

Public Accounts Committee

Oral evidence: Universal Credit: follow up, HC 810

Wednesday 10 December 2014

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Members present: Margaret Hodge (Chair); Guto Bebb; Mr David Burrowes; Chris Heaton-Harris; Meg Hillier; Mr Stewart Jackson; Mrs Anne McGuire; Austin Mitchell; Stephen Phillips; and Nick Smith

Amyas Morse, Comptroller and Auditor General, National Audit Office, Gabrielle Cohen, Assistant Auditor General, National Audit Office, Max Tse Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Robert Devereux, Permanent Secretary, Department for Work and Pensions, Neil Couling, Senior responsible owner, Universal Credit programme, and Sharon White, Second Permanent Secretary, HM Treasury, gave evidence.

Q1 Chair: Welcome. Back to universal credit. I will start with Sharon, if I may. Can you help the Committee by telling us why it took you so long to agree the outline business case?

Sharon White: The Committee will have to forgive my voice.

Chair: Oh my God, you sound terrible.

Sharon White: That is the first time I have had sympathy from the PAC.

I will say a couple of things. First, the Treasury agreed an initial outline case early on in the process—in July 2011. On why it took until September 2014 to agree the strategic outline business case, you will remember that we last came to the Committee about a year ago, at the point at which Ministers had decided to agree the so-called twin-track approach, which the NAO talks a lot about—the parallelism between the digital and the live service provision. We had a look at the strategic outline business case initially in April 2014. As you would expect with any programme of this size, particularly with the reset and the new parallel approach—

Q2 Chair: What were the issues?

Sharon White: We had two or three key issues. One was the question of the so-called target operating model, which is basic jargon for asking, when you get to the end stage, what in detail the thing that you are shooting for is. We also had a question—unsurprisingly, given that we had a question about the long term—about the details of the migration plans for the various legacy benefits and, in particular, tax credits, which, as you know, are the most complicated part. Those are the two main questions. We worked very well with the Department on the back of that, agreeing incremental expansions with individual business cases, until we got to the stage, which we just passed in September, when we were able to agree the strategic outline business case.

Q3 Chair: You have agreed the strategic; as I remember, the process in Government is that you go from strategic to draft—

Sharon White: To outline. You draw up the strategic.

Q4 Chair: Okay. Strategic to outline to final. You have not yet reached outline or final.

Sharon White: Yes. We have agreed with the Department on next summer as a provisional timetable for the strategic outline business case. Hopefully, we will have—

Q5 Chair: Next summer?

Sharon White: Summer 2015, by which time we hope—

Q6 Chair: Which means what? July 2015? After the next general election?

Sharon White: Oh yes, after the election. And by that time, we hope to—

Q7 Chair: You say, “Oh yes”. Why? Remember, this was all supposed to be in before the election.

Sharon White: No, the outline business case, as you know, is the point at which we start to firm up the numbers and the metrics. For that, we are hoping to have two key pieces of information. One is how the digital solution is beginning to progress. As you know, it is making progress, but the numbers are still quite small. We hope by the summer to have a better idea both of the technical feasibility and of whether the numbers that are set out in outline are corroborated by some of the early testing.

Secondly, as you know, we took on the recommendation of the Major Projects Authority to expand nationally the singles programme from February next year—between February and the summer. Again, we will have better data and information about what universal credit for one particular cohort is delivering across the country.

Q8 Chair: And that will be outline.

Sharon White: That will be outline.

Q9 Chair: And then you expect—what is the last bit called?

Sharon White: It is the final business case.

Q10 Chair: And you expect final by?

Sharon White: I don't think we have agreed with the Department a date for the final business case. Normally within the scheme of these programmes it is about a year or 18 months, but that is something that we will want to look at once we have got the outline business case next summer.

Q11 Chair: This is about putting the record straight. When Nigel Mills asked in the House whether the Treasury had now signed off the whole business case, Iain Duncan Smith said that "the Treasury has done that." Just to be absolutely clear, all you have signed off is the strategic business case.

Sharon White: That's right. We have signed it off and that is what you would expect, because it is a normal process that as the evidence, data and cost-benefit analysis gets firmer with the development of a programme, you have more of an assurance about signing off to the next case. It is the same process that we are using, for example, on High Speed 2 and other big projects.

Q12 Nick Smith: Does that mean the final business case will appear in early 2018?

Sharon White: I do not want to put a date on it because it is not something that we have agreed with the Department or with Ministers.

Q13 Nick Smith: But given what you have said about communications and time frames—

Sharon White: If you look at other programmes of this sort of scale and complexity, you would expect a decent gap between the outline business case and the final business case. Again, we will have some numbers on the digital solution, but we will want to see how that all ramps up.

Robert Devereux: The thing that typically people forget to do is to monitor seriously the benefits once you have actually built it.

Chair: We will come to you, Mr Devereux. I promise you that you will have a long, long time to talk to us.

Q14 Chris Heaton-Harris: On the points you are outlining, you are getting these two fairly big batches of numbers, hopefully by the time you get to next summer, to get to the second stage of the business case solution. What does that mean? What barriers drop down when you go from the

strategic business case to the outline business case, and then what barriers drop down when you go to the final business case?

Sharon White: It comes back to what Robert was intimating. At the moment, we have a business case that says you invest a certain amount of money in IT, people and training, and in exchange for that, you get a certain amount of benefits, in terms of more people going into work and staying in work longer, and reductions in fraud and error, and so on—all the things you will be familiar with. At the moment, even though those numbers have been crunched through by Robert's economists working closely with ours, they are numbers that have not been, in a sense, fully validated through actual people coming on to the benefits. For the Treasury, what will be very important is to have stronger corroboration, particularly that the benefits that we expect are indeed likely to be confirmed.

Q15 Chris Heaton-Harris: So we get to next summer, and your economists have crunched the numbers and they find them to be unsatisfactory—what happens then?

Sharon White: If you are in a world where—this is unlikely, given the scale of the benefits versus the costs—the benefits are either equal to or likely to be exceeded by the costs, we would want to have a discussion and a reconsideration with the Department and with Ministers, because there may be some alternative ways of reforming the system that deliver things better.

Q16 Chris Heaton-Harris: Okay. Is there any case that you know of in the past where a project has got to that stage, the numbers have not worked out, and it has been culled?

Sharon White: Not necessarily in my live experience of running the major projects review group, but certainly, when I have been working from the Treasury end on welfare reform previously—particularly when we have given in-work support to single people without children, who tend to respond to a lesser degree than, particularly, single parents and the second earner in a couple—we have definitely run pilots expecting there to be a certain cost-benefit ratio that has not been validated, and essentially, we have not then gone national with the programme.

Q17 Chris Heaton-Harris: To come back to my original point, I understand what might be the—"penalty" is the wrong word—consequence of the strategic business case not working out; what is the positive? Is it an unlocking of further investment in the programme? Looking at it, and at the timeline associated with it, the investment is going in now. I just don't see what the benefit is of going through the three stages.

Sharon White: It is a very important point. The Treasury has committed money, even without signing off the strategic outline business case, and that is because Ministers and the ministerial oversight groups have recognised that, in a sense, the programme has been reset and redeveloped. That is an important point. The business case process is the thing that runs alongside: "Okay, we now know what the programme is; we now have a clearer sense of the costs and benefits overall; let's move on to the next stage."

Meanwhile, Ministers were keen to do the live testing alongside that. What we signed off as the finance Ministry was, "Okay, if we extend singles in this particular area, can we, within that particular decision, be clear that there is a mini-business case for it?" Each time we signed off a

particular pot of money, the Department had to provide evidence and analysis of the costs and benefits, even while that bigger picture of the entire programme was still being developed and firmed up.

Q18 Chair: That is very helpful. I have two other things I wanted to ask you, Sharon, and then we will come to Mr Devereux. One is the OBR's recent document, which came out with the autumn statement. In that document, the OBR talks about universal credit. It says, "In our view, there remains considerable uncertainty around the delivery of such a complex and wide-ranging change. On the basis of the evidence we have reviewed, we judge that...the second part of the rollout is more uncertain". I have left a bit out there. It continues: "we have assumed for this forecast that it will be delayed by a further six months beyond the new plans. The continuing delays in universal credit and elsewhere in ESA and PIP suggest it would be premature to assume that the digital solution will be ready on this timetable." Later on, it says, "Compared to previous assumptions the combination of the move to DWP's preferred profile and our 6-month delay to non-JSA cases has the effect of migrating about 2.2 million fewer people onto universal credit in 2016-17, 2.9 million in 2017-18, and 1.6 million in 2018-19". In our report, we already have a six-month delay, but basically the OBR has taken the view that there will be a further six-month delay, and we have hardly started.

Further in the report, there is a cost to delay that is quantified by Max at £2.3 billion per six months, which will clearly impact always on your cost-benefit profile for this programme. Being an old sceptic, I think that if you are talking about yet another six months within a couple of months of having said six months, so you have doubled that, this is probably a really conservative estimate. I just wanted your view, because the cost-benefit ratio is looking worse and worse as this happens. How has the Treasury responded to that OBR finding?

Sharon White: There are a couple of things. The OBR had available to it the same material that DWP and the Treasury has had, so in particular it quotes—

Q19 Chair: They sit in the Treasury building.

Sharon White: They no longer do. They used to sit in the Treasury building. They now share offices with the Attorney-General, you will be pleased to know. The OBR particularly looked at the Major Projects Authority review, which was an amber-red rating and raised a number of uncertainties. On the basis of that, for its fiscal forecast, it took the view that there will be a further six months' delay. Our view, and the view of the Department, is that—

Q20 Chair: Your view is what I am interested in—your view. Not you personally, but the Treasury view.

Sharon White: The Treasury has taken the same view as the Department, in that we think it is a fair central assessment that we are looking now at around 2019. The OBR will take a different view again when it does its new fiscal forecast at the Budget and may well change its view, but we think the view we have taken is a fair central assumption, given the scale and complexity of such projects.

Q21 Chair: Okay. My final question is around expenditure to date, which NAO officials have kindly put together for me. We now have three systems: people on old-style JSA; people on the new-style live service; and those on emerging digital. Max and his colleagues have kindly looked at the expenditure to date on live and a little bit of digital, and they have come to a figure of just under £700 million.

Sharon White: Is this in the Report or is this new?

Robert Devereux: These are new figures, are they?

Chair: No.

Robert Devereux: I was just checking.

Chair: You're the one who specialises in new figures. We don't. We take solid, audited, good figures. It comes to around £700 million.

Sharon White: Is this the £770 million figure?

Chair: It comes to £697 million, of which—on the assumption that we move to the new digital solution—only £30 million will be assets you take forward. I accept that part of that expenditure is a learning expenditure, but that is a heck of a lot of money—I am looking at the Treasury again—to invest simply to get to a strategic business case that could, down the road, get ever gloomier; that is why I raised the OBR issues. I accept that there is some learning in there, because it is not all capital, but are you comfortable writing off, in effect, £650 million, should you take the decision next time not to proceed?

Sharon White: We may have a different view to the Committee about whether this is in a sense wasted money. Actually, there are two things I would say. One is that the costs here ought to be—and we are beginning to see from some of the anecdotal evidence associated particularly with positive labour supply effects—

Q22 Chair: Sorry, what positive?

Sharon White: Positive employment effects. You can't just simply look at the costs in isolation from the fact that, particularly with the live service, this is delivering improved employment effects for the individuals who are on the service.

Chair: It is a new way of delivering a benefit. I am not sure it is a new way of delivering an employment effect.

Sharon White: Margaret, one of the big reasons why the Treasury is supportive of universal credit—as well as the simplification and the hope that it will be less open to fraud—

Q23 Chair: Sorry to interrupt, but when it was originally conceived and when we originally looked at it in 2010—this is why I was keen to think about 2010—and when £2 billion was set aside, there was a quantum in there that was about making work pay; I accept that. I assumed, maybe

naively, that it would somehow make the taper easier, so that it would make work more attractive. That, I assumed, is what was talked about. That has gone. *[Interruption.]* That is what we have been told. That has gone.

Robert Devereux: Gone where?

Chair: That has gone.

Sharon White: That has not gone.

Max Tse: There have been changes to the policy that have reduced expenditure on universal credit in the plans.

Sharon White: I think we need to be clear on this. The fundamental design of universal credit, with the less deep taper compared with the current system and stronger work allowances, which makes it more attractive to work shorter hours—those fundamental features of universal credit are still there.

Q24 Chair: Do you agree with that, Max?

Sharon White: I will just finish here, because I am sure that what Max says probably relates to the changes we made at the autumn statement. At the autumn statement we made some relatively modest adjustments to the so-called work allowances—probably it was a 5% margin—but they do not fundamentally alter the fact that universal credit, compared with JSA, makes work much more attractive at lower hours.

Max Tse: I think there are two things going on. The very, very early business cases talked a lot about the spending review period and a cap on total expenditure—both AME and DEL—across that period, and because that period is now pretty much over and there are all sorts of different lines in the business case, it is quite hard to reconcile back to that. The other effect that has happened over time is that there have been a series of policy changes over the last few years that have changed some of the assumptions that had gone into the business case modelling. We have an appendix that shows just how business case assumptions have changed over time from 2011 through 2012, 2013 and 2014, and that has caused some changes in how much universal credit is expected to cost. Then, most recently, there have been some additional changes to the allowances.

Sharon White: If the Committee's worry is, given some of the adjustments that have been made in physical events, that universal credit, by design, is no longer designed to make work pay in the way it was, that is simply not the case.

Q25 Chair: That clears that up, but I think you are going to have to do us a note on that, Max, because I had understood that some of the features that were originally designed in 2010 were no longer there. On the freezing of the universal credit work allowances, did you do some modelling around that and the impact that would have?

Sharon White: We have.

Q26 Chair: What did you say about that?

Sharon White: It is important to understand that part of the context for the autumn statement is the introduction, at Budget 2014, of the welfare cap, which, as I think the Committee will know, now puts a constraint on the largest share of non-pensioner benefits within DWP. I personally think this is a hugely important part of the armoury now of public spending control. Partly in the context of the welfare cap, the Government took some decisions, including the freezing of universal credit work allowances, to ensure that we stuck to the welfare cap; but the Government did not take those decisions in a way that fundamentally alters the shape or the incentive effects of universal credit.

Q27 Chris Heaton-Harris: Just to be precise, that is the welfare cap quantum. That is not the individual welfare caps.

Sharon White: Absolutely.

Q28 Chair: To go back to the expenditure, and this figure that has been provided by the NAO of just under £700 million, which I don't think you are quarrelling with—you would put it a tiny bit higher—is it the case that out of that, the only assets that are going to be used, should digitisation come about, are around £30 million, max?

Max Tse: I think the current assumption was that about £34 million-worth of IT assets would continue to be used from live service through to digital.

Q29 Chair: Your comment from the Treasury? What I am really getting at here is that you are now on a twin-track system, so you have got old people on JSA, you have got some people on live and you have got emerging digital; you have three systems going for the same cohort of people. The real twin track is the live and the emerging digital. If you get to the digital—I say “if”—you are going to have to jump the live. It may be a clever accounting thing, which I hate, of being able to depreciate and push part into depreciation, but the truth is that only £34 million of what you have invested to make live work will go over to digital, and that is quite a lot of money to be playing around with at a time when we are very constrained in financial resources. I want a Treasury view on that.

Sharon White: I am going to say a couple of things, but then I will ask Robert to talk about the impairment point.

Q30 Chair: That is a different issue. That is how you account for it. If I am honest, I think it has been a fiddle by DWP to write off over time rather than write off honestly. That is my own view. *[Interruption.]* That is my view. What I want to get from Sharon is whether this is the sort of quantum we are looking at to run two systems—a twin track and another—at the same time.

Sharon White: Let me say a couple of things. First, as we have discussed, we are comfortable that the expenditure that has been committed and will be committed through to summer 2015 is good value for money. That is partly because of the conversation we just had about expected

benefits, but it is also because we are more comfortable with a twin-track approach which, in itself, provides us with some contingency.

Q31 Chair: You mean that you can go on to the live service.

Sharon White: The key question for us when we come to the summer outline business case is that, assuming that there are issues with digital, or it is slower—there are always unexpected issues with projects of this size with a digital front end—the live service, as well as providing learning, offers the possibility of being the route by which universal credit across the board might be—

Q32 Chris Heaton-Harris: Plan B.

Sharon White: Exactly. It is a plan B. For us, that is a wider issue as to why this feels like a value-for-money proposition.

Q33 Chris Heaton-Harris: It is difficult for this Committee in some ways, because we would like to see the change, but if you have a back-up plan, that will be a cost that does not provide much value for money. I completely understand that you want a back-up plan for a project that is so big and has the potential to not quite work as people expect it to.

Sharon White: You can imagine the conversation with the Committee where we put all our eggs into the basket of a digital solution. I expect that the Committee would rightly press quite hard on the contingency plan. We are trying to balance with the Department—

Q34 Chris Heaton-Harris: I think that the Chair is right in pushing on this point. Can you prove to us that the sum of money being spent is value for money? While I buy it, I think you need to explain to some of the others on the Committee that this is a proper plan B, properly invested in, and that it would work, should the digital thing not provide it.

Sharon White: The NAO presents the numbers rather clearly in figure 6 on page 21. I do not know whether it is worth us turning to that page and simply talking through the numbers, because I think those give some additional clarity. You may need to take over, as my voice is about to conk out.

Q35 Chair: Are you struggling?

Sharon White: I'm struggling. I am going to ask Robert to come in at this point.

Chair: Have a drink of water and we will come back to you.

Robert Devereux: I will just try to explain what I think this table is showing. It is so significantly different from the way that you have summed it up so far, Chair, that it needs a little bit of study. If I take you to the pair of winter 2013 columns on the left-hand side and draw your attention to the line, three lines down, that says: "Total savings...to government"—I hope you can

see there that the decision that Ministers took in arriving at the twin-track decision in winter 2013 is estimated to save the country £7.7 billion. That is actually money saved to the taxpayer. There are no strange economic benefits; it is just taxpayers' savings—£7.7 billion of savings.

Had we simply waited for digital—the alternative approach—we would only have saved £7.1 billion. The decision Ministers took to continue using the assets that they had already built was estimated to generate £600 million of extra cash for the taxpayer. I am sorry to point you to a rather fiddly footnote, but if you look at footnote 8 on page 20, you will find that I wrote to the CAG and explained that, actually, the comparison is slightly flawed in that table because the savings in the wait for digital have been overstated in the table.

Q36 Chair: The savings come because it is still people on benefits.

Robert Devereux: No, let me finish, if I may. On the difference of £600 million that I have shown here between £7.1 billion and £7.7 billion, if you put a like-for-like comparison on the table, as per the footnote, you will find that the decision Ministers took saved £2 billion of taxpayers' money by continuing with the assets we had already built. There is no loss of money in that. That is a net gain of £2 billion.

Q37 Chair: Well, I don't accept that, Mr Devereux.

Robert Devereux: But that is what the figures show. These are the NAO's own analyses of our figures; they are not mine.

Q38 Chair: Max, can you take us through that gobbledegook, please?

Max Tse: Figure 6 shows the numbers from the Department's business case, first in winter 2013 and then in autumn 2014, comparing various options. There is a question in the Department's business case that the comparison between the wait for digital and twin-track isn't quite like for like. That is the footnote issue. What is happening here is that twin-track allows more people to come on to universal credit sooner, and the assumption is that those people will increasingly get into work, and that because they are getting into work, fewer benefits are paid out and maybe more tax is paid in.

Q39 Chair: Yes, so there is less on benefits.

Max Tse: It does rely on that effect—

Robert Devereux: Can I interrupt? It is slightly more complicated than the NAO has explained. The £2 billion of savings from going for twin-track rather than waiting for digital comprises two elements. One billion of that saving is about behavioural effect: it is our assumption that more people will be going into work. One billion is simply due to the application of universal credit rules to the same population we have today with no behavioural effects. I have expressed all of that in the letter to the CAG.

Q40 Chair: And that is because you are tougher on sanctions and things like that.

Robert Devereux: No, it is because the rules of universal credit are such that— It is basically to do with the comparison between universal credit and tax credits.

Q41 Chair: Yes, there are greater things that people have to do. Meg and I get them in our constituencies every day. It is the change in the rules, not the system.

Robert Devereux: It's not to do with sanctions; it's to do with the calculation of how much cash you get for a certain amount of income, and those rules are changed under universal credit.

Q42 Chair: But that is not the system. What I'm trying to get at is that it is not the system that changes—

Robert Devereux: I'm sorry. It is a system change, because if universal credit did not exist, those savings would not exist, either.

Q43 Chair: Can we go back to Max?

Max Tse: I think the second effect that Robert was trying to explain was this. Under universal credit, you are taking a feed from real-time information, so you are updating what would otherwise have been tax credits more often and therefore reducing the amount of overpayments in the tax credits system.

Q44 Chris Heaton-Harris: So it is a saving done by universal credit.

Max Tse: Yes, it's a saving to Government.

Robert Devereux: Which was what I said. To summarise, there is this story that somehow we have spent £600 million and we are going to throw it all away. Actually, I have spent £600 million, and I am using it, and, as a consequence of using it, the taxpayer is £2 billion better off over 10 years. That is a universal credit fact.

Chair: I am very sceptical of that.

Q45 Nick Smith: I want to come in on those numbers headed "Winter 2013" in figure 6. Most of the numbers, going from wait for digital to twin-track, do show an increase in benefit, apart from the gain to households, where there seems to be a drop of £1 billion. Tell us a bit more about that, please.

Robert Devereux: The way the NAO has chosen to try to show this is, with the top three lines, money that is flowing between the Government and the citizen. In the bottom two lines, it is trying to estimate some of the non-cash consequences, which actually are economic benefits, perfectly properly constructed under the Green Book rules that the Treasury exhibits. Because of the way it has done its arithmetic, it appears to show a reduction. In practice, as Max has already

conceded, twin-track gets more people into work, so the labour supply effect in aggregate is higher. I'm afraid it has been split between savings to Government and the non-cash element in this particular table, but the takeaway should be: twin-track—more people in work; bigger benefits.

Q46 Nick Smith: But that does show that there is £1 billion less for households. That's according to this table.

Robert Devereux: No, it doesn't, because households are the people receiving AME. In the line above—all that £2 billion extra I was talking about—that is money going out.

Max Tse: We have not done any specific re-cutting. These are just summaries of lines from spreadsheets from the Department, so these lines are defined in the same way across these columns.

Robert Devereux: They are defined in the same way, but there is a reason why I wrote to you and explained I wouldn't do it this way myself. The thing that adds up to the national net present value is made up, exactly as Sharon said, of labour supply effects, which are big and positive, and more positive in twin-track than wait for digital; fraud effects—they're both the same—and redistributive effects. For each one of those, going further ahead with twin-track generates more economic benefits. The NAO has sought to overlay on that another complicated idea of how much cash is passing between us and the Government.

Chair: On the figures and things, Chris, do you want to come in?

Q47 Chris Heaton-Harris: On that last statement, if the twin-track approach gives extra benefits, why are we not going to continue it for a longer period than is envisaged?

Robert Devereux: Okay. What both pairs of columns illustrate is that each decision Ministers have taken to pursue twin-track originally and then to extend twin-track actually produces bigger benefits. In both cases, our working assumption at the moment is that we will all end up in a digital land. The Chair asked earlier about contingencies. A perfectly plausible contingency is what happens if I have a third decision when I extend the live service a bit further. I am already using the live service for singles, couples and families in the north-west. I am only planning at the moment to roll it out for singles nationwide. It would be possible to envisage the cost and the benefits of doing a further extension.

Q48 Chair: What percentage of JSA claimants are now on universal credit, Mr Couling?

Neil Couling: Percentage?

Q49 Chair: I know the figure; I am amazed you do not.

Neil Couling: I am trying to calculate it.

Q50 Chair: Go on. You are in charge now.

Neil Couling: I will have to do the maths in my head—3% or 4%?

Chair: No.

Neil Couling: Let me help you. The last statistic—

Q51 Chair: What is the percentage of people on JSA who are now on universal credit?

Neil Couling: It depends what the claimant count figures are. I do not remember the latest claimant count figures. I was trying to approximate off them. There are just a shade under 18,000 people on universal credit.

Chair: We agree on that.

Neil Couling: So it would be 18,000 divided by the total number of people on jobseeker's allowance.

Q52 Chair: It is 0.3%.

Robert Devereux: That cannot be right.

Max Tse: That would take it over the 7 million eligible population for UC that is expected in—

Neil Couling: So as a figure of JSA, I am probably closer to being right than you are.

Robert Devereux: You must take into account a share of JSA, Chair—14,000 over 1.4 million—

Max Tse: It is probably a couple of per cent.; probably in between the two.

Q53 Chair: If we can go back to the real world rather than statistics. We are lucky if we have got a couple of per cent. when we were supposed to have the whole system in. When we first talked about this in 2010—I do not know if my colleagues remember—one of the issues that we talked about was the number of people who were going to claim digitally. Do you remember? According to page 26, paragraph 2.13, only two thirds will maintain their claim digitally. It states that 37% will require assistance. If you look at note 16 underneath that, that means that the target cost—obviously, if you are having people rather than digital, you have to employ people—has gone up by 25%. Is that true, Mr Couling?

Neil Couling: What we have done is to use the experience of the live service to try and inform our digital plans. What we are seeing now is the extent to which the population is comfortable using digital ways of contacting us. The original plans, as you know from when you looked at this the last time, envisaged that it would be digital by default and that pretty much everybody would be using the service digitally. We have just rolled out nearly 6,000 devices into jobcentres. People are increasingly claiming online. JSA online is now up at over 86%. People are claiming JSA online. For universal credit, it is over 90%. So people are moving through, but I think it makes sense in the plans to recognise that, for some parts of the population, that just is not going to

be possible. However, the test and learning approach is showing that people have increasing confidence in using this way of transacting their business with us.

Q54 Chair: You have not answered the question. Shall I ask it again? Paragraph 2.13 shows that you currently calculate that “37% of claimants’ activity to maintain their claim will require assistance”. That was not how it was planned in 2010, and the little note underneath—note 16—shows that there is a 25% increase in the target running costs per case.

Robert Devereux: So would you rather we did not help them?

Q55 Chair: Honestly! Can I ask you, Mr Couling, whether you accept the increased costs per case?

Neil Couling: Well, we have to deal with the reality.

Q56 Chair: Just yes or no. Is that right or not?

Neil Couling: That isolated fact is right. There will be other isolated facts that mean the cost per case has gone down.

Q57 Chair: Like what? Is this an isolated fact, Max?

Max Tse: Yes.

Neil Couling: A whole series of things will affect the cost per case.

Q58 Chair: The cost per case has gone up from £183 to £230.

Neil Couling: One of the things we are finding at the moment is that people need less support. There was quite a lot of comment made back in 2010 about how vulnerable people would cope with the new system. We are actually finding where we are live that the expectations that we had for the amount of extra help we would have to provide are much lower in reality, so that will push the cost per case down.

This is quite right—there is nothing wrong with the assessment the NAO has made here—but if you want an assessment of the total cost per case, there are many variables, many of which we have not yet bottomed out in order to do the final calculations, which leads you all the way back, of course, to your first question to Sharon about the final business case here. All that information will have to go into that kind of a calculation.

Q59 Chair: Can I ask about another change? You accept there is less working digitally and, on the whole, you would have to do more through people, so the costs will go up. You accept that, don’t you? I mean, really, that’s what your preamble, which I let you go on and on about, was: there

are more people who feel that they can't deal with digital, which I think was what we said in 2010, and you're accepting that now.

Neil Couling: Yes.

Q60 Chris Heaton-Harris: Are you? You just said to us that 90% of people using universal credit were using devices. In a way, I'm trying to help you, because that is the point I wanted to make. If it is 90% of universal credit users, is that 90% of the 18,000-ish?

Neil Couling: It is not easy, because if you ask me to give a yes or no answer to the question, yes, our assumptions have changed about the extent to which people need support during their claim to stay digital, but as to the extent to which people are claiming digitally, we are running ahead of our expectation. That was why I said that you cannot conclude from this that therefore absolutely everything is going to be more expensive—that would be the wrong conclusion to take from this. But, to a direct question on a narrow issue, yes, that cost is up.

Sir Amyas Morse: This is just elucidatory. I am sympathetic to what you are saying. So, as you go through the next months and we get towards finalising the business case, you will discover a lot of variables that we don't know just now, and they will move in various directions, and that's really what you're saying. And in the end, we'll have a clearer idea of what the unit cost per case handling is. But you would agree that trying to keep track of that and finding out where it ends off is a relevant measure going forward, would you?

Neil Couling: Absolutely.

Sir Amyas Morse: Great. So, if we are going to look at how well this is working, one of the things that we should try to track in working with the Department and probably with the Committee going forward is the handling cost per case.

Robert Devereux: I think you should, and I'm looking forward to you coming back and looking at how we have managed to reduce the handling costs of all existing benefits systems over this Parliament.

Sir Amyas Morse: That's okay. I don't mind doing that either.

Q61 Chair: What Amyas is referring to is the recommendations on page 11. Are you not, Amyas?

Sir Amyas Morse: Yes, I am. I am simply putting a trail in for the idea that establishing things will help us as we go forward. We think you've taken a lot of risk out of this by the changes you've made, as we say in the Report. We think it's really crucial to have very clear benchmarking as to what you're expecting to achieve and how you're going to achieve it. It will be very easy to lose our orientation otherwise. That is all these recommendations try to say.

Robert Devereux: Absolutely agreed, and I can't wait to come back again.

Q62 Chris Heaton-Harris: I am going to go on to a slightly different subject, but I will use this as the bridge, because I am interested to know what the digital approach that is being introduced in Sutton is bringing to this. Could you just explain this to me, because I think I misunderstood about the 90% of people on universal credit using a digital solution. That can't be right. Did I misunderstand that?

Robert Devereux: No, claiming on the live service at the moment. The live service, not the digital service.

Q63 Chris Heaton-Harris: What does that mean? Does it mean they are using devices themselves in jobcentres to do this?

Neil Couling: Or at home. Or in libraries and the like.

Q64 Chris Heaton-Harris: Okay. The bridge I want to make is this: what are you finding from digital? This Report basically concluded at almost exactly the same time as the digital service went live in Sutton, and we have all heard different things about what that looks like. I just wonder if you could tell us what that looks like.

Neil Couling: We have been live now for almost two weeks, so it is early days to conclude very much from what we are doing there. It is called "test the service" for exactly that reason.

Q65 Chair: How many people have claimed?

Neil Couling: As of last night, we have had 17 claims. Interestingly though, only one of those would have come through the existing gateway to live service. The claims that we are getting so far represent the full range of that 8 million population claiming universal credit when it is in its complete state that we talked about before.

Q66 Chair: So you mean people on ESA and income support.

Neil Couling: Former claimants of ESA, income support and so on. Those claims are working their way through the process now, so it really is too early to say. Only one of the claimants so far needed to claim by telephone. I think she was very ill and did not have a device at home, so we took the claim over the telephone. The rest made their claims online. The interesting thing about the digital service is that we can assist them in live time. When they call us we can see where they are in the process and help them; for example, we can say, "That question is asking you this," and coach people through. That is a good return at the moment, but it is not statistically significant and it is called "test the service" because we are testing it.

Q67 Mrs McGuire: While I appreciate there have only been 17 cases, could you just drill down a wee bit and give us an idea of the profile of those cases. You said that you were taking some of the more complex cases. I would be interested to see, of those 17, which are the more complex cases—which are not just single men on JSA. My second point: why did you choose Sutton? What

are the socio-economic demographics of Sutton that made you choose it rather than some other areas?

Neil Couling: I have to be careful what I say about Sutton. I mean this in the nicest possible way, but it is the most normal place in Britain. In terms of averaging out, its population is average for the United Kingdom as a whole. It is a wonderful place and I adore it.

Austin Mitchell: Do you live there?

Neil Couling: No—*[Interruption.]* I could tell that this was going to a bad place.

In essence, what kind of claims have we seen? I can only give you examples.

Q68 Mrs McGuire: You only have 17, so just give us a little flavour.

Neil Couling: It is tricky. Because there is such a small number, I am quite worried about contravening data protection.

Robert Devereux: We are getting quite close to individual claimants if we start describing them. What we have explained already is that there are people who would have claimed ESA or income support. Those people have common characteristics; they might be sick or a lone parent. I do not particularly want to go into individual cases.

Mrs McGuire: I am not asking for individual cases, Mr Devereux; I am sure that you appreciate that.

Neil Couling: There are carers—people who have caring as their primary responsibility—as well as people who would formerly have claimed ESA, lone parents, and the entire age range from 16 to 64. It will provide a good test. As to the question of whether Sutton was a good choice, so far, two weeks in, it looks like it was.

Q69 Chris Heaton-Harris: The Department's digital service was delayed for a period of time, so you are literally two weeks into this test the system thing. You have quite an ambitious timetable ahead of you for scaling up. Could you give us some benchmarks that a future Public Accounts Committee could hold you to about numbers coming into that system? I am especially interested in benchmarks up to when the strategic case becomes the outline business case. Then, Sharon, would you mind saying if that matches what you are looking for?

Robert Devereux: I think that you will understand why Ministers are consistently cautious about just sticking numbers on things when the whole point of what we are trying to do is to test things. I have had 17 cases. I need to know that it is working well and when I have 35 cases, I will know a bit more. The process that Sharon explained is that we are deliberately saying to ourselves that by the time we get to just beyond the next election, we will have more information about how the live service and digital are running. We will also have further evaluation, which we have already begun to publish in the document we put out the other day. At that point we will make some judgments about the safe thing to do, because what the Committee most wants is for this to be landed safely and without risk. I would rather talk about the milestones that we will reach on

decision making than speculate now that I know that a decision I make next June will be equivalent to turning it on for y or z people.

Q70 Chris Heaton-Harris: Okay, but I am pretty sure that the Treasury—and Sharon White—will have a broad number in mind.

Robert Devereux: Don't get me wrong, the business case involves making assumptions, because you have to quantify it to produce the sort of numbers that I talked about earlier about how it works. But there is a difference between constructing something to illustrate that you have a value-for-money case, and thus release cash, and saying, "That is what we are going to do," and holding you to account for it.

Q71 Chris Heaton-Harris: You will also need to train staff in your various jobcentres, and there is a bunch of other things you will need to do alongside this. Give us your dream timetable for the next six months.

Robert Devereux: Okay. We have already announced that we are introducing claims for couples and families and extending across the north-west. We have done that.

Q72 Chris Heaton-Harris: We have figure 11 in the Report, which might help everybody. It is page 29.

Robert Devereux: Exactly. Let us explain what we are doing at the moment to get the singles rolled out nationally and then work back to how we will train people for extension.

Neil Couling: In the live service, we are from February, in a series of four tranches, extending for single former JSA customers universal credit. By February 2016, we will have about half a million people on to universal credit, based on current unemployment. That figure is partly determined by what the level of unemployment is.

Q73 Chair: That's JSA.

Neil Couling: That's JSA. What that allows us to do is to acquaint universal credit in every jobcentre in the country. On our side of the divide here in terms of DWP, it will get people exposed in our offices to how universal credit works. Equally importantly, it puts universal credit into every local authority in the country, and that allows us to get universal credit socialised in every local authority. That is really important because they are key partners in the delivery of all of this. In parallel, we will have been working on the digital service. Would you like to take back over?

Robert Devereux: No.

Neil Couling: We are into a phase from six months of test of service, during which we are doing two things. We are looking at the experiences that were asked about in terms of how claimants are reacting and whether our system copes. Because it is a digital incremental development in the test of service phase, we are developing the system in light of its experience, and every three or four weeks we drop a new set of code into that and test it. We keep going on.

Separately, we then have the next phase—improve efficiency. That mainly involves two things. First, making the system, as it says, more efficient in the way it works, so it does not need so many people to support it going live. Separately, and really importantly, there is the integration into our core systems, the reuse we were speaking about earlier and making those systems work.

Six months after that phase, we go to a make scalable phase, in which we effectively industrialise it and get it ready for large-scale deployment. So we are doing this in six-month phases, which will take us through to the 2016 figure where we have said we will be ready for digital.

Chair: I will move us on to something. I am looking at this figure—

Chris Heaton-Harris: Sorry, Chair; I have a couple more questions on that. I thought you had someone else.

Chair: Go on.

Q74 Chris Heaton-Harris: We are doing this rapporteur thing, and I have loads of questions that I want to ask. I hope that is all right.

I am assuming that on this digital thing you will be sampling and testing the quality of the claim being made digitally by the claimant. It is a bit of a shame you have only got 17 and you are two weeks in, because I am interested to know how it will work—is it going to be a random sampling? You are checking that they are claiming for the right thing, getting all the benefits they are due and getting all the help they require. How is that going to work? How does the digital system pick?

Neil Couling: We have a team of people in Sutton effectively running the system, and then we have a team of people observing the people running the system. It is a live test, so we cannot get this wrong, because these are people's entitlements to benefits. The lab rats are not our claimants, but the people in our office who are observing the system and seeing how it is behaving, where it needs tweaking or improving and, potentially, where we have missed some things so it just doesn't work. The fact that it is an agile digital build allows us to, hopefully, get in really quickly, fix and tune the system and make it work.

Chair: Chris, can I just come in?

Chris Heaton-Harris: Yes, but I know you are going to say about it being mainly manual. But go on, say it.

Q75 Chair: This is not digital though, is it? It is all manual.

Neil Couling: No, it's not. The word "manual" has the capability to inadvertently mislead everybody here.

Q76 Chair: But they are going to have two or three systems that are not going to be talking to each other. Assume you are a lone parent, you are going to have one income support, lone

parent-type thing, and something else for ESA—your person in the Jobcentre Plus will have to look at three, four or five screens.

Neil Couling: Can I just check the question? Are you saying that in the digital service my staff will have three or four screens?

Chair: No, we are not in digital service. You have only spent £8 million on digital service. What you are now doing is live and you are putting people on to universal credit, including the more complex cases of your 17 or 18. For actually handling them in the Jobcentre Plus, as I understand it, you still have separate digital systems to deal with income support, ESA and so on.

Q77 Chris Heaton-Harris: I think you need to explain to us the test and support thing.

Robert Devereux: I do not know if we have taken you to a jobcentre since we rolled universal credit out, but imagine that I have some staff just doing universal credit, so they are using the universal credit system, and some other staff doing JSA for people who are not on universal credit. The same member of staff is not trying to juggle all those systems that you are talking about.

Q78 Chair: I am not saying that. This is so simple—I assume the digital programme is there to get all these systems to talk to each other and work together. At the moment, if I come in as a claimant and I am a complex case—a lone parent with a disability so I might have eligibility for a number of the old systems, which you are now putting under the one umbrella—you have not got that in one computer system. You are having to deal with two or three separate computer systems to create your universal credit calculations.

Max Tse: Figure 12 on page 30 describes the various phases—test the service, improve efficiency and so on—that Neil described. The bottom line of that talks about automated links to other systems, and those are the things that are not currently in place and will be introduced over time. There are other unconnected systems, and those links are not in place.

Robert Devereux: I really want to be helpful here. I am trying to work out whether you are asking about the live universal credit service or the digital one we have just started. Which one would you like me to answer about the experience of? The answers are different.

Q79 Mr Burrowes: So the 17 at the moment are digital?

Robert Devereux: For the 17 that have come into Sutton, I have one system. The system does not think, “Is it ESA? Is it appropriate that it applies?”

Q80 Mr Burrowes: What is the extent of the checking of those 17 payments at the moment?

Neil Couling: That is why I said that there is a separate team in Sutton observing the people administrating the system. Mr Heaton-Harris asked me how we are going to get learning out from Sutton—that is how we are doing it.

Q81 Mr Burrowes: Is that the same as the reference in paragraph 3.20 to 100% manual checking?

Neil Couling: No. That is in the live service.

Q82 Mr Burrowes: In terms of the live service, do you accept the figure here? The Department estimates that it spends £10 per claim monthly for manual checking.

Neil Couling: We have had full manual checking at different points of the programme. We are moving away from full manual checking now.

Q83 Mr Burrowes: But that has been affected by the software issues.

Neil Couling: When we identify that we might have a problem with accuracy, we go in and institute a full 100% checking regime. Again, we started small with the live service because we wanted to observe how it was going on. If we had problems, we could tune the system and fix things before they became a huge problem that would cost lots of public money.

Q84 Mr Burrowes: Do you accept that, since June 2014, the estimated cost of 100% manual checking is £10 per month?

Neil Couling: I am sure that if I carried on doing a full manual check on every case as I expand across the country, it would be almost unaffordable.

Q85 Mr Burrowes: So what is your expectation of the costs as it progresses?

Neil Couling: They are falling, because we have abandoned 100% checking. Why have we abandoned 100% checking? Because the error rates have fallen markedly.

Q86 Mr Burrowes: So what is the error rate now?

Neil Couling: The latest was about 2.7%. That is not a cash error. Before the Public Accounts Committee worries that that is a 2.7% cost to the benefits bill going out, that is 2.7% on the cases. The majority of errors in cases are process errors that we correct before it gets to a payment.

Q87 Mr Burrowes: In terms of the manual checking, what do you estimate the costs to be? Have you got an estimate to May 2016? Footnote 20 provides an estimate of the cost if there was manual checking. It states that there is £150 million of "total inefficiency". You would dispute that, but you must have an estimate, as things move forward to May 2016, of what the costs will be.

Neil Couling: I gain efficiency as the number of cases in the system goes up. I also have two big software drops coming in: releases 9 and 10, which will improve it.

Mr Burrowes: I am going to ask about that in a moment.

Neil Couling: But, at my fingertips today, I don't have an estimate of what the cost per case would be right now.

Q88 Mr Burrowes: But if you are giving an accuracy of 2.7%, what is the cost per case with that accuracy?

Neil Couling: Well, it would be a total cost per case.

Q89 Mr Burrowes: Do you have a figure?

Neil Couling: Not at my fingertips.

Q90 Mr Burrowes: Can you get a figure?

Neil Couling: I'm sure we could tell you.

Q91 Mr Burrowes: Would that change the estimate of the costs?

Neil Couling: It changes every week. For example, this week eight new jobcentres went on to the live service.

Q92 Mr Burrowes: What are you budgeting for the costs?

Neil Couling: So far, we have spent about £55 million on live operations.

Q93 Mr Burrowes: And what are you budgeting as you move forward?

Neil Couling: I forget what we forecast for the live operations.

Robert Devereux: For live running, we have budgeted £25 million for the current year. That is for the staff costs.

Q94 Mr Burrowes: In terms of the—did you call them software drops?

Neil Couling: Yes.

Mr Burrowes: Obviously, there have been issues in the past about software drops. When are those software drops happening, and how are you planning to avoid the previous problems with the drops?

Neil Couling: We had a problem with release 6 going into the system. It didn't go as well as we would have liked. Subsequent to that, there have been two further software releases going in—7 and 8. They have gone in very well. In fact, release 8 was the biggest release we put into the live

service yet. We have had a couple of hiccups, but nothing that we could not fix overnight, so they have gone very well.

Q95 Mr Burrowes: Where is the capacity, in terms of the national roll-out, to ensure that there will not be any payment problems when it goes national?

Neil Couling: We track accuracy weekly, and we report on our progress to the permanent secretary and the Treasury. If that tracking identified that there was some kind of problem manifesting, we would look at what our options were. They range from some targeted checks to a full check again if we needed to do it.

Q96 Mr Burrowes: Are you focused on a target figure for accuracy for when the roll-out takes place?

Neil Couling: Ideally you would go for complete accuracy.

Q97 Mr Burrowes: I appreciate that, but is there a level of inaccuracy that would mean that you would take some mitigating action?

Neil Couling: It would depend. What would alarm me—

Mr Burrowes: When would it be a problem?

Robert Devereux: When we were contemplating putting in release 7 and release 8 on the back of release 6, with which we had difficulty, the operational staff were saying, “If the error rate is running at more than 5%, I wouldn’t be able to cope.” So we found out that the error rate was not 5%, so we decided to progress with it. We had a view of what was unacceptable, so that is how we did it.

Q98 Meg Hillier: We have talked a lot about the IT systems, but, Mr Couling, we are talking about your people watching the system and so on. You are really speeding up recruitment, and paragraph 3.17 on page 40 details the recruitment time scale. Obviously that reduces costs, which is good on the one hand, but that will provide value for money only if staff can deliver, and some of the timetables are quite tight. Perhaps you could explain what “No budget costs for digital system familiarisation” means exactly. Do you have any concerns and contingency plans? Because, in the end, if staff are not ready to deliver this complex system, it is our constituents who lose out.

Robert Devereux: The first thing I will say is that I will repeat the invitation I made earlier. Do come and see our staff using universal credit, because the thing that will strike you most about it is that this is the product that they have always wanted to have, so they are delighted with what they are doing.

These are assessments about the provision that we are now making to do this on a more industrial scale. One of the things that the Department does incredibly well is doing things at industrial scale, having tested them out. And there are savings that we have identified, for example in training. By talking to the people that we have trained, they have said, “Well, actually, you don’t

need to tell me this and that, because I worked that out by whatever it was.” So we are trying to work our way down through that and say, “Now that I am getting into bigger numbers, what is the cost-efficient point at which to do training and the rest of it?” That is what these paragraphs are about.

Q99 Meg Hillier: So you are confident that, with the tight time scales for February next year, staff will be fully confident and up and running?

Robert Devereux: I am very confident, because I know my people and I know our capacity to train and to train well.

Neil Couling: To give you a couple of bits of confidence, every month during the recession we were recruiting 1,000 people into Jobcentre Plus, training them and getting them up to speed just because the volumes were increasing so fast in 2008-09. And recently, in rolling out the claimant commitment in six months, we trained about 26,000 work coaches across that period. So the fact that we have got to recruit 600 or 700 people and train about 10,000 may sound like big numbers to you. To me it is a non-trivial task, but we have done it before.

Meg Hillier: You sound very confident. We will ask you again when you come back whether it is as good as you say.

Robert Devereux: Do come and see.

Meg Hillier: I will do that.

Q100 Mrs McGuire: We have been talking a lot about processes, digital and so on. I wonder whether I could drill it down a wee bit and ask what it means for the customer. You have said that you have got eight new jobcentres involved, so how many are there in total now?

Neil Couling: 91.

Q101 Mrs McGuire: 91 jobcentres. So if I am a straightforward case and I walk into one of these 91 jobcentres, what is the “customer experience” I will have from the moment I step inside that door? How is it explained to the customer? Then I want to come on to what plans you have if systems fail.

Neil Couling: I would encourage you to come and see. There is not yet anywhere near your constituency—

Mrs McGuire: I will come on to the complications of the Smith commission in a minute.

Neil Couling: I recently visited our Rugby jobcentre, which was one of the first to go live. What struck me for the first time in my career was the unsolicited compliments from the claimants on universal credit about how well the system worked and how it had facilitated their return to work.

Q102 Mrs McGuire: What particular elements were they complimenting? Was it the fact that the staff in the Rugby jobcentre were really nice to them? I have always found Jobcentre Plus staff to be very polite, for the most part. I suppose what I am asking is: what made the difference?

Neil Couling: The job is what made the difference. They said that it was very work-focused, because the claiming was almost taken away from them and the focus on work was there almost from day one. In Rugby, there were employers in the jobcentre to come and meet and see. The other thing that we are picking up is that employers love it too, because all the inflexibilities around the 16-hour rule in the system are swept away by this. I was blown away, actually; I was checking with them that these were not people they had hoiked in to come and see me. Were they actually just coming in off the street? They were; there was no plan going on.

In terms of the experience that people will get, we have just published a pathfinder evaluation that the National Audit Office has looked at. Claimants are reporting the increased focus on work search; they are spending more time looking for work than they were under the old system—almost twice as much time. They are finding the online claiming process easy to follow. So, where it is live, it is getting a very positive reaction from both claimants and employers.

Q103 Mrs McGuire: You are dealing with 91 jobcentres and 18,000 or so people, give or take—it might be 18,300 by the time we have finished this hearing. That is not exactly a massive volume. You currently have a few people coming into the jobcentre who are getting this really special, tailored, “let’s prove it works”-type approach. What is the capacity for dealing with the increased numbers, albeit that you are going to do it on an incremental basis? There is a significant difference between 18,000—17 in Sutton—and hundreds of thousands of people.

Neil Couling: The 18,000 figure is in our last published stats in October, which was when we had rolled out about half of the north-west and had about 30 or 40 jobcentres live, so you will see that grow—not to the massive numbers that you are used to hearing from the DWP, but it is growing significantly. The service is now running right across the north-west, and we are rolling it out to families in the north-west—we started the first six jobcentres a couple of weeks ago. It is growing, and in the next year we will be taking that service and experience and putting it in every jobcentre across the country.

Robert Devereux: If you think about it this way around, each of the jobcentres that is now taking all the claims in universal credit is taking all the claims in universal credit. It is not as if they are now doing five times as many; I am opening five times as many jobcentres, all of which are now going through exactly the same journey that has clearly been successfully transitioned by the 91 so far.

I had the same experience as Neil: I went to Shotton in Wales and asked them what was going on and what the big difference was. Their story was that a chap had come in who was homeless. We had done some really good work building partnerships with the local authority—they showed me an award that they had won for working closely—and they had sorted out his homelessness together with the authority and found him a job at 10 hours’ work, which actually paid for him in a way that didn’t happen previously. The 10 hours turned into 20 hours’ work, and this gentleman has gone from being homeless into two steps of work. That would not have been possible in the old JSA regime, where we would not have had that partnership and we did not have a 10-hour or 20-hour route to make that happen.

Q104 Mrs McGuire: I think that previously there were partnerships, depending on the jobcentre. There were action teams and all the rest of it—I have certainly seen those partnerships under the current system. People could always go out and do that; the issue is whether or not you needed such a massive project to make those partnerships.

Robert Devereux: People would not have taken jobs at 10 hours a week when we took all the money off them, and that is a really big difference.

Mrs McGuire: I recognise the changes in the rules. Sorry, Chair; did I interrupt you, or did you interrupt me?

Stephen Phillips: I think that all the members of the Committee know that the Chair will have interrupted you.

Chair: That is my prerogative.

Q105 Mrs McGuire: My final point on this is: what plans have you got for contingency? The problem about wrapping everything up in one magnificent system is if that one magnificent system fails, there are millions of people in serious difficulties. We have already seen that with our major banks where people cannot access ATMs, and all the rest of it. I am not talking about the day they nearly went bust; I am talking about just the fact that the technology broke down. We are dealing with people who may not have the capacity to cope with that interruption to their finances.

Neil Couling: You are damned if you do and damned if you don't, a bit, but we have gone carefully, instead of being driven by hard deadlines for numbers of millions of people on the system, and so forth, and just pressing buttons—hoofing and hoping. To their immense credit, Ministers, my predecessors, the permanent secretary and so on have not gone down that easy route. They have taken quite a lot of flak for only proceeding when we are confident that the next step is doable. That has brought a whole series of other criticisms on to us, but I think it was the right thing to do, because at the end of this service are people who are very vulnerable, and we are the last resort for them.

Personally, I make no apologies for taking this one very carefully. While I am SRO I will continue to take things very carefully, because the costs of getting it wrong are too great in social terms—forget the reputation of Ministers and the Department and the like. Our contingency is to test and learn, to take this gradually and only to proceed to the next step when we think we have tested it and we are ready.

Q106 Mrs McGuire: So you have built something into the system which means that the whole system cannot collapse at the one time. Is that what you are saying to me, in terms of payment and so on?

Robert Devereux: One thing that is true of the benefit system in general, which we do not make a lot of, is that the payment system is pretty much capable of going on automatic pilot. If the computational systems, as it were, collapse behind it we can, as necessary, simply say “Look, I will just pay you what I paid you last month.” That has been traditionally a back-up of last resort. We have constructed the payments system in a particular way that enables that to be true. At the end of

the day, this is about putting cash in people's hands. If all else fails—we will have to rectify it if it is slightly the wrong amount of cash after that—I can do that payment. It is not as if your monthly payment is resting on everything in the entire edifice working simultaneously. The payment bit is capable of doing this repeat payment, and that is a really important design feature.

Q107 Chair: For the new claimant, how long is it taking you, on average, to administer the new system online?

Neil Couling: I have not heard of anybody who has submitted all their evidence and not been paid at the end of the month.

Chair: At the end of the month?

Robert Devereux: Yes. It is a monthly payment, so people are being paid at the end of the month.

Chair: Amyas is next, and then—did you want to ask another question, Anne?

Mrs McGuire: I wanted to come back to the Smith commission, but I will leave that until the end.

Sir Amyas Morse: After you. I just have a little factual question.

Q108 Mrs McGuire: Obviously, we are in an interesting situation in terms of the governance of the UK. I know that universal credit, certainly in terms of the Smith commission, has been held back. But I am wondering if there are any elements that may be part of any devolved agreement that are going to impact on the work that you are doing.

Robert Devereux: More generally, or on universal credit?

Q109 Mrs McGuire: On universal credit. I know that the whole universal credit payment system is being reserved. Things like housing benefit and all that.

Robert Devereux: The Smith commission actually said that universal credit will continue to be run from the UK and done by the DWP. It went out of its way to say that it thought that there was scope for certain parameters, particularly to do with housing, to be capable of being adjusted by the Scottish Government. It was, for example, not doing the spare room subsidy as a piece of calculation in universal credit. Some examples were given of intrinsically housing-related elements in universal credit. Working out exactly how to do that is the challenge that we now face with the Scottish Government, but that was the language that the Smith commission used.

Q110 Mrs McGuire: So you are still working on the challenges.

Robert Devereux: Yes. The Smith commission was done in record-breaking time, and agreement has been reached. Giving effect to that is the next thing, so we are legislating clauses to

give effect to the powers. Making an administrative system so that the Scots can exercise those powers is another complication on top of that.

Q111 Chair: The Smith commission stuff on this says: “The Scottish Government will be given the administrative power to change the frequency of UC payments, vary the existing plans for single household payments, and pay landlords direct for housing costs in Scotland...The Scottish Parliament will have the power to vary the housing cost elements of UC, including varying the under-occupancy charge”—that’s the bedroom tax stuff—“and local housing allowance rates, eligible rent, and deductions for non-dependents.”

Robert Devereux: These are, as I said, principally housing-related derogations. That is indeed what the commission says and we have now got to find a mechanism to do that. We have built a system that basically has one parameter for all those variables, and this envisages the United Kingdom operating on a basis where two parameters are required, so somewhere along the line we are going to have to work out who is going to fund and build the second system in which that is possible. That is all quite difficult stuff.

Sir Amyas Morse: I have just a couple of basic questions. You gave your reply on what might happen in the case of systems failure. Apart from your confidence in the test-and-learn approach, should I take it that you have actually carried out an evaluation of what possible systems failure scenarios there are? Have you actually done the technical work on that to understand how such a failure might occur, what might happen and how you would deal with it? Have you actually got all that? I’m not asking you to set it out now, but have you got it?

Neil Couling: Robert might want to talk about this, but as a Department, we are responsible for paying out £163 billion, so you would not be surprised that we have run various scenarios of what could go wrong, and what our response would be. Universal credit is no different from that.

Sir Amyas Morse: Thank you; it was no more complicated than that.

I have one other question, if I may. You were describing the people watching the watchers—so, watching the officials in your virtual test in the normal way. Can I just check what exactly the criteria are that they are assessing? It is very interesting for them to be watching each other, but what are they checking for? Is it mistakes or time spent on pieces of the process? What exactly is it that you measure? As we are thinking about milestones and how you are achieving efficiency, it would be quite interesting if we understood the basics of what you look at when you are assessing how well the system is functioning.

Neil Couling: We are looking at a number of things—basically all the things you listed there; so, I am interested in how long it is taking. Is the system operating as we thought it would? Is it discharging the policy intent, in terms of whether it is adhering to the rules passed by Parliament for this? How are staff reacting to this? Are they finding it easy or not? How are claimants reacting? Are they being driven off the digital into coming into the office to work things out?

Inside the concept that we are testing, there is this idea of a to-do list. So when you claim, the operator—the agent—in our Department, gets a to-do list of things to do. He then sends back to the claimant a to-do list. Is that working? Are claimants coping with that as a way of working, and does that speed things along or slow things down? So I am kind of interested in everything at the moment. I am getting reports and we regularly get a download from the team in Sutton about how

things are going. I am also very interested, with our partners in Sutton, in just what the implications are for the council. If it is not working with us, are people turning up with the council, or are they presenting to the council in any way, and how are we helping them? It is a live test, the service environment. We are looking at all of this.

Sir Amyas Morse: Some of these measures are highly scalable through the systems. In other words, you could learn to do some of this stuff without actually having people watching, right? That must be true.

Neil Couling: Yes. We are, and when we get a problem, we are obviously taking it out of Sutton and going back to where the digital system was developed, and working that through as well.

Q112 Chris Heaton-Harris: The Department has estimated how many people universal credit will help back into work—I think it is around 250,000. How confident are you in that estimate, because it is built into the business case?

Robert Devereux: This is based on some pretty detailed labour market econometrics. You can look at quite a lot of evidence of people's response to higher incomes and what they do with their labour supply as a consequence. We have done good quality theoretical work that says, "Given everything else we know about what happens if I say, 'On 10 hours, you could be better off rather than not being better off', what would be the labour supply effect?" We are as confident as we can be that we have done really good quality work. More importantly, to be honest, I have top-of-the-range evaluation in the field as we speak, already measuring the difference between what used to be and what is now, and that is being peer reviewed and regularly published.

When we produced this document a couple of months or so back, we gave you the very first suggestions of the things we are finding. It is much easier to find out what claimants are actually saying about it and rather more difficult at this stage to find econometrically robust, system-wide stories. But even in here we were observing that, relative to a JSA population, the chances of having been in work in the last six months were higher, slightly, for universal credit than they were for JSA customers. We are just beginning to see the signs of this.

All of that is stuff that I would expect we will be back to and doing in a lot more detail in six to 12 months' time. That is one of the critical variables, by the way, that will be feeding into the later versions of the business case, because knowing how big an effect this is having, and how quickly, is a really important part of the story.

Q113 Chris Heaton-Harris: If everything goes perfectly, are you able to scale this up on a quicker time scale—if everything seems to be falling right? You seem pleased so far with the bits that you have seen as it has rolled out, so is there a chance of speeding up the roll-out, going forward?

Robert Devereux: Good try, but you just heard my SRO saying he is going to be cautious. Can I paraphrase the question this way round? He is already up to his eyes just making sure that the 2015 roll-out goes. As we have already observed, we need to be ready for a decision some time in May/June next year that says, "Actually, what do I know about digital? What are my choices, potentially, for taking the live service with couples or with families?" That requires some thought process to be gone through in the next six months, so that as soon as we are ready to know that,

actually, I am clear of singles—after six months ahead, I will think about what I am doing—that would be the right sort of time frame.

Our expectation is that if we could be confident that we know something is going to work, then we will go as fast as we possibly can, but we are not going to go faster than our confidence allows.

Q114 Chris Heaton-Harris: On part 4 of the Report—obviously I don't want to put too much pressure on your SRO, because you have gone through SROs quite quickly in this so far and we don't really want to lose another one—this is all quite good news. One of the major criticisms that you have recognised in the past within the Department is that there is a good news culture of only giving good news. I want you to explain to the Committee how you are trying to deal with making sure that you are not just getting the right news given to you at different times, but you are getting the whole picture.

Robert Devereux: Okay, so there are a couple of bits of evidence here. The National Audit Office is recording the work of our own internal auditors about improved governance, improved supplier management and improved leadership, and the leadership score increases which are recorded here are really quite important. Our own people are expressing themselves as being confident in their ability to raise things. The flip side of that is, as you might imagine, my team and I are spending vast quantities of time on this. The reason I was in Sutton was to find out for myself what it was—the previous time I had been in Bolton, and then I was in Glasgow. So nobody is leaving this to chance for messages to be percolating.

Q115 Chair: There is mention of an independent chair. Who is the new chair?

Robert Devereux: We have asked Sir Robert Walmsley, who is an ex-MOD naval officer, to be the non-executive chair.

Q116 Chair: He hasn't started yet?

Robert Devereux: He has been doing it for nearly as long as—18 months, probably. He is a very experienced major programmes person.

Q117 Mrs McGuire: Non-executive chair of what? You didn't say.

Robert Devereux: The programme board, which is the most senior body short of my team and looks after—

Q118 Chris Heaton-Harris: It is in paragraph 4.8 on page 46. There is a big section here about governance and how it is changing and has changed. Again, it is more about assurance from you that you are completely on top of the governance of this programme now and that these new factors that you are introducing, such as an independent chair, are heading in the direction where you can nail down the governance completely. That way, if digital goes wrong, you still have governance behind it to make sure life continues.

Robert Devereux: I am personally extremely confident that we know what is going on now. There is much stronger transparency about what is happening, and my team is seeing that very regularly. As I said to the Committee a while back, we are sitting down every Tuesday afternoon, with the Secretary of State and myself, to go through all of our major programmes. Universal credit is the most frequent visitor to the programme. That, together with my team looking at it and the reports coming from both my own internal auditors and the Major Projects Authority, which also remarked positively about governance—all the indicators from different places that I can go to to check are telling me that governance is significantly improved and that the programme is under control.

You would imagine that that was the case because we have now done in 2014 everything we said we would do in 2013. We are extending it to the point where the Major Projects Authority, when it came to look at our plan to extend out the nationwide thing, actually commended us for doing it and said that there were more risks in not doing this now than in doing it, because there is a head of steam behind it.

Q119 Mr Burrowes: And the fact that the programme design authority has not met since February—is that a good thing?

Robert Devereux: The paragraph in question explains that we have broken underneath that two or three groups of areas. This is basically your question: where is the appropriate place to have different sorts of work done? If it can be delegated and properly done there, fine. If it needs to be of a higher order, it comes back again. But they have not had a reason for doing that.

Q120 Chair: As the Committee endlessly says, we are very keen on openness and publication. We do not find you very brilliant at doing that. Why are you engaged in a long-running legal battle over an FOI request for publication of documentation on universal credit going back to March 2012? Why are you doing that if you actually believe that openness helps?

Robert Devereux: Because the Department and, indeed, the Government have a view about the efficacy of risk registers and the extent to which they have to be candid if they are actually to be useful. To be candid, people have to expect that they are not—

Q121 Chair: We would quite like the milestone schedule, wouldn't we, Comptroller and Auditor General?

Robert Devereux: All I am observing is right across Government. The question about whether or not documents we are using to manage the system—if I am going to get the sense of transparency that Mr Heaton-Harris has been asking me about and if people don't want to think that as soon as they have written it down, it is going to be on the front page of the newspapers—

Q122 Chair: Well, an issues register, a milestone schedule—we would quite like that, wouldn't we? We would like it in the public domain.

Sir Amyas Morse: Yes, we would like that. That is why we would like that: it would be helpful in making sure that everyone's expectations were set in the right place, including the Treasury, I

would guess. On the other hand, I must say that I have sympathy for the argument about the risk register. It is very difficult: if you are going to be compiling a risk register on a defensive basis, because it might be looked at in public, it makes it very difficult to use it as a management tool. I just have to say that from my own experience.

Q123 Chair: We're not talking about that.

Sir Amyas Morse: No, I know, but only if you were.

Robert Devereux: That is the central element of that.

Q124 Chair: No, it's not. It is a whole lot of things. The issues register, the milestone register, the MPA project assessment—

Sir Amyas Morse: We would like to see the milestone schedule, but that is a different matter.

Robert Devereux: The issues register and the risk register are alternative words for the same thing.

Q125 Chair: It seems to have been going on since March to April 2012.

Robert Devereux: It has, and we are not the only Department with the view that internal-matter documents are worth—

Q126 Chair: Can I ask about three other things? One is tax credits—so, that is really just Sharon. Tax credits were supposed to be incorporated. Goodness knows when they will be able to stop administering them at HMRC. What is your view on the cost of that?

Sharon White: As you know, tax credits are right at the back end— *[Interruption.]*

Q127 Chair: I think you can write to us. Can you help us, Mr Devereux? What is the extra cost? We are having HMRC up, so we will ask them; I am after the extra cost of now running it. They counted it as a saving that they would not have to do the tax credits any more.

Robert Devereux: I do not have that number with me, so leave it with us.

Q128 Chair: Will you write to us? The other thing I wanted to ask of you was this. When we originally talked about this in 2010, the idea was that the housing element of universal credit would go directly to the claimant, not to the social housing provider. Have you shifted on that?

Robert Devereux: No.

Q129 Chair: What evidence do you have so far of the impact that it is having on rent arrears in the social housing sector, and what evidence do you have of what it is doing to the willingness of private landlords to take on tenants who have a housing benefit element to their universal credit?

Robert Devereux: I will let Neil answer that, but to be very clear, the default setting is that we will pay the claimant. That does not mean that in all cases we only pay the claimant. That is just for clarity.

Neil Couling: Funnily enough, I actually designed some of the policy here. Our assumption inside this was that still, a significant minority—

Q130 Chair: Can you speak up a bit? The acoustics here are horrible.

Neil Couling: Sorry. I designed some of this policy back in 2010. Our assumptions then were that for a significant minority of people, it would still be paid directly to the landlord, so we built some functionality into the system to do that. What we have been doing is setting up a series of demonstration projects across the country, working with local authorities to look at what happens if your benefit—in this case, your housing benefit—is paid directly to you. Is there a growth in rent arrears or not? We are just about to publish the results of all that, so I think if I tell you what the answers are—I have been in front of the Statistics Authority before for releasing information, so I don't want to do that.

What I can do is tell you about my experience under the last Government in terms of moving private rented sector people away from direct payment to landlords and towards paying the claimant directly. In those days, 2008 to 2010, we did that through the local housing allowance. Then the landlords all said, "There'll be mass arrears; we'll stop letting to people," and so on, but none of that actually happened, because the way we designed the payment system for vulnerable people meant that we could intercept problems very quickly, keep those people in their homes and make sure landlords did not suffer a massive growth in rent arrears. So we will be doing the same thing around universal credit.

Q131 Chair: Let me challenge that a little bit. The evidence that I have is from the Bron Afon community housing association in south Wales, which has had a 50% increase in arrears. In the first group of tenants in Torfaen, arrears went from £20,000 to £140,000 in the seven months between July and January 2013.

Robert Devereux: Did you say south Wales, Chair?

Chair: You are not publishing anything, so I am saying what is in the public domain. Pilot projects in Edinburgh, Oxford and Southwark saw a 30% increase in arrears, with Southwark council predicting £40 million in arrears if direct payment is introduced among its tenants. Average rent arrears for those in the pilot in Warrington are £942 as of August 2014, and 90% of those using universal credit are in rent arrears. Two have been evicted since the move, and a further 13 are on suspended possession orders or notices. Further, the National Landlords Association—I agree that it is a trade union, but nevertheless—says that the number of landlords letting to people on benefits has halved from 46% to just one in five, or 22%.

Neil Couling: I urge the Committee to reserve its judgment until the evidence is published.

Q132 Meg Hillier: I was talking to a London housing association that is working with you on a pilot. It seems to be picking up on a pattern in which arrears go up initially because people do things such as buy a washing machine—it does not tend to be frivolous payments, in the association's experience. That does not seem to chime with what the Chair is saying, so clearly it is different in different areas. When you come out with these numbers that you cannot talk about, is there a pattern of arrears? I can understand that if you have never had the money and you need something fixing, there might be a big temptation to spend the money when you suddenly have it in your bank account. I am in favour of people making their own decisions about their money. Is there a pattern that you could talk to us about?

Neil Couling: I think you are tempting me too far down a road that I had better not go down.

Q133 Chair: Are you telling me that what I read out is wrong?

Neil Couling: If I said that to you, I think I would be in hot water again.

Q134 Chris Heaton-Harris: Would you write to us with some more details when the report is published?

Neil Couling: Yes, I would be very happy to do so.

Q135 Mrs McGuire: It is fair to say—I have a bit of vested interest in this—that in the 2008 changes, which Jim Murphy and I took through as Ministers, we were very conscious that we had to build in some of the protections while maximising the autonomy for the individual. An intention of that was to get away from the signs that used to be in windows, which said, “No DHSS”—as it was then, because people had not moved on to DWP. We need to be a bit more careful because certainly it was carefully framed, if I remember correctly.

Neil Couling: Exactly. It was carefully framed, it worked very well, and we have taken that learning into universal credit for the social rented sector.

Chair: Well, it would be interesting if you could look at these, which are all in the public domain, and write to us about them. Either they are wrong or they are right.

Chris Heaton-Harris: There is a concern among housing associations. My local one has put a provision in its accounts for rent arrears to be going up; there is a genuine concern in the social housing community.

Q136 Meg Hillier: Even housing associations have different landlords. Sorry, Mr Devereux, but you might want to answer this at the same time. Maybe some manage their arrears differently or better. Perhaps that is where there are different issues with some associations. Are you building that into the evaluation of what you are doing? If there are lessons to be learnt, that is pretty key.

Robert Devereux: We ran these pilots to learn something. We did not run them to prove that it was perfect. We have learnt something and the process that we are already running in

universal credit sites is different now from previously. There is now a standard way in which all landlords can contact us if they are worried about arrears. There is a standard way in which we can make payments much faster than we previously used to. You are reading, as it were, precisely the evidence base that we would want to know to construct the system properly. It is not proof that it is failing.

Q137 Chair: Well, you now have the evidence base on the record and I would be interested in your response to it.

Robert Devereux: Sure.

Q138 Chair: If it is wrong, I want to know.

Robert Devereux: It is perfectly possible that the evidence base is correct and we have already moved on and improved it.

Q139 Chair: Well, come back to me on it.

Robert Devereux: I will.

Q140 Chair: Finally, I want to quote Bob Kerslake, who in his valedictory address to the Institute for Government in September said that universal credit was “undeliverable” in the timetable originally set out by the Department for Work and Pensions, but that that was not recognised in time by the Department because of a prevailing culture of deference within the civil service.

Robert Devereux: You don’t think that I am deferent, do you?

Chair: I don’t know. I am asking you.

Mrs McGuire: Certainly not to us anyway.

Robert Devereux: I do not think there is a question of deference. The Government set an ambitious timetable. As a consequence of that timetable, we now have universal credit in 81 jobcentres.

Q141 Chair: No, as a consequence of the ambitious timetable, you were left with a shambles, which Mr Couling is now trying to recover from. **Robert Devereux:** No, with the greatest respect—

Chair: Were supposed to have 2 million people. I did a little calculation while you were here on the 18,000. I do not know what I am comparing, but by this time we were supposed to have 2 million people on universal credit. We have 18,000, which is just less than 1%.

Robert Devereux: It is a shame that Mr Bacon is not here, because his rather excellent book was all about coruscating Government Departments when they announced targets when they did not actually know the plan to do it. What we have explained today, very carefully, is that step after step we are making decisions.

Q142 Chair: You are rescuing a shambles.

Robert Devereux: It is not a shambles. I have tried to explain to you that despite the fact—

Chair: It was a shambles.

Robert Devereux: No, I'm afraid that I am not going to accept that. There have been £2 billion of savings for the taxpayer, consequent upon the actions of this Department. Is that a shambles? I think not.

Chair: Mr Devereux, 2 million people are supposed to be on universal credit now; there are 18,000 on it today. You may interpret that as a success story for your tenure in DWP. I do not. Thank you.