UC Finance update: Impact of Autumn Statement & Winter 2022 volumes

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Board/Authority/Group: UC Programme Board

Date: 21st March 2023

For Discussion and approval.

UCPB210323 – Paper 4

OFFICIAL SENSITIVE

High Level Management Summary

a. Problem context and statement: To update, discuss and agree; the programmes latest financial position following recent changes to planning assumptions.	h. Communications implications:
b. Has a previous decision been made? Why do you want to change it?: Follow up to previous update provided as part of the FBC numbers refresh in November 2022. We have now impacted Winter Planning 22 volumes and the Autumn Statement announcements.	i. Delivery partner/employer implications:
c. Potential solution options:	j. Performance metric/MI implications:
d. Design considerations: including impact on the Operating Model, Cost Model, Change Impacting, etc	k. Assumptions to validate:
e. Financial and commercial issues: PB approval will allow the on-system financial forecast to be adjusted at P12 to align to the enclosed latest financial position.	l. Transformative/people/behavioural implications:
f. Legal issues:	m. Consultation with other relevant Stakeholders: Ongoing dialogue with strand directors, partners (HMRC & LA-PED) and HMT.
g. Policy impact:	n. Proposed next steps:

Main Objective

To update, discuss and agree: The programmes latest financial position, incorporating:

- Latest 2022/23 financial position

- Impact of changes announced at the Autumn Economic Statement on whole life costs and savings, including impacts of:
  - Changes to ESA migration timetable
  - Increase in the Administrative Earnings Threshold (AET) to 15 hours
  - Adoption of a new Move to UC Migration cost model
  - Additional Targeted Case Review funding

- Impact of Winter 2022 UC caseload volumetrics on whole life UC Operational costs and savings.

Latest 2022/23 financial position

We previously presented a Deep Dive to UCPB 6th September 2022, and provided a further substantive update 15th November to share and agree the UC Business Case numbers refresh.

At P06, ahead of Departmental budget realignment activity, it was agreed to apply a £11m overlay to the forecast to mitigate potential delays to recruitment in the last 6 months of the year and also acknowledge potential of softness in Marketing and Partnership Support.

Since the Business Case numbers refresh update the most significant movements have been:

- UC Ops Migration recharge reduced £2.3m following the adoption of the revised Migration Cost Model (formerly known as 'Discovery Model'. Further details slide 6.
- Decision to no longer progress Partnership Support workstream.
- Reduction in marketing forecast and further activity will now commence in 23/24 and align to the scaling phase of MtUC.
- Decrease in IT investment due to slower ramp up of work and recategorization of TCR costs from RDEL to CDEL
- Smaller reductions across the workforce plans and also salary uplifts, revised operational recruitment within Help to Claim grant due to vacancies.
- Increase in TCR due to average salary uplifts, revised recruitment profile and additional DMA recharges.
- The adoption of the overlay at P06 has allowed the programme to offset falls in the forecast against this each month. **As a result the programme is on track to land its full year position within 1% of the P06 forecast.**

	Budget			
£m	DELP	DEL C	Depcn	Total
P7 budget realignment	92.97	19.90	14.34	127.22
P10	92.97	19.90	14.34	127.22
Movement	**0.00**	**0.00**	**0.00**	**0.00**

	Forecast			
£m	DELP	DEL C	Depcn	Total
P06 (Business Case Refresh)	93.24	19.90	14.34	127.48
P10	91.82	20.48	15.08	127.39
Movement	**1.42**	**(0.58)**	**(0.74)**	**0.10**

	£000's
Net DEL P Movement	98

Item	**Movement**
UC Ops Migration Recharge	2,306
Partnership Support	2,000
Marketing	1,985
HMRC	1,500
Digital IT Investment	1,028
Workforce Plans	899
Other Recharges	1,064
Help to Claim	486
Other movements	31
Digital IT Recurrent	193
Digital Capitalised staff	(576)
Depreciation	(743)
UC TCR	(1,075)
Release of overlay	(9,000)

Financial Summary – Whole Life Cost

We presented to UCPB on 15th November the Programme's latest financial position as part of the UC Business Case numbers refresh. That update included the DEL cost and savings impacts of Spring '22 volumes – adjusted for the Tax Credit Acceleration plan ("Plan B") and planning assumptions at that point in time.

Since then, significant changes were announced to the Move to UC timeline at the Autumn Economic Statement (17th November 2022) as well as an increase in the AET to 15 hours.

	Total Costs £m								Whole Life
	Pre	22/23	23/24	24/25	25/26	26/27	Total	FBC	Movement
Programme Mgt	1,841	117	257	444	92	55	2,807	2,554	(253)
Move to UC	152	7	27	63	1	0	251	443	192
Investment	**1,993**	**124**	**285**	**508**	**93**	**55**	**3,057**	**2,997**	**(61)**
Running Costs	5,536	1,288	1,545	1,832	2,062	2,110	14,373	14,308	(65)
Savings	(5,139)	(1,637)	(1,994)	(2,531)	(2,749)	(2,794)	(16,845)	(16,588)	257
Depreciation	307	18	19	22	25	24	416	419	3
Total	**2,696**	**(208)**	**(144)**	**(169)**	**(569)**	**(605)**	**1,001**	**1,135**	135

Total Programme movements from the FBC Refresh position:

Programme costs £2,807m, a net decrease of £253m mainly due to:

- Targeted Case Review Autumn Statement funding of £62m in 23/24 and £196m in 24/25 for the 'bigger and faster' ramp up of work.
- HMRC £9.7m increase due to increased project staff to support debt remittance strategy and brought forward decommissioning work.
- LA Exits £8.9m reduction reflecting reduced provision for staff exits funding after impacting latest MtUC volumes.
- Partnership Support £8m reduction, following decision to deprioritise this workstream.

Migration costs £251m, a reduction of £192m mainly due to:

- DWP Migration £175m reduction, after impacting latest MtUC volumes and adoption of updated Migration Cost Model.
- See Slide 6 for further details.
- HMRC Migration £2.5m increase reflecting processing resource to align with MtUC volumes and profile.
- LA Migration £7.2m reduction reflecting the latest MtUC profile and volumes.

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Financial Summary – Whole Life Cost (Cont.)

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Operational running costs £14,373m, an increase of £65m due to Winter 22 volumes and the AET movement to 15 hrs.

- While overall caseload volumes are forecast to be slightly lower than previously forecast at the business case refresh, changes to the Administrative Earnings Threshold will mean that a greater number of customers than previously forecast will be placed into a higher conditionality regime and spend more time interacting with the service. Effectively reductions from lower overall demand have been more than offset by increased costs resulting from the AET change.
- For example, in 23/24 Service Centre demand is expected to be around 5% lower than forecast in the Business Case refresh, while Job Centre demand is around 3% higher.

Operational Savings –£16,845m, an increase of £257m

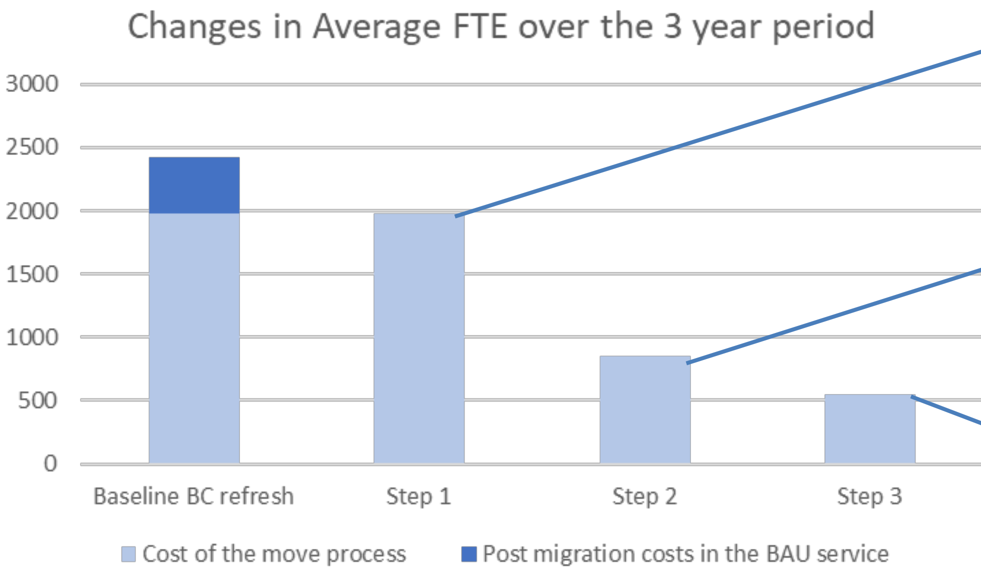
- Legacy savings have been recalculated using the revised ‘Like for Like’ savings model that was agreed with UC PDE, UC PB and HMT in March 2021.
- The new modelling incorporates the Winter Planning 2022 volumetrics and legacy benefit conversion methodology. Analysts have also taken the opportunity through this update to make two further changes to the modelling to:
  - Ensure that wage inflation assumptions used to calculate the unit costs in the savings model align to those used in the operational cost models.
  - Remove a prior assumption that converted JSA equivalents from individuals to benefit units which we think underestimated the modelled savings from this group of legacy claimants.

UCPB are asked to note that the savings model continues to rely upon a significant number of assumptions – and therefore cannot be as robust as the modelling that underpins our operational costs – and the challenge in the savings space gets harder to estimate the more we move to a UC world. Analysts however believe this remains the best available way of calculating the likely savings position.

Further details on changes to financial outlook from new move assumptions

As detailed on slide 4, the recent changes to the cost of Move to UC are significant - with reductions to costs from our business case refresh of £176 million over the life of the 3 year profile

We believe the reductions in demand (and by association cost) are proportionate and can be explained as follows…



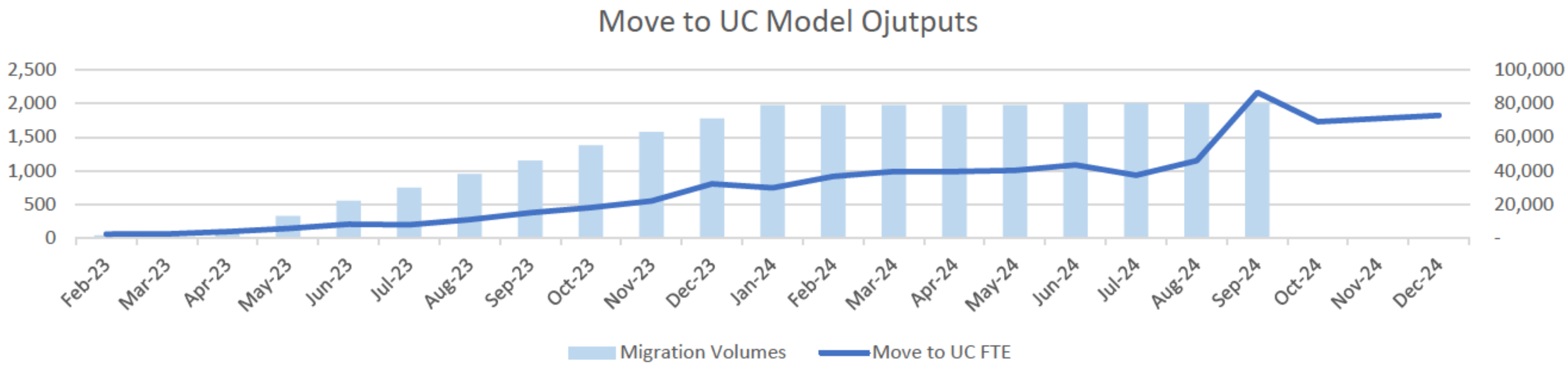
1. Removal of ongoing costs of administration following migration, (primarily Transitional Protection) this was historically assumed to be a significant ongoing burden within the BAU service post move and is now considered to be fully contained within the existing BAU processes. This accounts for 24% (£42m) of the total reduction

2. Replan to move ESA cases by 2028. By applying the replan to the Harrogate assumptions we can see this accounts for 60% (£105m) of the total reduction*. **Its important to recognise here that this is our deferred complexity and has the potential to resurface when we get to the migration of ESA cases**

3. Simplification of the new 'pre claim' move process for TC cases. TC cases are subject to a simpler process (eg there is no expectation of any warm up conversations being undertaken). This accounts for 16% (£28m) of the total reduction

*or 80% of 'pre claim' move to UC activity

Revised Move to UC modelling



<u>Key points to note:</u>

- Model has evolved to a level of maturity and was signed off by Move to UC subgroup on 20th February 2023 and UC PDE 1st March.
- Model has been used as the demand line for Winter Planning 2022 DASSC models.
- Team has worked with Discovery teams and UC design teams to validate assumptions and timings.
- Volume used are based on latest Winter Planning forecasts from UCAD forecasting teams.
- FTE requirement escalates as we move to Q3 24-25 as we start to invite Legacy customers to migrate. This triggers higher levels of customer engagement to mitigate any vulnerability concerns, if customers do not respond to initial invites.
- Automation assumptions are conservative, with full automation limited at 75%. This allows for an opportunity for delays to delivery.
- Transitional Protection calculation assumed for all claims that are submitted to UC. Our automation assumption has also been pushed back by one quarter to again mitigate risk.
- All assumptions and progress are tracked and monitored through the Service Planning and Delivery team, with updates to the model reflected once new processes embedded.

Summary

- This paper has been brought to this meeting because:

  Please indicate whether

  You require a decision to be made
  You need to generate a discussion about a particular issue, with options/recommendations
  You are providing information only
  or as a below the line paper

Decision	Approved
UCPB are asked to note the latest financial position of the programme and provide agreement that changes identified as a result of impacting the Autumn Economic Statement and Winter Planning 2022 can be adopted in the on-system forecast at P12.	