will depend on the integrity of future IT releases needed to maintain live service systems. A further 3 major IT releases are planned over the next year, which the Department intends will increase automation in live service systems. The Department put in place additional controls over IT releases following the problems in April 2014 and has introduced more rigorous testing and release management approaches. If further problems occur, the Department must use these effectively to control the pace of roll-out.

20 The Department plans to use the live service system nationwide until May 2016. It then plans to complete moving areas on to new digital systems by December 2017. We estimate that the total inefficiency in the Department's planned use of live service to this date will be around £150 million in staff costs (compared to the Department's planned digital efficiency over time). This does not include the cost of IT system maintenance.

Figure 19
Payment error rates

Live service systems are still reliant on manual intervention to correct errors

Notes

1 The Department stopped doing 100% checks in December 2013 and started again in June 2014. As a result, the figures for this period will not reflect any undetected errors in payments.

2 At present the Department is undertaking 100% checking of all payments before they go out.

3 The Department's working target for error levels is below 5%.

4 Error rate in this figure is the percentage of total claim payments that is incorrect or missing.

Source: National Audit Office analysis of Departmental management information and error reports

Part Four

Managing the programme

4.1 In our report on *Universal Credit: early progress*[21] in September 2013 we identified several failings in the early management of the programme. In this part we consider how the Department has tackled these concerns, and:

- strengthened leadership of the programme;
- clarified governance and oversight arrangements; and
- improved supplier management and financial control.

Continuing changes in senior leadership

4.2 The Department experienced high turnover in the senior leadership of Universal Credit between 2011 and 2013. This contributed to difficulties in making decisions and managing the programme. Frequent changes in leadership and direction also affected staff morale; in mid-2013, a staff survey found that programme staff had little confidence in the leadership team and few opportunities to challenge decisions.

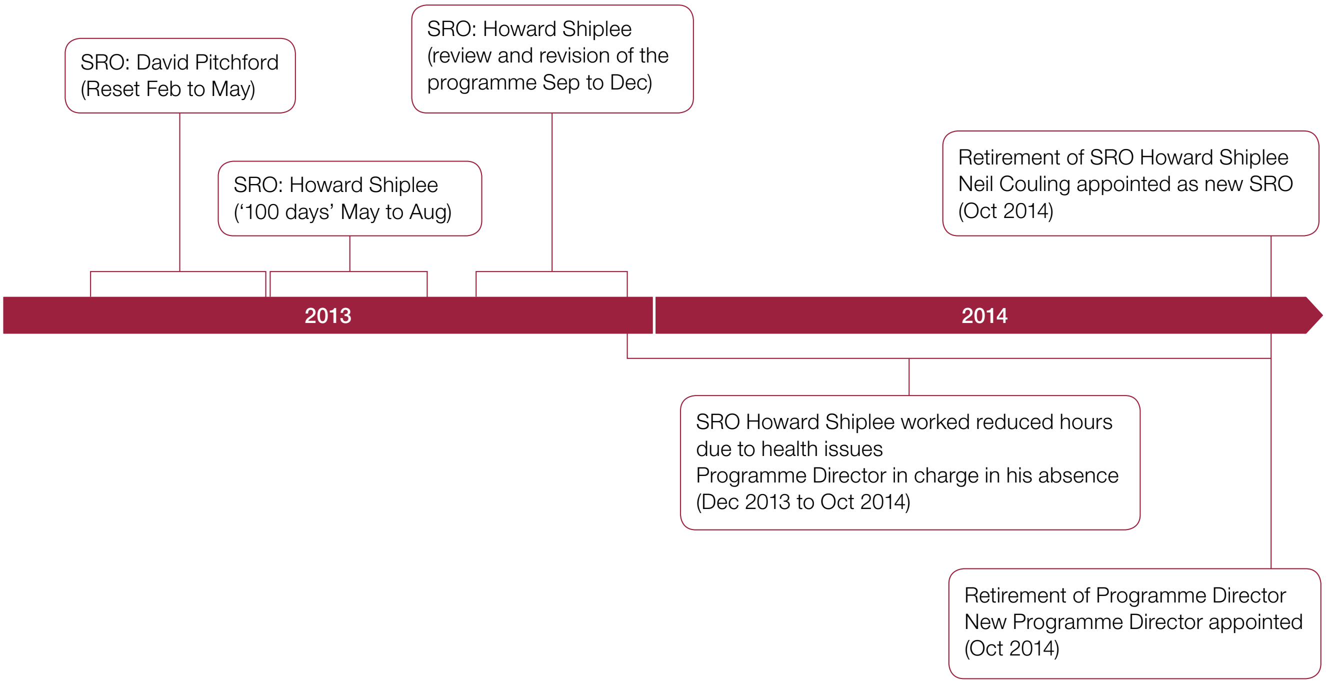
4.3 The Department has continued to experience turnover in key roles. From the start of 2014, the programme's senior responsible owner worked only 1 day a week due to ill health, and left in September 2014. The programme director since May 2013 retired in October 2014. In both cases the Department has had time to plan for their departures and bring in replacements without interruption (**Figure 20** overleaf).

4.4 Confidence in the leadership team has improved despite continuing difficulties and the heavy demands on the programme director through 2014 caused by the limited availability of the senior responsible owner. A follow-up survey found a large increase in the number of staff expressing confidence in the actions of senior leadership (from 30% in 2013 to 75% in 2014) and an increase in the number of staff who feel that senior management encourages challenge and welcomes their suggestions (from 30% in 2013 to 70% in 2014).

21 *Universal Credit: early progress*, Part Three.

Figure 20
Leadership of Universal Credit over time

Universal Credit has lacked a full-time SRO since putting its new plan into place



Source: National Audit Office analysis of Departmental documents

Improving but not established governance

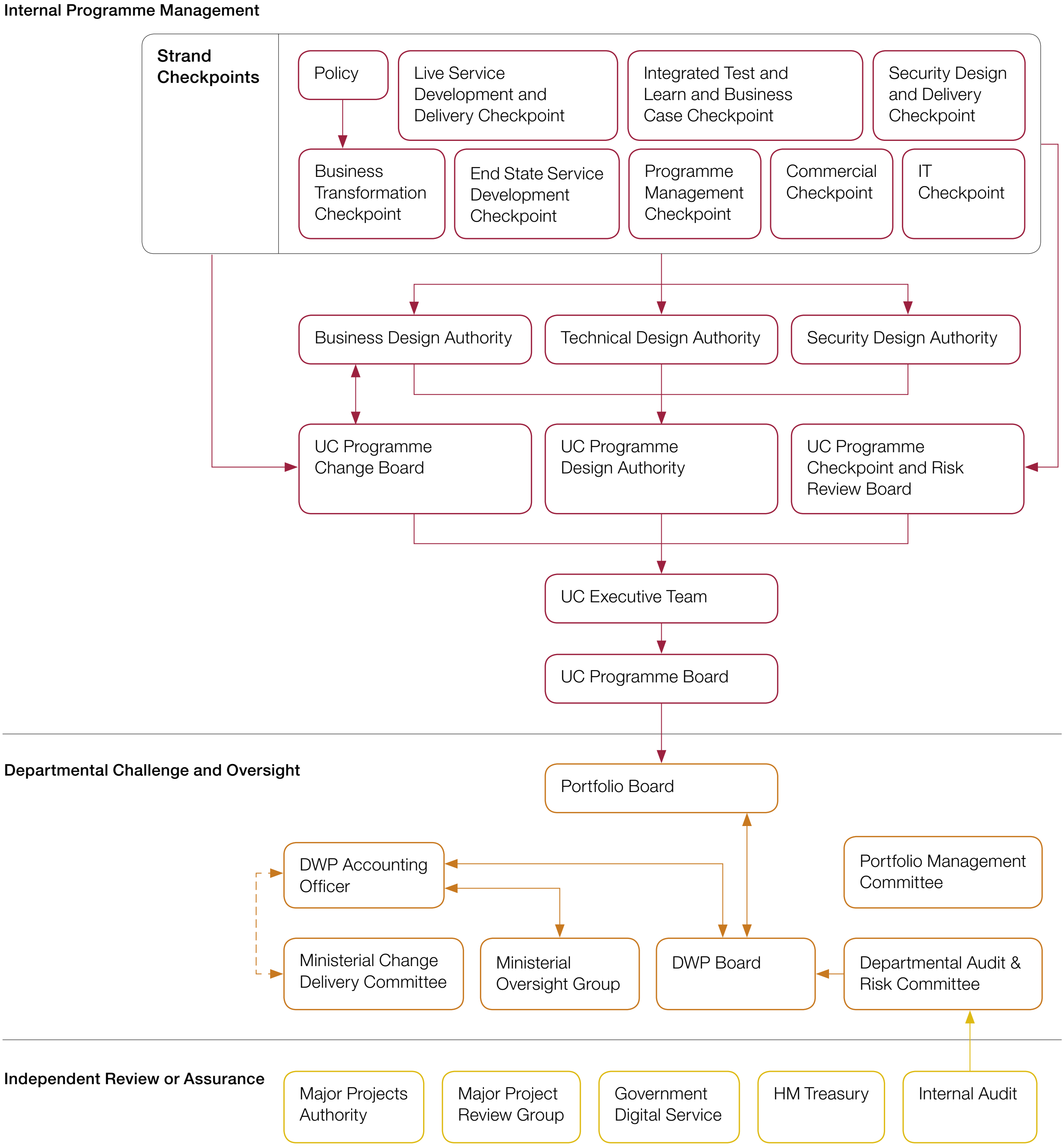
4.5 During 2013, the Department started substantial restructuring of the programme's governance and oversight arrangements. It also created a draft Universal Credit programme handbook, but this was not taken forward. Changes included the creation of strand checkpoints to reflect the twin-track approach agreed by the ministerial oversight group in November 2013.

4.6 The Department has continued developing new arrangements during 2014 (**Figure 21**). In early 2014, the Department concluded that the regular Programme Design Authority meetings were not routinely used for the appropriate level of senior and strategic decision-making. As a result, in February it established the Business Design Authority, Technical Design Authority and Security Design Authority, which have met fortnightly to discuss detailed design issues. The Programme Design Authority, which the Department had anticipated would meet weekly to discuss detailed issues, now considers design issues that cannot be resolved at a working level by the subordinate design authorities, or which have Department-wide implications. Since February it has met twice.

Figure 21

Universal Credit governance

The Department has set out new governance arrangements



Source: National Audit Office analysis of Departmental documents

4.7 In September 2014 internal audit reported that during the previous 6 months programme governance arrangements had become much clearer, and that these arrangements are continuing to evolve to ensure they provide effective management of both live service and digital service delivery. Internal audit said that the programme was working through the respective purpose of each governance body, to ensure that the structure is optimised and effective in managing the delivery of both the 'live' and digital service. The Department accepted that it needs to continue with its plans to further strengthen the programme's governance in relation to planning, embedding risk management and enhancing management information.

4.8 The Department has strengthened the challenge provided by the programme board by adding a new independent chair. For example, in March 2014 the programme board recommended against an accelerated transfer of tax credit claimants. The level of overall attendance has improved compared with 2012 but the former senior responsible owner has been unable to attend any meetings. Our review of board papers suggested that some board members have on occasion found discussion limited by meetings being only 2 hours long, once a month.

4.9 The programme board has noted a need for papers it receives to have a sharper focus on facts, as opposed to advocacy. This is despite the steps the Department has taken in other areas to address criticism in 2013 of a 'fortress mentality' within the programme. The board also had limited opportunity to influence the Department's key decisions in addressing the strategic risk in plans for the mass transfer of legacy benefit claimants onto Universal Credit. After an initial discussion with the board on strategic risks and issues in March, the Department updated the board on its progress at the end of July, when the board asked for a detailed feasibility report on the mass transfer plans for its September meeting. The board, which was given a further update at its August meeting, approved the feasibility report at the end of September, by which time the Department's revised plans had already been submitted to HM Treasury for approval.

4.10 The Department has strengthened the independence of the programme assurance function by moving the Programme Assurance Office out of the programme.[22] The Department has since reorganised this function and divided it between the finance and business transformation groups. It has continued to use external consultants for expert challenge on and assurance over digital development.

4.11 The Department has been working to clarify the respective responsibilities of its Business Transformation Director General and other senior digital staff for the technical architecture, the design and build of the new Universal Credit IT systems and their strategic role in the Department's wider technical target operating model. In March 2014, the Chief Information Officer left the Department and was replaced by a deputy until September, when a new Director General for Technology was appointed.

22 *Universal Credit: early progress*, paragraph 3.23.

More active supplier management and financial control

4.12 The Department has made changes to improve its financial management, launching a new financial control framework in April 2014 (**Figure 22** overleaf). This was in response to various reports produced in 2012 and 2013 which identified problems in its management of suppliers and poor financial control over the Universal Credit programme.[23] The new framework sets out the financial policies and guidance, roles and responsibilities, processes and key controls, assurance activities and reporting.

4.13 The Department's new financial control framework is still bedding-in, and the Department is monitoring it regularly. The first 2 quarterly Universal Credit Financial Assurance Reports, covering the 6 months ending June 2014, have found that the programme complies with key financial controls and procedures, and that there are no systemic failings: the new delegated financial authority policies and procedures are in place and compliance is being monitored; budgetary control is effective; and financial procedures are in place to enable appropriate accounting treatment and accurate reporting of expenditure. The Department's internal audit reported in November 2014 on the effectiveness of the programme's financial management, and concluded that the framework of governance, risk management and control was adequate and effective, which equates to a 'Substantial Assurance' rating being appropriate at this time.[24]

4.14 The Department's management of suppliers has been tested by the problems that emerged following an IT update in April 2014 designed to enhance live service. A supplier made significant changes in addition to the work that had been commissioned by the Department. It did not fully inform the Department of this, therefore the update was not adequately tested before it went live. The release caused an increase in payment errors described in Part Three. The supplier agreed to rectify the coding at its own expense. This delayed the next release by 2 weeks because of constraints on departmental and supplier resources, and the need to implement further controls recommended in a review commissioned by the Department after the April release. In November 2014, the Department's internal audit reported that the programme has built technical capability to challenge, monitor and review supplier performance, including challenge of the management information provided.

23 *Universal Credit: early progress*, paragraphs 3.25 to 3.26 and Figure 15.
24 'Substantial' is the highest rating used by the Department's internal audit.

Figure 22
Changes to the financial management and control framework

The Department changed its financial management controls following earlier recommendations

Programme management and control	Financial Control Framework has been devised, including new Finance Manual
	Roles and responsibilities for Financial, Supplier and Delivery Management have been clarified
	Capacity and capability to review supplier work has been increased
Financial management and control	Processes for checking invoices before payment have been improved
	Processes to ensure appropriate approval is obtained before contracts are let have been improved
	Clear guidance on the appropriate levels of Delegated Financial Authority have been produced
	Suppliers are required to provide greater levels of billing information and evidence of progress
Forecasting and financial reporting	New financial reporting pack has been developed
	Framework for the Quality Assurance of Financial Models has been developed
Contract management	Measurable milestones are built into supplier contracts
	Roles and responsibility around contract requirements, milestones and monitoring have been clarified
	Supplier performance is monitored through improved management information

Source: National Audit Office analysis of Departmental documents

Appendix One

Our audit approach

1 This report examined the Department for Work & Pensions' (the Department) progress in implementing Universal Credit. We reviewed how the Department: developed the Universal Credit programme since the reset; made progress in implementing revised plans; and managed the programme. Our audit approach is summarised in **Figure 23** overleaf). Our evidence base is described in Appendix Two.

Figure 23
Our audit approach

The objective of government

The primary aim of Universal Credit is to reduce welfare dependency by:

- improving the incentives for work;
- removing actual or perceived barriers to work; and
- simplifying the benefits system by consolidating 6 existing benefits into a single and integrated, income-related, working-age benefit administered by the Department.

How this will be achieved

The programme will be implemented by developing a secure system to calculate and make a single payment consisting of a basic personal amount with additional amounts for disability, caring responsibilities, housing costs and children. If successful, Universal Credit should make a net reduction in the amount that government pays out in benefits together with reductions in fraud and error, reduced administration costs and a better-focused system which targets benefit spending to those in greatest need.

Our study

The study describes the evolution of the Universal Credit programme since the reset. We review the Department's latest plans and compare these against progress and examine how effectively the programme is being managed.

Our evaluative criteria

Live Service is working well in practice and has the capacity and capability to accommodate the planned expansion.

DWP has a clear target operating model for its end state service, and a well worked-out delivery plan.

There is strong programme management and a clear understanding of risks.

Our evidence

(see Appendix Two for details)

We assessed the programme's planning by:

- reviewing departmental documents;
- interviewing key staff at the Department and other stakeholders; and
- reviewing the results of internal and external challenge.

Our conclusions

The Department 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.

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. 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 integrated this with live service. We consider it important that the Department 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.

Appendix Two

Our evidence base

1 We completed our independent review of the Universal Credit programme after analysing evidence that we collected between June and November 2014.

2 We used an evaluative framework to consider the implications for value for money by comparing the Department's progress against its plans, and reviewing what the experience shows about programme management. Our audit approach is outlined in Appendix One.

3 **The Department's planning and programme implementation:**

- We reviewed departmental documents and modelling to understand how the business case for Universal Credit has been developed, and changed since the reset.
- We reviewed the Department's documents to understand how its policy for Universal Credit evolved, and how this impacted on implementing the programme.
- We interviewed departmental officials to understand how the programme has developed and the progress of both live service and digital service.
- To understand live service operations, we observed claimant interviews within jobcentres and interviewed jobcentre staff. We also listened to telephone calls from claimants in service centres and interviewed staff involved in telephony, accounts development, decision making and operational control.
- We reviewed the results of internal and external reviews to establish whether the Department acted on findings and recommendations regarding the programme's rationale and objectives.

4 The Department's governance and programme management:

- We reviewed key governance documents to assess clarity and coverage.
- To assess understanding of risks we reviewed programme management documents, including risk registers, expenditure and progress reports and project management plans.
- We interviewed senior department officials to understand changes in governance and programme management.
- We reviewed programme board minutes and assurance reports to examine whether the Department was acting on recommendations regarding governance and programme management.

5 Costs of implementation of Live Service and the work that has been undertaken on the digital system:

- We reviewed Departmental documents and modelling to assess the cost of work so far and what this spending has produced.
- We interviewed Department staff to understand its management and cost control.
- We interviewed the Department's main suppliers and reviewed their analysis to understand their assessment of the value and progress of their work so far.

Appendix Three

Target operating model

1 The Department for Work & Pensions (the Department) has set out target and interim operating models for Universal Credit, which it is continuing to develop. **Figure 24** sets out the Department's current status in delivering the key elements of the target through both its live and digital service, and areas where it needs to develop the model.

Figure 24
Operating model gap analysis

The Department has work to do in all areas to deliver its target operating model

Key elements of the target	Current status
Customers: National roll-out to all eligible customers	Various exclusions mean that not all claimants are eligible for Universal Credit in live service areas
	Digital service, which is open to all claimant types, is only available in a single postcode area
	Need to continue to build the evidence base for investing in the support offer for in-work claimants
	Need to secure funding to support the in-work labour market regime
Channels: Multi-channel approach which uses digital to interact with claimants more efficiently and effectively	Need better understanding of volumes that will be using each channel
	Need to continue to ensure alignment with wider departmental channel strategy
	Face-to-face contact is required with claimants to verify identity
Products and services: Products and services are clearly defined and understood	Products and services needed to support delivery of Universal Credit for claimants in live service and digital service areas have been developed
	Need to confirm products and services required for other stakeholders, such as employers and landlords
Delivery partners and stakeholders: Integrated working with delivery partners and stakeholders	Developing partnerships through roll-out in live service and digital service areas
	Work needed to identify budgeting support providers and what the Department must do to prepare them
	Need to agree detailed scope of local authority roles
	Need to understand future service offer regarding contracted employment programmes including the work programme
	Need to clarify nature of service the Department will provide to other departments that will rely on Universal Credit for passporting benefits

Figure 24 *continued*
Operating model gap analysis

The Department has work to do in all areas to deliver its target operating model

Key elements of the target	Current status
Processes: Digital service delivers transformed customer service by automating back-end processes	As planned, many processes in live service and digital service areas currently remain dependent on manual interventions Need to establish correct balance between standardised processes and local flexibility
Organisation: Organisation to enable end-to-end accountability for the customer journey	Some reorganisation of the Department in live service and digital service areas Need to determine the number of regional support centres needed, and their staffing requirements Need clearer understanding of what 'regional accountability' and 'end-to-end' means Need to determine how many regions will be required nationally, and the number of local offices in each
People: Staff delivering a 'once and done' service	Staff trained to deliver Universal Credit in live service and digital service areas By January 2015, 2,300 jobcentre and service centre staff will have been trained, out of the 38,000 required in the steady state
Technology: Development and ownership of digital service technology that is more flexible and cheaper to maintain	As planned, technology operating in both live service and digital service areas currently requires manual intervention Interfaces with legacy systems that have been created for live service will be reused by digital service Department is finalising which live service systems it will reuse Some architecture, design and delivery decisions still to be made in accordance with digital service's agile approach
Information: Analysis of Management Information enabling ongoing improvements to service design	Current Management Information aimed at supporting test and learn The Department is establishing what management information it needs to gather to help it improve service design in the long term
Security, counter fraud and error: Service is supported and protected by a range of services that provide security and counter fraud and error	Neither live service nor digital service currently have in place the automated security measures required to support and protect the full range of services Universal Credit is ultimately intended to provide Need contingency in case Transactional Risk Engine is not available when required by the programme
Location: Local delivery outlets and service centres on a regional basis	Live service and digital service using existing sites Need to determine location 'footprint' in each region, including both service centres and local offices Need to examine opportunities for co-location

Source: National Audit Office analysis of Universal Credit target operating model and interim operating models

Appendix Four

Universal Credit IT assets

1 Before the reset, the Department for Work & Pensions (the Department) spent £303 million with large IT suppliers to develop Universal Credit IT systems. Of this, £165 million was used to construct IT systems and £31 million to buy software licences. In November 2013, the Department carried out an impairment review and wrote off £40 million of these IT systems (**Figure 25** overleaf). The remaining systems, which cost £125 million to develop, are being used in live service and will support the accelerated national roll-out from February 2015. Following the impairment review, the Department expected to reuse systems that cost £34 million in its planned digital service; this is 17% of IT assets created for £196 million.

2 The Department is re-examining which of the live service systems it can reuse to meet the long-term needs of the programme (**Figure 26** on page 57). The Department's reuse assessment will provide it with a better understanding of which parts of the final Universal Credit technical architecture it will need to develop and which existing systems it will need to incorporate in the digital service. It will be able to make any changes to its amortisation policy and impairment decisions accordingly.

Figure 25

Department's estimates of Universal Credit IT investment and assets

		£ million
IT investment up to 31 March 2013	303	
Further IT investment 1 April 2013 to 31 October 2014	41	
Total cost of IT investment		**344**
Value of assets created		**196**
Of which:		
• IT systems	165	
• Software licences	31	
Movement in value of assets up to 31 March 2013		**(44)**
Of which:		
• IT systems impaired	(40)	
• Software licences transferred within the Department	(4)	
Value of Universal Credit assets used in live service on 31 March 2013		**152**
Of which:		
• IT systems used only in live service	91	
• IT systems expected to be reused in digital service	34	
• Software licences expected to be reused within the Department	27	
Movement in value of assets between 1 April 2013 and 31 October 2014		**(27)**
Of which:		
• Additions	19	
• Amortisation	(44)	
• Other adjustments	(1)	
Value of Universal Credit assets used in live service on 31 October 2014		**125**

Notes

1 The Department expects that live-service-only IT systems will be used up to December 2017 and will be fully amortised by then. This means they are being amortised over 5 years at most, instead of the 15 years as intended prior to the reset in early 2013.

2 Software licences are amortised over 5 years.

3 Software licences are for standard products which the Department expects to reuse, but not specifically in digital service.

4 Asset values and accounting treatments have been audited up to 31 March 2014, when the value of Universal Credit assets used in live service was £131 million.

5 Additions relate to work completed on service improvements, enhancements to allow claims to be received from couples and families, and Work Services Platform infrastructure remediation. The audited value of additions up to 31 March 2014 was £7 million.

6 Other adjustments include impairments, disposals and reclassifications, and revaluations.

7 Numbers do not sum due to rounding.

Source: National Audit Office analysis of Departmental financial data

Figure 26
Live service systems reuse decisions

Since August 2014, the Department has assessed live service systems against reuse criteria and has recommended which will be reused by digital service

System	Capitalised cost (£m)	Recommendation	Rationale
Earnings	6	Reused	Reuse is practical and consistent with the digital service approach and development
Payments	7	Further analysis	Reuse could provide tactical short-term benefit System may form part of the longer-term solution Analysis needed to identify what enhancements would be required
Evidence	33	Partially reused	Expect to reuse eligibility, entitlement and conditionality rule set Wider use of full component not recommended as integration with digital service would involve significant complexity
Interview	57	Not reused	No credible way to integrate it with digital service
Work services	4	Not reused	Change of scope between digital service and live service
Business process manager	Not capitalised	Not reused	Process flows are specific to live service
Workgroup and payment	1	Partially reused	Reuse of payments rules set Wholesale reuse would require significant change to integrate it to support real-time payments calculations

Source: National Audit Office analysis of Department's documents

Appendix Five

Customer segmentation

1 Under Universal Credit, claimants will fall into 1 of 6 groups depending on their characteristics and earnings (**Figure 27**). The Department for Work & Pensions (the Department) intends to provide support for, and require commitments from, claimants that are appropriate to their circumstances. The Department expects the largest proportion to be claimants who are in work, who will constitute over half of all claimants.

Figure 27

Customer segmentation

The majority of Universal Credit claimants will be in work

Customer segments		Claimants (million)	Contact	
			Face-to-face	Frequency
In work – earning				
Above conditionality threshold	Individual or household earnings over the level at which conditionality applies	4.0	No	Low
Below conditionality threshold	In work but could earn more, or not working but has a partner with low earnings	1.0	To be decided	Low to Medium
Out of work groups				
Intensive work-search	No income, or with very low income from other sources	1.8	Yes	High
Work preparation	Expected to start preparing for the future, eg carer for child aged 3–4	0.6	Yes	Medium
Work focused interviews	Expected to work in the future, eg carer of child aged 1–2	0.5	Yes	Low
No work related requirements	Not expected to work at present, eg due to health or carer of child aged under 1	1.7	No	Low

Notes

1 Total number of claimants here is 9.6 million. This is higher than the number of Universal Credit cases shown in Figure 4 which counts couple claimants and family units as a single case.

2 The customer segments shown are those envisaged by the Department when Universal Credit is fully rolled out, rather than the segments currently adopted.

Source: National Audit Office analysis of departmental documents

Appendix Six

The Universal Credit business case

Figure 28

The analysis of the Universal Credit business case

Business case	Twelve years 2010-11 to 2022-23 (£ billion) Autumn 2011	Summer 2012	Winter 2012	Winter 2013	Autumn 2014
Investment Cost	(2.2)	(2.1)	(2.4)	(1.9)	(1.7)
Administration savings/(cost)	3.0	3.7	1.8	(1.0)	(0.3)
Government DEL (costs)/savings	**0.8**	**1.6**	**(0.6)**	**(2.9)**	**(2.0)**
Increase in benefits spending	(35.8)	(29.4)	(16.6)	(11.8)	2.6
Reduced overpayments	15.5	14.2	15.0	14.0	
Gain to government from increased employment	0.6	5.8	12.4	5.8	4.7
Government AME (costs)/savings	**(19.7)**	**(9.4)**	**10.8**	**8.0**	**7.3**
Distributional benefits (non-cash)	16.9	30.9	18.6	20.7	14.5
Wider gains from increased employment	2.4	6.8	6.1	2.9	2.3
Cash impact on individuals	22.0	16.7	3.1	(0.9)	(1.4)
Total savings (cost) to wider society	**41.3**	**54.4**	**27.8**	**22.8**	**15.5**
Net saving	22.4	46.6	38.0	27.8	20.9
Net present value	16.2	33.7	27.0	19.5	14.5

Notes

1 This analysis compares the Universal Credit business case figures over the same 12-year period from 2010-11 to 2022-23. This differs from the Department's business cases shown in Figure 6, for Winter 2013 and Autumn 2014, which cover the 10.25 years from quarter 4 2013-14 to 2023-24. As such the Department's business case follows HM Treasury Green Book guidance by excluding sunk costs from past periods because they are not relevant to investment decisions. Our analysis includes sunk costs to show the movement in costs and benefits between the business cases.

2 In Autumn 2014, the government AME figure of £2.6bn is the sum of increases in benefit spending and reduced overpayments. This is because the Department did not fully revise the Autumn 2014 AME figures to reflect changes since the Winter 2013 business case.

3 Distributional benefits are explained by the Department as follows: "a) Universal Credit will increase payments to people on lower incomes; and b) people on lower incomes value a given change in income more than those on higher incomes, which makes society better off."

4 Departmental Expenditure Limits (DEL): firm multi-year plans are set in spending reviews. Departments may not exceed the limits that they have been set. All spending should be assumed to be in DEL unless HM Treasury has stated otherwise.

5 Annually Managed Expenditure (AME): spending that is demand-led, volatile as to amount and so large as to be unable to be absorbed within normal DEL controls.

Source: National Audit Office analysis of Universal Credit business cases of Autumn 2011, Summer 2012, Winter 2012, Winter 2013 and Autumn 2014

Glossary

Department-wide systems	Existing systems used by the Department which the digital service will need to work in conjunction with when it becomes operational.
Digital service	Enhanced online service, being developed in-house, intended to deliver the full scope of Universal Credit and make provision for all claimant types.
Interim operating model	Single high-level view of the business change planned for each stage of the programme as it builds towards the Universal Credit target operating model.
Jobcentres	Local sites that provide face-to-face services to claimants and manage local delivery partnerships.
Legacy benefits	6 existing working-age benefits that Universal Credit will replace.
Live service	Further roll-out of limited service, used in 10 pathfinder sites, across North West England between June and December 2014, and nationwide between February 2015 and March 2016. Existing systems have been enhanced during 2014 to enable claims from some couples and families in North West England and pathfinder sites.
Live service systems	IT systems developed by suppliers prior to the reset.
Pathfinder	Limited service, launched at 10 job centres between April 2013 and April 2014. Uses IT systems developed before the 2013 reset. Restricted to claims from some single jobseekers.
Reset	12-week exercise after Universal Credit was paused in February 2013 which developed a ‘blueprint’ for the programme, launched pathfinder in April 2013, and sought to address serious problems that the Major Projects Authority had identified with the programme.
Service centre	Regional centres, used for: handling enquiries; support services for claimants’ accounts; telephone assistance for claimants; and specialist functions, such as considering appeals.
Target operating model	Single high-level view of how the Department will be configured to deliver Universal Credit in its steady state, and how the Department needs to change to do so.
Test and learn	Approach that uses learning from the roll-out of live service, and from a range of pilots testing specific aspects of policy, to drive continuous improvement in the design and development of Universal Credit.

Transition and migration	Managed 2-stage process for bringing digital service into national operation, involving: • Transition. All new claimants, or existing claimants whose circumstances change, are enrolled on Universal Credit rather than legacy benefits (national roll-out planned from May 2016 to December 2017). • Migration. Current claimants of legacy benefits are moved in to Universal Credit (planned from January 2018 to December 2019).
Twin-track approach	Department’s plan to operate live service while it develops digital service, called ‘test and learn’.

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