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Rt. Hon Frank Field MP

12 March 2018

*Dear Frank*

Thank you for your letter of 23 February regarding the employment impact of Universal Credit.

As you will appreciate, the modelling is not simple and relies on the interactions between the different parts of the Universal Credit (UC) system. However, when we have finalised the UC Full Business Case, we will publish a methodological paper on how this has been calculated and the assumptions behind the estimates. But it is worth noting that all of the assumptions rest on a developed understanding of how labour markets operate and how claimants will react to incentives and rules within the system, built on over 40 years of study.

As set out in the letter from Neil Couling to Baroness Hollis of 16 November, the employment impact is based on three factors (simplicity, increased interventions and improved work incentives), each of which are recognised and accepted by labour market experts and economists from around the world as delivering increased employment levels. The Department has drawn upon a wide range of academic research from around the world in the design of Universal Credit and the labour market regime in order to maximise the employment opportunities for benefit claimants. I am more than happy to send you the full list of academic research, if you would like.

First, in terms of simplicity, we have designed a benefit system that helps claimants understand their choices better. The existing system fails badly in that regard, with overlapping and opaque rules often built on top of each. 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.

Second, our improved conditionality regime means that claimants will not lose touch with the labour market, and will be supported to find work.

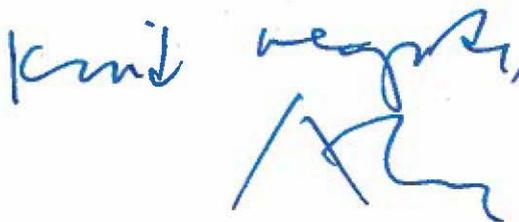
Lastly, Universal Credit removes financial incentive barriers in the legacy system in which claimants faced losing money from taking up work/more work.

So if we simplify, remove barriers, and support work, we would expect an outcome resulting in more employment. This design is backed by evidence<sup>1</sup> and is shown to be delivering by the employment impact analysis we have produced and published<sup>2</sup>. As you will be aware, this compares the outcomes for Universal Credit claimants compared to JSA claimants. JSA claimants are already subject to a rigorous, world leading intervention regime and the job entry financial incentives for this group are not significantly different. Therefore, delivering a 4 percentage point improvement in the proportion in employment at six months, based almost entirely on the improved system simplicity, is positive and encouraging for other groups.

As the former Secretary of State and Neil Couling have previously explained at the Select Committee on 18 October, testing the impact of Universal Credit is reliant on having both sufficient numbers on the benefit and an adequate legacy benefit caseload to draw a comparison group from. With the roll out of the Universal Credit Full Service to date, it has not been possible to produce these estimates for particular groups of claimants as the numbers have not been sufficiently large. However, over the coming year we will have sufficient numbers to enable the tracking of claimants (which in itself requires further time) and a comparison of their outcomes. Once this is quality assured we will publish this information and share it with the committee.

The approach to our analysis underpinning these estimates was reviewed by the Institute for Fiscal Studies.

Finally, I would be very happy for my officials and I to sit down with you to talk through the methodological paper once it is published.



**Alok Sharma MP**  
**Minister of State for Employment**

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<sup>1</sup> Of particular relevance from the full list are: for simplicity, the experience of work focussed interviews in the lone parent pilots showed how simplifying clarified claimants ability to move off benefits. See Research Report 606 and 484. For financial incentives, a comprehensive overview of available academic evidence is given in IFS report (C.Meghir,2008) and IZA report (Labour Supply Elasticities in Europe and the UK, Bargain et al, 2011).

<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/644541/universal-credit-employment-impact-analysis-update.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644541/universal-credit-employment-impact-analysis-update.pdf)