OFFICIAL SENSITIVE

UCPB171023 – Paper No. 05

To: UC Programme Board Members

From: **Stuart Ison**
Sponsor: **Ian Wright**
Author: [redacted]
Date: **17 Oct 2023**

cc: Mark Cousen
[redacted]

Paper Title: Universal Credit (UC) Benefits Realisation Update Oct 2023

Summary:
The Purpose of this paper is to provide Programme Board with an update on UC Benefits Realisation in the 3 priority benefits of DEL Efficiency; Fraud and Error; and Labour Market.

Labour Market Impacts – No further update at this time

- Single JSA style claimants are 2 percentage points more likely to be in work 6 months after claiming than someone on legacy benefits.
- Analysis of JSA type lone parent claimants of UC continues with results expected during 2023.

DEL Efficiency – July 23 (P4) data available to update unit costs

- Finance Update Paper (Aug 23) shows the cost of UC in 2022/23 was £349m more efficient than would have been the case under legacy systems.
- The forecast for 2023/24 shows that UC is £578m more efficient.
- Unit cost of UC has reduced from £593 per claim in April 2018 to £287 in July 2023. It should be noted that July 2023 includes the £1,500 payments to staff and therefore is an inflated unit cost. October will provide a clearer position as the pay award will be shown without one off payments or backdated payments.

Fraud, Error and Overpayments – Latest Tier3 (MVFE sample) update

- FEMA (Fraud & Error Measurement and Analysis) have provided updated insights into the MVFE sample for 2023/24 which is now nearly 50% complete. The level of overpayments in UC does not appear to be coming down – possibly a slight increase.

Recommendations/Decisions required:

For Information only. Although continued feedback is sought on clarity and stakeholder understanding of the update.

Timing: *Routine*

Introduction

1. The purpose of this paper is to provide Programme Board with an update on Universal Credit (UC) Benefits Realisation and the three priority benefits.

   A. Labour Market impact;

   B. Departmental Expenditure Limit (DEL) Efficiency; and

   C. Fraud, Error and Overpayments.

Context

2. In November 2022 the Programme Board were presented with the UC FBC numbers refresh. The numbers refresh supported the IPA review of UC and the successful drawdown approval from HMT. One of the recommendations from the IPA review was that:

   'The Programme should develop a crisper narrative about the benefits position to ensure that the holistic picture is understood by all stakeholders'.

   'There is a risk that the narrative about Benefits focuses on the challenges of relating back to the 2018 business case, rather than what has been achieved'.

3. In April 2023 an updated narrative was presented to PB that focused on what had been achieved to date. This update continues in the same style and again feedback is welcomed to ensure that all stakeholders understand the benefits narrative and that there is a focus on what has been achieved to date.

A. UC Labour Market Impacts

4. The UC FBC stated, as one of its 5 key objectives:

   - **Delivering Full Employment** – UC will transform the Labour Market by ensuring claimants are always better off in work. A smooth taper, increased incentives and a simple easy to understand benefit will produce around 200k additional entrants into work by steady state and an additional 113m net extra hours worked by those already in employment.

5. Legacy system complexity, including cliff edges of entitlement and complex application processes across multiple organisations, created a perception and in a number of cases a reality, that taking on work or additional hours for those already working meant they would be worse off or face the complexity of re-starting benefit claims as short terms work comes to an end. UC ensures that it always pays to be in work.

6. As reported in the summer 2022 update, baseline impacts for childless single JSA alike cases showed that these claimants are 2 percentage points more likely to be in employment 6 months following their claim than an equivalent group of JSA claimants.

7. A model is currently being developed to estimate the employment impacts for single parents, among whom it might be expected that there would be a larger effect due to the difference in conditionality rules and the fact single mothers are theoretically more likely to respond to changes in financial work incentives.

8. This analysis was expected to be complete by the end of 2022. However, it is proving more difficult than initially envisaged due to the complex interaction between legacy and UC benefit rules for lone parents. This, combined with the reprioritisation of resources, means that the completion is likely to take place during 2023.

9. Once completed the longer-term plan is to examine the evidence around in-work claimants working more, subject to other priorities.

What this means for the Business Case

10. In the business case it was estimated that in steady state Universal Credit would increase the number of individuals in employment by around 200k. Translating the most recent impact evaluation into business case benefit terms is not possible due to fundamental differences between the recent impact analysis and the analysis behind the business case:

- The analysis completed only covers childless single claimants of JSA type UC claims, whereas the business case estimate compares the whole of UC with the whole of the legacy system for out of work claimants;

- The recent estimate is based on a cohort of claimants from 2018, whilst the business case estimate reflects the position at steady state (2026/27);

- The recent analysis assesses employment outcomes at three, six and nine months after the initial claim, whereas the business case estimates employment impacts at any point in time;

- Changes in economics/labour market conditions will also affect results.

Given the differences highlighted above, it is not possible to make like-for-like comparisons between the impact evaluation estimate and the 200,000 business case estimate. However, for a given claimant group the impact estimates can be extrapolated to their population to give an indicative level of overall change in employment numbers. For example, of the 1.1 million single JSA-type claimants that started a claim on the Intensive Work Search group in 2022, the analysis suggests that 22,000 (2% of 1.1 million) more individuals would be in employment 6 months after making their claim if they were on UC rather than JSA.

B. DEL Efficiency

11. The UC FBC stated that Universal Credit will achieve savings of £99m (£335m when considering on a ‘like for like’ basis i.e. when the costs of additional conditionality are taken into account) when compared to the legacy system at steady state.

12. UC DEL efficiencies are achieved through:

- removing the complexity in administering multiple in and out of work benefits, across numerous organisations. This is particular true for those claimants who have complex needs (such as housing, children or disability) where multiple and complex interactions would have taken place; and

- through a shift in claimant behaviour, encouraging greater use of online channels in both setting up and managing their claim.

13. All DEL UC costs and legacy benefits were updated in the UC FBC numbers refresh presented to Programme Board in December 2022. In addition, finance colleagues provide Programme Board with a monthly financial summary that includes the latest forecast UC operational costs and legacy benefits. These two elements provide the net DEL benefits of UC.

14. Legacy benefits are calculated by considering what it would have cost to administer the UC caseload in the legacy system. This is done by reverse engineering what the UC caseload would have been on each of the legacy benefits, accounting for non-take up in legacy. Then the relevant legacy Unit Cost (uprated to reflect wage growth) is applied to that caseload to estimate what the legacy cost would have been. The methodology and approach to calculating DEL benefits was approved at Programme Board in March 2021.

Net Benefit of UC v Legacy as stated in Finance Update Paper P4 (Aug 23)

15. The following table sets out the operational costs and benefits as extracted from the finance update paper presented to the Programme Board in August 2023. It shows a net operational saving of £349m in 2022/23; £578m in 2023/24 and over £660m by the end of the business case period in 2026/27.

16. The forecast summary is aligned with Winter 22 volume forecasts and takes into account the AET change to 15 hours and the changes to Move to UC that were announced in the Autumn statement i.e. postponing the migration of ESA cases until 2028.

Table 1 UC Operational Net Benefit (P2)

(£m)	2022/23	2023/24	2024/25	2025/26	2026/27
UC Operational Cost	1,288	1,391	1,827	2,040	2,074
Legacy Saving	-1,637	-1,969	-2,524	-2,716	-2,741
UC Net Benefit	-349	-578	-697	-676	-667

DEL Efficiency Dashboard and Unit Costs

17. The DEL efficiency dashboard is produced monthly and tracks actual unit costs (plus the underlying metrics of cases per case manager and claimants per work coach). This demonstrates how UC has become more efficient over time with a unit cost of £593 in April (P1) 2018 to the latest unit cost of £193 in May (P2) 2023 (see table 2). It should be noted that Unit Costs capture operational costs relating to Targeted Case Review

activity; and that the July 2023 figure includes the £1,500 payment to staff and therefore is an inflated unit cost. October will provide a clearer position as the pay award will be shown without the one-off payment or backdated pay award.

Table 2 Reduction in UC Unit cost (see Annex 1 for month by month changes)

UC	April '18	April '19	April '20	April '21	April '22	April'23	July '23
Unit Costs	£593	£428	£251	£227	£243	£179	£287

C. Fraud & Error and Overpayments

The UC FBC Fraud and Error (F&E) savings

18. The UC FBC stated that design features of UC would drive an overall reduction in F&E when compared to legacy systems, including:

- RTI – improved accuracy as UC payments will be based on RTI data that provides monthly information about PAYE earnings and non-state pension payments received by claimant each month.

- No hours rule - entitlement to Tax Credits is dependent on working a minimum number of hours. F&E occurs when claimants overstate their hours. In UC, entitlement is based on income amount rather than hours, so this cause of incorrectness will not exist.

- Terminations - HMRC runs a renewal process each financial year. Failure to complete a renewal will result in a claim continuing to be paid at their old rate until that deadline is reached or they inform HMRC that they are no longer claiming.

- Increases due to extra sensitivity to earnings - UC will not have any income changes disregards in place. Any change in the amount of income for those on or near the taper will have an affect on the amount of UC they are entitled to receive.

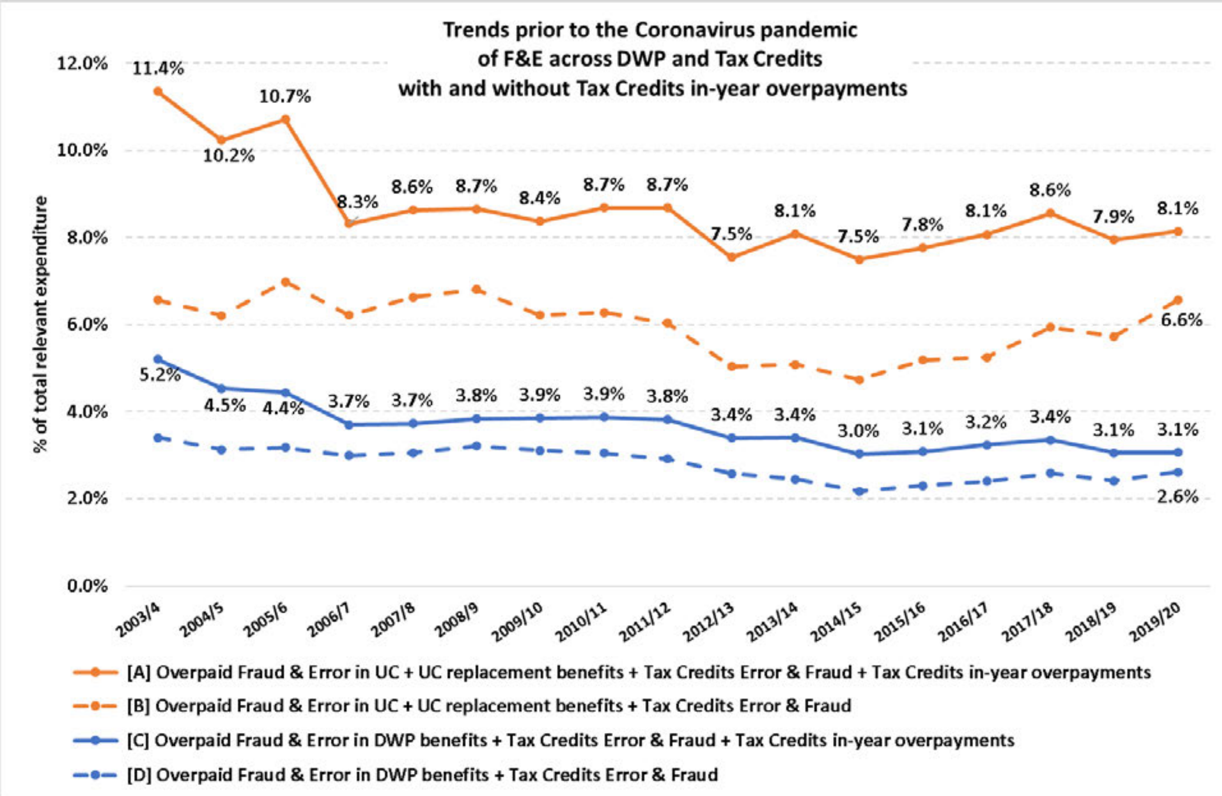
- Capital limits - Unlike the Tax Credits system, UC entitlement is dependent on the amount of capital owned. The adoption of capital thresholds for in-work claimants will lead to increased levels of fraud and error due to incorrectly reported capital.

19. The UC FBC F&E savings were based on the expected levels of the monetary value of fraud and error (MVFE) over the lifetime of the business case in the legacy counterfactual. The forecast level of MVFE in UC after those savings are achieved was estimated to be around 6.5%.

Areas of the UC Design that evidence shows is having the anticipated effect

20. Analysis shows that prior to Covid many of the assumptions in the business case were largely being realised (see fig 1).

Figure 1



21. As expected, the headline rate F&E in UC was increasing year on year, even prior to COVID. That is a cohort effect, bringing in cases from tax credits, with a higher propensity to fraud. And notwithstanding Covid, the key to realising the business case savings is the delta between legacy and UC (In effect had UC not existed we would have seen big increases in legacy benefit fraud, as other countries like the USA witnessed). Post Covid the main aspects of the UC design that are still having the anticipated effect, include:

<u>Reductions</u>

- use of RTI data at point of payment – to pretty much abolish PAYE earnings F&E (and occupational/personal pensions F&E);

- more responsive Childcare Costs provision – to pay out only in accordance with each month's childcare costs and only when notified by the claimant each month;

- increased sensitivity to self-employed earnings – monthly reporting instead of retrospective annual reporting (in Tax Credits and Housing Benefit); and

<u>Increases</u>

- Capital thresholds for everyone – although this should lead to a net reduction in AME spend, it would lead to an increase in F&E.

OFFICIAL SENSITIVE

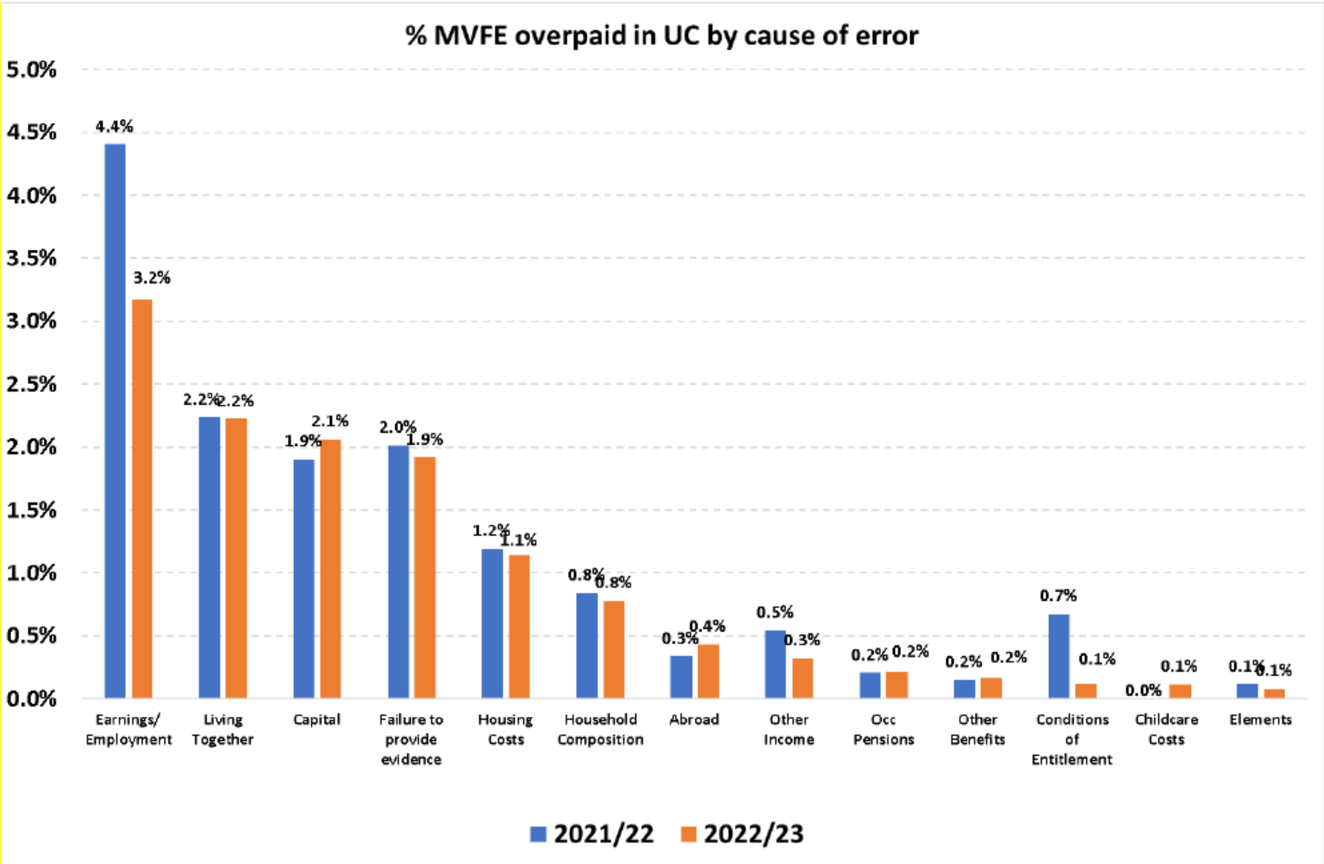
UCPB171023 – Paper No. 05

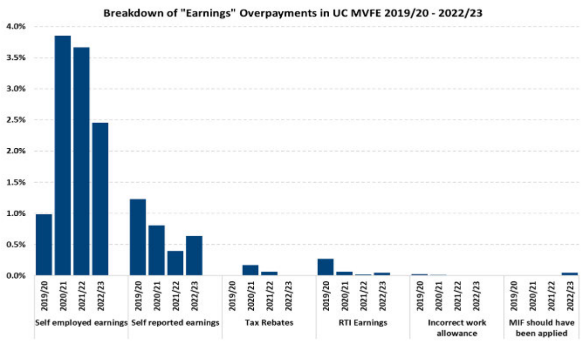
National Statistics and Early Indicators

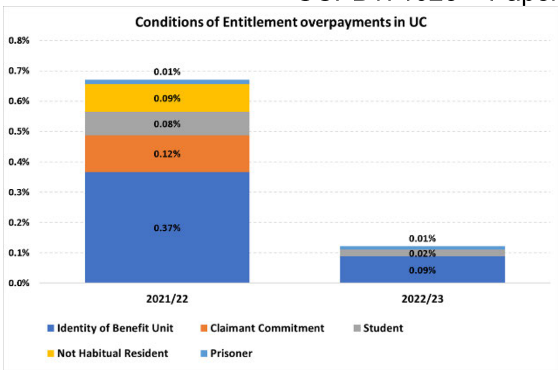
22. The National F&E Statistics for 2022/23 were published on 11th May 2023. The UC estimate is based on a sample of cases reviewed between November 2021 and October 2022 (with the F&E rate observed in the sample applied to the full 2022/23 expenditure to give the estimate for the 2022/23 financial year).

23. The statistics show that the level of overpayments in UC reduced to 12.8% of UC expenditure (£5.5bn) in 2022/23, a drop from the 14.7% (£5.9bn) high seen in 2021/22.

24. The main reason for the drop was due to reduced overpayments caused by undeclared or under-declared self-employed earnings; and due to “conditions of entitlement”, which was due to fewer overpayments related to incorrect ID, Habitual Residence and Claimant Commitments – likely to be a consequence of reintroducing/enhancing processes related to ID checks, HRT and conditionality requirements after the COVID easements.







25. FEMA have provided insights into the sample that has so far been collected for the 2023/24 MVFE statistics. The sample is just under 50% complete. It so far indicates that overpayments are slightly higher than the equivalent period of the 2022/23 sample, with increases being driven primarily by “failure to engage”; and by “household composition” which is primarily a consequence of children reaching 16/19 and leaving full-time education – a fix has now been put into the UC system to flag up when that occurs and a reminder sent to the claimant to update their details.

<u>UC MVFE reduction plan and Targeted Case Review</u>

26. The MVFE reduction plan and Targeted Case Review (TCR) aims to reduce the current levels of MVFE in UC to UC FBC levels by 2027/28 (6.5% MVFE). These proposals are a combination of activities already underway, and proposals funded through SR21 e.g. the MVFE reduction plan and TCR.

27. The MVFE reduction plan is well underway with system improvements and digital developments already being delivered, although it may take some time for the result to come through on the national statistics due to the period of sampling that informs the statistics.

28. TCR continues to ramp up recruitment and increase capacity. As of end of September 1,845 FTE were in place and plans are in place for achieving over 3,340 FTEs by the end of 2023/24.

29. The successful completion of these initiatives will help contribute towards achieving the levels of MVFE implied in the FBC (6.5%).

<u>Summary</u>

Labour Market Impacts

- Single JSA style claimants are 2 percentage points more likely to be in work 6 months after claiming than someone on legacy benefits;
- Analysis of JSA type lone parent claimants of UC continues with results expected during 2023.

DEL Efficiency

- August 2023 Finance Update shows the cost of UC in 2022/23 is £349m more efficient than would have been the case under legacy systems.
- Unit cost of UC has reduced from £593 per claim in April 2018 to £287 in July 2023 (P4).

Fraud, Error and Overpayments

- FEMA (Fraud & Error Measurement and Analysis) have provided updated insights into the MVFE sample for 2023/24 which is now nearly 50% complete. The level of overpayments in UC does not appear to be coming down – possibly a slight increase.

OFFICIAL SENSITIVE

UCPB171023 – Paper No. 05
Annex 1a