Department for Work & Pensions

Minister for Welfare Delivery
4th Floor
Caxton House
Tothill Street
London
SW1H 9DA

Rt Hon Stephen Timms MP
Chair, Work and Pensions Select Committee

24 May 2021

Dear Stephen,

Universal Credit Business Case: refreshed costs and savings for 2020/21 and 2021/22

I am writing to share with you an update on the partially refreshed Universal Credit (UC) Business Case Full Life costs which the Department has provided to the National Audit Office (NAO) following their helpful review in July 2020. A copy of our correspondence with the NAO is attached in Annex 1.

Background

The Department has recently re-forecast costs and savings and now better understands the full forecast impact of COVID-19 on the labour market and UC for 2020/21 and 2021/22. This refresh was in alignment with the OBR, and the decision to focus on the current and following financial year reflected the economic uncertainty and volatility.

Since the last refresh in Autumn 2019, there have been three significant changes which affect our assessment of the administrative savings from the legacy system. These are significantly higher volumes (from around 3m to around 6m UC claimants), a significant compositional change to the UC caseload (with a much higher proportion of people in our most expensive intensive work search regime) and an improved methodology in calculating legacy savings, based on actuals data.

Even with the significant surge in volumes and the delivery challenges this has posed, DWP has continued to improve reporting and transparency for decision making within the UC Programme.

Programme Reporting

Our refreshed analysis shows that:

- The estimated savings delivered by UC compared to the legacy system has significantly increased, with the total savings in refreshed years now estimated to be higher than the cost of delivering UC (£400m in 2020/21and £500m in 2021/22). This is predominantly driven by the unit cost for full conditionality claims being significantly lower in UC compared to legacy and this group being the bulk of those seen from the Covid surge; and
- The total savings are now estimated to be higher than the cost of delivering UC, by approximately £400m in 2020/21 and £500m in 2021/22.

Given previous interest in the UC Programme's delivery, this refresh provides evidence that UC is now cheaper to administer than the benefits it replaces. Officials will continue to monitor the programme and report at future refreshes.

Future refresh

When the DEL costs and savings refresh beyond 2021/22 takes place, it is anticipated that the net costs of UC across the lifespan of the business case will show an evident reduction (and improved value for money). It is worth noting however, that the difference between cost and savings is expected to reduce as the volume and composition of the UC caseload evolve, and the easements within UC are unwound and unit costs return to business as usual levels.

Finally, we must be mindful of both the significant number of departmental assumptions which underpin the current analysis and models, and the inherent uncertainty about the macroeconomic impacts of coronavirus into the medium term and the associated economic recovery.

Kind regards,

Will Quince MP

Minister for Welfare Delivery

Department for Work & Pensions

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26 April 2021

Gareth Davies
Comptroller and Auditor General
National Audit Office

Dear Gareth,

Universal Credit Business Case: refreshed costs and savings for 2020/21 and 2021/22

I wanted to provide you an update on the Universal Credit (UC) Business Case Full Life costs, following a partial refresh of costs and savings undertaken by the Department. This builds upon the helpful review undertaken by the NAO in July 2020.

Background

Your team recently performed follow-up work within the Department and saw first-hand that, even with the challenges of supporting a significant surge in volumes, DWP has continued to improve reporting and transparency for decision making within the UC Programme.

As anticipated in the NAO report of July 2020, the Department is now in a position to reforecast costs and savings to better understand, in alignment with OBR forecasts, the full forecast impact of COVID-19 on the labour market and UC for 2020/21 and 2021/22.

The Department has prioritised the refresh of the forecasts for the current year and a single additional year, mindful of the continued economic uncertainty and volatility into future years.

Since the last refresh in autumn 2019, there have been three significant changes which affect our assessment of the administrative savings from the legacy system:

a) Significantly higher volumes (from around 3m to around 6m UC claimants);
b) This has driven a significant compositional change to the UC caseload, primarily a much higher proportion of people in the intensive work search regime which is the most expensive element for the Department to deliver (in both legacy and in Universal Credit); and
c) Improved methodology in calculating legacy savings, based on actuals data and alignment with new approach for UC forecasting agreed by the Office for Budget Responsibility (OBR, see Annex 1 for more details).

Updated numbers for 2020/21 and 2021/22

As expected, these changes have significantly increased the estimated savings delivered by UC compared to the legacy system in 2020/21 and 2021/22, now estimated as £2bn and £2.2bn respectively.

The increases of the savings in legacy are proportionately larger than the UC costs since Job Seeker's Allowance is more expensive than the equivalent claimants in UC, and easements within the UC system have lowered the costs in 2020/21 and 2021/22. Easements cannot be applied to legacy benefits, as we do now know what easements would have been applied in legacy if UC did not exist. The total savings are now estimated to be higher than the cost of delivering UC (£400m in 2020/21) and (£500m in 2021/22).

Impacts on programme reporting

The Department has reforecast the total cost of implementing UC for 2020/21 and 2021/22 refreshed volumes. This shows that whilst the total cost of implementing UC had risen from £3.2 billion in the 2018 Final Business Case to £3.8 billion, this is a significant reduction on our previously reported £5.8bn (Annex 2).

DWP has reduced the cost of administering each claim. This refresh provides evidence that UC is now, already, cheaper to administer than the benefits it replaces (Annex 3). Clearly this is welcome news and will be important, at some point, for stakeholders to clock, given previous unfounded anxieties that UC was more expensive than the systems it is replacing. Given the importance this will continue to be monitored by the Department at future cost and savings refreshes.

Expectations going forward

Whilst we would expect the net costs of UC to show a notable reduction across the lifespan of the business case (and improved value for money), the difference between the cost of administering UC and the legacy savings seen in 2020/21 and 2021/22 is likely to reduce. This is because the intensive work search caseload reduces as the labour market improves, impacting both the volume of UC cases and the composition of this caseload, and the easements within the UC are unwound.

We must however be cautious with any predictions given the inherent uncertainty about the macroeconomic impacts of coronavirus into the medium term, the associated economic recovery, and the significant number of assumptions which underpin the analysis.

The business case financial details from 2022/23 are due to be refreshed and we will update when they have cleared governance to report. We will continue to develop forecasts in alignment with OBR and update on the reported position with transparency.

A copy of this letter goes to Peter Schofield and Nick Joicey here and Joshua Reddaway in the NAO.

Yours Sincerely,

Neil Couling
Director General,
Change and Resilience
& SRO Universal Credit

Annex 1 – Information on the updated methodology

Previous Counterfactual Legacy Savings Model

As agreed with the OBR, the Department's official AME forecasts for UC are now on an 'actuals-basis' – this method projects volumes in receipt of UC and legacy benefits based on current costs and volumes. This means that the previously used 'counterfactual method' of estimating how many would have been on legacy, if UC did not exist, is no longer available to calculate DEL savings.

Therefore, we have developed a new methodology in alignment with the current OBR approved volume projections methodology to estimate the DEL that would have been spent on the current UC caseload if they had been in the legacy system.

New Legacy Savings Model

In short, we take the UC on-flows and caseload and estimate what each household would have received under legacy benefits based on their characteristics and accounting for some non-take up in legacy. We then apply the appropriate legacy unit cost to each household to calculate a total saving. This unit cost is based upon actual costs rather than modelled assumptions. This methodological improvement increases the savings by around 10-15%.

The methodology has been through detailed internal scrutiny including quality assurance by the DWP Chief Analyst (Trevor Huddleston).

Annex 2 Full Life Costs

Previously reported P11 Universal Credit Programme Board Pack

		Autumn 19 Volumes									
	Total Costs £m - based on Autumn 19 volumes										
	Pre	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	Total	FBC
Programme Mgt	1,441	147	172	135	156	141	60	24	22	2,298	1,771
Move to UC	45	30	22	39	166	192	79	5	1	578	291
Investment	**1,486**	**176**	**195**	**174**	**322**	**333**	**138**	**29**	**23**	**2,876**	**2,062**
Running Costs	1,645	864	1397*	986	1,044	1,171	1,206	1,216	1,236	10,765	10,655
Savings	(842)	(670)	(700)	(830)	(911)	(981)	(1,095)	(1,110)	(1,064)	(8,203)	(9,806)
Depreciation	266	13	13	16	24	24	23	23	20	421	357
Total	**2,554**	**384**	**905**	**345**	**479**	**546**	**272**	**159**	**215**	**5,860**	**3,268**

*20/21 Actuals include Covid impact

Note: The current forecast of £5.8bn compares to the FBC Financial case £3.2bn. This includes depreciation, inflation and runs through the whole life of the programme. Running Costs for 2021 include actual Operational Costs at Period 11 and forecast costs for P12. All running Costs 2021/22 to the end of programme were based on Demand Plans driven by Autumn 19 volumes. Savings for 2020/21/ to the end of the programme are understated and represent Autumn 19 volumes.

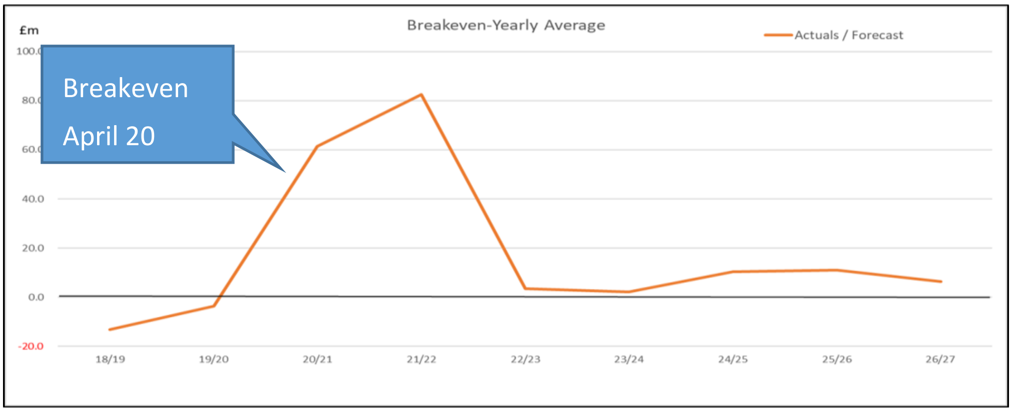
Refreshed volumes and methodology to be reported for P12.

Volumes		Autumn 19	Winter Plan 20		Autumn 19						
	Total Costs £m										
	Pre	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	Total	FBC
Programme Mgt	1,441	147	172	128	156	141	60	24	22	2,290	1,771
Move to UC	45	30	22	46	166	192	79	5	1	586	291
Investment	**1,486**	**176**	**195**	**174**	**322**	**333**	**138**	**29**	**23**	**2,876**	**2,062**
Running Costs	1,645	864	1,397	1,560	1,044	1,171	1,206	1,216	1,236	11,339	10,655
Savings	(842)	(670)	(1,993)	(2,226)	(911)	(981)	(1,095)	(1,110)	(1,064)	(10,892)	(9,806)
Depreciation	266	13	13	16	24	24	23	23	20	421	357
Total	**2,554**	**384**	**(389)**	**(476)**	**479**	**546**	**272**	**159**	**215**	**3,745**	**3,268**

Notes: The current forecast of £3.7bn compares to the FBC Financial case £3.2bn. This includes depreciation, inflation and runs through the whole life of the programme. 2022/23 running costs and savings, are not refreshed and are based on Autumn 19 volumes.

Annex 3 Breakeven

Yearly Average £m	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Operational Costs	63.2	104.7	103.0	72.3	79.5	80.6	81.1	82.2
Operational Savings	59.6	166.1	185.5	75.8	81.6	91.0	92.2	88.6
	3.6	**-61.4**	**-82.6**	**-3.5**	**-2.1**	**-10.4**	**-11.1**	**-6.4**



Note: Breakeven is calculated as Running Costs less reinvestment less Savings. 2022/23 have not been