



Work and Pensions Committee

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From the Chair

13 June 2018

Neil Couling CBE
Director General, Universal Credit
Department for Work and Pensions, Caxton House
Tothill Street, SW1H 9NA

Dear Neil

Universal Credit employment impact and Business Case

Last week the Department published an outline of the long-awaited full business case for Universal Credit—albeit only for the full service rollout—alongside its survey of Universal Credit full service claimants. These give rise to a number of questions about the employment impact of Universal Credit.

I would be very grateful if you would answer the following questions. For ease of understanding, I would appreciate if you would number your responses, so it is clear which questions they relate to.

Estimate of employment impact

In evidence to the Committee in January 2018 you told us that Universal Credit would result in an additional 250,000 people in work. You subsequently attempted to illustrate in correspondence how the Department had reached this estimate.¹

The outline business case revises this figure down to 200,000.²

- 1. *Might you please explain the reasons for the downward revision in the Department's estimate of the number of additional people who will be in work when Universal Credit is fully rolled out compared to the legacy system?***
 - a. *At what point did the Department become aware of this revision?***
 - b. *Do the findings of the Universal Credit claimant survey on movement to work reflect this expectation?***

The Universal Credit claimant survey shows the proportion of claimants working for an employer in a paid role increasing from 23% at the start of a claim, to 33% at Wave 1 and 40% at Wave 2.³

¹ Q374

² Full business case summary, p.6

³ Full service survey, p.54

The Department's paper on *Understanding the impact of Universal Credit on the labour market* notes that within some of the Department's 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."⁴

- 2. *Would you consider it possible to identify clearly the impact of Universal Credit in this element of the claimant survey?***
- 3. *Might you please explain the counter-factual to this finding: what level of movement into employment would we have expected to see under the legacy system?***

The Universal Credit claimant survey shows the proportion of self-employed claimants remaining static between start, Wave 1 and Wave 2, at 7%. This means there is no net movement of out of work claimants into self-employment.

- 4. *Do these findings reflect your expectation on the impact of Universal Credit on self-employment?***

Business case estimate

Paragraph 1.17 of the Business Case summary explains:

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. 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 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.

- 5. *Why is the legacy system not the appropriate baseline for assessment the impact of UC?***
- 6. *Might you please explain what the impact on participation would have been had you not taken this approach?***

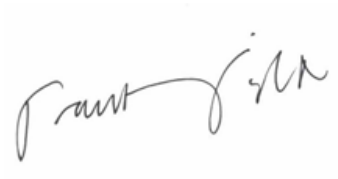
Immediately after the summary Business Case was published, the Department announced via a written statement a subsequent revision of the migration schedule for Universal Credit.⁵ This will now be completed in 2023, rather than 2022 as planned.

⁴ Understanding the impact of Universal Credit on the labour market, p.7

⁵ HCWS745

- 7. Does the extension of plans for migrating existing claimants to Universal Credit mean that the Business Case for Universal Credit is now out of date?**
- 8. Do you have any plans to update the Business Case to reflect this change?**
- 9. When will the Full Business Case for migration be presented to HMRC?**

With best wishes and I look forward to hearing from you,

A handwritten signature in black ink, appearing to read 'Frank Field', enclosed in a thin black rectangular border.

Rt Hon Frank Field MP
Chair