Department for Work & Pensions

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Rt Hon Stephen Timms MP
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14 July 2021

Dear Stephen,

Thank you for your letter of 16 June 2021. You are concerned 2020/21 is not a solid foundation on which to base our assessment.

Our analysis relates to two years and forecasts a continued net gain for Universal Credit (UC) over the legacy system going forward. It cautions the net gain might not be as big owing to the pandemic, but the central point is that UC is clearly more cost effective than the system it replaces. This is something the Committee, prompted by National Audit Office (NAO), has challenged in the past, so I am sure you will welcome this. Turning to your specific queries, I have provided a response to your questions.

Question 1

As outlined in the Office for Budget Responsibility's (OBR) welfare trends report, the latest forecasts show the UC caseload will start to fall from early 2022 but will remain above pre-pandemic estimates, even by 2025/26, by around 240,000. We continue to monitor and adjust our forecasts taking into account the latest data and public health context.

Question 2

Given the rapidly changing public health picture during the pandemic, it was right that our forecasts focused on a shorter time horizon. As stated in the letter to the NAO, we are looking to update the full business case costs shortly based on our latest medium term forecasts. Even before this update however, we can be confident that UC will continue to be more efficient than the legacy system in the future.

Questions 3

a) Without the pandemic and associated "Covid surge," our assessment is that UC would still be cheaper to administer than the legacy system. The analysis produced for the pre-pandemic Autumn 2019 plan suggested UC would cost less to deliver than legacy benefits from 2021/22 onwards.

b) We know from previous occasions where benefit administrations have been subject to an uncontrolled increase in volumes, costs of administration and levels of fraud and error have risen.

We have not tried to model these effects here for administration costs and fraud and error, but have looked instead at the unit costs of the old system unmodified for these effects. If we did model those costs, the advantages of UC over the legacy system would become more apparent.

The latest UC estimates for 2021/22 are based on UC policy and adjustments post-pandemic because we have modelled what is being delivered. However as explained above, the analysis for the Autumn-19 plan suggested UC would deliver savings from 2021/22 onwards and we do not think the legacy system would have coped with the surge of claims during the pandemic.

Question 4

As we have explained to the Committee previously, the unit costs of managed migration are yet to be fully determined. However, as they are one-off costs, they are not relevant to this comparison between the administrative costs of UC and legacy. In general, we expect the unit costs of UC to fall over time as we continue to improve the system.

Question 5

How fraud and error is accounted for is set out in the summary of the UC Business Case that we published in 2018.

Question 6

During the pandemic, there has been an increase in attempts to defraud the system through practices such as ID hijacks. However, the vast majority of these have been thwarted. The fraud we have seen enter the system has in the main been by individual claimants misrepresenting their circumstances.

Question 7

We have previously produced internal 'baseline' estimates of the level of fraud and error we would have expected to see in the legacy system (including Tax Credits) in respect of our UC caseload. In this case though, the effects of the pandemic mean that it is no longer possible to produce these figures as there are simply too many variables.

However, UC has stood up remarkably well to the huge influx of new claims. The drop in UC Official Error compared to previous years is testament to how, after only a short training period, thousands of inexperienced staff were able to process a huge spike in UC claims with minimal error.

Question 8

You wrote to me about this matter in May and I expect to reply shortly.

Your sincerely,

Will Quince MP

Minister for Welfare Delivery

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From the Chair

Will Quince MP
Minister for Welfare Delivery

16 June 2021

Dear Will,

Thank you for your letter, dated 24 May, about costs and savings in Universal Credit.
Your letter says that data on costs and savings for 2020/21 and 2021/22 provides "evidence that UC is now cheaper to administer than the benefits it replaces". I would be grateful if you would please supply some further information about the methodology underpinning this claim.

I am concerned that data from 2020/21 may not provide a solid foundation for estimating costs and savings in future years, given the impact of the pandemic. Your letter acknowledges that it is this exceptional impact that has driven savings: for example, it has led to a substantial increase in claimants, and changes in the composition of the UC caseload.

Your letter explained that the savings are "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".

1. **When does the Department anticipate that the "Covid surge" and its effect on the UC caseload will end?**

2. **The Department has said that it has not produced forecasts past 2021/22, in line with the approach taken by other organisations, including the OBR. How does this affect the wider conclusions that we are able to draw from this data about the cost of administering UC, especially after 2022?**

3. **Your letter says that UC is now cheaper to administer than the legacy system. Without the pandemic and associated "Covid surge" impact, would that still be the case?**
    a. **How has the Department assessed how the legacy system would have functioned during the pandemic?**
    b. **Has the Department included in its analysis the costs saved from UC policy and process adjustments made in response to the pandemic, costs that would have been incurred had it operated the standard UC service?**

4. **The Department intends to restart its "managed migration" pilot in April 2022. A majority of these claimants will not be "full conditionality" claims. A higher**

proportion of “covid surge” claims being subject to full conditionality means that the unit cost is reduced. How do you expect restarting managed migration to affect unit costs from April 2022?

Looking at the unit costs of administering UC is, of course, a legitimate way of assessing its cost over time. I am also interested in other costs associated with the programme and how these might affect it: notably, the record rates of fraud and error that the Department reported on 13 May. £8.4bn was lost in 2020/21. This was almost entirely due to fraud. In 2019/20 (before the pandemic, and before the number of UC claimants doubled), the Department lost £4.6bn.

5. **How do fraud and error rates affect the cost of the UC programme?**

6. **Has the Department identified any new patterns or trends in fraudulent claims during the pandemic?**

7. **Has any assessment been made of what levels of fraud in the legacy system would have been over 2019/20 to 2020/21, had it not been replaced with UC?**

8. **How do you expect fraud and error rates to change in 2021/22 and beyond, and how would you explain any anticipated changes?**

Yours sincerely,

Stephen Timms

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee