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UCPB140519 – Paper 6

To: **UC Programme Board Members**

From: **Paul Mckeown, Pete Searle, Graeme Connor**

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Date: **14th May 2019**

Paper Title: Labour Market Benefit Realisation Update

Issue: *Quarterly Update on Labour Market benefits including our approach to progression.*

Recommendations/Decisions required:

- **For Discussion**

Timing: *Indicate what the key timings are for clearance, highlighting any risks, impact, etc;*

Introduction

This paper provides an update on Labour Market benefits as well as outlining our approach to progression. It should be noted that the business case assumes a 3-year lag in terms of employment impacts, so unsurprisingly it is still early days in terms of being able to evaluate results.

1. **Labour Market Performance Update**

A reminder of what was set out in the UC business case

The Universal Credit business case summary 2018 set out the financial and economic case for UC. DWP estimated that Universal Credit will derive £5.2bn per year of economic value from its employment impacts (in steady state, 2024/25 for the business case) on a marginal basis.

We estimated the number of additional people entering work was 200,000 people, comprising financial incentives (110,000 people) and the non-financial incentives of a simpler system (60,000 people) and claimants who will now experience conditionality (30,000 people).

Further detail on the detailed assumptions supporting the business case can be seen at **Annex A**.

a. ***Monitoring the benefits*** - *governance structure and indicator pack*

In early 2018, HMT establish a UC labour market outcomes monitoring group. The purpose of the group is to assess progress against four categories of activity:

i. Matching (or exceeding) legacy labour market performance – assurance that UC's labour market interventions deliver matching (or improved) outcomes relative to the current system.

   Example: JSA and JCPs help people to find work; UC needs to match or exceed their performance.

ii. Mitigating new risks in UC – UC's policy design creates some new risks which need to be monitored and assessed.

   Example: unlike tax credits, there is no minimum 'hours rule' in UC – this creates a risk of people choosing to reduce their hours.

iii. Making the most of expanded active labour market intervention opportunities - UC's design offers scope for additional interventions and improvements; we should be ensuring DWP are making the most of these levers.

   Example: conditionality for in-work group, conditionality applied to partners

iv. Monitoring and maximising other beneficial impacts of UC's design – UC improves work incentives, has a more generous childcare offer and should be simpler to understand.

   Example: are claimants aware they should always be better off if they work more

The analytical members of the group from DWP and HMRC work with HMT to produce analysis for a series of metrics brigaded under these four headings and is represented as an indicator pack (see Annex B). The group itself has the following structure:

1. Working Group and Steering Group meet every 6-8 weeks.
2. The working group considers analytical outputs produced by DWP/HMRC analysts. They decide what to present to the steering group and what decisions are to be request from the group.
3. The high-level work programme is then set by the steering group;

The purpose and structure of the monitoring group are currently being reviewed by HMT in conjunction with members of the working group. The review will make recommendations to the next meeting of the group in late May.

b. ***Monitoring the benefits*** *– where are we now*

Initial Propensity Score Matching Work

Between 2014 and 2017 we produced four reports which assessed the employment impacts for UC. These used a Propensity Score Matching (PSM) methodology to estimate the extent to which UC claimants (in Live Service) were more likely to be in work than their legacy counterparts. The estimate of the impacts varied but were consistently positive, showing that UC claimants were 4-8% pts more likely to be in work than equivalent claimants on JSA.

The UC at Work reports were based on a fairly sophisticated matching methodology and represent a well-founded view of the impacts of UC on employment. However, they are based on Live Service and so have two substantive limitations when it comes to assessing the business case benefits:

i. The analysis is based on a single JSA claimants i.e. only a smallish subset of the final UC caseload;
ii. The analysis does not reflect the nature of the Full Service.

We are exploring extending the analysis to Full Service. This will be analytically challenging but, we think, doable. The current blocker is getting RTI data for legacy claimants transferred to DWP: this data is required as it makes it easier to establish a counter-factual for employment outcomes on UC.

'Simpler' Analysis
We have also carried out some simpler pieces of analysis to test whether UC (a) is having positive impacts or (b) leading to adverse outcomes such as the reductions in hours.

It should be emphasised that the use of the term simpler is relative. The high-level analytical techniques used in these pieces of work are quite simple, but creating datasets which enable the comparisons to be made can be a complex process.

Findings
At the moment the findings from these pieces of work (see **Annex D**) have been broadly neutral:

- We have used Labour Force Survey (LFS) data to compare trends in key labour market variables such as employment, hours work, unemployment;

- We have used aggregated RTI data to compare trends in total employment in areas before and after they rollout to UC. This analysis covered the period 2014 to 2018;

- We have compared changes in earnings for the July 201 cohort of new claimants of UC and Tax Credits. We are currently extending this to a fuller range of cohorts across 2016 and 2017.

- Early outcomes for claimants on the self-employed journey for UC. At this stage the size of the caseload is too small for us to draw definitive outcomes, but the early findings are (a) that fewer cases are affected by the MIF than expected and (b) that more claimants who are gainfully self-employed are moving off UC.

At this stage it is to be expected that we are not finding sizeable impacts on employment in UC. We can only compare UC outcomes to legacy, in a reasonably rigorously way, for UC cohorts up to mid-2018. However, this period covers the early stages of UC i.e. before claimants and jobcentres have fully internalise the flexibility offered by UC.

Next Steps

As outlined above we will be taking forward the application of the PSM work to the Full Service.

Other than that there are no other obvious new areas of analysis although we will, depending on the steers from the UC governance boards, be updating some of the analysis outlined above.

2. **Progression Update**

A reminder of what was set out in the UC business case

The design of Universal Credit improves in work financial incentives to work by reducing the rate at which benefits are withdrawn, known as the marginal deduction rate (MDR). In the legacy system, the effects of the withdrawal of various benefits combined to produce very high MDRs above 85% in many cases. The UC system designs out many of these higher deduction rates through its single taper, so there are better incentives to increase the earnings and the number of hours worked. We set out in the business case that we estimate around 113 million additional hours (net) of work completed per annum under UC, due to improved incentives for those already in work.

a. *Opportunities*
Universal Credit provides us with the opportunity for the first time to support people to progress. However, while we build the evidence base, DWP has no funding for labour market interventions for in-work claimants, so there is no active support offer or conditionality regime in DWP plans.

b. *Building the evidence base*
We know relatively little about what works to support people to progress, and we are investing in developing the evidence through a programme of research and analysis, tests and trials. In the Autumn Budget 2017 £8m was allocated for this over four years.

When UC is fully rolled out, around 3.5 million working claimants will be on UC, most having moved in from Tax Credits and Housing Benefit. Around 1 million of these will fall into the 'light touch' conditionality group, which includes those earning more than very small amounts, but less than their *conditionality earnings threshold* (the equivalent of a maximum of 35 x the National Minimum or Living Wage).

This light touch group, where support and conditionality could be engaged, is our core focus, although the wider in-work group – which includes those who are considered to be 'working enough' but who are on relatively low incomes and claiming UC – is also of interest.

Further information on our programme of work to build the evidence base and in particular the Randomised Control Trial (RCT) is attached as Annex C

c. *Inherent difficulties in analysing/comparing relative progression rates*

As explained in section 1e, we have compared changes in RTI-based earnings for a contemporaneous cohort of UC and Tax Credit claimants. This is an instructive exercise, but there are some analytical difficulties with this approach:

i. We have compared Working Tax Credit claimants with an equivalent group of 'WTC-alike' claimants in UC. Identifying WTC-alike claimants is an imprecise exercise, particularly because of the absence of hours worked information in UC. Therefore, our groups are unlikely to be completely comparable.
ii. Aligning between WTC and UC claimants means that the analysis excludes lower earners. It would be possible to include lower earners on UC, but the operation of the hours rule in TC means the groups would no longer be comparable.
iii. The estimates are quite sensitive to minor definitional changes in earnings and/or the composition of the groups.

Summary

This paper has been brought to this meeting to provide an update on Labour Market benefits including providing an update on our approach to progression as requested by Programme Board in January 2019.

Decision / Recommendation

- Generate a discussion related to Labour Market benefits and request Programme Board endorse our approach to progression.

Annex A

Business Case Position Detailed Assumptions

We estimated that Universal Credit will derive £5.2bn per year of economic value from its employment impacts (in steady state, 2024/25 for the business case) on a marginal basis[1]. This comprises NHS impacts (health related impacts of people being in work, worth around £150m); distributional impacts (the monetised value of social welfare weighted changes to the income distribution, worth £1.15bn); and additional economic output (worth £3.9bn) in 2017/18 prices, or £3.3bn in 2010/11 prices.

Decomposition of £3.3bn economic output

<table>
<tr><th rowspan="2">Family Type</th><th colspan="3"><u>Incentives for people to take up work (Participation)</u></th><th rowspan="2"><u>Incentives to work more (hours impacts)</u></th></tr>
<tr><th>Financial Incentives</th><th>Conditionality</th><th>Simplicity/ Smoothing</th></tr>
<tr><td>Men</td><td>261m</td><td rowspan="6">349m</td><td rowspan="6">579m</td><td>-</td></tr>
<tr><td>Lone mothers</td><td>477m</td><td>1,129m</td></tr>
<tr><td>Single women no children</td><td>158m</td><td>-</td></tr>
<tr><td>Women in couples with children</td><td>131m</td><td>200m</td></tr>
<tr><td>Women in couples with no children</td><td>-78m</td><td>72m</td></tr>
<tr><td>Men (pensioners in mixed age couples)</td><td>57m</td><td>-</td></tr>
<tr><td rowspan="2">Totals
10/11 prices
2024/25</td><td>1,006m</td><td>349m</td><td>579m</td><td>1,400m</td></tr>
<tr><td colspan="4">3,334m</td></tr>
</table>

UC Additional people in employment

Financial incentives	category	number of individual additional people in employment	Total annual no. of hours changed (millions)
	Lone Mothers	50,000	78
	Single women without children	25,000	0

[1] That is comparing the legacy and UC systems

	Males	20,000	0
	Women in couples with children	15,000	29
	mixed age couples	10,000	0
	Women in couples without children	-10,000	6
	Total financial incentives	**110,000**	**113**
simplicity and smoothing	impacts improved work payoff & transaction costs from reclaiming benefit	**60,000**	-
conditionality	CTC only, HB only, & partners that will face conditionality	**30,000**	-
Total employment impact		**200,000**	**113m**

b) Evidence and judgements

i) <u>Financial incentives</u>
Evidence that UC's simpler taper rate & design will create positive work incentives. Universal Credit will affect work incentives. There are two financial factors that influence a person's incentives to work at all under Universal Credit:

- the relative difference between their out of work income under Universal Credit as compared to the legacy system.
- the relative difference between their in work income (if they worked) under Universal Credit as compared to the legacy system.

Elasticities taken from published external research[2] are used to estimate the response to the factors.

Employment under 16 hours per week adjustment
Universal Credit removes some of the financial barriers to working under 16 hours per week, however, since there is currently little incentive to take-up employment for under 16 hours per week in the legacy system, there are relatively few people working those hours. This means that calculating the impact on participation in under 16 hours per week employment using legacy system data would lead to a Universal Credit employment impact which is biased downwards by the legacy rules[3]. To describe the Universal Credit impact, the approach is to offset the bias by adjusting the formula separately for under 16 hours per week employment. If the same incentives in Universal Credit applied now to

[2] For lone mothers: Brewer, Duncan, Shepherd and Suarez 2005. For all other groups: Source: Meghir 2008 (author analysis)

[3] Family Resources Survey (FRS) data shows that Lone mothers on benefits/tax credits are 18 times more likely to work over 16 hours than work under 16 hours (Mothers in couples with children are 8 times more likely).

legacy, we might expect a higher number of people with children working under 16 hours. Therefore, when calculating the employment impact, the elasticity is adjusted to compensate for the low number of people currently working under 16 hours, increasing the lone mother under 16 hours employment elasticity as well as, but to a slightly lesser extent for mothers in couples. There is uncertainty around this judgement so the estimates are halved to reflect this.

Some claimants near the Tax Credit threshold will potentially reduce their labour supply in Universal Credit. It is assumed they will reduce their hours if they work 16-18 hours per week by 2 hours per week.

Overall, we estimate that around 110,000 additional individuals will be in work once Universal Credit is fully rolled out, of which around 70,000 are from jobs at under 16 hours per week.

(ii) Non-financial incentives: additional conditionality
In Universal Credit, there are groups of claimants who, for the first time, will need to make a commitment to look for work and in return will be offered support to find work. This include the previous claimants of Child Tax Credit (CTC) only, Housing Benefit (HB) only, partners, those in the assessment phase but yet to complete a Work Capability Assessment or those appealing a fit-for work decision. Based on evidence from Jobseekers Allowance (JSA) trials, it is estimated this will increase employment. However, this effect is reduced by a third in the assumptions to account for the uncertainty of applying this evidence to a fundamentally different Universal Credit environment.

(iii) Non-financial incentives: a simpler and smoother benefit system
The design of Universal Credit makes the payoff from taking up work clearer to individuals on Universal Credit than they were on legacy benefits. Also, the transition into work is "smoother" due to reduced transaction costs of closing and reclaiming benefit. Evidence from the introduction of work focussed interviews in the lone parent pilots, a suite of policies designed to help lone parents into work in selected Jobcentre Plus districts in Great Britain during 2004-05, shows how simplification clarified claimants' ability to move off benefits into work.

The research[4] showed a 1.8 percentage point increase in exit rates. The business case assumes a conservative 0.5 percentage point increase to reflect that the research doesn't isolate impact to simplicity (i.e. it includes impacts of other aspects of work focussed interviews).

For smoothing, evidence from the evaluation of in work credit reported a 1.4 percentage point increase in employment attributed to the fact that the amount paid is more easily administered. Half of this impact has been applied in Universal Credit modelling of smoothing (reflecting that this evidence relates to exit rates rather than entry into employment).

[4] Source: DWP research reports Research Report 606 and 484

The role of take up

Universal Credit, by replacing six working age benefits into a single benefit, increases benefit take-up as it is no longer possible only to take up part entitlement. This costs around £2.4bn per year once Universal Credit is fully rolled out.

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Annex B
Labour Market Indicator Pack

Official - Sensitive

UC Labour Market outcomes – Overview of indicators

Universal Credit Analysis Division
Labour Market Analysis Division

March 2019

HMT – 4 Key Priorities

1. **Matching (or exceeding) legacy labour market performance** – assurance that UC's labour market interventions deliver matching (or improved) outcomes relative to the current system.
   - *Example: JSA and JCPs help people to find work; UC needs to match or exceed their performance.*
2. **Mitigating new risks in UC** – UC's policy design creates some new risks which need to be monitored and assessed.
   - *Example: unlike tax credits, there is no minimum 'hours rule' in UC – this creates a risk of people choosing to reduce their hours.*
3. **Making the most of expanded active labour market intervention opportunities** – UC's design offers scope for additional interventions and improvements – we should be ensuring DWP are making the most of these levers.
   - *Example: conditionality for in-work group, conditionality applied to partners*
4. **Monitoring and maximising other beneficial impacts of UC's design** – UC improves work incentives, has a more generous childcare offer and should be simpler to understand.
   - *Example: are claimants aware they should always be better off if they work more*

Note: Specific analytical questions overlap between these priorities, so they need to be considered collectively to gain a full understanding.

For example the effectiveness of the current weekly work search regime under UC concerns matching existing JSA performance, the new risk/opportunity presented by UC additionals, as well understanding how the relevant earnings thresholds and taper rates work in concert with the conditionality regime.

Summary

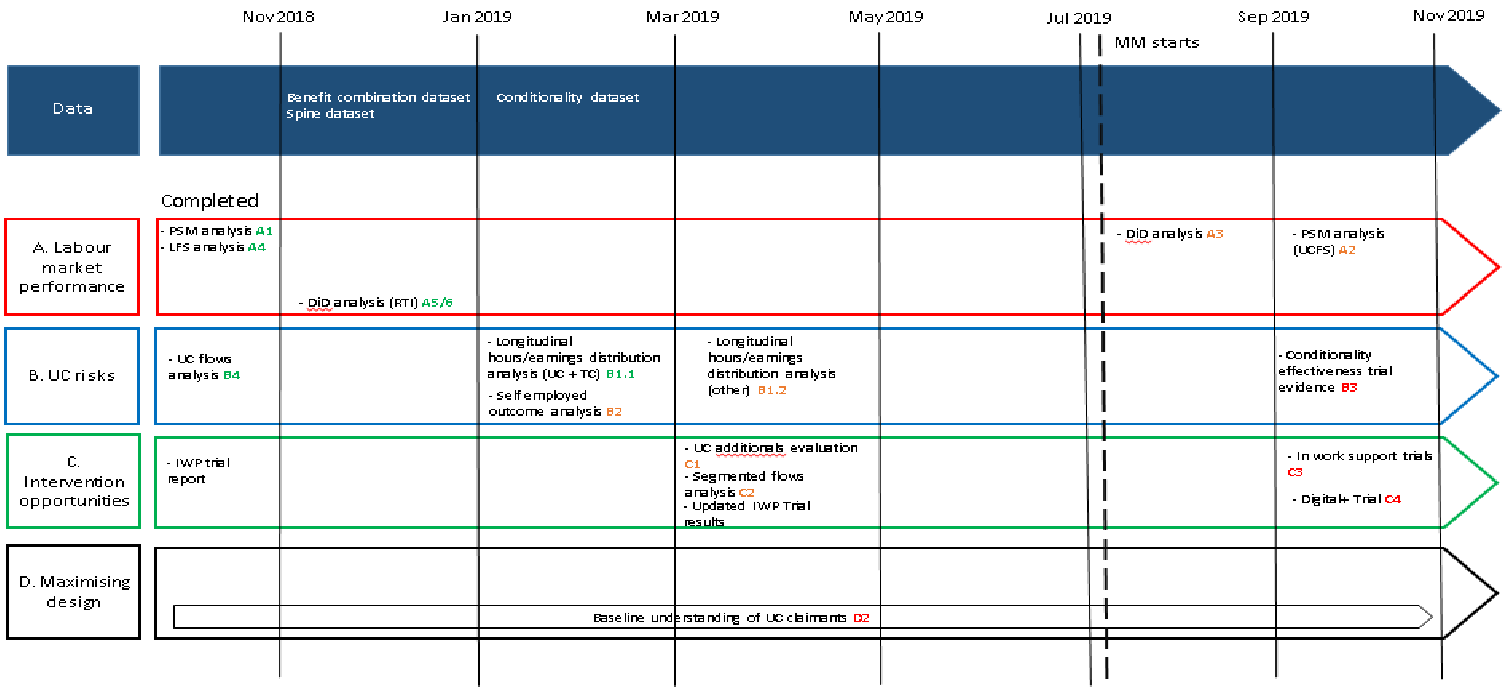
Piece of work	LM effect assessment	Confidence	Analysis progress
Summary	→	→	→
LM performance	→	→	→
UC Risks	→	→	→
Expanded conditionality opportunities	→	→	→
Maximising UC design	→	→	→

Note: the rating for 'analysis progress' relates to the timing of undertaking of the analysis rather than the outcome or strength of the analysis undertaken.

RAG ratings of work in progress

#	Piece of work	Question asked / desired outcome	LM effect assessment	Confidence	Analysis progress	Timing
A2	Propensity score matching: Full Service / JSA, IS & ESA	*An update to the '4ppt more likely to enter work within 6 months than a matched sample of JSA claimants' stat*		→	→	Sep-2019
C1	UC additionals evaluation	*Is there evidence of an increase in the size of the intensive caseload?*	→	→	→	Mid 2019
C2	Segmentation of UC flows data by characteristic	*Is the probability of flowing off benefit for health claimants and other segments on UC similar to*	→	→	→	Mid 2019
B1.1	Hours/Earnings claimant distribution analysis (UC and Tax credits)	*1. Is there evidence of a difference in earnings progression between UC and tax credit claimants?* *2. Is there indirect evidence of a difference in hours worked between UC and tax credit claimants?*	→	→	→	Early 2019
B1.2	Hours/Earnings claimant distribution analysis (other DWP benefits)	*1. Is there evidence of a difference in earniings progression between UC and legacy DWP benefit claimants?* *2. Is there indirect evidence of increased take-up of mini-jobs amongst claimants of UC?*	→	→	→	Mid 2019
B2	Self-employed outcome analysis	*1. What percentage of self-employed UC claimants fail the gainfully self-employed test?* *2. Of those that fail the gainfully self-employed test, how does their conditionality status change over the lifetime of their claim and beyond?* *3. How do these results compare with self-employed claimants of tax credits?*	→	→	→	Early 2019

UCFBC LM indicator plan



Annex C

Building the Evidence Base

Autumn Budget 2017 provided £8m over four years to develop the evidence on progression. This builds on a substantial Randomised Control Trial (RCT), which was published in September 2018. The RCT involved an early cohort of 30,709 working UC claimants and tested different frequencies of work coach support and mandatory activity agreed between work coach and claimant.

Detailed findings from the RCT can be found in the published reports (https://www.gov.uk/government/publications/universal-credit-in-work-progression-randomised-controlled-trial). They show that the trial delivered small but positive impacts on earnings at the 52-week stage, with participants in the frequent support group (who met with their Work Coach fortnightly) seeing an average weekly earnings increase of £5.25 more than those in the minimal support group, and those in the moderate support group (who met with their work coach every eight weeks) seeing an average weekly earnings increase of £4.43 more than those in the minimal support group.

We are currently carrying out further analysis to test the longevity of the earnings impacts measured; and we know that our trial population is substantially different in make-up to our final in-work cohort – who may have very different work and domestic circumstances, different barriers, and different service needs.

This trial tested one specific approach, and we are keen to understand the range of ways of supporting people to progress, using our £8m funding stream.

The early stages of the programme focus heavily on understanding our future cohorts: these are individuals who have not yet moved to UC, and about whom we know relatively little. We are already delivering a Future Cohorts research study, which focusses on the 'light touch' group and seeks to understand their demographics, work histories and domestic situations, and their barriers and support needs. We are also looking within this project at household dynamics and decision-making, to help us understand how households make decisions about balancing working and caring, for example.

In addition, we are currently commissioning independent researchers to review the latest international evidence on in-work progression and related policy areas.

As well as these research projects, we also have some small trials and other projects underway or being planned – looking at using the digital capabilities of the UC system to deliver support and to encourage voluntary take-up of provision; and at supporting work coaches and other operational colleagues to have effective conversations with claimants and employers about elements of progression.

The factors that can enable people to progress in work are wide-ranging. Our evidence and interventions will therefore be wider than just DWP and we are working with other Government departments to ensure alignment of opportunities for people in low paid work. For example, we are working with BEIS to review how improving the display of job quality data on job sites, including the Department for Work and Pensions' Find a Job, could improve people's ability to find the right job for them.

Workers at risk of job loss/change due to automation will be supported by the Government's National Retraining Scheme, helping them gain the skills they need to move into more stable, better jobs. DWP have been working closely with DfE as they develop the National Retraining Scheme, and among other things, we are exploring how to make the most of this opportunity for UC recipients in low-paid work.

Annex D

Department
for Work &
Pensions

UC Programme Board
UC Labour Market Evaluation
Some examples

[redacted]

May 2019

Key pieces of work

Labour Force Survey (LFS)
Household survey analysis of high-level labour market indicators in Full Service and Live Service areas;

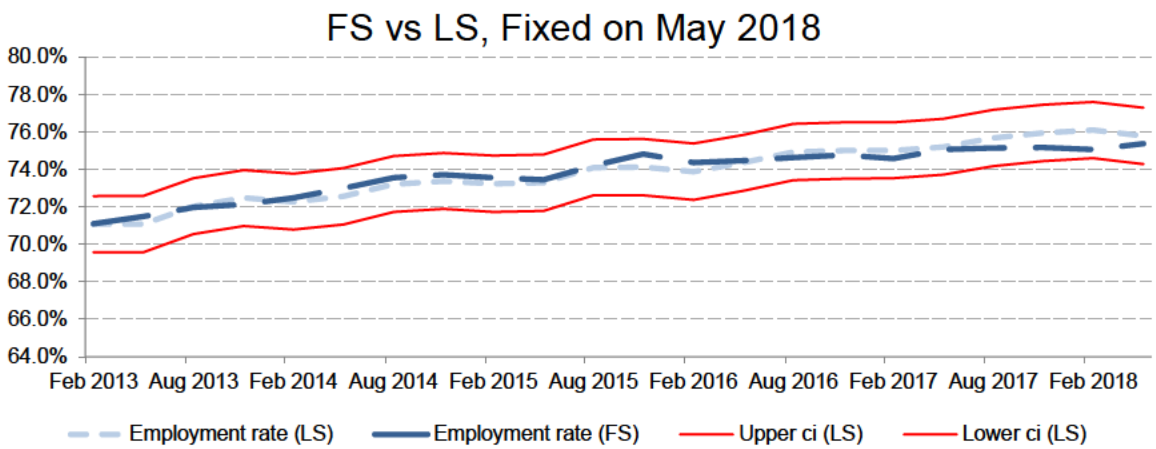
RTI Employment counts
Comparison of local level employment rates in UC and non-UC areas;

UC earnings progression
Comparison of changes in earnings for cohort of UCFS and TC claimants

Additionals analysis
Durations on Full Conditionality compared to JSA

Labour Force Survey

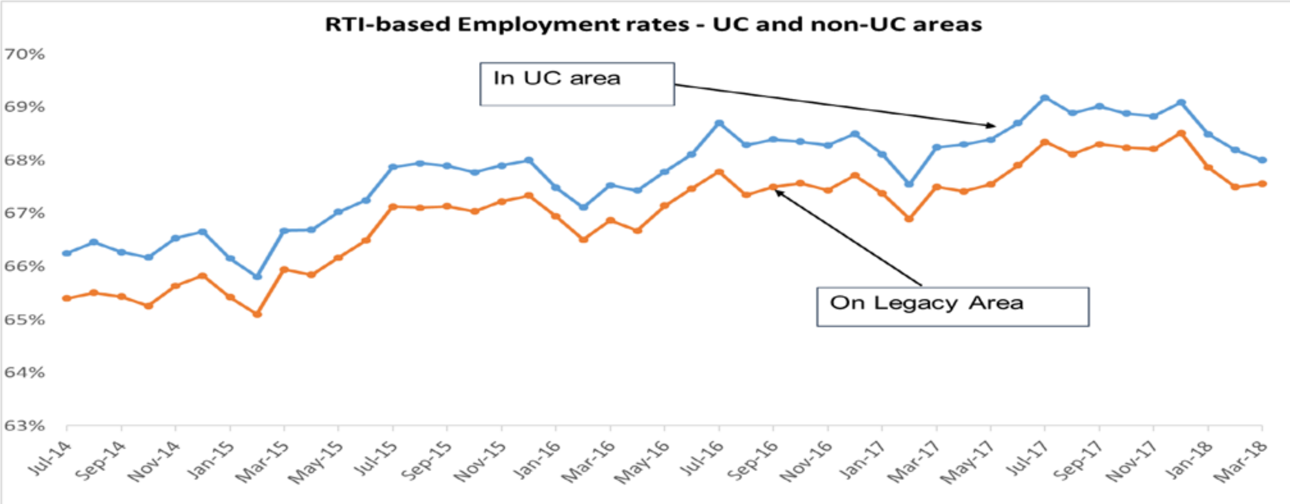
Compares employment rates in Full Service and legacy areas;
Based on areas as of May 2018;
Useful broad-brush indicator, but sample size is a real limitation



Conclusion - No significant change in gap between Full Service and other areas.

RTI

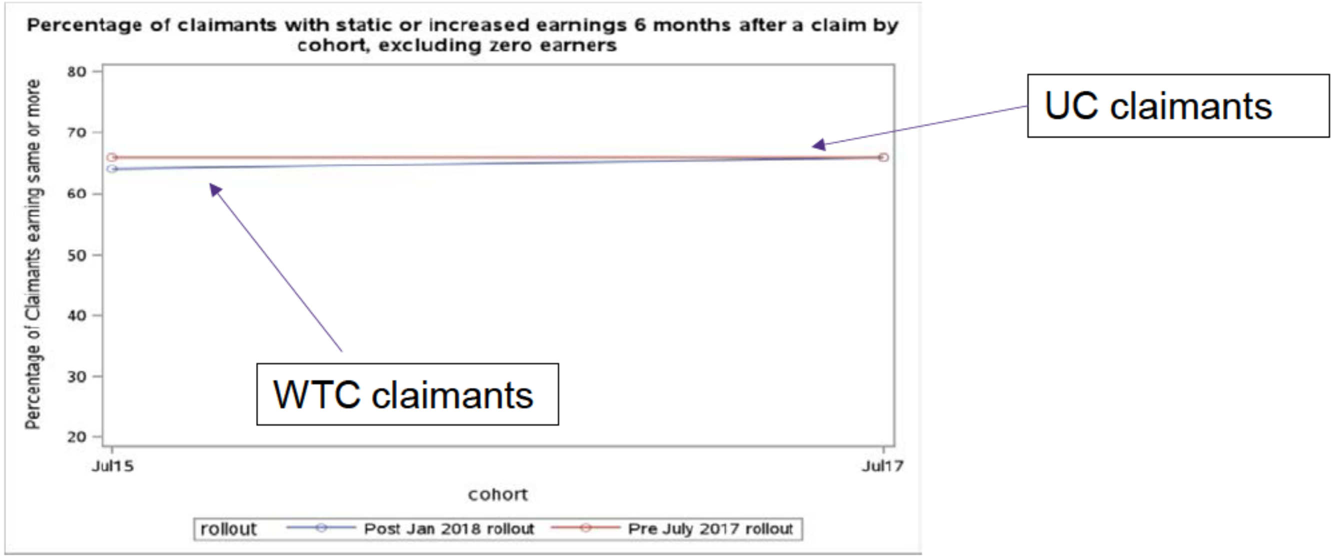
Use detailed RTI data to compare employment counts in areas which have and haven't rolled out to UC.
Based on detailed admin records, so sample sizes not an issue.
However, the results are diluted by presence of large number of individuals who will not qualify for UC or legacy benefits



Conclusion - No significant change in gap between Full Service and other areas.

Changes in earnings

Compare changes in earnings for July 2017 cohorts of UC and Working Tax Credit inflow;
Based on administrative benefit and RTI data, so good samples and coverage;
But aligning the groups is difficult;

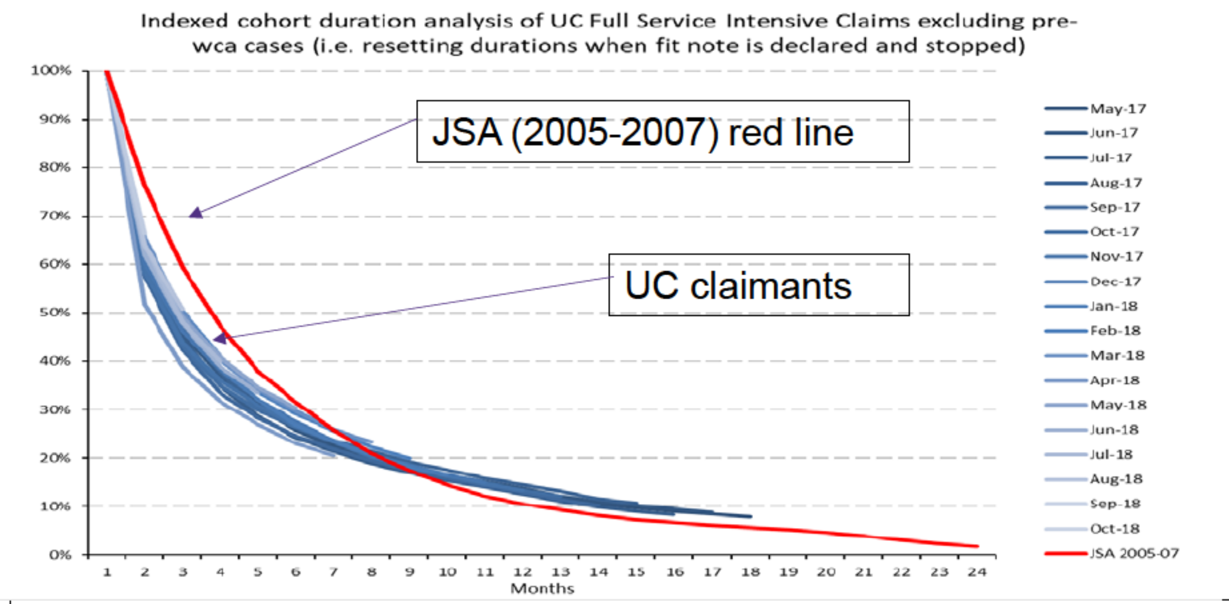


Conclusion – No significant change in increases in earnings after rollout of UC.

Draft based on provisional analysis, subject to quality assurance. OFFICIAL - SENSITIVE

Durations Analysis

Compare survival rates in UC Full conditionality (excluding pre-WCA cases) with JSA before the 2008 recession.



Conclusion – No significant change in survival rates.