



Department
for Work &
Pensions



Social Science in Government

Understanding the impact of Universal Credit on the labour market

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1 Introduction

The Department for Work and Pensions has published Universal Credit labour market analysis that is recognised across government as an exemplar of how to analyse the impact of policy¹ and by leading academics as a robust approach to assessing the impact of Universal Credit.² This analysis has shown how Universal Credit is having a positive impact on the labour market. However, it is expected that most of the labour market improvements are still to come. We are keen to look at a whole range of information that, whilst not as comprehensive, will provide evidence that demonstrates the effectiveness of Universal Credit in delivering the outcomes as set out in the Universal Credit Business Case.³ This note sets out how the Department plan to achieve this.

Over the last few months, we have been repeatedly asked to justify the assumptions of the expected positive labour market impact of Universal Credit. It is important that labour market evaluations of this type are carried out over time for the number of claims to become established, and for the analysis to be conducted across a time period and not just at a point in time, particularly to track people's outcomes. Additionally, any analysis needs to be considered against wider labour market theory and account for the wider drivers of outcomes.

This document sets out how we intend to examine evidence for how Universal Credit is working in the labour market. It helps to explain to all readers, and not just specialists in labour market theory and practice, what we plan to do, and to manage expectations across the months and years ahead.

¹ Winner of the John Hoy Memorial Award for the best piece of economic analysis in government – see '[Government Economic Service 2020 strategy](#)', page 6

² DWP Publication: '[Evaluating the Impact of Universal Credit on the Labour Market in Live Service and the North West Expansion](#)', Annex A and DWP Publication: '[Estimating the early labour market impacts of Universal Credit](#)', pages 93-98

³ Universal Credit Full Business Case, 2018 <https://www.gov.uk/government/publications/universal-credit-programme-full-business-case-summary>

2 How will Universal Credit impact the labour market and earnings?

Universal Credit is expected to deliver improved labour market outcomes through:

- Removal of financial incentive barriers in the legacy system in which claimants faced losing money from taking up work/more work;
- Improved simplicity - Universal Credit is designed to help claimants understand their choices better. The legacy system fails badly in this regard, with overlapping and opaque rules often built on top of each other. In many cases, the complexity of understanding the interactions of six legacy benefits meant that claimants were unaware of the choices available to them. Universal Credit's design is a systematic solution to this problem, and also enables a smoother transition into work;
- Additional conditionality - more claimants will be brought into the labour market, and will be supported to find work;

Today DWP published a summary of the Universal Credit Full Business Case⁴ that estimated the implementation of Universal Credit will result in an additional 200,000 people in work compared with the legacy system.

⁴ Universal Credit Full Business Case, 2018 <https://www.gov.uk/government/publications/universal-credit-programme-full-business-case-summary>

3 Assessing the labour market impact to date

As Universal Credit has been rolled out we have tested the impact it is having on labour market participation compared to similar Jobseeker Allowance (JSA) claimants. This showed that Universal Credit claimants were on average 4 percentage points more likely to have been in work in the six months following the claim than their JSA counterparts⁵. This is a significant impact as JSA claimants are already subject to an intensive conditionality regime and have similar work incentives to the Universal Credit population.

We have supplemented administrative analysis with a survey of claimants which included questions on their labour market activity. This found that, in comparison to their JSA counterparts, Universal Credit claimants were undertaking higher levels of job search activity⁶.

The impact analysis conducted to date relies upon matching Universal Credit claimants to legacy claimant counterparts and tracking their outcomes. This analysis was reviewed by a team of external experts and recognised as being robust and of good quality. The analyst who led on the work was awarded a prize for this analysis by the Government Economic Service in 2016.

However, as Universal Credit rolls out and expands to new claimant groups it is increasing difficult to find enough suitable claimants in non-Universal Credit areas to match against, and have a sufficiently long tracking period before Universal Credit rolls out in that area. This makes the impact analysis described above more difficult and time consuming.

To ensure this is the best method moving forward, we will be consulting with leading labour market econometricians on the methodology and deploying it with the wider Universal Credit caseload.

⁵ DWP publication: [‘Universal Credit employment impact analysis: update’](#) page 10

⁶ DWP publication: [‘Universal Credit Extended Gateway evaluation: findings from research with Extended Gateway claimants’](#) page 38

4 Assessing the labour market impact going forward

Whilst matched outcome analysis is the primary way we are assessing the labour market impact, it is not the only way to see whether the implementation of Universal Credit is having an impact on the labour market.

The following range of analysis will be produced and published by the Department for Work and Pensions. The analysis will be developed as sufficient numbers of claimants on the Universal Credit full service are reached and analysts will be undertaking a thorough quality assurance of the information. It will be published once it is fully assured.

It is expected that for some of the analysis it will not be possible to clearly identify the impact of Universal Credit, as it will potentially be affected by wider labour market changes and the impact of other economic factors cannot be controlled for. However, by examining and publishing a range of information we intend to provide assurance that Universal Credit is delivering the outcomes set out in the Business Case.

4.1 Universal Credit Full Service claimant survey

The Universal Credit Full Service claimant survey, published in June 2018⁷ was carried out in 2017 with around 1,000 claimants who first claimed in November or December 2016. The two waves of the survey took place four and eight months after the initial claim and looked at the experience and outcomes of claimants, including labour market and job search activities.

Summary of findings:

- The proportion of respondents in work rose from under a third (30%) at the time of claim to nearly half (47%) eight months later. Amongst those in work there was an increase in the number of hours worked;
- Claimants appreciated the interventions offered as part of full service including the journal (81% found helpful) and tailored support (88% found helpful). However many claimants were not completing the required job search as set out in their claimant commitment and they often found achieving the required amount of job search challenging;

⁷ DWP research report 958, [Universal Credit Full Service Claimant Survey, 2018](https://www.gov.uk/government/collections/research-reports#2018-research-reports)
<https://www.gov.uk/government/collections/research-reports#2018-research-reports>

- Nevertheless, of those required to look for work and currently unemployed the vast majority stated that gaining employment was their main priority with almost half of those unemployed thinking they would get a job within 3 months, and just over half of those in work thinking they could increase their hours or income in the same time period.

4.2 Universal Credit claimant labour market outcome measures

The Universal Credit performance framework looks at four outcomes:

- People finding work quickly – will measure the proportion of people with earnings in the 3rd month of claiming Universal Credit;
- Don't want to leave people behind - will measure the proportion of people who reach the 6 month point in their Universal Credit claim and have not yet had any earnings;
- People to keep hold of their jobs - will measure the proportion of people in work who stay in work for at least 3 months;
- People to become more self-reliant - will measure the average earnings of people in work.

We will be able to examine the long run time series of these measures and be able to examine variation and drivers of performance. This will enable an understanding of whether the outcomes continue to be delivered and whether performance is improving over time.

4.3 Analysis of Universal Credit earnings information and comparing to Tax Credits

It is possible to use the administrative data from the Universal Credit, Tax Credit and legacy benefit systems to compare the earnings profile of different claimants. This can be used in combination with other data sources to assess to what extent the increased work incentives within Universal Credit and its greater simplicity are driving increases in earnings from employment.

4.4 Analysis of Real Time Information (RTI) on earnings from employment

Using the RTI data from HM Revenue and Customs (HMRC) we will develop a range of analyses that will compare outcomes before and after the introduction of Universal Credit to examine:

- Employment;
- Earnings, and;
- Progression of earnings.

4.5 Analysis of the Labour Force Survey

The Labour Force Survey examines the working patterns of approximately 40,000 households per quarter. Our analysis can explore this data to assess what change the introduction of Universal Credit has driven in labour market participation and earnings. However, as this is based on a survey, this analysis will be limited, appropriately, by sample sizes.

4.6 Analysis of Universal Credit self-employment

Due to the one year long start-up period the first opportunity to use administrative records to compare the earnings of the Universal Credit self-employed to those previously or currently on Tax Credits will be in 2019. Also planned is the assessment of any changes in conditionality groups and incomes for those affected by the 'Minimum Income Floor' (MIF).⁸

4.7 Self-employed tracking survey

We will undertake a survey to track self-employed claimants to identify changes in labour market activity and changes in behaviour over time. Given the limited number of self-employed on Universal Credit at present and the requirement to track and monitor behaviour over an extended period it is unlikely this information will be available before December 2019.

4.8 Benefit combination statistics

We will produce a time-series comparison of the number of claimants in consistent claimant type groups before and after Universal Credit was introduced. This will enable a deeper understanding of the long term benefit caseload. Alongside this a new measure of out-of-work claimants will be developed to enable the examination of

⁸ Universal Credit includes a 'Minimum Income Floor' (MIF) if you are gainfully self-employed, and your business has been running for more than 12 months. The MIF is an assumed level of earnings. This is based on what we would expect an employed person to receive in similar circumstances. See: <https://www.gov.uk/government/publications/universal-credit-and-self-employment-quick-guide/universal-credit-and-self-employment-quick-guide>

local level unemployment, similar to that available through the Office of National Statistics Claimant Count.

4.9 In work-conditionality trials

Over time there will be increasing numbers of Universal Credit claimants who are in work. Once fully rolled out there will be around 7 million households in receipt of Universal Credit, of which around 3 million will include someone in work. This is a radically different context in which DWP's employment services will operate, and Universal Credit will support people in work to increase their earnings.

To help with the design of this service, as part of the 'test and learn' approach we operate, we have recently delivered a large scale In Work Progression Randomised Control Trial. This trial tests how providing different degrees of in work support and conditionality can support and improve earnings for those in low paid work or low income households. The evaluation of this trial will be published later this year.

This trial is only part of a more comprehensive strategy to develop the evidence base around what works in helping people progress. Budget announcements in 2017 allocated £8m to continue our research and testing in this area, including further trialling, over the next four years.

5 Getting involved

The Department for Work and Pensions recognises the complexity around assessing the impact of Universal Credit on labour market participation and the difficulty in clearly interpreting and understanding the available information. It is also recognised that the Department may not hold all of the available information. Therefore we are looking to work with external organisations to build the evidence base to fully understand what works and how best to maximise labour market outcomes under Universal Credit.

If you feel that you can add to this evidence base and want to contribute then please get in touch through this email address:

uc.labourmarketanalysisplan@dwp.gsi.gov.uk