Universal Credit Employment Impact Analysis

Update

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Executive summary

This publication is the latest in a series of reports which evaluate the short-term impacts of Universal Credit (UC) on labour market outcomes. The previous two reports were published in February[1] and December 2015[2] and concentrated on developing the methodology which underpinned the evaluation. They estimated that UC has had a positive impact on labour market outcomes for new claimants in the ten Pathfinder sites.

The first two reports were based on a robust and peer-reviewed methodology and provided solid evidence of the early impacts of UC. However these reports covered fewer than two per cent of all Jobcentre Plus offices which makes it harder to generalise the estimates. Therefore this report is focussed on extending the coverage of the analysis and the key changes are set out below:

i) the analysis now covers 94 offices i.e. the original Pathfinder sites and all offices in the north-west;
ii) it looks at claims made between July 2014 and April 2015 whereas the original analysis looked at July 2013 to September 2014;
iii) it now covers 27,000 new UC claims compared with 8,300 in the UC at Work 3 report;
iv) refinements and improvements to the consistency of the data series which underpin the evaluation have been made;
v) in response to feedback from the UC expert advisory group some improvements to methodology have been made to ensure that the matched JSA and UC claims are in similar areas.

As with earlier reports the analysis is limited to single unemployed claimants without children.

This report looks at a slightly narrower range of measures than in previous reports. This is because methodological improvements have been made which make the analysis more robust but which are more time-consuming to implement.

The updated analysis shows that UC continues to have a positive labour market effect. UC claimants were three percentage points more likely to be in work six months after their claim had started. This compares with three percentage points in the December 2015 publication. UC claimants are four percentage points more likely to have been in work at some point within the first six months of making their claim.

[1] https://www.gov.uk/government/publications/universal-credit-estimating-the-early-labour-market-impacts

[2] https://www.gov.uk/government/publications/universal-credit-estimating-the-early-labour-market-impacts-updated-analysis

Although this is smaller than the eight percentage point impact in the December 2015 publication it is a sizeable impact for a policy of this nature.

It is important to note that complex analysis of this nature will continually evolve. In each iteration substantial improvements are being made to the data as well as constantly refining the methodology. Therefore, it is expected that the estimates will change over time. In the coming months the analysis will be extended in a number of ways. The number of claims and offices covered will continue to increase and the analysis will be extended into the UC Full Service. It will also be extended to cover a wider range of measures relating to earnings progression and sustainability. Additionally the analysis will consider the impacts on a range of different household types.

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1 Acknowledgements

Special thanks to Professor Richard Dorsett of the University of Westminster, Dr Jim Riccio of MDRC New York and other members of the UC Expert Advisory Group for their considered and thoughtful advice on applying these complex analytical techniques.

2 Glossary of Terms

CC	Claimant Commitment
DWP	Department for Work and Pensions
HMRC	Her Majesty's Revenue and Customs
IFS	Institute for Fiscal Studies
JCP	Jobcentre Plus
JSA	Jobseeker's Allowance
LEL	Lower Earnings Limit
NIESR	National Institute of Economic and Social Research
PAYE	Pay as you Go
PSM	Propensity Score Matching
RTI	Real-Time Information
UC	Universal Credit

3 Introduction

Universal Credit is revolutionising the welfare system by making work pay. The design and structure of Universal Credit is transformational: it focuses on replicating the world of work; encourages claimants to take greater responsibility for their finances and incentivising them to earn more and progress in work. At the same time UC provides support for people who can't work or need help moving towards the labour market. UC is already transforming lives and evidence shows people are moving into work faster and working longer with UC than under the old system.

This report summarises the latest work undertaken by the Department to evaluate the labour market impacts of the early phases of UC. It extends and updates analysis published in February and December 2015[3].

This analysis provides the most reliable evidence to date about the extent to which the investment in UC is delivering its ultimate objective to help move more people into work. As in the previous analysis it suggests that new UC claimants are more likely to have moved into work after making a new claim than a matched sample of JSA claimants.

The evaluation methodology and the datasets which underpin it have been set out in some detail in the previous reports. This report has not duplicated those descriptions but has outlined the key developments since the December 2015 report.

[3]https://www.gov.uk/government/publications/universal-credit-estimating-the-early-labour-market-impacts

[3] https://www.gov.uk/government/publications/universal-credit-estimating-the-early-labour-market-impacts-updated-analysis

4 Universal Credit Rollout

Universal Credit is now available in every Jobcentre across the country, covering all Local Authorities, and supported by 22 Service Centres. UC is being introduced gradually, and was initially introduced from April 2013 in certain areas of the North West of England, known as Pathfinder sites. Initial eligibility criteria focused on single, unemployed, non-home-owning claimants without any children. In February 2015 the service started national rollout to new single unemployed claimants across Great Britain. By April 2016 UC was available for new claims from single unemployed claimants in all Jobcentres across the country and also for couples and families in 96 sites across the North West of England. This phase of UC rollout was known as UC Live Service.

In May 2016 DWP started the expansion of UC to a wider range of claimants, as with the rollout to single jobseekers, DWP have been doing this in a gradual, safe and secure way and the new Full Service is now available in 101 jobcentres around the country. From October 2017 up to 50 additional Jobcentres a month will roll onto UC Full Service. The intention is that all claimants are gradually migrated on to full service by March 2022, by which time Full Service will be available nationally. After the expansion process is complete, the migration of claimants on other benefits to the UC Full Service will begin from July 2019.

5 Results

There are a wide range of measures which can be used to assess labour market outcomes. In subsequent reports a longer run of data will be available and so the analysis will begin to focus on measures of earnings and progression and sustainability. For this updated analysis the impacts of UC on employment outcomes within six months have been estimated. The analysis shows that UC claimants (63%) are four percentage points more likely to have been in work at any point within six months of starting their claim than the matched sample of JSA claimants (59%). As illustrated in Table 1 this pattern is fairly consistent across the first six months of the claim.

5.1 Table 1 – Impact of UC up to 6 months after claim

Time period	Impact of UC
Within 2 months	4%
Within 3 months	5%
Within 4 months	5%
Within 5 months	4%
Within 6 months	4%

The impact at particular points in time after the UC claim have also been estimated. The below table shows the impact of UC on employment outcomes at each month in the first 6 months of the claim. At 6 months following the claim UC claimants (56%) are 3 percentage points more likely to be in work than the matched sample of JSA claimants (53%).

5.2 Table 2 – Impact of UC at various points after the UC claim

Time period	Impact of UC
At 1 month	3%
At 2 months	4%
At 3 months	4%

At 4 months	4%
At 5 months	4%
At 6 months	3%

The estimates in these tables are based on the analysis of 27,000 UC claims across 94 offices. What is striking is the consistency across the two measures and across the different lengths of the follow-up period.

The analysis also considers whether the impacts vary by when the office rolled out UC. These results are summarised in the below table and are broadly consistent across the offices:

5.3 Table 3 – Impact of UC by when the office rolled out to UC

When office started UC	**Impact of UC within first 6 months of claim**
Pathfinder	4%
June 2014	4%
July 2014	4%
September 2014	3%
October 2014	4%
November 2014	6%
December 2014	3%
All	4%

6 The Data

The underlying structure of the dataset is as outlined in the December 2015 and February 2015 publications. However changes have been made to the dataset in order to extend the scope of the analysis, these include

1) The evaluation dataset now covers UC claims made up to April 2015. As significant time is needed to track outcomes it is not possible at this time to look at more recent claims.

2) Ensuring that the dataset used to identify the comparator offices is more consistent with the evaluation data which was used to estimate the impacts of UC.

7 Methodology

The detailed methodology which underpins the analysis is set out in the February 2015 and December 2015 publications. This section briefly outlines the approach and the amendments that have been made in this publication.

To assess the impacts that UC has had on employment outcomes of new claimants an estimate of what they would have achieved had they claimed the equivalent legacy benefit (in this case JSA) needs to be made. This is the counter-factual outcome which is estimated using the outcomes for a comparison group of JSA claimants.

For the estimated impact to be reliable the UC treatment group and the JSA comparison group have to be the same in all relevant aspects. The outcomes a new claimant achieves can depend on locational factors e.g. the local labour market conditions and Jobcentre Plus performance. The comparison group of JSA claims is drawn from areas which are as similar as possible to the UC areas. The steps to do this are as follows:

- identify the best comparator offices for each UC office in turn by analysing historical labour market outcomes at an office level and taking into account the size and composition of new claims;
- only select the comparison group of individuals from the sub-set of comparator offices;
- after the comparator offices are identified, match UC and JSA claims at an individual level using Propensity Score Matching[4];
- compare the employment outcomes of the matched UC and JSA claims to estimate the net impact of UC.

On the basis of advice from the UC expert advisory group two changes to the methodology for this release have been made.

Firstly, the method used to select the comparison offices has been amended. The December 2015 publication identified comparator offices using the sum of four standardised measures. In this publication a regression model with the employment outcome of interest as the dependent variable has been used. It uses the same specification for selecting comparison offices as is used to identify the individual employment impacts.

Secondly, the metric used to identify the comparator offices has been amended. Previously, comparator offices have been identified based on a single outcome - the likelihood of working within 120 days of claiming. The estimated impact on a range of different outcomes using the same set of comparator offices. However, the review found that offices that are similar to the UC office on one outcome measure are not

[4] https://www.gov.uk/government/publications/universal-credit-estimating-the-early-labour-market-impacts-updated-analysis

necessarily similar (and indeed can be quite different) to the UC office on another outcome. Consequently, it was concluded, after seeking advice from the National Institute of Economic and Social Research (NIESR), that different comparator offices should be identified for each outcome.