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Rt. Hon Frank Field MP

6 February 2018

Dear Frank,

Thank you for the opportunity to discuss Universal Credit with Committee members on the Wednesday 24 January, at the Work and Pensions Select Committee (WPSC) hearing. Your insights and questions are an important part of the governance of any large change programme, which I welcome.

During that discussion, both Neil Couling and I agreed to come back to the Committee on a number of points. I also received a letter from you before the hearing, dated 18th January that listed a number of questions. This response will address the majority of these questions with a commitment to come back to you on the outstanding questions in due course.

Within my evidence related to 'self-employment' and the 'minimum income floor' (MIF), I committed to coming back to the WPSC on two points. Firstly (at Q343), I referenced the *Self-employment Working Tax Credits Claimant Survey (September 2017)*. The Committee were keen to see a copy of the report so, for ease, I have included the link to the report on Gov.uk, which I hope you will find helpful.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644093/research-into-self-employment-working-tax-credits.pdf

You will see from this report that of respondents reporting a regular net monthly income, 79% earned £1000 or less per month. Of those that worked 36 hours or more per week, 37% earned £500 or less per month.

The report shows that for many, self-employment is a life-style choice, with 45% needing to work around childcare and other caring commitments. The survey also found that 66% wanted more independence. However, on average, self-employed people earn little over half the income of employees (around £10,800 compared to £20,000 in 2013/14). They also do not benefit from other aspects of employment, such as holiday and sick pay.

We greatly value self-employment and it is an important part of the economy and we are committed to making self-employment a fully-supported income option wherever possible. However, in the past, we have allowed claimants to remain in very low earning self-employment, trapping them and their families in welfare dependency. After a year, and where the business is not meeting the 'minimum income floor' (MIF), we will expect in most cases that the claimant will be required to either increase their self-employment earnings or take on additional work. This leads me on to the second point that I said I would come back to the Committee on (Q362) evaluation of the MIF.

As Neil explained to the Committee, there is a specific planned piece of evaluation of the MIF. The evaluation will use a variety of information and approaches that will provide a broad and cross-cutting evidence base on which decisions can be made around the MIF and the support provided to self-employed claimants. DWP's evidence strategy will look to identify the interactions between self-employment, paid employment and benefit receipt, together with the factors that informed decisions behind these.

Given that start-up businesses are not subject to the MIF and that we need to track changes to employment behaviour over at least a year, it will be some time before we can conduct quantitative analysis. Furthermore, there is no robust counterfactual against which to compare the changes to behaviour of the UC self-employed population. The number of tax credit claimants who are self-employed will decline and those who have a change in status will migrate to UC. However, our approach will be to monitor a claimant's employment and earnings throughout the self-employed claim, including during the start-up period, to assess whether the MIF changes behaviour at the point of application.

As Neil stated during the Committee session, although the evaluation is planned, it cannot be undertaken until there are sufficient numbers of self-employed people claiming UC and are subject to the MIF. Our analysts have two approaches to tracking claimants:

- Multi-waved quantitative studies will provide evidence around the scale and depth of the issues identified in an earlier qualitative study and will track the work decisions over time. A minimum of 50,000 self-employed will be required to be in the system (we expect this will occur around Summer 2018) in order to be able to draw a robust non-biased sample from across the country. Our early view is that a sample of around 5,000 would be required. The outcomes of these individuals will need to be tracked for around a year before the outcomes can be analysed. It is, therefore, expected that the earliest this evidence will be available will be autumn 2019. This will be published through a commissioned research report.
- Tracking changes in status using the administrative data on the UC build. This will examine how many self-employed have been subject to the MIF and assess whether they have remained on UC and changed their employment

patterns. This data will be developed over 2018, but again will not provide a robust assessment until at least Autumn 2019. When the data has been quality assured, it can be published in the form of adhoc statistical releases.

Initially, a qualitative study will be delivered looking at the issues faced by the self-employed, which will consider how individuals and households make decisions around their work in light of the MIF. This will involve interviewing 40 claimants and is currently being undertaken. Findings will be published in spring 2018.

More widely, the MIF may have an impact on the wider economy and in particular local areas. This is more difficult to assess and will take longer to understand, but analysts will work with colleagues in the Department for Business, Energy and Industrial Strategy (BEIS) to develop an approach to assess this.

Once we have the information referenced above, I will be able to consider and provide a response to the additional questions asked in your letter of 18 January. These questions are seeking specific information relating to self-employed claimants. However, as mentioned above and at the WPSC session, the self-employed caseload is still comparatively small and the majority have only joined UC fairly recently. Therefore, the sample size is too small to allow us to draw conclusions based on this data at present.

In the letter received before the Committee meeting, you also asked two questions related to the support provided to self-employed claimants in Croydon and Southwark Jobcentres. With regards to question 8 in your letter, you asked: *How much has been spent via the Flexible Support Fund on business support for self-employed claimants?*

The Department provides support for self-employed Universal Credit claimants via the New Enterprise Allowance (NEA) scheme. From April 2017, and in addition to supporting new businesses, the NEA scheme has expanded to include mentoring support for UC claimants with existing businesses whose earnings are below the MIF.

The Flexible Support Fund (FSF) is used by Work Coaches to provide the local support that claimants may need. Where the Department's existing menu of support does not meet the needs of claimant's and there is no appropriate provision in the area, the FSF is used to address this local need.

As contracted self-employment support is available via the NEA scheme, and non-contracted provision is also available from local partners, FSF spending may not be the most appropriate way to provide support for self-employed claimants, as individuals. However, in order to address an identified local need among 16-25 year olds, South London District Jobcentre Plus funded a course, using the grant fund part of FSF, which ran for one year from 2 November 2015 to support young entrepreneurs. A quarter of the participants were UC Claimants.

With regards to question 9 in your letter, you asked: *How many self-employed people have been referred to specialist external support (not including the New Enterprise Allowance) by work coaches?*

UC claimants are not formally referred to third party provision but are sign-posted to specialist provision as part of the conversation with their Work Coach at work-focussed interviews. Although this sign-posting may be captured in a person's UC account, such as in their claimant commitment, it is not necessary to do this in all cases. Where information is captured, the format in which this information is held does not allow us to identify the numbers of people sign-posted to particular sources of support (unless the referral was to provision that South London had procured themselves, such as the provision mentioned above).

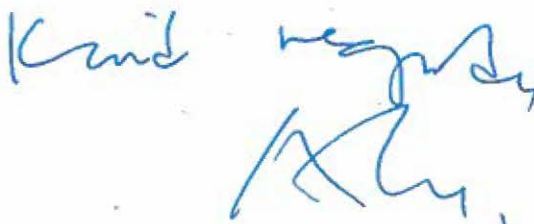
During the evidence provided by Neil, he committed to sharing two documents with the committee. I have annexed both documents to this letter.

- Annex A (Q374 refers) – Detailed analysis provided to Baroness Hollis on the 250,000 extra people who will be in work as a result of Universal Credit.
- Annex B (Q405 refers) – Details of Passported Benefits by different departments.

If you have any questions on either documents, please do let me know.

Neil also promised to come back to you (Q399-400 refers) to clarify the position related to Free School Meals and the Pupil Premium. We have written to our colleagues in the Department of Education to seek clarification on the points made by the committee. As soon as we have received their response, we will share it with the Committee.

Finally, as promised to the Committee, I will write again with more information related to the UC Full Business Case (Q378) and to the review of Universal Support (Q407) when both activities have concluded.



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16 November 2017

Dear Lady Hollis

Universal Credit

During the All Party Peers meeting on Universal Credit on 25 October, held by the Minister for Employment, you asked how we determined that there would be an additional **250,000 people in employment** once Universal Credit had been fully implemented. I have set out below the background and methodology we used on coming to this number, which is the rounded sum of the component parts in the later text.

The analysis is based on the same methodology that was developed in 2012, which was reviewed by the Institute of Fiscal Studies and is consistent with planned policy and design changes as in the 2015 Outline Business Case (OBC). It also assumes classical views and historic patterns on how claimants are expected to behave when confronted with labour market/economic choices. In addition, as with most models of this sort, any sizeable exogenous economic shock could change the parameters.

Analysis

There are a number of factors within Universal Credit (UC) which we believe will drive this increase in participation:

Increased financial incentives to move into work

UC has better incentives to move into work, or increase hours of work, meaning workers keep a higher proportion of their additional earnings, with a guarantee that work always pays.

In general, UC increases the incentive to move into work as the combination of work allowances and a single taper enables claimants to keep a higher proportion of their income when they move into work. However, due to the complexity of the legacy system, there is not one single UC effect across claimant types and for some

claimants the reduction in their in-work entitlements (e.g. tax credits) reduces the incentives to move into work. The net effect below includes:

- Increase in participation for people with improved financial incentives to work;
- Reduction in participation for people with reduced financial incentives to work;
- Increase in hours worked by people who are currently in-work and who see an increase in incentives to progress; and
- Reduction in hours worked by people who are currently in-work and who see a reduction in financial incentives to progress.

We have estimated the impact of financial incentives by combining academic evidence on people's responses to previous welfare system reforms, and the Department's Policy Simulation Model. The Policy Simulation Model was used to estimate changes in gains from work and disposable income (i.e. drivers of labour market decisions) for different groups due to the introduction of Universal Credit.

We estimate that the impact of increased financial incentives will result in around **150,000 additional people in employment** across groups.

Increases due to additional conditionality.

Conditionality is extended under UC to certain groups that were not subject to conditionality under the legacy system, meaning they will get work coach support and encouragement to seek work, and will sign a claimant commitment to spend up to 35 hours a week seeking work (depending on their circumstances, caring responsibilities and any disability).

We use evidence of the employment impacts from trials of labour market interventions to estimate the increase in employment for these groups experiencing conditionality for the first time.

The Full Conditionality regime in Universal Credit has a wider reach than the equivalent JSA regime. As a result, new categories of individuals will be subject to conditionality under UC, including across the following groups:

- Partners of main claimants who have earnings below the lower individual and household conditionality thresholds and have dependent children.
- People who currently claim Housing Benefit or Child Tax Credit only, who are not also receiving an out of work DWP benefit and whose household earnings are below the lower threshold.

We estimate that the extension of the conditionality regime will encourage engagement and will result in around **50,000 additional people in employment** across groups.

A smoother and simpler transition into work under Universal Credit.

A smoother and simpler transition into work under Universal Credit with less administrative burden on the claimant and a clearer system of allowances and tapers that allow claimants to more easily see the financial benefits of moving into work or increasing their hours.

The Universal Credit system is considerably **simpler** and more transparent than the legacy system. Therefore it will reduce some of the disincentives to take employment as the design of Universal Credit makes the payoff from taking up work clearer to individuals than legacy benefits.

Simplicity is about making the benefit and tax system easier to understand so that people know what their income would be if they:

- a) work;
- b) do not work; or
- c) change the number of hours they work.

The Universal Credit system also allows for a much **smoother** transition between in-work and out-of-work states due to reduced transaction costs. There is now little or no administrative burden to the claimant of having to close down a legacy claim when moving into work or subsequently returning to unemployment.

The estimated employment impacts of UC due to its simplicity are based on research and evaluation evidence¹ of similar reforms in the past. In particular, it draws on evidence from the:

- a) quantitative and qualitative evaluations of mandatory work-focused interviews for lone parents and Better Off Calculations; and
- b) evaluation of In-Work Credit.

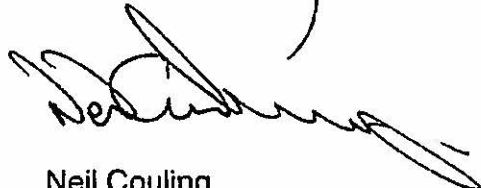
We estimated that the move to a single system of working-age benefits, in the form of Universal Credit, will result in around **60,000 extra people in employment**.

Supporting evidence

In September 2017, DWP published an update to "Estimating the early labour market impacts of Universal Credit"² which found that Universal Credit claimants were 4 percentage points more likely to be in work within six months of making a new claim. This evidence was peer-reviewed by an expert group of external advisors.

I hope you have found this note helpful. I'd be very happy to offer a meeting with you and your team to walk through the details. If you would like to take up this offer please do get in touch.

Yours Sincerely



Neil Couling

¹ "The lone parent pilots after 24 – 36 months: the final impact assessment of In-Work Credit, Work Search Premium, Extended Schools Childcare, Quarterly Work Focused Interviews and New Deal Plus for Lone Parents"

<http://webarchive.nationalarchives.gov.uk/20130314010555/http://research.dwp.gov.uk/asd/asd5/1norts2009-2010/rrep606.pdf>

² "Estimating the early labour market impacts of Universal Credit" <https://www.gov.uk/government/publications/universal-credit-employment-impact-analysis-and>

Universal Credit and Passported Benefits	
Department for Education	
Free School Meals & early years pupil premium (EYPP).	Nil for existing UC recipients. Net earnings threshold of £7,400 per year (£616.67 per month) proposed from April 2018. Scotland implemented earnings threshold at £610 per month from 1 August 2017.
Early Education Offer for 2 year olds	Nil for existing UC recipients. Proposed net earnings threshold £15,400 per year (£1,283.33 per month) from April 2018.
Department of Health and Social Care	
Health Costs (free prescriptions, costs of dental care, wigs, fabrics and optical care)	<ul style="list-style-type: none"> • net earnings of £435 or less during most recent assessment period; or • net earnings of £935 or less during most recent assessment period if claimant or partner responsible for a child or has limited capability for work. NB: prescriptions are free in Wales & Scotland.
Healthy Start Vouchers	Universal Credit claimants with a take home pay of £408 or less per month are eligible.
Department for Business, Energy & Industrial Strategy	
ECO (Energy Company Obligation) Affordable Warmth	Various earnings thresholds dependent on number of children (for any of last 12 assessment periods).
Warm Home Discount	No current threshold (though one is planned for next winter). UC claimants can be considered in the scheme if they are not in work or self-employed and satisfy other conditions (no automatic entitlement).
Ministry of Justice	
Legal Aid	Proposal to passport UC recipients with zero earnings. Others subject to existing legal aid income and capital tests.
Court Fee Remission	Means test of less than £6,000 gross earnings per year.
Prisoner Visiting Costs	<u>Income</u> of less than £1,250 per month.
HMT/HMRC	
Help to Save	From April 2018, open to UC claimants with minimum earnings equivalent to 16 hours at National Living Wage (£7.83 an hour).
Department for Environment, Food & Rural Affairs	
Watersure	Open to UC recipients who have a water meter. <u>In addition</u> , someone living in the household must <u>either</u> have a medical condition which requires significant additional use of water, <u>or</u> be entitled to Child Benefit for three or more children under the age of 19 who live in the household.
Other	
BT Basic	Open to UC claimants with zero earnings.