OFFICIAL SENSITIVE

UCPB190324 – Paper 5

To: UC Programme Board Members

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Date: **March 2024**

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Paper Title: Universal Credit (UC) Benefits Realisation Update March 2024

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

Labour Market Impacts – Analysis of JSA Type lone parent claimants published

- Single JSA-style claimants are 2 percentage points more likely to be in work 6 months after claiming than someone on legacy benefits.
- Single parents claiming UC are 5 percentage points more likely to have been in employment within 6 months of making a claim compared to an equivalent group of legacy claimants.

DEL Efficiency – January 24 (P10) data available to update unit costs

- Finance Update Paper (Feb 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 £480m more efficient.
- Unit cost of UC (mean average) has reduced from £593 per claim in April 2018 to £216 in January 2024.

Fraud, Error and Overpayments – FEMA insights 96% complete and showing little change from 2022/23 levels of F&E

- FEMA (Fraud & Error Measurement and Analysis) have provided updated insights into the Monetary Value of Fraud and Error (MVFE) sample for 2023/24 which is now approximately 96% complete. The level of overpayments in UC appears to be roughly unchanged from the last year, although experience shows that we tend to see a rise in trends in the final weeks.

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 simplifies the systems and enhances work incentives.

6. As reported in the autumn 2023 update, analysis published in 2022 showed that childless single claimants on UC (Intensive Work Search group) are 2 percentage points more likely to have been in employment within 6 months of making a claim than an equivalent group of legacy claimants.

7. Analysis published in February this year showed that single parents claiming UC (Intensive Work Search group) are 5 percentage points more likely to have been in employment within 6 months of making a claim compared to an equivalent group of legacy claimants.

What this means for the Business Case

8. 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 BC estimate reflects the UC impact across the overall claimant population. In contrast, the recent impact evaluations cover new cohorts of single parents and childless single claimants as they start in the Intensive Work Search regime;

- The recent analyses assess employment outcomes at three, six and nine months after the initial claim, whereas the BC estimates the employment impact at any point in time once UC reaches steady state;

- Since 2018, there have been several policy changes which may affect the results. The economy and labour market have changed too.

9. Given the differences highlighted above, it is not possible to make like-for-like comparisons between the impact evaluation estimates and the 200,000 BC estimate.

10. 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 820,000 out of work **childless single** claimants that started a claim on the Intensive Work Search (IWS) group in 2022, the analysis suggests that around 16,000 (2% of 820,000) more individuals would be employed in the 6 months after making their claim.

- of the 230,000 out of work **single parent claimants** that started a claim in the IWS group in 2022, around 12,000 (5% of 230,000) more individuals would be employed in the 6 months after making their claim.

B. DEL Efficiency

11. The UC FBC stated that Universal Credit will achieve savings of £99m p/a (£335m when considering on a ‘like for like’ basis i.e. when the costs of additional conditionality are taken into account) 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 particularly 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.

<u>Net Benefit of UC v Legacy as stated in Finance Update Paper P10 (Jan 24)</u>

15. The following table sets out the operational costs and benefits as extracted from the finance update paper presented to the Programme Board in Feb 2024. It shows a net operational saving of £349m in 2022/23; £480m in 2023/24 and over £586m by the end of the business case period in 2026/27.

16. The forecast summary is aligned with Spring 23 volume refresh forecasts and takes into account the AET change to 15 hours and the changes to Move to UC that were announced in the Autumn 22 statement i.e. postponing the migration of ESA cases until 2028.

Table 1 UC Operational Net Benefit (P10 – Jan 2024)

(£m)	2022/23	2023/24	2024/25	2025/26	2026/27
UC Operational Cost	1,288	1,462	1,856	2,258	2,320
Legacy Saving	-1,637	-1,942	-2,602	-2,820	-2,906
UC Net Benefit	-349	-480	-746	-562	-584

In 24/25 while TCR is still in project status this is classified as investment rather than recurrent. These costs become badged as recurrent from 25/26. This is having the effect of supressing the overall 'saving' in 25/26 & 26/27 – and making 24/25 look comparably much better.

<u>DEL Efficiency Dashboard and Unit Costs</u>

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 the average unit cost of £593 in April 2018 (P1) to the latest unit cost of £216 in January 2024 (P10) (see table 2 and annex 1a). It should be noted that Unit Costs capture operational costs relating to Targeted Case Review activity.

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

UC Unit Costs	**April '18**	**April '19**	**April '20**	**April '21**	**April '22**	**April'23**	**Jan '24**
	£593	£428	£251	£227	£243	£179	£216

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:

- Real Time Information (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.

19. There are other design features which reduce AME expenditure, but introduce F&E due to thresholds which weren't present in the legacy system, including:

- 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.

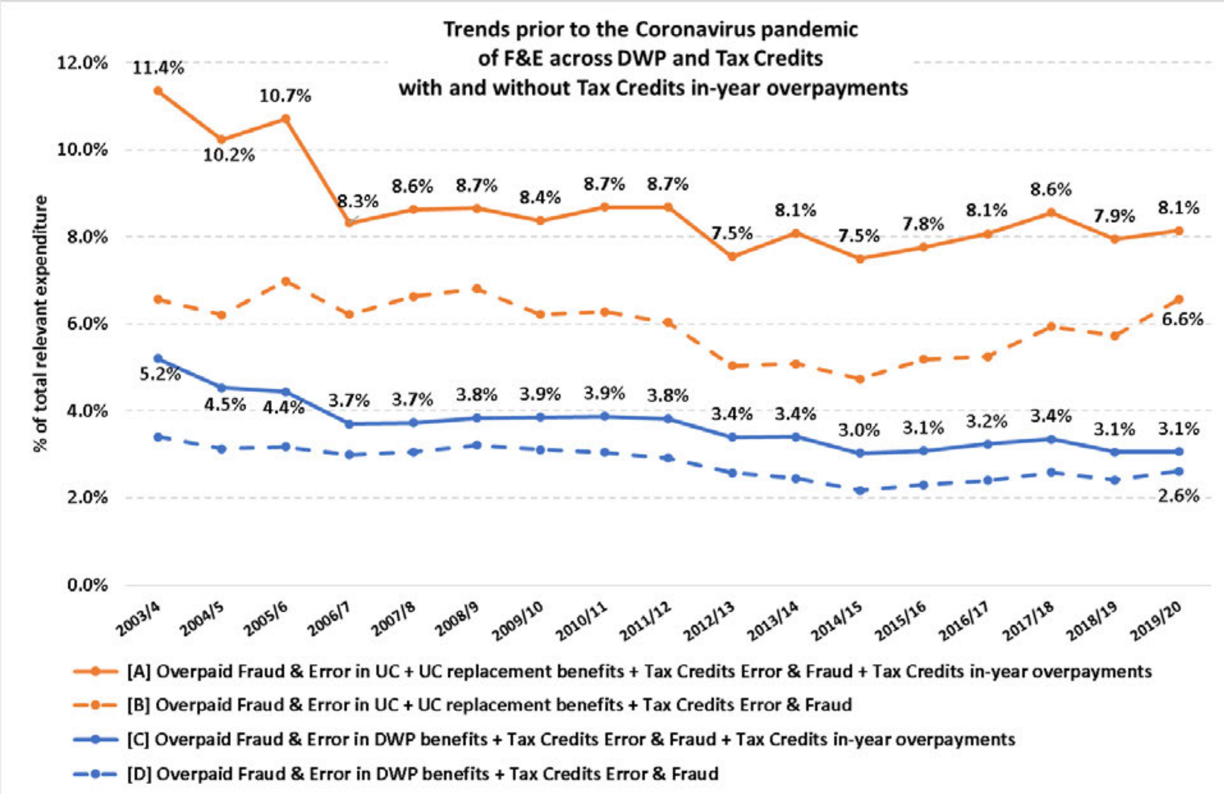
20. The UC FBC F&E savings were based on the expected levels of the monetary value of fraud and error (MVFE) over the lifetime of the business case in the legacy

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

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

Figure 1



22. 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:

Reductions

- 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

Increases

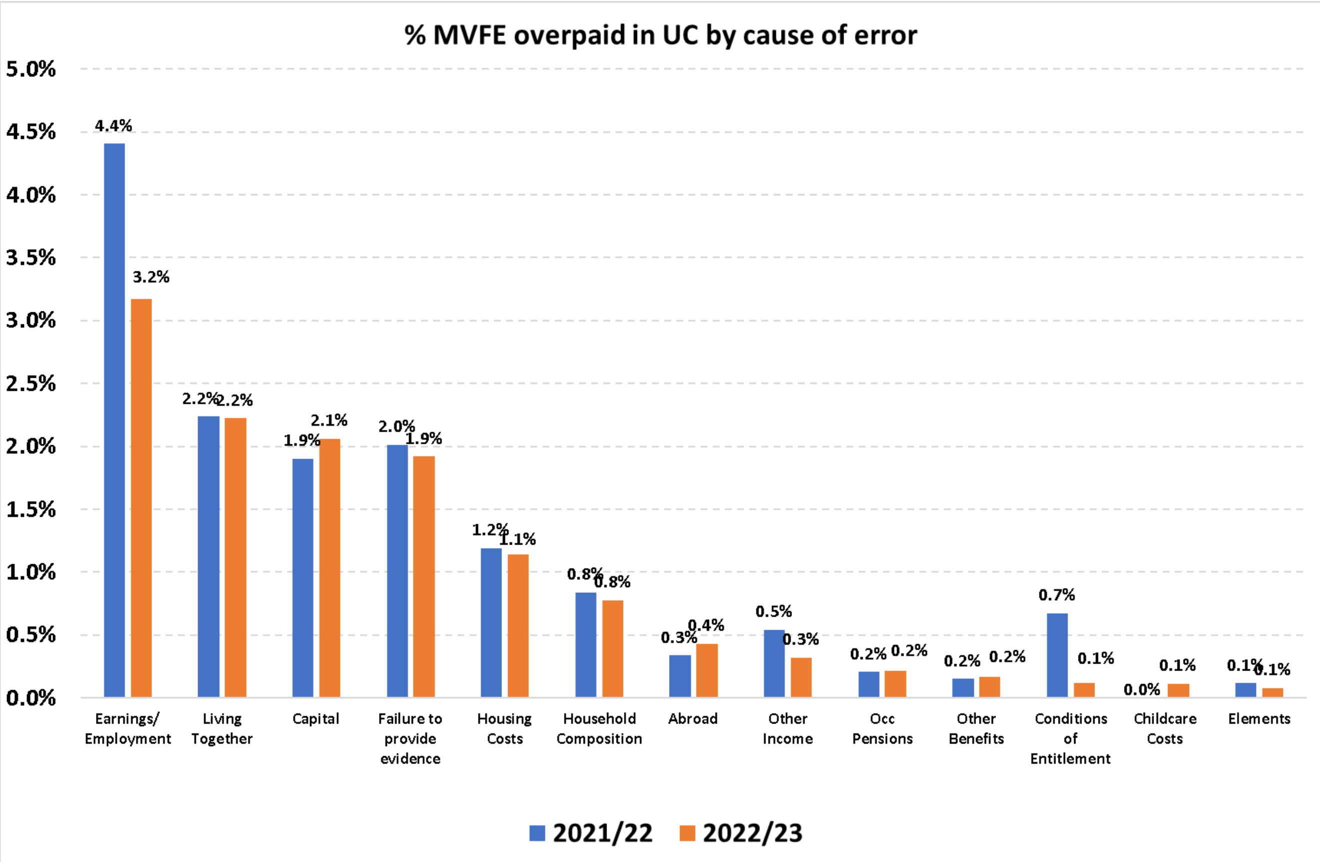
- Capital thresholds for everyone – although this should lead to a net reduction in AME spend, it would lead to an increase in F&E.

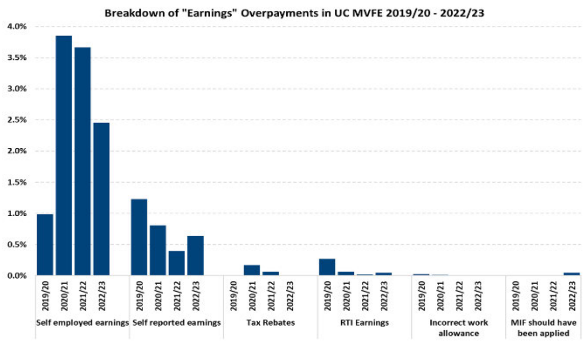
National Statistics and Early Indicators

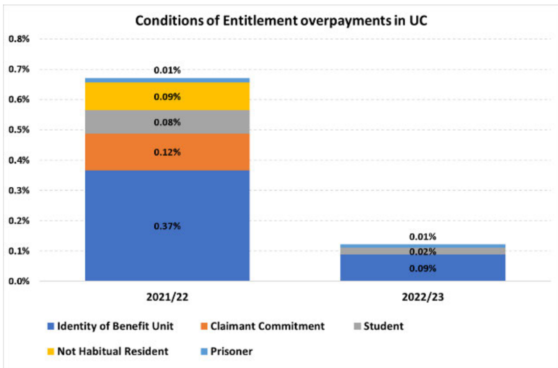
23. The National F&E Statistics for 2022/23 were published on 11th May 2023. The UC estimate is based on a sample of cases reviewed between November 2021 and October 2022 (with the F&E rate observed in the sample applied to the full 2022/23 expenditure to give the estimate for the 2022/23 financial year).

24. 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.

25. 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 (Habitual Residency Test) and conditionality requirements after the COVID easements.







26. FEMA (Fraud and Error Measurement Analysis) have provided insights into the sample that has so far been collected for the 2023/24 MVFE statistics. The sample is just under 96% complete. It indicates that we would expect to see the final results for 2023/24 to be roughly the same level as in the 2022/23 statistics, although experience shows that we tend to see a rise in trends in the final weeks.

27. The sample shows small decreases in overpayments due to “earnings” and “living together” but offset by increases in “household composition” (which is primarily a consequence of children reaching 16/19 and leaving full-time education), “undeclared/under-declared Capital” and “Failure to engage”.

28. However, looking at the sample broken down into cohorts relating to when the claimant came on to UC relative to COVID, it can be seen that the most recent cohort of claims (those that came on to UC since 1st March 2021) is showing drops in “Capital”, “Conditions of Entitlement”, “Living Together” and “Failure to engage”, but increases in “Abroad” and “Self-Employed Earnings”.

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

29. 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.

30. 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.

31. TCR continues to ramp up recruitment and increase capacity. As of end of February 2024 2,838 FTE were in place and plans are in place for achieving over 3,378 FTEs by the end of 2023/24. In addition, a commercial exercise is underway (Resource Augmentation) to supplement the internal resource with 2,500 FTE from an outsourced provider. It is hoped that this provider will be in place by early September.

32. The successful completion of these initiatives will help contribute towards achieving the levels of MVFE implied in the FBC (6.5%). Achievement of 6.5% MVFE level will not be achieved in the short term but remains the long-term ambition.

Summary

Labour Market Impacts

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Fraud, Error and Overpayments

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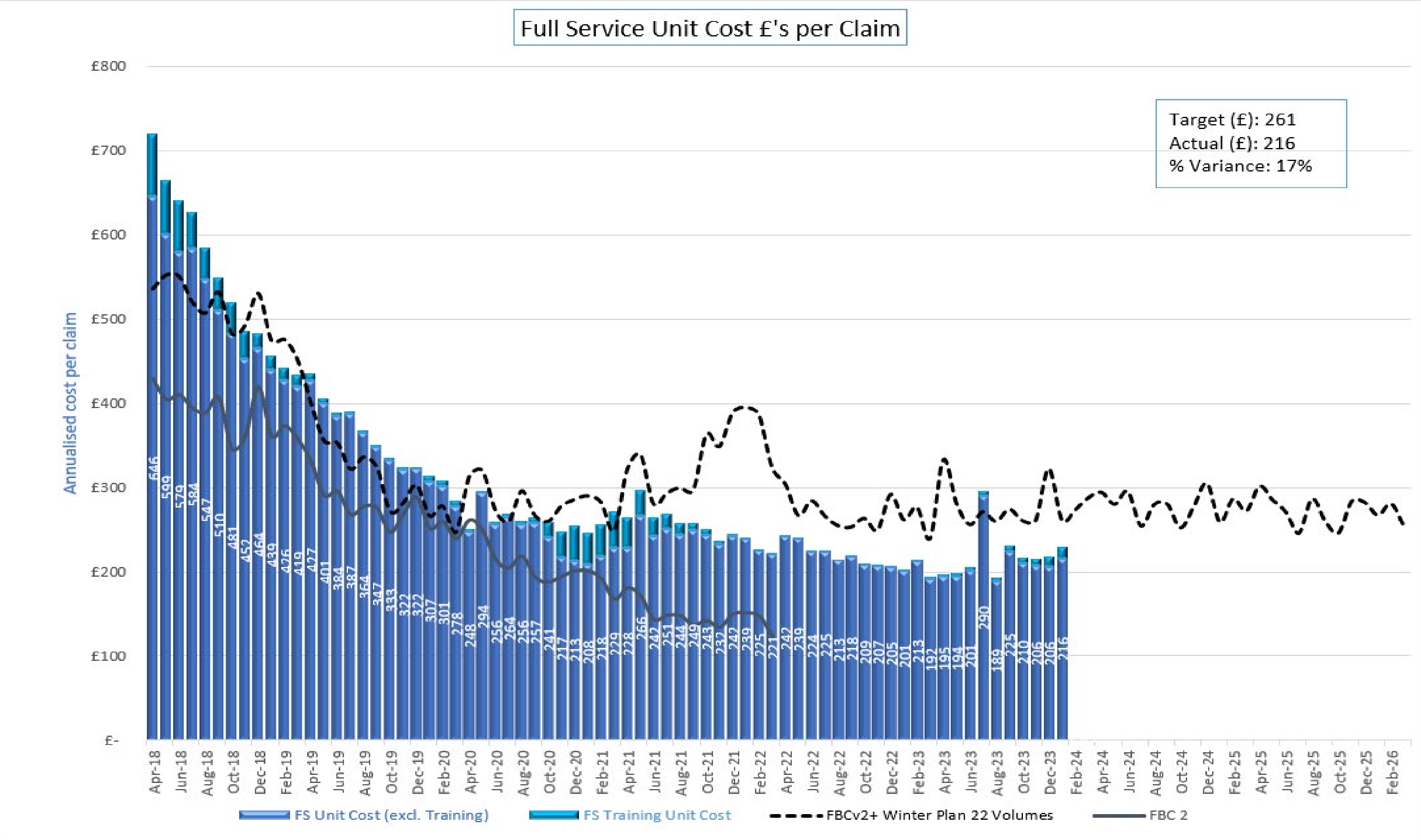
Full Service Unit Cost £'s per Claim
Target (£): 261
Actual (£): 216
% Variance: 17%
Annualised cost per claim
FS Unit Cost (excl. Training)
FS Training Unit Cost
FBCv2+ Winter Plan 22 Volumes
FBC 2