National Audit Office

Report
by the Comptroller
and Auditor General

Department for Work & Pensions

Universal Credit: getting to first payment

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Key facts

Before the onset of COVID-19

2.9m	90%	312,000
people on Universal Credit (as at February 2020)	of Universal Credit claimants received their first payment on time and in full in February 2020	number of new claims where some or all of the payment was paid late in 2019

5 weeks	the minimum wait for Universal Credit once a claim is made, during which the Department for Work & Pensions (the Department) assesses the claimant's costs and income (the first assessment period), checks the claimant's eligibility and makes the payment
57%	of households making a new claim received a repayable Universal Credit advance in the six months to February 2020
80%	of low-income households have their first Universal Credit payments reduced as they are more likely to claim an advance and have other debts to repay
10.5%	the rate of fraud and error in Universal Credit in 2019-20. This included overpayments of 9.4%, the highest overpayment rate recorded for any benefit other than Tax Credits (administered by HM Revenue & Customs), which peaked at 9.7% in 2003-04
£834 million	increase in the forecast programme cost since the Full Business Case. This includes both the increased cost of the 'Move to Universal Credit' migration process and maintaining the full programme infrastructure up to 2024-25 instead of winding it down from 2022
£570 million	increase in the forecast net cost of running Universal Credit in parallel to the legacy benefits during the implementation period up to 2024-25, mainly because more claimants are expected to remain on the legacy systems for longer so there will be fewer savings from winding these systems down during this period
Up to £39 million	funding made available to Citizens Advice and Citizens Advice Scotland in 2019-20 by the Department to deliver a new Help to Claim service for people who need additional support claiming Universal Credit

Summary

1 The Department for Work & Pensions (the Department) has rolled out Universal Credit to replace six means-tested benefits for working-age households: Jobseeker's Allowance, Income Support, Housing Benefit, Employment and Support Allowance, Working Tax Credit and Child Tax Credit. In doing so, it aims to:

- encourage more people into work by introducing better financial incentives, simpler processes and increasing requirements on claimants to search for jobs;
- reduce fraud and error; and
- reduce the costs of administering benefits.

2 This is our fourth major report on Universal Credit. Previously we focused on the development, management and roll-out of the Universal Credit programme. In this report we focus on one key part of the Universal Credit process: getting to first payment. The initial wait for Universal Credit, officially known as the first assessment period and often referred to as "the five-week wait", has been the focus of significant scrutiny from Parliamentarians and other stakeholders, such as charities that support claimants.

3 In common with all benefits, the Department must process new Universal Credit claims in a way that balances the need to make payments on time, efficiently, and in a way that minimises fraud and error. In this report we:

- explain how the process of getting to first payment works for Universal Credit, and consider its impact on claimants (Part One);
- assess the Department's performance in paying first payments on time, cost-efficiently and without fraud and error, in the period before COVID-19 (Part Two); and
- assess whether the Department supports claimants effectively through the initial claim process (Part Three).

4 We do not assess all aspects of the Department's performance in rolling out Universal Credit and providing services to claimants, nor do we update the conclusion on value for money we reached in our 2018 report, *Rolling out Universal Credit*. We conclude on the Department's performance specifically in managing and improving the first payment process before the COVID-19 outbreak. An assessment of Universal Credit policy and rules, including who is eligible and how much money they are entitled to, is outside the remit of the National Audit Office.

5 Our audit approach is set out in Appendix One, and the evidence we drew on is in Appendix Two. We also provide a short update on the Department's overall progress in rolling out Universal Credit (Appendix Three) and its key actions against recommendations from our 2018 report (Appendix Four). We summarise themes from our consultation with stakeholders including charities, local authorities and claimants in Appendix Five.

Key findings

The cost and timetable for implementing the programme

6 **The Department has extended the programme to 2024-25.** When we last reported in June 2018, the Department expected all claimants on the legacy benefits Universal Credit is replacing to transfer to Universal Credit by March 2023. In July 2019 it extended the programme to September 2024, as a result of its new forecasts which showed claimants on legacy benefits were transferring to Universal Credit at a slower rate than expected (see paragraph 1.5, Figure 1 and Appendix Three).

7 **As a result, before COVID-19, the Department forecast that the cost of implementing Universal Credit had risen from £3.2 billion to £4.6 billion.** In March 2020 it reforecast the costs of implementing Universal Credit since the Full Business Case in the light of timetable changes:

- The forecast programme cost rose by £834 million. This includes both the increased cost of the 'Move to Universal Credit' migration process and maintaining the full programme infrastructure up to 2024-25 instead of winding it down from 2022.
- The forecast net cost of running Universal Credit in parallel to the legacy benefits during the implementation period up to 2024-25 rose by £570 million, mainly because more claimants are expected to remain on the legacy systems for longer so there will be fewer savings from winding these systems down during this period.

The Department expects to reforecast these costs and the timetable once it better understands the full impact of COVID-19 on the labour market and Universal Credit (see paragraph 1.6, Figures 1 and 2 and Appendix Three).

The initial wait for Universal Credit and the impact on claimants

8 **Universal Credit's design means all claimants must wait a minimum of five weeks for their first payment, which is longer than the minimum wait for the benefits it replaces.** Universal Credit is paid based on a household's costs and earnings, which the Department monitors over monthly 'assessment periods'. The first assessment period begins when a claimant submits a new claim. At the end of the assessment period, the Department assesses entitlement and makes a payment, which can take up to a week. This means a five-week wait is an inherent part of the Universal Credit design. During the first assessment period, the Department also verifies the claimant's identity and other aspects of their eligibility. If this verification takes longer than a month, the claimant will be paid some or all of their Universal Credit late. The benefits Universal Credit replaces did not have similar assessment periods. They were paid as soon as the claim was processed and although, like Universal Credit, these benefits were not necessarily paid on time, they had processing targets of between five days (Income Support) and 22 days (Tax Credits) (see paragraphs 1.7 to 1.10 and Figures 3 to 5).

9 **In the six months to February 2020, 57% of households making a new claim received a Universal Credit advance payment to help bridge the gap between their claim and their first payment.** Advances allow claimants to access up to 100% of their estimated first payment, typically seven days after making their Universal Credit claim.[1] This means that Universal Credit claimants can get access to money faster than claimants on the benefits it replaces. Advances do not affect the claimants' overall entitlement and are normally repaid through deductions from future Universal Credit payments. This can cause claimants difficulties if they spend the advance and are not able to manage the reduced monthly payments. Claimants moving to Universal Credit from legacy benefits can also continue to receive some of their old benefits for two weeks, while they wait for their first Universal Credit payment (these are known as 'run-ons') (see paragraphs 1.11 to 1.14, 1.23, 1.24 and Figure 6).

10 **Many claimants are in financial difficulty before they apply for Universal Credit, with some delaying making their claim until they are in difficulty.** The Department's analysis of earnings data found that nearly half of claimants (49%) had no earnings in the three months before they apply for Universal Credit. The Department also found that one fifth of claimants it surveyed (22%) did not claim as soon as they became eligible because, for example, they did not know what to do or thought they would get another job quickly. Our stakeholder consultation also identified a level of fear around applying for Universal Credit, with some people worried about how they will cope, having heard about bad experiences from friends, family or through the media. In a situation where people are already in financial distress, delayed claims can exacerbate the pressure they are under (see paragraphs 1.18 and 1.20 to 1.22).

1 Claimants can request that the advance be paid on the same day it is requested.

11 The initial five-week wait can exacerbate claimants' debt and financial difficulties. Despite the availability of advances, claimants and representative organisations that responded to our consultation told us that the wait for the first payment caused financial hardship and debt. It is not possible to say exactly how many claimants experience increased debt or hardship as a direct result of waiting for their first Universal Credit payment. However, the Department's own research with eight housing associations showed that rent arrears generally start before a Universal Credit claim but then increase more rapidly until the first payment. Similarly, research by the Trussell Trust found that Universal Credit is one of the reasons behind the increasing use of food banks, with 27 additional food parcels distributed for every additional 100 claimants on Universal Credit rather than legacy benefits. While limitations in the data available to the Trussell Trust mean we do not know whether this is directly due to the wait for the first payment, the Trussell Trust cited the wait as a key issue arising from its qualitative work and the Trussell Trust's recent research (conducted by Heriot-Watt University) with more than 1,000 people referred to food banks found that 27% said they attended the food bank because of a "long wait for Universal Credit" (see paragraphs 1.15 to 1.17, 1.19, 1.27 to 1.29 and Figure 7).

12 Disabled claimants and people on low incomes are more likely to claim advances and have other debts to repay from their Universal Credit. Repayments of advances, combined with other deductions such as court orders and other debts, can mean that claimants receive less than their monthly entitlement until these are repaid. In line with the proportion of claimants taking advances, 61% of claimants have a deduction applied to their first Universal Credit payment, rising to 70% by their fourth payment (after which people cannot defer advance repayments). Some claimant groups are more likely to claim advances or have existing debts that can be repaid through Universal Credit, than others. This includes:

- low-income households (80% had a deduction from their first payment);
- claims including someone who has limited capability for work because of a disability or health condition (67%); and
- claims including a disabled child (70%).

(See paragraphs 1.23 to 1.26 and Figures 8 and 9).

The Department's performance and management of the first payment process

13 **The Department has a clear process for identifying and approving potential improvements to the Universal Credit system.** There is a limit to how many changes the Department can make to the Universal Credit system at any one time without overloading its digital development capacity and front-line teams. To prioritise planned changes, the Department gathers feedback from its staff, external stakeholders and claimants. It then considers the impact of any changes to Universal Credit systems and processes on the timeliness of payment, fraud and error, and cost-efficiency (see paragraphs 2.2 to 2.5).

14 **The Department's approach has been very effective in improving the proportion of claims paid on time, from 55% in January 2017 to 90% in February 2020.** The Department's performance monitoring and management, including formal reports and meetings between local and national staff, have focused heavily on improving payment timeliness. The Department has also improved processes that impact payment timeliness and apply to large numbers of people. For example, it has:

- automated many of the processes which were slowing payment processing. This includes introducing a landlord portal to allow social housing providers to verify housing costs more quickly; and
- improved some of its communication with claimants, such as by sending reminders to attend appointments by text message, to quicken the verification process.

(see paragraphs 2.6 to 2.8, 2.16 to 2.19 and Figures 10 and 11).

15 **Despite the improvement in payment timeliness, the number of people paid late has increased with the increase in Universal Credit claimants.** In 2017, 113,000 claims were not paid in full and on time, out of 162,000. This increased to 226,000 claims in 2018 and 312,000 claims in 2019. Claimants with claims due for payment in 2019, who were not paid on time faced average delays of three weeks in addition to the five-week wait. Some 6% of households (105,000 new claims) waited around 11 weeks or more for full payment. Some of those paid late were waiting for processes in other areas of the Department such as a Work Capability Assessment. The main reason for late payments appears to be that claimants had not provided sufficient evidence for the Department to verify the claim. We discuss this further in paragraph 20 below (see paragraphs 20 and 2.9 to 2.15).

16 **The Department has reduced the cost of administering each Universal Credit claim as the number of claimants has risen, but it is still not certain that Universal Credit will be cheaper to administer than the benefits it replaces.** The cost of each claim largely reflects the amount of effort the Department's staff need to put into each claim, and therefore how many claimants they can deal with. The overall administrative cost per Universal Credit claim reduced from £699 when we last reported in June 2018 to £301 in February 2020, but this remains higher than the £277 the Department forecast it would be at this stage. The Department told us that this is because the number of claimants moving from existing benefits to Universal Credit was lower than it expected. In its business case for Universal Credit, the Department forecast that the cost per claim would fall to £173 when Universal Credit is fully rolled out, so that it will be £99 million a year cheaper (9%) to administer than the benefits it replaces (see paragraphs 2.27 to 2.29 and Appendix Three).

17 **The Department has made poor progress in reducing fraud and error.** More than one in £10 paid through Universal Credit is incorrect. The Department estimates that £1,730 million (9.4%) of Universal Credit payments were overpaid in 2019-20. This is the highest recorded rate of overpayments for any benefit other than Tax Credits (administered by HM Revenue & Customs), which peaked at 9.7% in 2003-04. The Department also underpaid 1.1% of total payments. The Department had expected Universal Credit to increase fraud and error because Universal Credit payments have to adjust to claimants' actual income every month, whereas Tax Credits can be reconciled to claimants' actual income at the end of the year. However, it had forecast that the level of overpayments would be 6.4% in 2019-20. We believe that the test and learn approach used by Universal Credit should enable the Department to address some of the fraud and error control weaknesses in the benefit, but only if the Department starts to prioritise reducing fraud and error (see paragraphs 2.20 to 2.26 and Appendix Three).

18 **The Department had identified the need to manage signs of increasing pressure on its staff before the impact of COVID-19.** The number of cases each of its case managers handles has increased from 154 at March 2018, to 573 at February 2020, in line with the Department's plans. When we last reported, the Department expected to increase this caseload to 919 per case manager by 2024-25. The Department told us that, in its view, many staff were already spending more time than expected to ensure claimants were paid on time. It has also raised concerns around the volume of telephone calls case managers are receiving and noted signs of stress including increased absence levels and ongoing threats of industrial action (see paragraphs 2.28, 2.33 to 2.37 and Appendix Three).

19 The Department can reduce pressure on staff and improve its customer service further by continuing to make improvements to the efficiency and administration of new claims. Despite the Department's progress in automating aspects of the new claims process, we found that some administrative processes remain inefficient. For example, issues with the Habitual Residency Test process for assessing people's right to claim benefits in the UK caused unnecessary delays in some cases we reviewed. We also found examples where the Department missed opportunities to progress a claim because it focused on a specific issue or request from the claimant, rather than looking at the case as a whole (see paragraphs 2.30 to 2.32).

Support to claimants

20 Claimants with more complex needs and circumstances can struggle to engage with the claim process or provide the evidence required, leaving them at greater risk of being paid late. The majority of late payments appear to result from claimants not engaging with the claim process or providing evidence in a timely manner. Stakeholders expressed concern that some vulnerable groups, such as people with learning disabilities, people with chaotic lives and people with low digital skills may find it particularly difficult to make a claim and provide the evidence required. Our review of 26 cases identified communication as an issue. For example, people who struggled to understand or communicate in written English found it more difficult to understand what the Department was asking of them or complete their claim form correctly. In some cases, the Department's communication with the claimant was unclear or not sufficiently tailored to the claimant's ability to engage (see paragraphs 3.2 to 3.8 and Figures 12 and 13).

21 The Department has overhauled the support it offers to claimants who need extra help to make a claim. It has launched a 'Help to Claim' service, which aims to provide claimants with "enhanced, free, confidential and impartial" support to help them make a claim. In 2019-20, the Department made available grant funding of up to £39 million to the charities Citizens Advice and Citizens Advice Scotland to deliver this service. The Department's data indicate that between 1 April 2019 and 22 October 2019, 130,853 people accessed the service. The Department awarded the grant to Citizens Advice and Citizens Advice Scotland without competition. It is working towards a potential competitive tendering exercise for the next round of funding once the current agreements come to an end in 2021 (see paragraphs 3.9 to 3.14).

22 The Department does not have all the information it needs to track vulnerable claimants and ensure its support is effective. The Department provides a range of support for vulnerable claimants, particularly at local level, and staff can make notes on individual claims. However, it does not use data ‘flags’ or markers to highlight claimants’ vulnerabilities or complex needs within the Universal Credit digital system. This means it cannot produce national-level management information on vulnerable claimants, and its front-line staff cannot use data within the system to easily identify all those people who might struggle with the process. Nor can the Department currently track within its systems all claimants that may have accessed the Help to Claim service, particularly where these claimants are not referred directly by the Department. As such, it lacks a complete picture of who is accessing this support and how it affects outcomes, including payment timeliness. We also found that the Department’s data on claimants’ diversity characteristics are incomplete. For example, it does not have sufficient data on areas such as claimants’ ethnicity to carry out meaningful analysis on whether particular groups are more likely to be paid late (see paragraphs 2.14 and 2.15, 3.15 and Figure 11).

Conclusion

23 Many people claim Universal Credit at a challenging time in their lives. As such, the initial wait, which is an inherent part of Universal Credit’s design and operational processes, does not cause all the issues that claimants may face but, in the context of many claimants’ existing financial difficulties, can exacerbate their problems.

24 Since we last reported, the Department has improved the proportion of people getting their first Universal Credit payment on time and in full to around 90%. It deserves credit for its organised approach to making changes and its improved performance. Although the cost of administering each claim is still higher than expected, the Department has demonstrated an ability to gradually make Universal Credit claims more cost-efficient by automating and improving processes. It needs to demonstrate a similar determination to tackle the high levels of fraud and error.

25 The Department has succeeded in improving payment timeliness so far by improving processes that affect large numbers of people. However, as the Universal Credit caseload has grown, a large number of people still do not receive their full payment on time. Vulnerable people may be particularly likely to struggle with their claim. The Department needs to better understand and address the needs of vulnerable people and those with more complex claims, who may be at greater risk of struggling under the Universal Credit regime.

Recommendations

26 Our recommendations are designed to help the Department and other organisations support claimants as effectively as possible through the process of getting to their first Universal Credit payment. Some of these recommendations address how the Department engages with and supports vulnerable people and those with complex claims. The Department will need to work with organisations that support claimants, such as local authorities, charities and housing associations to implement these recommendations effectively. The Department should:

a work in partnership with organisations that support Universal Credit claimants to:

- develop a more evidence-based understanding of why some people delay their claim for Universal Credit;
- develop communications and other proposals to encourage people to claim earlier when it is in their interest to do so;
- develop a better data-based understanding of the numbers of vulnerable claimants – and any direct or indirect diversity impact of its payment performance – and use this to support the needs of people who continue to struggle with making a claim for Universal Credit; and
- deliver significant improvements in the clarity of its claimant communications, ensuring these are clear, appropriately tailored, and contain all necessary information.

b develop detailed plans to reduce fraud and error in Universal Credit;

c prioritise improvements to the Universal Credit digital system to help front-line staff identify and support claimants who need more help;

d assess the delivery and funding model for its Help to Claim service based on results from its planned evaluation and explore ways to use data to assess the impact of the service on outcomes including payment timeliness; and

e ensure that it continues to monitor variances in the whole-life cost of its major programmes against their business case and updates Parliament on major changes when they are identified.