

Work in progress

Low pay and progression in London and the UK

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Executive summary

The headline recovery in the jobs market disguises four key social and economic challenges. **Earnings** have fallen, by 8.5% in real terms since 2009. **Living standards** among middle and low income families have stagnated. **Working poverty** is increasing – with a majority of poor people now in working households. And **job insecurity** is up, with more than two million people in involuntary temporary or part-time work (a figure which has doubled since 2006).

Much of the recent debate on addressing these issues has focused on whether, and how quickly, to increase the National Minimum Wage. This is important, but can only be one part of the answer – we need also to understand why those in low pay do not progress, and what more can be done to improve job retention, pay and progression.

Ensuring that our employment and skills systems better join up to support retention and progression is arguably more important now than at any point in the last two decades. It is also critical because improving progression will be central to delivering the government's ambitions on social mobility and welfare reform, and in particular Universal Credit – where up to 1.2 million people who are in work and on the lowest earnings will be expected to 'do more' to increase their hours or earnings.

This report combines both quantitative and qualitative research, exploring the extent of low-paid work, the barriers to progression, 'what works' in supporting progression, and how policy and delivery could be improved in the future.

This report has a particular focus on low pay and progression in London. This London focus is important because many of the challenges set out above are particularly acute in the capital. In London you are more likely to be rich, but also more likely to be poor, than anywhere else in the country. Ensuring that we act to address these challenges in London is of paramount importance if we are to help future growth to become more equally shared.

Understanding low pay and progression

Labour market structure is a key driver of low pay and limited progression at the bottom of the labour market. Increased job polarisation, between 'lovely and lousy' jobs, has been at its most extreme in London, and workers in London face additional challenges with housing, transport, childcare and under-employment.

Our analysis finds that:

- **21%** of London workers – or 625,000 people – are paid below the London Living Wage; while
- **25%** of workers outside London – 5.9 million people – are paid below the Living Wage.¹

Looking at the fourteen occupations where a majority of staff are paid below the London Living Wage, just two have had above average pay growth in the last five years – and these two were the lowest paid occupations of all. So the lowest paid are also falling further behind.

Looking at transitions into and out of work, our analysis finds that 55% of the non-student adult population are **secure workers**, in paid work and earning above a Living Wage. However **large numbers of people have been 'stuck' in low pay for a year or more** – 571,000 Londoners (14% of the non-student population) and 5.4 million people across the UK as a whole (17%). Added to this, a further 1.2 million people nationally, 164,000 in London, may be **at risk of cycling between work and low pay**. This risk of cycling appears to be greatest for young people and those without qualifications.

Focusing in on **wage progression**, the average hourly wage growth for those starting in low pay is significantly higher than it is for the population as a whole – with median hourly wage growth in both London and the UK of 10% for the low-paid, compared with only 3.9% in London and 2.9% in the UK for workers overall. Wage progression for those in low pay is possible even when the economy and labour market is relatively weak.

However, a sizeable proportion of low-paid workers see annual increases in hourly pay of less than the national median. The position for low-paid Londoners worsened substantially during the recession, but has returned to pre-downturn levels since, whereas the position of low-paid people in the country as a whole has remained virtually unchanged. On the latest data, 28% of low-paid Londoners experienced hourly wage growth of less than the national median compared with 33% of the population as a whole.

Our analysis also finds that low-paid workers that **change jobs** see far greater wage progression than those that do not, while low-paid staff that received **training on the job** see significantly higher wage progression than those that did not. While

¹ Note that the London Living Wage and the UK Living Wage are used in this report as proxies for low pay in London and the rest of the UK respectively

these are important findings, they should also be treated with caution: part of this may be that those low-paid staff that move jobs or receive training are more likely to be in occupations and sectors with better progression prospects.

The factors that affect retention and progression are complex and encompass both **individual** and **employer** factors. How these interplay is complex – with aspirations and motivations, qualifications, caring responsibilities, networks, job roles and employer quality all seeming to play a part.

The gains from getting this right are potentially significant. We estimate that supporting progression from National Minimum Wage to Living Wages for lower income households would lead to net gains to the Exchequer of around **£2.8 billion a year**.

Measuring progression

A 'basket of indicators' for measuring progression could comprise 'core' and 'non-core' measures. **Core** measures could include both income and non-income based measures. Income based indicators could comprise:

- **Hourly wage progression** – for example based on an increase in hourly wages that is greater than median annual wage growth;
- **Earnings progression** – defined as an increase in total weekly earnings that is greater than median earnings growth (which could include working more hours).

Non-income-based core measures could include:

- **Movement from insecure to secure employment** – for example from temporary to permanent employment;
- **Socio-economic progression** – e.g. an increase in social economic status.

Non-core progression indicators could include:

- **Greater occupational responsibility**: Either in the form of greater autonomy at work or in management responsibility;
- **Skills progression**: Increase in qualification level or skills acquisition related to job or occupations. Importantly, this measure should be closely associated with wages or greater occupational responsibility.

The government should consult on the selection of indicators, and on the balance or weighting between them in measuring progression.

Views from the front line

We surveyed 100 active practitioners in the employment and skills fields and followed up with 30 semi-structured interviews.

Our research suggests that a wide range of service provision is offered by different providers, but that this is not always explicitly aligned to delivering either job retention or progression. Looking to the future, most providers intended to do more to join up and align support; make services more personalised; and make greater use of technology. While these changes would be likely to improve the quality of service for those receiving support, they are also relatively modest. This likely reflects both the relative low priority attached to retention and progression by programme commissioners but also the limits on innovation and testing within employment and skills programmes.

We also conducted two focus groups with unemployed people and those in low-paid, 'vulnerable' employment. Two key factors informed respondents' views on employment and progression: their **aspirations** and their **opportunities**.

On **aspiration**, the majority of participants currently or had previously worked in jobs with low levels of responsibility, and were relatively satisfied with this. Progression was not a priority when looking for work. For a smaller group of participants, **opportunity** was a critical factor. They were interested, but felt that the industries they worked in were not conducive to progression. Other barriers to taking up progression opportunities included a lack of flexibility that came with moving up, not feeling 'ready' to progress and a sense that progression was not warranted as there was no intention to stay in the industry.

People considered that increased **salary** was the most important benefit from progression, with **confidence**, **satisfaction** and **job security** also seen as key positives. The main downside was seen as **stress**, with a number of 'grey areas' around increased responsibility, changed relationships and higher expectations – with these being the price paid for more pay and security. Much of the support that individuals wanted, however, was around things that 'good' employers take for granted – like regular appraisals, opportunities to network, and getting support and encouragement from managers.

Breaking the cycle – what works

As noted, the two key factors affecting progression that are within our control are around **the individual** and **the employer**.

At **individual** level, there have been relatively few attempts to develop programmes to support people to progress in work, so as a consequence there is limited evidence on what forms of support are most effective. However what work there has been points to the importance of effective case management, training support and financial incentives.

Looking at **employers** that progress staff, there is useful recent evidence on their practices which provides pointers on what employer approaches are most likely to support progression. In particular, this identifies a series of 'enablers' for low-paid staff within companies. These can broadly be grouped into three:

- **Management and support systems** – including commitment from senior managers and staff and good HR processes;
- **Staff culture and behaviour** – including clear understanding among employees and peer support; and
- **Company factors** – relating to growth and size.

As part of this project, we looked in depth at four current or recent case studies of good practice in the UK. These reflect, broadly, four stages in supporting retention and progression:

- Supporting those out of work to move into sustainable, new opportunities – focusing on key employability and transferable skills;
- Supporting individuals in work to stay there – through highly accessible and personalised adviser support through multiple platforms;
- Supporting employers to retain and grow their businesses – with a 'business to business' model to build HR capability and training within a sector; and
- Building career ladders and structures within an industry – supporting the recognition and accreditation of skills.

In summary, then, there is enough evidence to draw conclusions on what may work in supporting retention and progression.

- Supporting people to stick and then stay in work by getting the job match right, personalising support, and really focusing on supporting people through the transition to work.
- Supporting people to progress in work by personalising support to the individual's needs – based on supporting people to set and develop their career goals,

maintain momentum, and find and access the support that they need. Job-related training and financial incentives appear to play an important role.

- Providing the right (business to business) support to employers to grow their workforce and their business – including by investing in management, HR and training; by supporting staff to access opportunities and to develop peer networks; and by building a stronger ethos around progression, particularly at senior levels. However some employers will be too small, poorly performing or simply unwilling to take steps to support their staff to progress. In these cases progression would seem more likely by moving out rather than moving up.

Recommendations

Drawing this together, we recommend as immediate priorities:

- 1 The government and providers of employment and skills support should work together to develop an evidence-based, best practice toolkit for supporting retention and progression in employment programmes – based around a ‘Stick, Stay, Progress’ model.
- 2 Jobcentre Plus success should be measured against the time that those leaving benefit spend off benefit, in addition to the current measure of leaving benefit within twelve months. In the medium term, success should be measured in terms of time spent in employment after exiting benefit.
- 3 Work Programme providers and government should work together to promote best practice on supporting retention and progression – in particular through the new Work Programme Best Practice Group
- 4 The £2 billion Adult Skills Budget should be unlocked to support progression. Eligibility for full funding for Level 2 training should be extended to all Work Programme participants – so that those in work can access workplace training.
- 5 Eligibility for full funding for Level 2 training should also be extended to those in work and identified as most at risk of low pay and poor progression – including those with no qualifications, lone parents, young people, disabled people and those working in low paying occupations and sectors.

In the longer term, we recommend:

- 6 The government should establish an ‘open source’ Innovation Fund to rigorously test new approaches to improving retention and progression, evaluate them and share the results widely.

- 7 The government should identify and consult on a 'basket of indicators' for measuring progression in the economy and programmes.
- 8 The Universal Credit Claimant Commitment should include a 'Progression Pact' – setting out both expectations for increasing incomes in-work and the additional support that claimants will receive.
- 9 National and local commissioners should start the process of developing a new employment and skills model – 'Employment Plus' – that combines support to find work, stay in work and progress in work. Rather than following traditional top-down procurement, government should look to co-commission or devolve: aligning and integrating funding streams and support. This 'Employment Plus' approach should also be incorporated into any successor to the Work Programme – with clear incentives to support progression as well as retention.

And in London, we recommend:

- 10 London should develop its own framework to test and evaluate progression, seeking providers to test different components of progression within existing contracts as well as its own programmes.
- 11 London should take the lead in developing the 'Employment Plus' model – with as a starting point, Jobcentre Plus developing a 'Super Adviser' pilot to test approaches to joining up support.

1 Introduction

Britain is working. Despite the deepest recession in a lifetime and a period of prolonged low growth, employment is at record levels. Indeed since 2008, while output has fallen by nearly 3% both employment and total hours worked have actually increased. Behind this headline success story, however, there are a number of challenges. Earnings have fallen, living standards have stagnated, and working poverty is increasing alongside job insecurity.

Many of these problems have their roots in the last three decades but have reached a head over the last five years. They suggest that it is no longer enough for policy simply to focus on getting more and more of the population into work. We must also do more to support people first to stay in work, and then to increase their earnings and progress in work.

Much of the recent debate on tackling low pay has focused on whether, and how quickly, to increase the National Minimum Wage.² This is important, but can only be one part of the answer – we need also to understand why those in low pay do not progress, and what more can be done to improve job retention, pay and progression for those most at risk. This report seeks to out the evidence on the scale of the challenges facing us, a framework for understanding job retention and progression, and proposals for how we can support more people to stay and to progress in work.

1.1 Behind the headlines

The headline employment figures disguise four key social and economic challenges for the country: around earnings and productivity, living standards, working poverty and insecurity. They are taken in turn below.

First, the strong jobs figures since the onset of recession have largely been achieved at the expense of lower earnings. In real terms, **earnings** have fallen by 8.5% since 2009³ – a fall unprecedented in modern times. More people are working but for less pay. In many ways this reflects the increasing flexibility of the labour market – with both workers and employers better able to share the pain of recession than in

² See for example 'Liberal Democrats push for minimum wage increase', *The Guardian*, 14 September 2013 (<http://www.theguardian.com/politics/2013/sep/13/liberal-democrats-push-minimum-wage-increase>) accessed 26 September 2013

³ Source: Regional Economic Analysis, Changes in real earnings in the UK and London, 2002 to 2012; Office for National Statistics, February 2013

previous downturns. But it also means that the UK is becoming less productive: we are producing less with broadly the same sized workforce.⁴

Secondly, this wage squeeze, when coupled with household living costs that are rising faster than the rate of inflation,⁵ means that **living standards** have stuck and in recent years may have started falling. This squeeze on living standards is not just a product of the recession – as the Resolution Foundation has shown, living standards for those on middle and low incomes began to stagnate in the mid 2000s.⁶

Thirdly, following on from this, the squeeze on living standards has been felt most sharply among those on the lowest incomes. Although child poverty and particularly poverty among pensioners have shown some improvements in recent years, both poverty and inequality among working age adults have risen rapidly. This rise has also seen the return of a problem last witnessed a lifetime ago: of widespread **in-work poverty**. For the first time, in 2010-11, a majority of people living in poverty were in households where somebody worked (4.1 million adults and 2.1 million children).⁷ This figure has grown by more than one million in the last five years, while poverty among households where no one works has remained constant. The same pattern holds in London.⁸ Work is important in lifting people out of poverty, but increasingly it cannot be guaranteed to do so.

Finally, while an increasingly flexible labour market may have helped to deliver near record levels of employment, it has also led to **insecurity** in employment. This in turn has led to concerns of a 'low pay, no pay' cycle with some workers trapped between low-paid, insecure work and periods out of work.⁹ This growth in insecurity is most noticeable in the number of part-time and temporary employees who cannot find full-time work – there are now more than two million of these involuntary temporary or part-time workers, a figure that has doubled since 2006.¹⁰

Drawing these together, then, it is clear that flexible labour markets and support to find work are no longer enough on their own to ensure a decent standard of living.

⁴ Hughes, A. and Saleheen, J. (2012) 'UK labour productivity since the onset of the crisis — an international and historical perspective', *Bank of England Quarterly Bulletin* 2012 Q2

⁵ For example, the Joseph Rowntree Foundation has found that over the past decade, minimum household budgets have risen by 45 per cent, against a 30 per cent increase in the Consumer Price Index rate of inflation: Hirsch, D. (2013) *A minimum income standard for the UK in 2013*, Joseph Rowntree Foundation

⁶ Whittaker, M. (2013) *Squeezed Britain 2013*, Resolution Foundation

⁷ Source: Households Below Average Income, Department for Work and Pensions

⁸ MacInnes, T., Parekh, A. and Kenway, P. (2011) *London's Poverty Profile*, Trust for London and New Policy Institute

⁹ See for example Shildrick, T., MacDonald, R., Webster, C. and Garthwaite, K. (2010) *The low-pay, no-pay cycle: Understanding recurrent poverty*, Joseph Rowntree Foundation

¹⁰ Source: Labour Force Survey, Office for National Statistics

If we are to tackle the 'low-pay, no pay' cycle, address working poverty, raise living standards and build a more productive economy, we must do more to support people first to stay in work and then to progress in work.

1.2 The response (so far)

For successive governments, labour market policy has been built on four pillars:

- **Building a flexible labour market** – by making it easier for employers to take people on and to let them go, underpinned with clear minimum standards;
- **Improving incentives to work** – by reducing the real value of out of work benefits, subsidising low-paid work through tax credits, and maintaining a pay 'floor' through the National Minimum Wage;
- **Increasing the support for, and requirements on, those who are out of work** – first with 'Restart' interviews for the long-term unemployed in 1986, then the introduction of Jobseeker's Allowance in 1996, and in the last decade through the New Deals, Pathways to Work and now the Work Programme – with an increasingly sanctions-backed regime of benefit conditionality; and
- **Improving the skills of the workforce** – where the last two decades have seen near-permanent reform with Training and Enterprise Councils, the Learning and Skills Council, Individual Learner Accounts, Train to Gain and a plethora of programmes and funding streams coming and going.

However, governments have struggled to deliver a coherent approach across these four pillars. This has not always been for the want of trying: as early as 2003 the previous government began testing an 'Employment Retention and Advancement' (ERA) demonstration project to support people to stay and progress in work (set out in more detail in Chapter 5); in 2006 the wide-ranging review of skills by Lord Leitch called for an integrated employment and skills service 'to increase sustainable employment and progression';¹¹ and in more recent years, contracted-out employment programmes (in particular the Work Programme) have rewarded providers for sustained employment rather than just job entry.

Despite these small steps, however, progress has repeatedly stalled – with the ERA demonstration ending in 2008, trials of an integrated employment and skills service finally abandoned in 2010, and neither employment services nor training providers

¹¹ Leitch Review of Skills (2006) *Prosperity for all in the global economy - world class skills*, HM Treasury

currently assessed on their success in achieving sustained employment with progression.

As a result, support for those out of work remains largely focused on getting people into any available job (the so-called 'work first' approach); addressing low pay has focused on the level of the National Minimum Wage; and support to up-skill has often focused on raising qualification levels rather than meeting job-specific needs.

1.3 Delivering social mobility and welfare reform

Ensuring that our employment and skills systems better join up to support retention and progression is arguably more important now than at any point in the last two decades. In part, this is because of the four key labour market challenges set out above. But it is also critical now because improving progression will be central to delivering the government's ambitions on social mobility and welfare reform, as well as its commitment to eradicate child poverty by 2020.

1.3.1 Social mobility

On **social mobility**, the government has set out its objectives for improving inter-generational mobility – that is, ensuring that children have better opportunities and outcomes than their parents. This has included commitments to measure progress against new 'leading indicators' from early years through to adulthood.¹²

As part of this work, the government has introduced a new measure of labour market progression: the proportion of the lowest earners (defined as those in the bottom 20% of earners at age 25-30) who experience wage progression over the course of a decade (defined as being 20 percentiles or higher in the earnings distribution at age 34-39). This is based on data from the Annual Survey of Hours and Earnings.¹³

While this commitment to measuring progression is welcome, the most recent available data is already out of date (covering progression between 1997-98 and 2007-08) and cannot be linked to any programme interventions or activity. Driving improvements in progression will require new ways to monitor progress and measure success.

¹² HM Government (2011) *Opening Doors, Breaking Barriers: A Strategy for Social Mobility*, Deputy Prime Minister's Office

¹³ HM Government (2013) *Social Mobility Indicators*, Deputy Prime Minister's Office

1.3.2 Welfare reform and Universal Credit

Delivering progression is also central to ensuring that **welfare reform** leads to more people in more and better work. The government's programme of reforms is the most far-reaching since the foundation of the modern welfare state: with changes across all of the main benefits affecting eligibility, levels of entitlement and how benefits are managed and delivered, and delivering savings of up to one fifth of the adult benefits budget.

Recent research by *Inclusion* has estimated that three fifths of all households that receive benefit have at least one adult in work – and that three fifths of the cash impact of the government's welfare reforms will fall on working households.¹⁴ So households on benefit are more likely than not to be in work, and will bear the larger burden of cuts to social security.

At the heart of the government's future reforms is the introduction of Universal Credit, which will replace a complex system of in-work and out of work support with a single benefit with a single set of rules.

A key feature of Universal Credit is that it will introduce a single system of *disregards* – the amount of extra income that those on Universal Credit can receive before their award starts to be reduced – and a single *taper* – the rate at which Universal Credit is then reduced as income increases. In the current system, by contrast, disregards can vary from nothing at all to several thousand pounds a year, while tapers are varied and often overlapping.

Universal Credit means that, in most cases, people moving into work on low pay will keep more of their income from benefits than is the case in the current system. However, the government has also set out, for the first time, that those who are in work and on the lowest earnings should be expected to 'do more' to increase their hours or earnings. This so-called 'working, could do more' group will encompass all of those who earn below an earnings threshold of up to £221 per week for individuals or £442 per week for couple households (equivalent to 35 hours per week at the National Minimum Wage – with the threshold reduced for those who cannot reasonably be expected to work full time due to caring or health reasons).

The Resolution Foundation estimates that 1.16 million people will be in this 'working could do more' group, and could be subject to requirements to increase their hours

¹⁴ Wilson, T., Morgan, G. Rahman, A. and Vaid, L. (2013) *The Local Impacts of Welfare Reform: An assessment of cumulative impacts and mitigations*, Local Government Association

and earnings.¹⁵ However, as this report will show, there is limited evidence on 'what works' in supporting people who are in low pay to progress in work – so the government will face significant challenges in getting the support and the requirements right. The Department for Work and Pensions (DWP) issued a Call for Ideas on how to support this group to progress, which generated a range of ideas around advice and support services to up-skill claimants, supporting the identification and generation of progression opportunities, raising motivation, self-employment support, and addressing barriers to work.¹⁶ This paper sets out in more detail a view of the evidence, what works, and recommendations for reform.

1.4 This report

This report, then, is a mixed methods study into low pay and progression in the labour market. It combines both quantitative and qualitative research, exploring the extent of low-paid work, the barriers to progression, 'what works' in supporting progression, and how policy and delivery could be improved in the future. In particular it draws on a survey of 100 practitioners and experts followed up with thirty in-depth interviews, focus groups with unemployed and vulnerably employed people, and a number of in-depth case studies of current approaches to support retention and progression.

1.4.1 Report structure

The remainder of this report is structured across five chapters. *Chapter 2* sets out to define low pay and progression. *Chapter 3* then maps low pay and progression in London and across the UK today. In *Chapter 4* we summarise current views on tackling low pay and progression among practitioners and individuals, before setting out in *Chapter 5* the evidence on what works from approaches taken in the UK and overseas. *Chapter 6* then brings together these strands with a series of recommendations on how to support those in low pay to progress in work, both in London and the UK.

1.4.2 A focus on London

This report has a particular focus on low pay and progression in London, but also presents the evidence and makes recommendations for the UK as a whole.

¹⁵ Pennycook, M. and Whittaker, M. (2012) *Conditions Uncertain: Assessing the implications of Universal Credit in-work conditionality*, Resolution Foundation

¹⁶ DWP (2013) *Extending labour market interventions to in-work claimants – call for ideas: Summary of responses received*, Department for Work and Pensions

This London focus is important because many of the challenges set out above are particularly acute in the capital. On the one hand, London is the most prosperous city region in the UK, accounting for more than one-fifth of national Gross Value Added. On the other, poverty is on the rise. In London you are more likely to be rich, but also more likely to be poor, than anywhere else in the country.

Ensuring that we act to address these challenges in London is of paramount importance if we are to help future growth to become more equally shared.

2 Defining low pay and progression

2.1 Defining low pay

There is no single definition of low pay, either in the UK or internationally. A range of measures have been used to define low pay, including:

■ **The National Minimum Wage (NMW)**. This was introduced in 1998. The first UK NMW rates for adults (21 years and over) and for young people (18-20 years) were £3.60 per hour and £3.00 per hour respectively.¹⁷ The Low Pay Commission, comprised of representatives of employers and trade unions as well as labour market experts, advises on NMW rates. Its brief is not to tackle low pay but to monitor, evaluate and review the NMW and its impact. Current rates (1 October 2013) are:

- £6.31 per hour for workers above 21 years of age;
- £5.03 per hour for 18-20 year olds;
- £3.72 per hour for 16-17 year olds; and
- £2.68 per hour for apprenticeships.

The threshold for being subject to 'in-work conditionality' Universal Credit is based on NMW – with those earning less than the equivalent of a full-time wage on NMW being expected to do more to increase their earnings (except where they have caring responsibilities or a work-limiting disability or health condition).

■ **Relative to the median wage**. The literature on measuring low pay tends to favour the use of relative measures – comparing pay against other wages within that labour market. Defining low pay against a benchmark of two-thirds of median earnings is most commonly used (including by the OECD and European Commission¹⁸). In their analysis, the Resolution Foundation estimates the low pay

¹⁷ Low Pay Commission (1998) *The National Minimum Wage: First Report of the Low Pay Commission*

¹⁸ For instance, see the OECD Employment Outlook (www.oecd.org/employment/outlook) and the European Commission's Earnings Statistics (http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Earnings_statistics) – both accessed 26 September 2013

threshold on this measure to be **£7.49 per hour** – equivalent to gross earnings of £13,600 a year for a 35 hour working week.¹⁹

- **A Living Wage threshold.** Since the mid-1990s, low pay has also started to be defined against living costs – and specifically the income needed to meet the living standards considered as acceptable by society. This type of definition is useful in determining the relationship between wages and poverty.
 - In London, the **London Living Wage** (LLW) has gained traction through local campaigns and high profile support – within business and from successive London Mayors. It is a voluntary measure, calculated taking the average of two approaches: one based on ‘basic living costs’ and the other on the ‘income distribution’. The first approach, developed by the Family Budget Unit, estimates a low-cost but acceptable budget for a selection of households and calculates the income required to meet these costs. The second approach takes 60% of the median income for London. The resulting income is then converted to an hourly wage that takes account of individuals claiming all the welfare benefits that they are entitled to, and a 15% margin is added to protect against unforeseen circumstances.²⁰ **The current London Living Wage is £8.55 per hour.**
 - Using a similar methodology to that in London, the University of Loughborough has devised a UK Living Wage (excluding London) drawing on a survey of the general public to define what goods were necessary for a minimum standard of living and combining this with estimates for the costs of rent, council tax and childcare costs excluding London.²¹ Using this methodology **the current UK Living Wage is £7.45 per hour.**
- **A Minimum Income Standard** (MIS). Building on the Living Wage approach, a UK Minimum Income Standard has been devised to capture what the public feels to be an acceptable standard of living in the UK. This estimates that a **single person** in the UK would need to earn at least £16,850 before tax in order to reach the MIS.²² This translates to an hourly rate of **£8.62 per hour** for a 37.5 hour week. The study also estimates minimum income standards for a family with two children. Based on this methodology **each parent** would need to earn at

¹⁹ Pennycook, M. and Whittaker, M. (2012) *Low Pay Britain 2012*, Resolution Foundation

²⁰ GLA (2012) *A Fairer London: the 2012 Living Wage in London*, Greater London Authority Economics, Living Wage Unit

²¹ Hirsch, D. and Moore, R. (2011) *The Living Wage in the United Kingdom: Building on success*, Citizens UK, Centre for Research in Social Policy and Living Wage Foundation

²² Hirsch, D. (2013) *A minimum income standard for the UK in 2013*, Joseph Rowntree Foundation

least £19,400 before tax to support themselves and two children – equivalent to **£9.91 per hour** for a 37.5 hour week.²³

To summarise, then, studies suggest that a 'living wage' of around £7.45-7.50 per hour, rising to £8.55 per hour in London, is just enough to afford a low cost but acceptable budget. It is also broadly in line with two thirds of the average (median) hourly wage. However when asked, the public would consider that an acceptable minimum income is some way above this – and is higher still for families with children, rising to nearly £10 an hour for two full-time, working parents.

Under Universal Credit, the government's focus for support will be solely on those earning less than the equivalent of the National Minimum Wage for 35 hours a week. NMW is already **15–36% below these measures of low pay** – so the focus in Universal Credit will be on the very lowest paid in part-time work.

Part-time work is an important dimension in considerations of low pay. A relatively large proportion of the UK workforce are in part-time employment – 25% compared with an OECD average of 17%²⁴ – and part-time workers are more likely to have caring responsibilities and disability,²⁵ which increase the costs of living. It is important therefore that measures of low pay focus on total earnings as well as hourly rates.

Box 2.1 Individual perspectives of low pay

We explored attitudes to low pay among unemployed people and vulnerable workers in two focus groups. Views of what constituted low pay were strongly shaped by personal responsibilities, and in particular supporting dependents. A common theme was having 'enough' money to support yourself and your family, be this from work or from benefits and tax credits. Participants were not concerned about losing benefits by moving into work, as long as wages were high enough to maintain a reasonable level of income.

'If you are at a good enough level to still have the stuff you want you may not need [benefits]. It depends what the job offers.' (Female, unemployed)

²³ Hirsch, D. (2013) *A minimum income standard for the UK in 2013*, Joseph Rowntree Foundation

²⁴ In 2012, based on a common OECD definition of part-time work of below 30 hours per week.

Source: Labour Force Statistics, Office for National Statistics

²⁵ Source: Labour Force Survey, Office for National Statistics

In this report, we have decided to use the Living Wage definitions for low pay – as these most closely capture differences between London and the rest of the UK and recognise the relationship between pay and living standards.

Therefore we define low pay as hourly earnings below £8.55 in London and £7.45 in the rest of the UK.

2.2 Defining progression

As with low pay, there is no single definition of labour market or job progression. Typically, measures of progression focus on one of three things:

- Changes in **earnings** – be that from increases in hourly pay or from increases in the number of hours worked;
- Changes in **social status** – which is usually measured in relation to occupation and employment status; and,
- Changes in **skills** –specifically, increased qualifications.

These three measures are closely linked: higher qualifications can bring higher earnings in jobs with more responsibility and social status.

Earnings data is collected through a number of surveys²⁶ – in particular the Annual Survey of Hours and Earnings, which samples 1% of all PAYE employees, and the Labour Force Survey, a continuous quarterly survey of households.

Changes in **social status** (that is, social mobility) are usually measured according to the National Statistics Socio-economic Classification (NS-SEC).²⁷ This uses a combination of occupation and employment status to classify households into one of eight socio-economic groups. It is intended to locate households according to their level of authority and control, income, economic security and prospects for advancement. The NS-SEC is reported through a number of survey sources including the Census, the Labour Force Survey and the British Household Panel Survey. The eight NS-SEC groups, or 'Analytic Classes', are set out below.

²⁶ Ormerod, C. (2006) 'Earnings data: a brief guide to sources and outputs', *Labour Market Trends* Volume 114 No. 11, Office for National Statistics

²⁷ Rose, D. and Pevalin, D. (2003) *A Researcher's Guide to the National Statistics Socio-economic Classification*, Sage Publications

Table 2.1: NS-SEC Analytic Classes

- 1 Higher managerial, administrative and professional occupations
 - 1.1 Large employers and higher managerial and administrative occupations
 - 1.2 Higher professional occupations
- 2 Lower managerial, administrative and professional occupations
- 3 Intermediate occupations
- 4 Small employers and own account workers
- 5 Lower supervisory and technical occupations
- 6 Semi-routine occupations
- 7 Routine occupations
- 8 Never worked and long-term unemployed

Source: Office for National Statistics

Progression between social classes is also clearly associated with **career** progression – rising up the ladder, taking on more responsibility and operating with more autonomy and control.²⁸ This can be thought of in terms of progressing within a firm or by moving from one firm to another.

Box 2.2 Individual perceptions of retention and progression

Our focus groups with unemployed people and low-paid vulnerable workers also explored perceptions of job retention and progression. These are summarised below.

Job retention was cited as a key objective. Unsurprisingly, people felt that jobs were less secure now than in the past. For a number of participants, job security meant receiving minimum term contracts from employers. Participants also felt that job security increased as an individual progressed in work.

'When you say security, that means giving you a contract to sign and they give you the job for a year or something.' (Male, employed)

Participants felt that the key indicators of **progression** were increased earnings and more responsibility. Many participants felt that low-paid work in high turnover occupations did not offer opportunities for career development and progression.

The benefits of progression included improved confidence, experience and skills. However a number of downsides were identified – in particular increased hours,

²⁸ Green, F. (2009) 'Job Quality in Britain', *Praxis* No.1, UK Commission for Employment and Skills

stress and pressure. This would be enough to put off some people, unless there were commensurate increases in pay, job quality and security.

Company loyalty was not seen as an important factor in progression – in fact, many felt that staying in the same place for too long could act as a barrier to progression. There was a recognition that progression opportunities increased in line with years of service, however one to three years was considered to be the optimum time period to stay with one employer.

'Before, it was a good thing to say 'I've stayed in my job this long' and then progressed within the job. But now we're doing so many different things, we don't want to tie ourselves to one job like we did before.' (Male, employed)

Drawing this together, in this research we have focused on progression as defined by **increases in hourly wages** – and specifically increases above median average wage growth. Where appropriate, we have also analysed changes in social status. We also propose, in our recommendations (Chapter 6), a basket of indicators for future measures of progression.

3 Understanding low pay and progression

There has been a wealth of research that maps aspects of retention and advancement in the labour market.²⁹ The analysis in this chapter seeks to focus in on moves *into* and *out of* low-paid employment, and progression *from* low pay, where research suggests that job retention and progression are much less likely.³⁰ This chapter also seeks to understand how these issues affect different groups, occupations, industries and geographies, and the extent to which certain labour market transitions increase the chances of advancement.

3.1 The UK and London labour markets

3.1.1 Employment

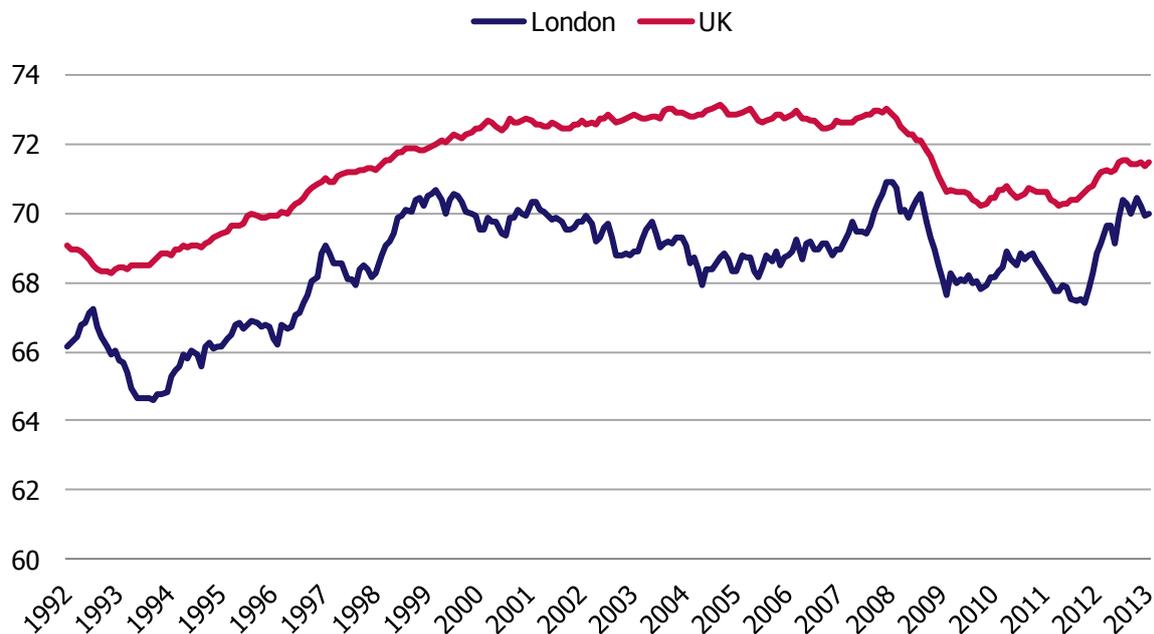
Both the UK and London labour markets have remained relatively buoyant given the underperformance of the economy in recent years. London's employment rate is 70.5%, 1.1 percentage points below that of the UK average of 71.6%. In fact London's employment rate has trailed the UK's for more than two decades despite London leading UK job growth in the years leading up to the 2008 recession.³¹

²⁹ For example, see Johnson, A. (2002) *Job retention and advancement in employment: Review of research evidence*, Department for Work and Pensions In-House Report 98; and Devins, D., Bickerstaffe, T., Nunn, A. and Mitchell, B. (2011) *The role of skills from worklessness to sustainable employment with progression*, UK Commission for Employment and Skills Evidence Report 38

³⁰ For example, see Hakeney, S., Neale, I., Casey, P. and Neat, S. (2009) *Staying in, moving up: Employment retention and progression in London*, London Development Agency, Labour Market Research Series 01

³¹ LDA (2010) *Destinations 2020: Employment projections across sectors and occupations in London* (2010) London Development Agency, Labour Market Research Series 02

Figure 3.1: Working-age employment rates in London and the UK (%)



Source: Labour Force Survey, Office for National Statistics

London's underperformance is driven by a series of complex interdependencies, including:³²

- **Demographics.** London has a higher proportion of the working age population experiencing labour market disadvantage;
- **Intense competition for jobs.** London attracts talent from across the UK and internationally, many of whom are happy to compete for entry level vacancies. This results in intense competition and some Londoners being 'crowded out' of the entry level labour market; and,
- **Weaker work incentives and support.** The high cost of living and working in London reduces the gains from employment, especially for those working in part-time or low-paid jobs and those with children. In addition, programmes designed to help people find work have been less effective in London relative to the rest of the UK – compounded by higher costs of delivery and tougher labour market competition.

³² Krasnowski, K. and Vaid, L. (2012) *Right Skills, Right Jobs: An audit of employment and skills provision in London*, Greater London Authority

3.1.2 Low pay

The labour market structure is cited as one of the key drivers of low pay and limited progression opportunities at the bottom of the labour market in the UK. Globalisation and technological change have altered the structure of the labour market and led to job polarisation – the growth in high-skilled and low-skilled jobs and a contraction in intermediate level employment that some have described as the choice between ‘lovely and lousy’ jobs.³³

Within the UK labour market, polarisation and structural change have been at their most extreme in London.³⁴ Workers in London also face additional challenges, with the extremely high cost of housing, transport and childcare making it particularly hard for low-skilled Londoners to be better off in work.³⁵ Difficulties in London are further entrenched by under-employment, as higher skilled workers (from both the UK and abroad) end up working in low-paid jobs whilst waiting for something more suitable to come along.³⁶ An over-supply of skills in the capital and a dearth of mid-level skilled jobs mean that both low- and intermediate-skilled workers are competing for the same low-skilled, low-paid jobs, which in turn can have a dampening impact on wages and progression prospects.³⁷

We have set out below new analysis of low pay – using the Labour Force Survey to estimate the number of people paid below the Living Wage.³⁸

Our analysis finds that:

- **21%** of London workers – or 625,000 people – are paid below the London Living Wage; while,

³³ Goos, M. and Manning, A. (2007) ‘Lousy and Lovely Jobs: The rising polarisation of work in Britain’, *Review of Economics and Statistics* 89(1); Holmes, C. and Mayhew, K. (2012) *The Changing Shape of the UK Job Market and its Implications for Bottom Half of Earners*, Resolution Foundation

³⁴ LDA (2010) *Destinations 2020: Employment projections across sectors and occupations in London* (2010) London Development Agency, Labour Market Research Series 02

³⁵ Bivand, P. and Krasnowski, K. (2012) *Increasing part-time employment in London*, Centre for Economic and Social Inclusion and Greater London Authority; Ben-Galim D., Lanning T. and Krasnowski K. (2011) *More than a foot in the door: Job sustainability and advancement in London and the UK*, Institute for Public Policy Research

³⁶ HM Treasury (2007) *Employment Opportunity for All: tackling worklessness in London*

³⁷ LDA (2010) *Destinations 2020: Employment projections across sectors and occupations in London* (2010) London Development Agency, Labour Market Research Series 02

³⁸ £8.55 per hour in London and £7.45 per hour in the rest of the UK. While the London Living Wage has existed since 2005, the non-London Living Wage has only been calculated for 2011 onwards. So for analysis of low pay before 2011 we have indexed the non-London Living Wage against the London Living Wage

- **25%** of workers outside London – 5.9 million people – are paid below the Living Wage.

As Table 3.1 below shows, low pay is particularly prevalent among young people, those with no qualifications and lone parents. For both lone parents and young people, this in part reflects a greater likelihood of being in part-time work (nearly half of those in part-time work are low-paid): 54% of lone parents and 41% of young people work part-time. Lower National Minimum Wage rates for young people may also be driving the prevalence of low pay within this group.

Those from ethnic minorities, disabled people and, to a lesser extent, women are also more likely to be in low-paid work. Older people, interestingly, do not appear to be particularly at risk.

Comparing London and the UK, it is notable that young people are less likely to be in low pay in London than in the UK as a whole (although in roughly similar proportions to the overall difference between London and the UK), while those with no qualifications are marginally more likely to be in low pay in London than the UK.

Table 3.1: Proportion of those in work earning below the living wage by disadvantaged group, Apr 2012–Mar 2013

	London	UK
Overall	21%	25%
50-64 year olds	22%	22%
Females	24%	31%
Disabled people	24%	28%
BAME groups	29%	31%
Lone parents	42%	44%
16-24 year olds	47%	58%
People with no qualifications	54%	52%

Source: Quarterly Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students.

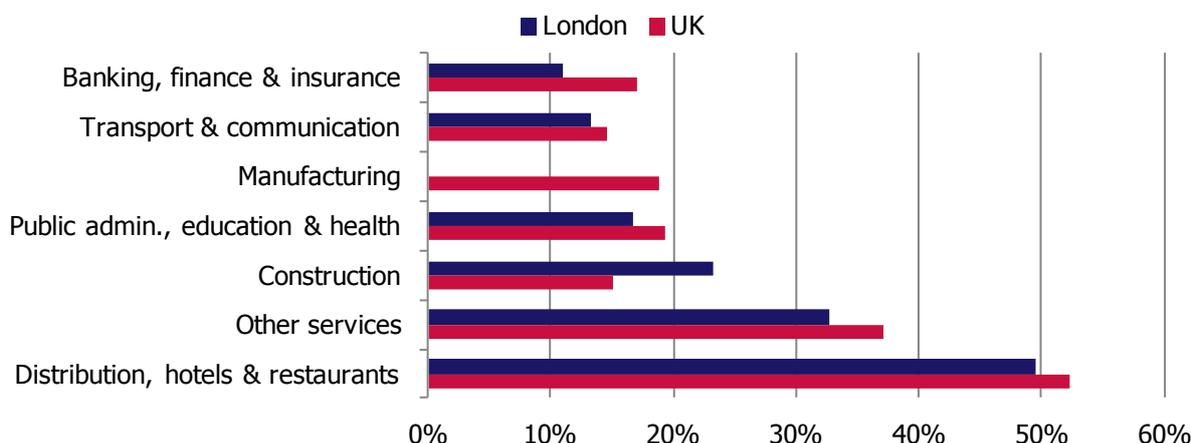
These findings are consistent with other studies, which find that groups including women, part-timers, individuals with low or no qualifications, young people and certain ethnic minority groups (such as Pakistani, Bangladeshi and Black African ethnicities) are more likely to be in low pay.³⁹

In a large part, patterns of low pay reflect job type. To look at jobs that have low pay, we have first focused on broad industrial groups. Unsurprisingly, low pay is lowest in industries with professional and skilled workforces – finance; health and

³⁹ Devins, D. et al (2011) *The Role of Skills from Worklessness to Sustainable Employment with Progression*, UK Commission for Employment and Skills

education; communications; and to a lesser extent construction and manufacturing. However, low pay is far more prevalent in the wider service sector and in hospitality and distribution (where more than half of the workforce is low-paid).

Figure 3.2: Proportion of those in work earning below the living wage by industry, Apr 2012–Mar 2013



Source: Quarterly Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students. Agriculture & fishing and energy & water (and manufacturing in London) have been excluded due to small sample sizes.

Focusing in on specific occupations, those where people tend to be low-paid are, of course, clustered at the lower end of the labour market – with elementary administration, routine trades, sales and social care work particularly at risk.

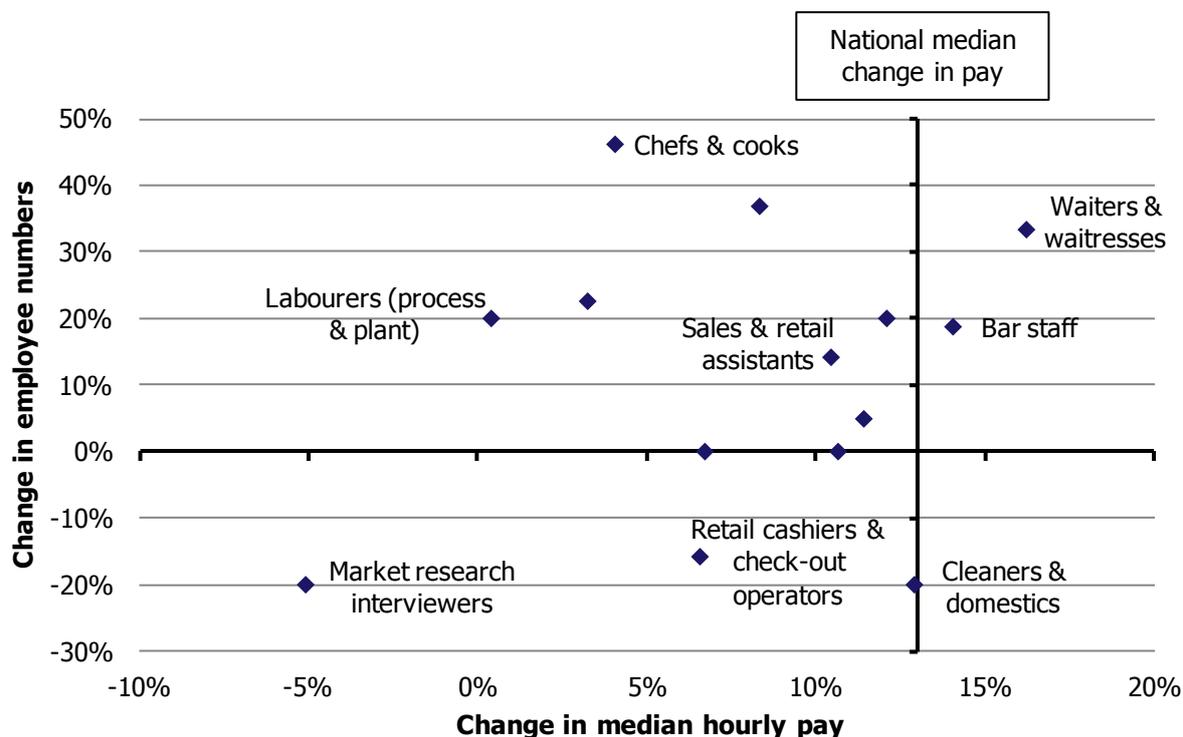
Other studies back up these findings – with manufacturing, education, health and social work, business and retail and hospitality identified as sectors particularly at risk of low pay;⁴⁰ and low-paid occupations including labouring, waiting, childminding, hairdressing, cleaning, sales and factory work.⁴¹

The chart below shows changes in pay and employment over the last five years for a range of low-paid occupations in London. The horizontal axis shows changes in median pay, while the vertical axis shows the change in employee numbers. So those in the top right quadrant had above average pay growth and growing employment, while those in the bottom left saw below average pay growth and falling employment.

⁴⁰ Cooke, G. and Lawton, K. (2008) *Working Out of Poverty: a study of the low-paid and the 'working poor'*, Institute for Public Policy Research

⁴¹ Pennycook, M. (2012) *What price a living wage?*, Resolution Foundation and Institute for Public Policy Research

Figure 3.3: Change in employee numbers and median hourly pay for occupations with median hourly pay below LLW, London, 2006–11



Source: Annual Survey of Hours and Earnings, Office for National Statistics. Occupations with very low numbers of employees have been omitted from this analysis. This chart does not reflect the latest (2012) survey data because this data uses an updated occupational classification, and is therefore not comparable with previous years.

What is immediately apparent from this analysis is that with only two exceptions, the lowest-paying occupations in London have seen below average pay growth over the last five years. So low-paid work has become relatively lower paid. Even for those that have seen above average growth, this may be explained by the growth in the National Minimum Wage (as waiters & waitresses and bar staff are most likely to earn exactly the NMW, and therefore most likely to experience 'enforced' wage increases when it is updated annually). At the same time, employment numbers in most of these occupations have grown. Low pay appears to be becoming more prevalent, and more entrenched.

In the UK as a whole, the same analysis leads to a slightly different picture – with generally above average pay growth in the lowest paying occupations but slightly lower employment growth. The pay growth nationally can likely be more directly explained by the National Minimum Wage having a greater 'bite' on low-paid occupations outside London.

3.2 Understanding transitions into and out of employment and low pay

Focusing on changes in employment rates and pay enables us to compare different snapshots of the labour market at different times. However, this only tells us part of the story: it does not tell us about people's own experiences over time, and in particular their **transitions** between unemployment and employment, or low pay and living wages.

So in order to address this, we have used the Labour Force Survey to segment the population who joined the survey in April 2012 and left in March 2013, based on their movements during that time – between being out of work, being in work and in low pay, and being in work but not in low pay.

This longitudinal analysis is set out in the graph below. We have divided the population into four groups:

- **Stuck out of work:** those continuously out of work for their year in the survey – including both those unemployed and those inactive;
- **At risk of cycling:** those who had either become unemployed or moved from unemployment into low-paid work in the previous year⁴²;
- **Stuck in low pay:** those continuously in work and earning below the Living Wage; and
- **Secure workers:** those continuously in work and earning above the Living Wage at any point.

We have excluded those with a spell of full-time education from this analysis, so as not to capture those moving in and out of work combined with study. This also reduces the extent to which these results are picking up low-pay cycling among young people as they first move into the labour market.

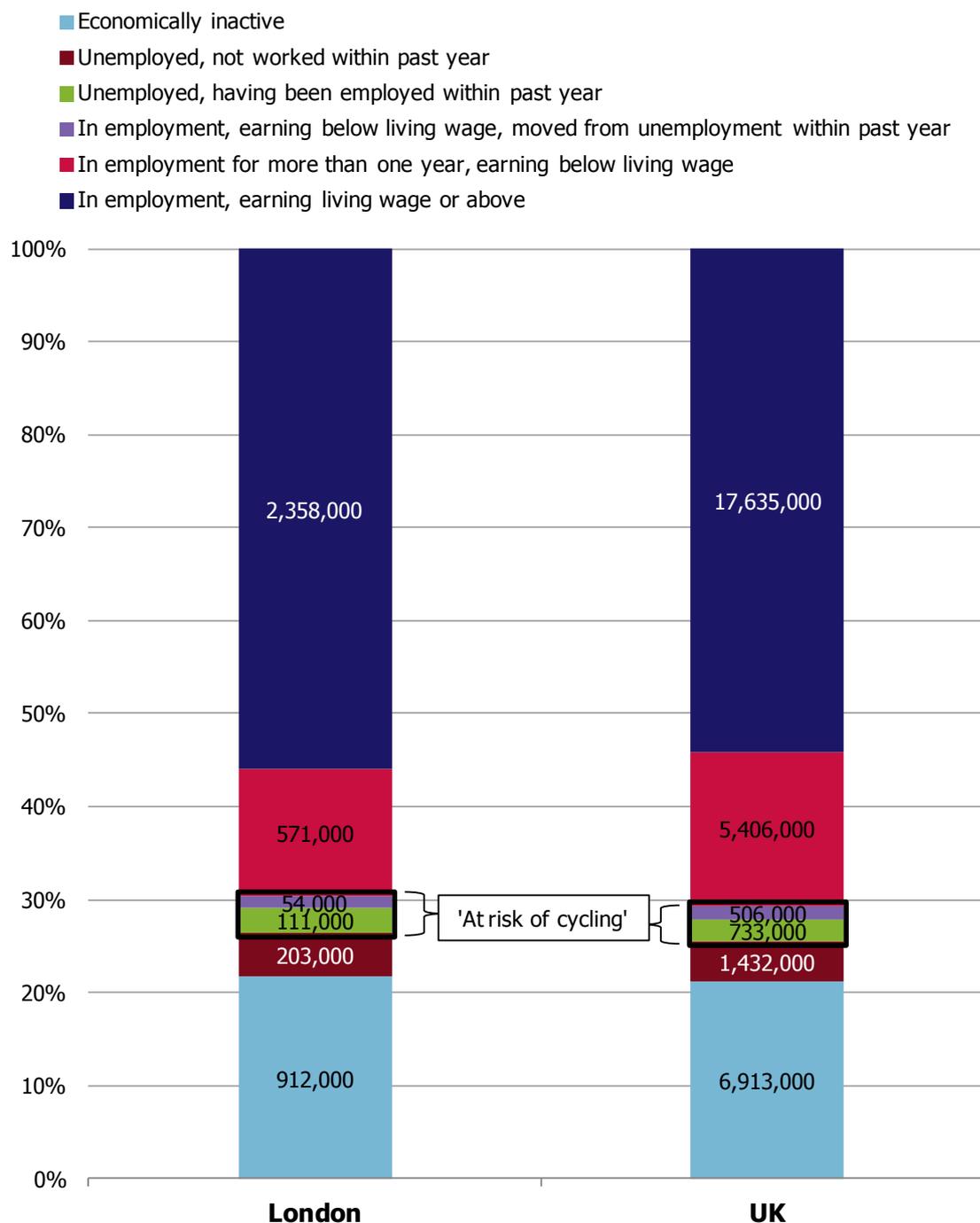
The analysis finds that 55% of the non-student adult population, in both the UK and London, are **secure workers**, in paid work and earning above a Living Wage – the equivalent of 17.6 million UK residents and 2.4 million Londoners.

⁴² Those who had become unemployed in the previous year were not necessarily previously in low-paid work; however, analysis of the longitudinal Labour Force Survey suggests that the majority of them would have been.

However large numbers of people appear **stuck in low pay** – 571,000 Londoners (14% of the population) and 5.4 million people across the UK as a whole (17%).

Added to this, a further 1.2 million people nationally, 164,000 in London, are **at risk of cycling between work and low pay**.

Figure 3.4: Snapshot of people’s status in the labour market, London and UK, Apr 2012–Mar 2013



Source: Quarterly Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students.

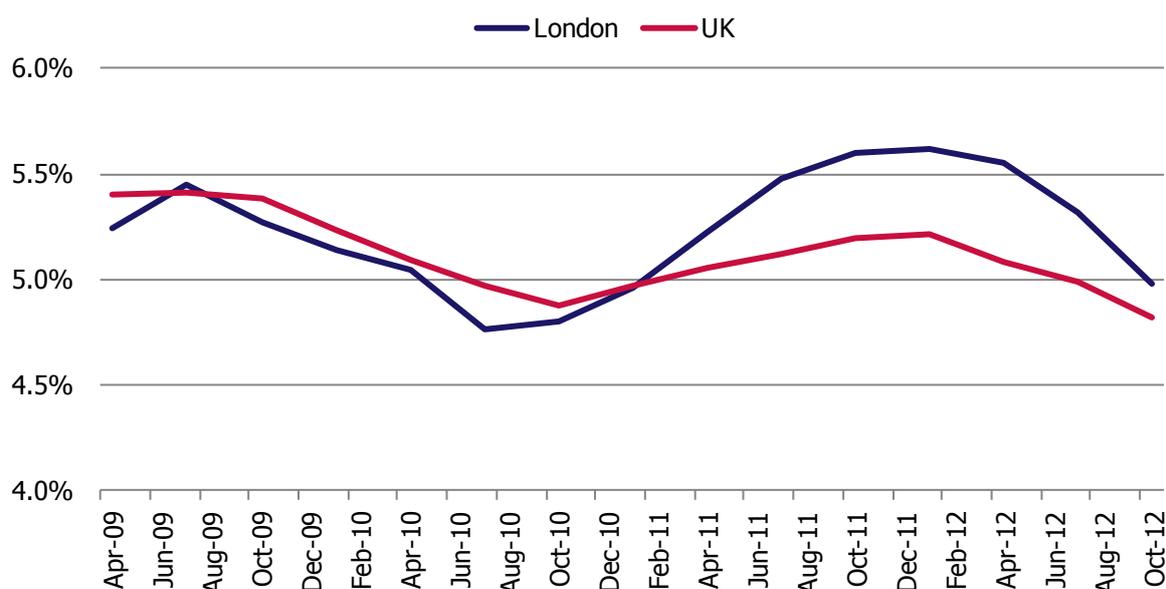
3.2.1 Those at risk of cycling

It is important to note that the definition of 'at risk of cycling' above will in part reflect a normal jobs market, as it captures all of those who move from unemployment into work (and do not progress out of low pay) and from employment into unemployment, during the course of the year. So those 'at risk of cycling' will include some people who move into low-paid work and subsequently progress, as well as some who move out of employment but do not return. However we believe it represents a reasonable basis for estimating the risk of cycling, as it excludes those who move into work and earn more than the Living Wage within the year (and so likely to be in more secure work) and also excludes students.

On our measure, then, in 2012-13 there were 164,000 people at risk of low-paid cycling in London – 3.9% of the non-student adult population and 5.0% of the non-student workforce (i.e. not including economically inactive people such as those in education, looking after their family or the long-term sick). In comparison, those at risk of cycling in the UK were 4.8% of the workforce.

Looking at these trends over time, Figure 3.5 below shows that the risk of cycling broadly follows changes in the economy – with high risks in the early recession, improvements in 2010 and a more recent deterioration. The risk of cycling in London appears to be even more sensitive to economic changes: increasing by more than the UK during the recession, but falling more quickly since.

Figure 3.5: Those 'at risk of cycling' as a proportion of the workforce, London and UK



Source: Quarterly Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students.

There are few surprises on which groups are most likely to be 'at risk of cycling', with:

- **Young people** are more than twice as likely to be in this group than the workforce overall – which will partly reflect them 'finding their feet' in the jobs market;
- **People with no qualifications** 61% more likely to be 'at risk of cycling';
- **Black, Asian and minority ethnic** (BAME) people 46% more likely;
- **Lone parents** 19% more likely; and
- **Disabled people** who are 12% more likely to be in this group than the workforce overall.

This is consistent with what we know about movements on and off benefits. Research in London has found that one in two claimants of out of work benefits return to benefits within six months of leaving.⁴³ And recent DWP analysis has found that of a cohort of young 'new' claimants of Jobseeker's Allowance, fully 30% had had four or more claims in the previous four years – most of whom had spent more than a year of that time on JSA.⁴⁴

There are likely to be a range of factors driving poor retention in work and higher risks of cycling in and out of work. The literature suggests that this includes factors around aspirations, motivations and support⁴⁵, as well as:

- The quality of the job match: people in jobs that are a poor match for their job goals and/ or their skills are more likely to leave that job in the first few weeks or months;⁴⁶
- Barriers that may be encountered as people make the transition into work, including meeting additional financial costs including travel and childcare;⁴⁷ and

⁴³ Hakeney, S. et al (2009) *Staying in, moving up: Employment retention and progression in London*, London Development Agency, Labour Market Research Series 01

⁴⁴ DWP (2013) *JSA benefit history and benefit receipt*, Department for Work and Pensions ad-hoc analysis

⁴⁵ Yi Cheung, S. and McKay, S. (2010) *Training and progression in the labour market*, Department for Work and Pensions Research Report No.680; Holzer, H. and Martinson, K (2005) *Can we improve job retention and advancement among low-income working parents?*, The Urban Institute, Georgetown University

⁴⁶ NAO (2007) *Sustainable Employment: Supporting people to stay in work and advance*, National Audit Office; Hakeney, S. et al (2009) *Staying In, Moving up: Employment retention & progression in London*, London Development Agency, Labour Market Research Series 01

- Peer influences: those with support networks, family and peers in work all appear more likely to then stay in work.⁴⁸

We can also use the Labour Force Survey to look at the usual sectors of employment for those who are at most risk of cycling between low pay and worklessness. Two areas stand out:

- **Accommodation and food services** (which includes all hotel, restaurant and bar work) in which people are two and a half times more likely to move between unemployment and low pay than the workforce overall; and
- **Administration and support services** (which includes office administration, human resources, tourism and rental activities) in which people are nearly two times more likely to move between unemployment and low pay than the workforce overall.

These findings are broadly consistent with previous research on cycling between being out of work and being in work and in low pay. In particular, research suggests that job quality is an important factor explaining why some people move *in and out* of work rather than *up* in work. In a recent study for the Joseph Rowntree Foundation, interviewing people who had lost their jobs within a two year period, two thirds had started out in temporary work and by the second year of the study, only two fifths had converted this to permanent work.⁴⁹

Box 3.1 Employers matter, not just occupations

Employers play a key role in determining the structure of the labour market, through the type of business and product strategies that they pursue. A combination of intense competition, demand fluctuations and low value-added activity have led some firms to pursue low value/ low cost product strategies and to compete in a 'race to the bottom', which in turn has created demand for low-paid and low skilled work.⁵⁰ Research suggests however that 'dead-end firms' create 'dead-end jobs'.⁵¹ The analysis, looking at German employers, found that small plants and plants with

⁴⁷ Devins, D. et al (2011) *The Role of skills from Worklessness to Sustainable Employment with Progression*, UKCES

⁴⁸ Graham, J., Tennant, R., Huxley, M. and O'Connor, W. (2005) *The Role of Work in Low Income families with Children*, Department for Work and Pensions Research Report No.245

⁴⁹ Ray, K. Hoggart, L., Vegeris, S. and Taylor, R. (2010) *Better off working? Work, poverty and benefit cycling*, Joseph Rowntree Foundation

⁵⁰ Lloyd, C. and Mayhew, K. (2010) *Skill: The solution to low wage work?*, Industrial Relations Journal 41(5)

⁵¹ Mosthaf, A., Schnabel, C. and Stephani, J. (2011) 'Low wage careers: Are there dead end firms and dead end jobs?', *Journal for Labour Market Research* 43 (3)

high concentrations of low wage workers were more likely to have limited opportunities for progression. The research suggested that individuals looking to leave low pay needed to leave these 'dead end firms' in order to do so.

However, firms can and do pursue different strategies – even in low-paying occupations or sectors. Research in the US has looked at HR approaches within sectors to ascertain if there were synergies in low paying sectors. They found that wage-setting tended to vary, and was closely related to company ethos. Some firms offered high entry wages and low progression while others offered low entry level wages but higher progression.⁵² Moreover, the research suggested that firms' growth and turnover were useful indicators of 'good' and 'bad' employers. Those firms who were stagnating or contracting and had high turnover were more likely to offer lower wages and worse terms. Those firms that were newer and growing, on the other hand, were more likely to offer good jobs and had lower turnover.⁵³

This suggests that even in low paying sectors, successful firms can make good pay and progression part of what they do, without it leading to a 'race to the bottom'.

3.3 Employment progression in London and nationally

We have used the Labour Force Survey to also measure wage progression for individuals and groups of individuals over time. The advantages of this data source is that it give timely, robust and reasonably comprehensive data that can track changes for survey respondents over a one year period. However the main disadvantage is that one year is a relatively short period of time for measuring wage growth. There would therefore be value in future research also using other data sources⁵⁴ to further refine and extend this analysis.

3.3.1 Hourly wage progression

Figure 3.6 below sets out the distribution of annual changes in hourly pay for London and the UK. This shows that the most common changes in hourly pay were between 1 and 5%, with sizeable numbers seeing increases of 5 to 10%. More people saw pay rises than pay falls; and there is no noticeable difference between patterns of pay progression in London and in the UK as a whole.

⁵² Lane, J. (2006) *The impact of employers on the outcomes of low wage workers*, LoWER Working Paper 12, Amsterdams Instituut voor ArbeidsStudies, Universiteit van Amsterdam

⁵³ Ibid.

⁵⁴ In particular, the British Household Panel Study and the Annual Survey of Hours and Earnings

Figure 3.6: Distribution of annual change in hourly pay, London and UK, Jul 2011–Jun 2013



Source: Five-Quarter Longitudinal Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students.

A clearer way to look at this data is with 'box plots', which set out the distribution with boxes and lines to signify different segments of the population.

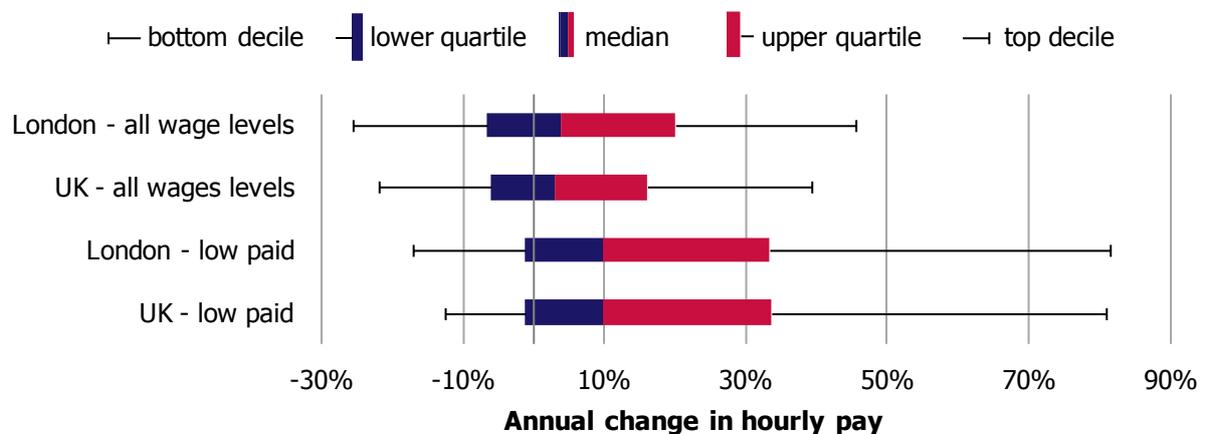
The first two box plots below shows the distribution of hourly pay increases in the UK and London between those with the lowest wage growth (excluding the bottom 10%) and those with the highest wage growth (excluding the top 10%). The two coloured boxes then signify the distribution of wage growth for:

- The quarter of the population with wage growth immediately below the median – the blue/ darker box; and
- The quarter of the population with wage growth immediately above the median – the red/ lighter box.

So in other words, the middle 50% of the population by hourly pay growth are in the boxes, while the middle 80% are between the two lines.

The bottom two box plots then set out the same analysis but **only for those who started out low-paid** – i.e. with gross hourly pay below the London / National Living Wage.

Figure 3.7: Box plot distribution of annual change in hourly pay, London and UK for all wage levels and low-paid in particular, Jul 2011–Jun 2013



Source: Five-Quarter Longitudinal Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students.

These box plots show clearly that the average (median) hourly wage growth for those starting in low pay is significantly higher than it is for the population as a whole – with median hourly wage growth in both London and the UK of 10% for the low-paid, compared with only 3.9% in London and 2.9% in the UK for workers overall. Furthermore, the larger gap between the median and upper quartile (the red/ lighter bars), and the longer line beyond that, shows that low-paid workers are more likely to experience bigger increases.

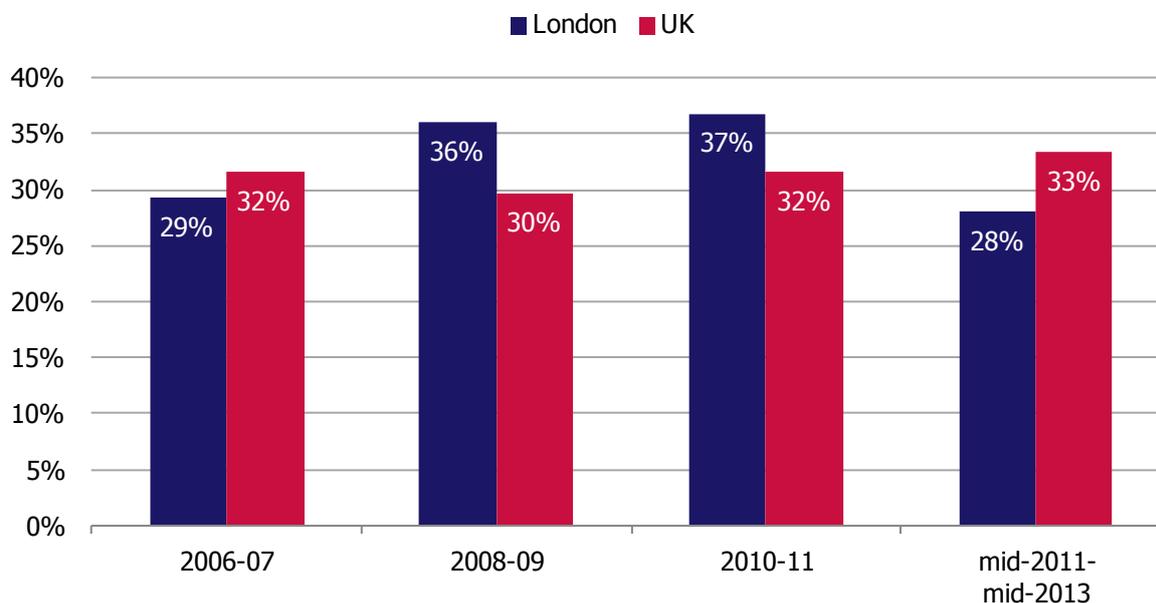
All this is good news: those at the bottom end of the pay scale are more likely to progress in wage terms.

However, a sizeable proportion of low-paid workers saw annual increases in hourly pay of less than the national median. This is our core measure of pay progression, and equates to the ‘stuck in low pay’ group described in section 3.2 above.

We have set out below the proportion of low-paid workers who experienced below-average hourly wage growth for before, during and after the start of the economic downturn, as well as the latest available data. This shows that the position for low-paid Londoners worsened substantially during the recession but has returned to pre-downturn levels since – so as with the ‘risk of cycling’ measure, this appears to be strongly linked to the performance of the economy. However the position of low-paid people in the country as a whole has remained virtually unchanged since 2006/7.

On the latest data, 28% of low-paid Londoners experienced hourly wage growth of less than the national median (2.5%) compared with 33% of the low-paid UK population.

Figure 3.8: Proportion of low-paid people whose annual hourly wage growth is less than the national median, London and UK



Source: Five-Quarter Longitudinal Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students.

Hourly wage progression for different groups and occupations

Looking at specific groups of workers, there are some important and in some cases unexpected findings.

- Disabled people do not appear to be any more likely than the wider low-paid population to have below average increases in hourly pay – nor do the low qualified or those from black and minority ethnic groups;
- There do not appear to be pronounced gender differences;
- Lone parents are more likely to be stuck in low pay; and
- Young people in London are more than twice as likely to be stuck in low pay as Londoners as a whole – with nearly two thirds of low-paid London youth seeing pay increases of less than the national average. For the UK overall however, young people are no more likely to be stuck in low pay than the wider population.

Table 3.2: Proportion of low-paid people whose annual hourly wage growth is less than the national median, London and UK by disadvantaged group, Jul 2011–Jun 2013

	London	UK
Overall	28%	33%
Females	24%	33%

16-24 year olds	62%	33%
BAME groups	18%	26%
Disabled people		35%
Lone parents		41%
People with no qualifications		31%

Source: Five-Quarter Longitudinal Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students.

Green shading indicates groups that are less likely to be stuck in low pay than the overall figure for that geography; red shading indicates groups that are more likely to be stuck in low pay than the overall figure for that geography. Some values for London have been excluded due to small sample sizes (shaded grey).

In terms of occupations, people are more likely to be stuck in low pay in many of the same jobs that have concentrations of low-paid staff and that show the greatest risk of cycling (set out in Sections 3.1 and 3.2 above). Specifically, occupations with the highest proportions of low earners stuck in low pay are:

- Customer services – where 49% of low earners had annual wage growth less than the national average; and,
- Elementary administration and service occupations – where 44% of low earners were stuck in low pay.

The same is true for sectors. Two-fifths of low-paid employees in the distribution, hotels and restaurant sector are stuck in low pay – twice that seen in other services. More than a third of low-paid employees in the manufacturing industries, and more than a quarter in the banking, finance & insurance and public admin, education & health sectors see wage growth less than the national median.

A recent study by Resolution Foundation had similar findings:⁵⁵

- **Individual characteristics matter:** Men were more likely than women to progress, individuals without a degree were 37% less likely to progress and part-timers continued to have a pay penalty.
- **Occupations and sectors matter:** Professional occupations such as teachers and lawyers had a greater chance of upward mobility compared with electricians and builders, who had an increased risk of moving downwards.

⁵⁵ Savage, L. (2011) *Snakes and Ladders: Who climbs the rungs of the earnings ladder*, Resolution Foundation

- **Where you live matters:** People in London were more likely to move up the earnings ladder whilst people in the North East and South West were at greater risk of moving down it.
- **Unemployment spells matter:** Those who fell out of work for any time in their thirties were less likely to move up the earnings ladder even if they returned to work (and were 79% more likely to move down).

Looking at London specifically, a London Development Agency study in 2009 found that 42,000 workers in London had been in the same low-paid job for ten years or more.⁵⁶

3.3.2 Does changing jobs matter?

The extent to which low-paid jobs are 'stepping stones' to better jobs elsewhere will depend on a wide range of factors including individual skills, the health of the economy, the employer and the job, as well as the individual's motivations to move and other factors that may make moving harder (including caring responsibilities and health issues).

In the UK many employees do not see temporary job as stepping stones⁵⁷. However evidence from overseas suggests that low-paid jobs can lead to better paid work. For example, research of within- and cross-firm progression using Danish panel data found that individuals that moved cross-firm (usually in a related sector) were more likely to achieve a short-run increase in earnings than those that stayed put.⁵⁸ Meanwhile research in the US suggests that some low-paid, temporary jobs secured through employment agencies could lead to better paid permanent employment.⁵⁹

Our analysis backs up this international evidence. We find that low-paid workers that change jobs see far greater wage progression than those that do not. This is not unexpected, but it illustrates that high staff turnover in low-paid jobs is not all driven by low-paid workers leaving work – it is also driven by low-paid workers changing jobs and progressing.

⁵⁶ Hakeney, S. et al (2009) *Staying in, moving up: Employment retention and progression in London*, London Development Agency Labour Market Research Series 01

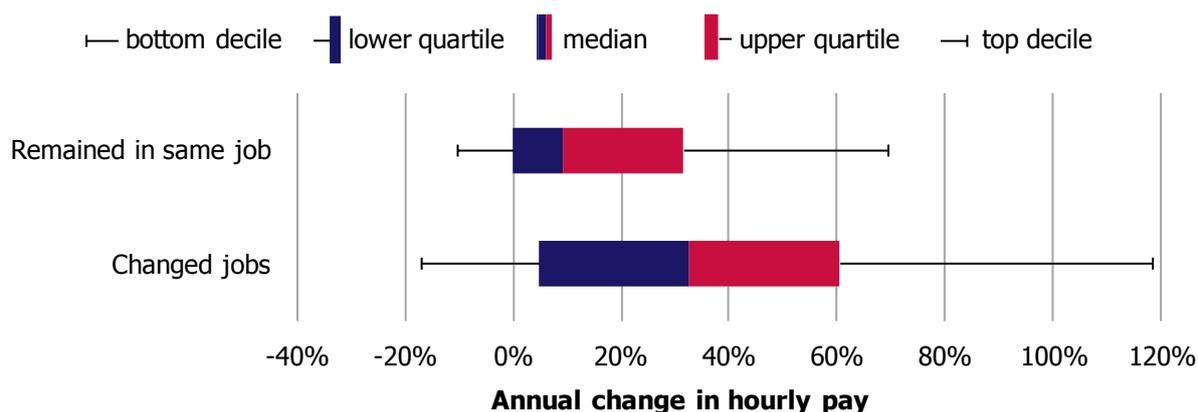
⁵⁷ Booth, A., Francesconi, M. and Frank, J. (2002) 'Temporary jobs: stepping stones or dead ends?' *The Economic Journal*, 112

⁵⁸ Frederickson, A., Halliday, T. and Koch, A. (2012) *Within and Cross-firm Mobility and Earnings Growth*, Institute for the Study of Labor (IZA) Discussion Paper No.5163

⁵⁹ Lane, J. (2006) *The impact of employers in the outcomes of low wage workers*, LoWER Working Paper 12, Amsterdams Instituut voor ArbeidsStudies, Universiteit van Amsterdam

Figure 3.9 below sets out a box plot of wage growth for low-paid workers who change jobs and those that do not. Median growth for those that change is nearly four times higher than for those that do not (33% compared with 9%), with the top 10% of low-paid job changers seeing their pay more than double.

Figure 3.9: Box plot distribution of annual change in hourly pay for low-paid people by whether they have changed jobs or not, UK, Jul 2011–Jun 2013



Source: Five-Quarter Longitudinal Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students.

However, there is an element of risk associated with moving jobs in order to progress and this is a risk that many low-paid workers are often unable to take. There is also a trade off for many people in terms of financial gain and the time that can be dedicated to family or caring responsibilities.⁶⁰

3.3.3 Do training (and qualifications) matter?

Our analysis already demonstrates that people with no qualifications are more likely to move in and out of work and more likely to be stuck in low pay. We also know from a range of sources that as qualifications increase, so do earnings.⁶¹ It therefore follows that with higher qualifications come higher earnings, and most likely better progression.

Research by DWP using the British Household Panel Survey found that a respondent's hourly wages rose more where they had received some training against

⁶⁰ Ray, K. et al. (2010) *Better off working? Work, poverty and benefit cycling*, Joseph Rowntree Foundation

⁶¹ For example, see BIS (2011) *Returns to intermediate and low level vocational qualifications*, Department for Business, Innovation and Skills Working Paper No.53; Buscha, F., Blanden, J., Sturgis, P. and Irwin, P. (2009) 'Earnings and Occupational Status Returns to Lifelong Learning', paper for Final Conference of the RTN Network, Economics of Education and Education Policy in Europe

those that did not. Using a technique that controlled for unobserved characteristics of individuals, it found that training was associated with an increase in wages of about 0.5%. If this training was either employer-funded or employer-provided the increase was around four times greater at 2%.⁶²

However alongside this, it is important to note that the supply of workforce skills has risen faster than demand since the 1980s. The proportion of adults with no qualifications has decreased, while the proportion of jobs that **require** no qualifications in the UK economy has stayed the same. Furthermore, the evidence on the return to qualifications suggests that the return to intermediate level, and particularly vocational, qualifications is variable and can be low or even negative (for example NVQ2 qualifications).⁶³ Research suggests that previous government initiatives to up-skill low skilled workers have been poorly designed and focussed on qualification attainment or validation of qualifications rather than increasing human capital that can be applied in the workplace.⁶⁴ This qualification-driven approach, at the expense of skills required by employers or individuals, has arguably contributed to these poor returns on skills investment.⁶⁵

So overall, the evidence is mixed but does suggest a weak positive relationship between training and progression – with a stronger relationship where training is employer-funded. So it would be fair to conclude that getting qualifications or training, on its own, is not enough to secure progression.

In order to better understand whether there is any link for the low-paid between being trained and earnings growth, we have segmented those in low pay into two groups: those who received any job related training, and those who received no job related training. The results are set out below, and are clear cut: low-paid staff that received training on the job saw significantly higher wage progression than those that did not.

Job related training increased average wage progression among the low-paid by five percentage points (13% compared with 8%).

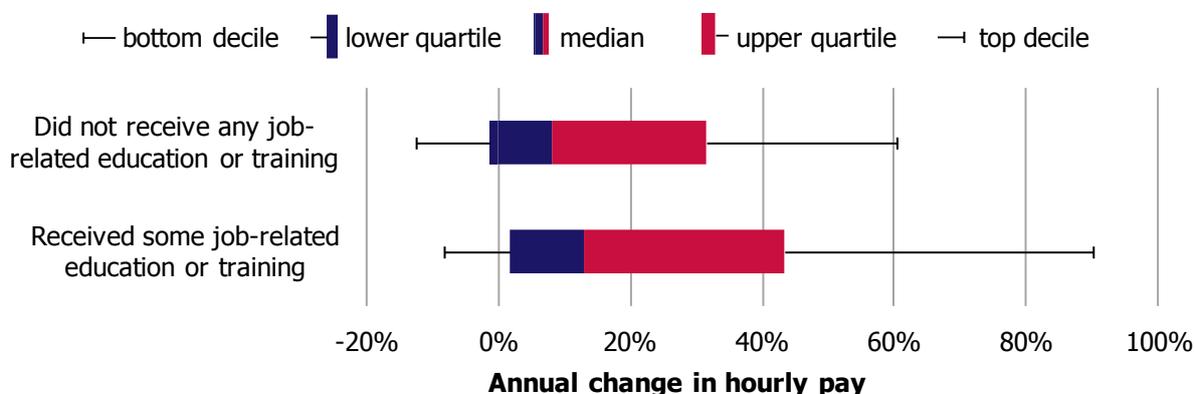
⁶² Yi Cheung, S. and McKay, S. (2010) *Training and progression in the labour market*, Department for Work and Pensions Research Report No.680

⁶³ Dearden, L., McIntosh, S., Myck, M. and Vignoles, A. (2002) 'The returns to academic and vocational qualifications in Britain', *Bulletin of Economic Research* No.54; Dickerson, A. and Vignoles, A. (2007) *The distribution and returns to qualifications in the Sector Skills Councils*, Sector Skills Development Agency Research Report 21

⁶⁴ Lawton, K. and Lanning, T. (2012) *No train, no gain: Beyond free market and state led skills policy*, Institute for Public Policy Research

⁶⁵ Keep, E., Payne, J. and Rees, G. (2010) 'Devolution and strategies for learning and skills: the Leitch Report and its alternatives', in Lodge, G. and Schmuecker, K. (2010) (eds.) *Devolution in Practice*, Institute for Public Policy Research

Figure 3.10: Box plot distribution of annual change in hourly pay for low-paid people by whether they have received any job-related training or not, UK, Jul 2011–Jun 2013



Source: Five-Quarter Longitudinal Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students.

It should be noted that this does not prove that training for the low-paid increases earnings – part of this may be that those low-paid staff that received training were more likely to be in occupations and sectors with better progression prospects, or those individuals who took up training were more likely to be motivated to progress.

Nonetheless, it does show a very clear correlation between training and individual-level earnings progression, and it is at least plausible that increasing workplace training among the low-paid would also improve progression prospects. This is explored further in Chapter 4.

3.3.4 Progression and class – changes in socio-economic classification

Finally, we can also measure progression in terms of changes in socio-economic classification, as measured through the National Statistics Socio-economic Classification.

We have again used the Labour Force Survey to measure changes in social group over a one-year period (combining data from 2006 to 2011 to aid analysis). Around one in nine Londoners, and one in eight people across the UK, saw their social classification increase over the course of the year that they were surveyed.

Key findings from this analysis are presented below. Londoners do slightly worse than the UK as a whole, while black and minority ethnic people (in London and the UK) and lone parents do worse still (around 13% less likely to increase their social classification). However disabled have significantly poorer socio-economic progression than the overall population – around 25% worse in both London and the

UK – while those with no qualifications are less than half as likely to see their social classification increase.

Table 3.3: People whose NS-SEC level went up over the course of a year by disadvantaged group, London and UK, 2006–11

	London		UK	
	Number whose NS-SEC level went up over a one-year period	Proportion of population	Number whose NS-SEC level went up over a one-year period	Proportion of population
Overall	515,000	11.1%	4,282,000	12.2%
Females	259,000	11.1%	2,039,000	11.6%
BAME groups	132,000	10.8%	294,000	10.6%
Disabled people	87,000	9.0%	697,000	8.9%
Lone parents			231,000	10.6%
People with no qualifications			190,000	5.7%

Source: Five-Quarter Longitudinal Labour Force Survey, Office for National Statistics. Analysis is limited to working age people who are not full-time students. More recent data is not available because NS-SEC variables are not available in the latest longitudinal datasets.

Put simply, on this measure nearly every disadvantaged group has poorer social mobility than average. If these gaps were eliminated, it would be equivalent to:

- 49,000 more Londoners,
- 45,000 more people from ethnic minorities,
- 259,000 more disabled people,
- 35,000 more lone parents, and
- 217,000 more people with no qualifications seeing increases in their social mobility.

3.4 Conclusions

Drawing this analysis together, many of the same groups and occupations have higher risks of cycling in and out of low pay, of being in low pay, and of being stuck there for a year or longer.

In particular the lowest qualified, young people (especially in London) and those with caring responsibilities would all appear to be key priorities – both to reduce risks of cycling in and out of work and to support retention and progression.

Job quality also appears to be critically important. The evidence suggests that longer-term retention may be driven as much or more by the nature of the job than by individual characteristics of those in work. In particular, people appear more likely to stay in jobs where they have formed strong relationships, have rewarding work and have opportunities to develop and progress⁶⁶.

A number of factors appear to affect progression and encompass both how we support and improve the supply of workers and the nature of demand from employers. This therefore points to a mix of **individual** and **employer** factors. How these interplay is complex – with low qualifications, job role and sector all seeming to play a part⁶⁷ and with low pay more likely to affect women, part-time workers and young people.⁶⁸

3.5 The fiscal impact of tackling low pay

Improving progression prospects for those in low pay clearly has the potential both to address poverty and to contribute to more productive businesses and a stronger economy. It could also make a significant fiscal impact for government – as currently, those on the lowest incomes pay less in tax and often receive financial support through the tax credits and Housing Benefit systems.

There have been a number of recent estimates of the potential fiscal impacts of increasing wages for those earning below the Living Wage. Analysis by Kayte Lawton and Matthew Pennycook⁶⁹ estimated gross impacts (increased tax revenues and benefit savings) of **£3.6 billion** a year if the Living Wage applied to all workers, while Jane Wills and Brian Linneker⁷⁰ have estimated fiscal impacts in London of around **£800 million** a year.

As Lawton and Pennycook set out, the benefits of increasing wages among the low-paid are shared by households across the income distribution – as many of those who are low-paid will live with others who are not. Given that any additional support to progress in work is likely to be targeted at those with relatively lower household

⁶⁶ Graham, J. et al. (2005) *The Role of Work in Low Income families with Children*, Department for Work and Pensions Research Report No.245

⁶⁷ Lawton, K. (2009) *Nice Work if You Can Get It: Achieving a sustainable solution to low pay and in work poverty*, Institute for Public Policy Research

⁶⁸ Hirsch, D. (2011) *Childcare Support and the Hours Trap*, Resolution Foundation

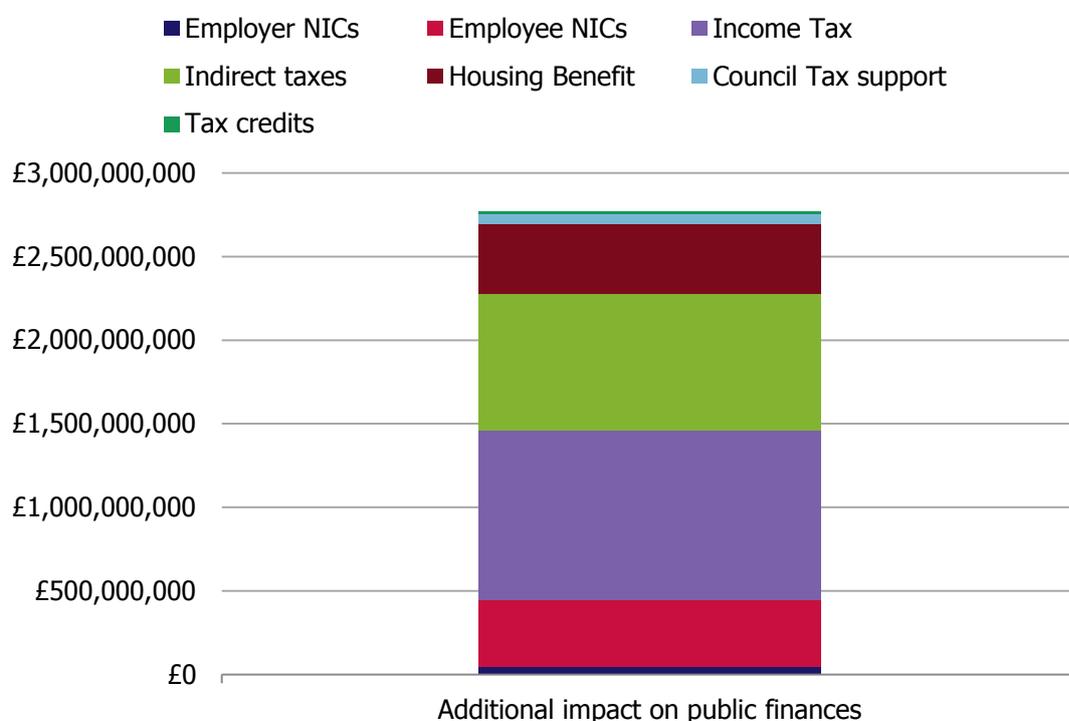
⁶⁹ Lawton, K. and Pennycook, M. (2013) *Beyond the bottom line: The challenges and opportunities of a living wage*, Institute for Public Policy Research and Resolution Foundation

⁷⁰ Wills, J. and Linneker, B. (2012) *The costs and benefits of the London living wage*, Queen Mary University of London and Trust for London

incomes, in this research we have sought to model the potential fiscal benefits of raising earnings to the Living Wage in lower income households.

We have therefore looked specifically at households in the third decile of household incomes and modelled the tax and benefit impacts of raising earnings to the Living Wage. This comprises 1.9 million households with an average wage of £13,525 (equivalent to £7 an hour for full-time workers). Based on the patterns of taxes and benefits from the ONS analysis 'Effects of Taxes and Benefits on household income'⁷¹, we estimate that increasing wages to the Living Wage for lower income households would benefit government finances by **£2.8 billion**. This is set out in the graph below.

Figure 3.11: Estimated impact of wages increasing from National Minimum Wage to Living Wage



Source: Office for National Statistics and *Inclusion* calculations

This is the potential scale of additional savings that could be available for reinvestment if earnings among lower-earning households could be increased to the Living Wage.

⁷¹ Source: The Effects of Taxes and Benefits on Household Income, 2011-12, Office for National Statistics

Note also that this analysis includes an estimated £750 million impact on indirect tax receipts – as people spend more on VAT-able items, vehicle fuel and Vehicle Excise Duty. Previous analyses of fiscal impacts have not included indirect taxes, so this analysis suggests that gross impacts could be up to one third higher if indirect taxes were included.

Further details on the methodology used for estimating these savings is included at **Annex A**.

4 Low pay and progression – the front line view

This chapter sets out our findings from research with individuals affected by poor retention and progression, and with employment and skills professionals. It sets out their perspectives on retention and progression, what the opportunities and barriers are to improving support, and what may work in the future.

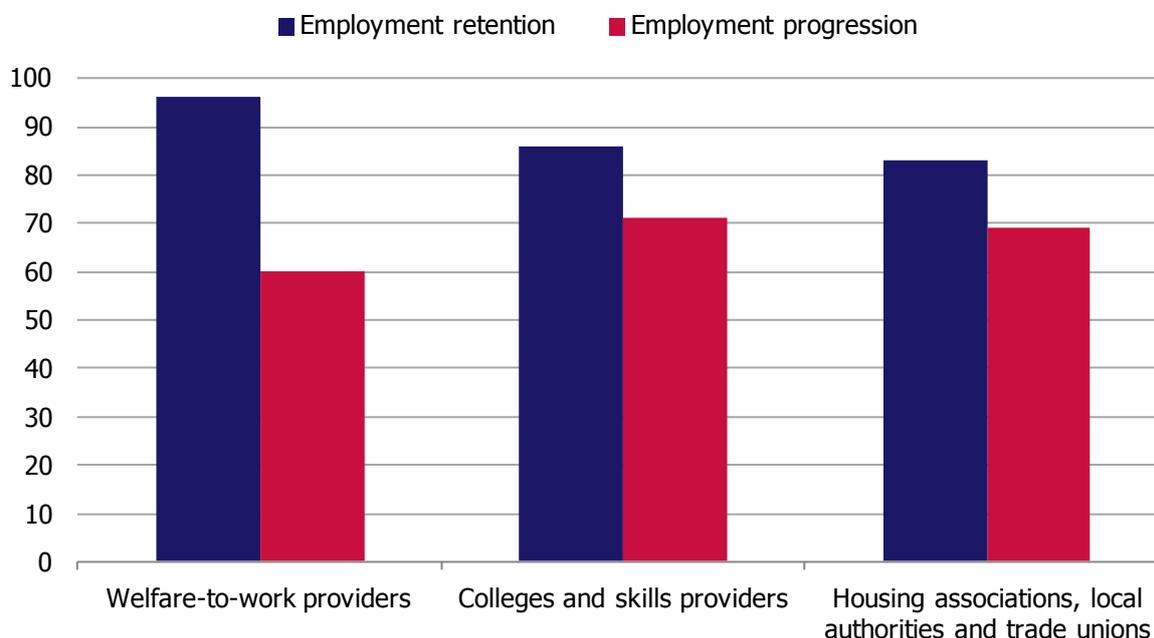
4.1 Practitioner and expert perspectives

We surveyed 100 active practitioners in the employment and skills fields and followed up with 30 semi-structured interviews during late 2012 and early 2013. The key findings are set out below.

4.1.1 The importance of retention and progression

Participants were asked how important securing employment retention and progression for their customers was to their organisation. Nine in ten respondents reported that securing retention was 'fundamental' or 'very important' to their businesses compared to two thirds for employment progression. While this difference is perhaps not surprising – given the focus within employment programmes on entry to, rather than progression in, work – it is striking that retention is considerably more important than progression for all providers, including of skills support and other local programmes.

Figure 4.1: Proportion of survey respondents reporting securing employment retention and/or progression as 'fundamental' or 'very important' (%)



Source: 'Employment retention and progression' provider survey, 2012, *Inclusion*

This was backed up by the findings of the in-depth interviews: finding someone a job and keeping them there was often an organisation's key aim, with progressing in that job a secondary objective. In part, this was also considered a consequence of the current labour market: the priority was to secure stable, permanent employment. But in part respondents also highlighted that for many programme participants, their initial expectations should simply be to find any job.

'We have to emphasise to those that have been out of the labour market for a while that it's part of a process and everyone has to start at the bottom'
(Provider)

However, there was a balance to be struck between finding 'any job' and placing individuals into unsuitable jobs. Managing clients' expectations were an important part of successful interventions.

When asked about financial incentives for providers, more than twice as many organisations reported receiving financial incentives for securing job retention for their customers than did for progression (40% compared to 18%). There was also notable variation by organisation type, with almost two-thirds of welfare-to-work providers receiving incentives for retention compared to 19% for housing associations, local authorities and trade unions. This is unsurprising, as many welfare-to-work providers held Work Programme contracts that directly reward

sustained jobs. This point was echoed in a number of interviews with providers who suggested that they would like to do more progression based interventions, but were held back by funding constraints.

'There is so much more we would like to do... [Funding for progression] is a big hole in the Work Programme.' (Senior welfare to work practitioner)

4.1.2 Supporting retention and progression

Our research suggests that a wide range of service provision is offered by different providers, but that this is not always explicitly aligned to delivering either job retention or progression. However, where it was possible to match interventions to success measures, job retention rather than progression was more likely to feature as the driver.

Figure 4.2 (below) shows the services offered by welfare-to-work providers as part of their interventions. This 'menu' of options is broadly consistent with the sorts of support typically available in employment programmes: namely job search support, job matching and brokering, and pre-employment support including CV development, interview and presentational skills. It is important to note however that the intensity and frequency of the offer, as well as combinations of support, will vary by provider.

Importantly, interventions that may be associated with support to progress – such as financial support, support with flexible working, HR support – are far less likely to be available within mainstream welfare to work provision than other interventions.

Figure 4.2: Proportion of survey respondents offering different elements of support (within welfare to work provision)



Source: 'Employment retention and progression' provider survey, 2012, *Inclusion*

Our more in-depth interviews unpicked this further, finding that:

- **Pre-employment support** was largely offered via a mentor or coach and often continued once somebody was in work. Specific offers of pre-employment support were varied, but all involved an initial meeting, action planning, and ongoing support to look for work.
- **In-work support** was often relatively light touch – with an assigned mentor/caseworker or simply a phone number to call. While providers felt that this was an important service, its effectiveness was rarely quantified or captured by providers.
- **Bespoke re-employment services** were less readily available (only half of welfare to work providers included this), but were seen as important for those that did provide it. The models are broadly similar to more conventional job brokerage approaches, but targeted on getting people who have lost a job back to work as quickly as possible.
- **Employer engagement** featured prominently in the service offer of almost all providers, but ranged from single employer engagement officers to larger scale conventional recruitment services. Most providers suggested that relationships were important and many employers became repeat customers. A number of

organisations also provided training to employers on supporting disadvantaged individuals in work, which they saw as aiding job retention.

- **Training** was often cited as a core component of support to stay or progress in work. Whilst all organisations agreed that training was effective in encouraging employment retention and progression, their ability to provide it varied. Most offered some form of pre-employment training, mainly due to its wide appeal and relatively low cost (as organisations could often provide courses in-house, and draw down on funding from the Skills Funding Agency for those on certain benefits). Some organisations were able to offer higher level training in-house or fund clients to attend local colleges, while others such as trade unions were able to offer discounted courses through bulk purchasing.

Missing elements?

Whilst most survey respondents were taking some action, albeit often light-touch, to support people in work, there was a striking absence of **in-work financial support**, and in particular incentives to stay in work and to progress. Financial incentives have been used extensively in programmes to support retention and progression, and as Chapter 5 sets out appear to be broadly effective.

4.1.3 Perceptions of what works

All respondents were also asked to judge how effective they thought certain interventions were at encouraging employment retention and progression, and the pattern of these responses generally followed their activity – with respondents likely to offer those services that they deemed to be ‘very effective.’

Unsurprisingly, many organisations stressed that the quality of their relationships with both employers and clients was key. Many felt that these relationships allowed them to develop a comprehensive knowledge of their clients’ needs: enabling them to place people in more appropriate jobs, and helping them to iron out any potential problems that arise once they are in those jobs.

*‘We’ve been at it four years now and ... I think a lot of retention issues are overcome because people know we aren’t a revolving door and we do care.’
(Welfare to work provider)*

Many providers emphasised the importance of a package of support, offering mentoring, peer support and training in combination.

‘The most important thing for us is the balance between coaching, which isn’t just information and advice, alongside the type of wrap-around courses,

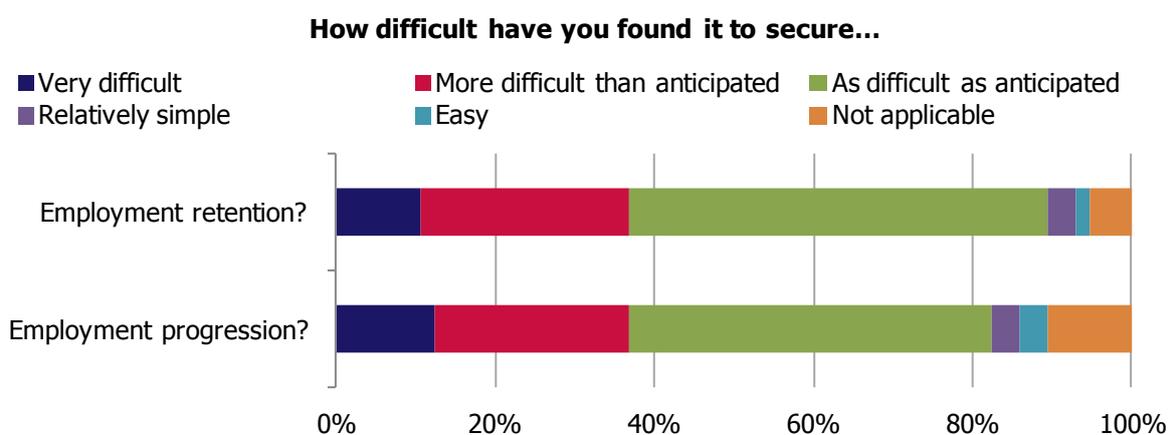
offering one-to-one, group support and the right sort of qualifications.'
(Training provider)

Welfare to work providers were also very unlikely to consider that in-work financial support was 'very effective' in encouraging employment retention and progression. Again, this likely reflects the fact that very few offered these services, and raises a wider issue about how well understood the evidence is on what works in supporting retention and progression.

4.1.4 Difficulties delivering job retention and progression

When asked how difficult it was to secure employment retention and progression for their customers, the most likely response was that it was 'as difficult as expected' (around half of all respondents). Very few organisations said that securing either employment retention or progression was easier than they anticipated. There was virtually no difference in responses between retention and progression.

Figure 4.3: Survey respondents' views of the difficulties in securing employment retention and progression for customers



Source: 'Employment retention and progression' provider survey, 2012, *Inclusion*

The challenges identified by providers were different for different groups of individuals:

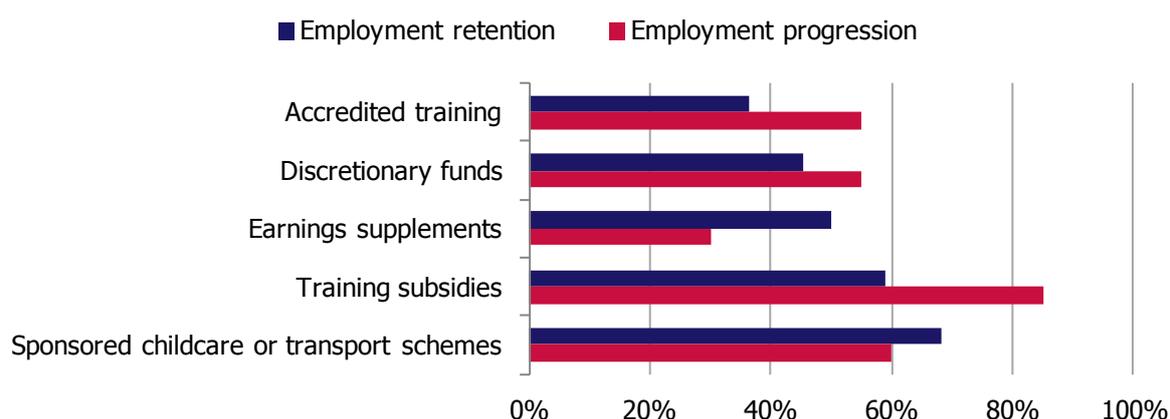
- For those deemed **furthest from the labour market**, issues relating to transport (including accessibility and cost), budgeting and establishing a regular routine in their lives were seen as key challenges; while
- For those **closer to the labour market**, demand-side factors like the lack of permanent and/ or full-time work were often cited.

Moreover, many providers reported difficulties in funding training for individuals who had recently left unemployment for low-paid work. There was a widely held view amongst organisations that this lack of support for training was an important contributing factor in workers often getting stuck in low-level positions.

4.1.5 Additional support needed

Broadly, when asked what additional support was needed to support retention and progression, providers' responses reflected their views on what works and what the key challenges are. So responses were generally more favourable towards training subsidies and support with childcare and transport, and less favourable towards financial incentives – again surprisingly, only a small proportion (30%) felt that earning supplements would be useful in encouraging progression.

Figure 4.4: Survey respondents' views of the additional support that would be needed to increase employment retention or progression among customers



Source: 'Employment retention and progression' provider survey, 2012, *Inclusion*

Perhaps unsurprisingly, almost all organisations stressed the need for greater resources, in order to work with more people and/ or support them more intensively.

4.1.6 Looking to the future

There was no consensus among respondents on what future directions they may take, and many organisations were unsure. However, the vast majority were hoping to be at least as or more successful in the future than now. The in-depth interviews suggest that this reflected both a belief that practitioners were learning 'what works' and often a broadly positive outlook on prospects for the labour market.

When asked about future plans, key themes were:

- **Joining up and aligning support** – particularly across employment and skills programmes;
- **Making services more personalised** – for example, some organisations were looking at personal 'budgets' for participants on their programmes;
- **Making more use of technology** – to provide more timely and flexible support for both employers and programme participants; and
- In some cases, **using non-cash incentives to support retention** – for example shopping and gift vouchers.

Overall, these changes would be likely to improve the quality of service for participants on programmes – and may in turn lead to some improvements in employment retention. However they are also relatively modest in scope. No respondents had firm plans for more radical testing of new approaches to supporting participants in work. This likely reflects the relatively low priority attached to progression by programme commissioners (in particular government departments); the fact that payments linked to retention within the Work Programme do not appear to be leading to a more comprehensive approach to in-work support; and the limits on innovation and testing within employment and skills programmes (with evidence from the Work Programme suggesting that the 'black box' approach is not functioning as intended).⁷²

4.2 Perspectives from the unemployed and low-paid

4.2.1 Background

We also conducted two focus groups with people who were either unemployed or in low-paid, 'vulnerable' employment (including temporarily contracted, part-time and non-contracted work). In each of the groups, participants discussed attitudes towards current and previous employment, progression opportunities and what factors would make them most likely to consider progression.

Participants in both groups were an equal mix of male and female, and were aged 19 to 45. The groups included a small number of lone parents. Education levels

⁷² Newton, B. et al. (2012) *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, Department for Work and Pensions Research Report No.821; Lane, P. et al. (2013) *Work Programme Evaluation: Procurement, supply chains and implementation of the commissioning model*, Department for Work and Pensions Research Report No.832

ranged from lower than GCSE to degree level. Current and previous employment was primarily in service industries and included: hotel porter; delivery driver; cleaner; bar worker; concierge; gym instructor; chef; telesales worker; courier; retail assistant; nursery worker and mechanic.

In general, there were very few differences in views between those in employment and those currently unemployed. Where contrasts did exist between the groups, these have been reflected in the summary below.

4.2.2 Employment and progression

Two key factors informed respondents' views on employment and progression: their **aspirations** and their **opportunities**.

On **aspiration**, the majority of participants currently or had previously worked in jobs with low levels of responsibility and were relatively satisfied with this – on the basis that they didn't want the stress that goes with other jobs which in their view were often not adequately rewarded. Those currently in employment usually indicated that these jobs were short-term endeavours, and not roles or industries that they wished to stay in. In these instances, the prevailing view was that progression would come by moving jobs and so was not relevant to previous or current 'stop gap' positions.

'It's just to pay my bills and keep a roof over my head...it's just of no interest to me to progress in that [industry].' (Male, employed)

For unemployed participants, progression was not a priority when looking for work. However training opportunities were a priority – particularly for younger participants. Older participants, who had their own homes and families to support, cited salary as particularly critical when looking for a job. Participants generally felt that progression was something to think about once in a job.

'If you haven't got a job and you're quite desperate for one, [progression] is not that important. It would be nice but a job's a job.' (Male, unemployed)

A few participants had discussed progression with their current or previous employers. This often involved being asked to train other people or taking on a greater level of responsibility in their role. Progression opportunities did not always include an increase in pay, or included a small increase that participants felt did not reflect the level of responsibility that they were being asked to take. Many had turned down progression opportunities as they did not feel it was worth their while.

'It might have been more money, but it's more stress and hassle.' (Male, unemployed)

'If I was to move up, I'd get more responsibility but the pay and the responsibility wouldn't match up. So it would just be me putting extra stress on myself. If the responsibility and the pay matched up then yes, I would.' (Male, employed)

For a smaller group of participants, **opportunity** was a critical factor. They were interested in progression in their current jobs, but felt that the industries they worked in were not conducive to progression. Some, particularly those working in the fitness and cleaning industries, and to a smaller extent retail, felt that progression was actively discouraged by their employers.

'Because my employer doesn't offer any opportunities to progress obviously they don't really want people looking for opportunities to progress. I tried to get myself on courses funded by them and they won't have it.' (Male, employed)

'There were people that were very ambitious and committed. They didn't last.' (Female, employed)

Other barriers to taking up progression opportunities included a perceived lack of flexibility that came with moving up, not feeling 'ready' to progress due to a short period of time in a job and a sense that progression was not warranted as there was no intention to stay in the industry. Some commented that they would accept progression in order to have an improved job title. The general consensus was that this would be useful to have on your CV when applying for other jobs.

'If they said to me "we can progress you to manager", I would take it because it's a better title and it's more money but it's not what I want to do. So in terms of me thinking I'd like to get progress in this company, I'm kind of laid back about that.' (Male, employed)

'Being able to put that job title on your CV and say "yeah I've been here and done this job" – that might appeal to [another employer] and get you an interview quicker.' (Male, employed)

4.2.3 The pros and cons of progression

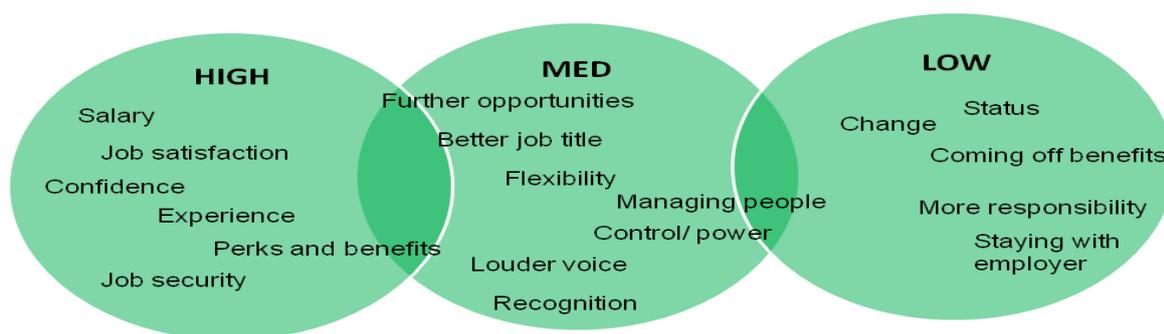
The groups were asked to generate a list of positive and negative aspects of progression, and order these by importance. In addition to the spontaneously

generated list, a small number of areas not raised by the group, such as leaving the benefits system were, added by the moderator.

Progression – the positives

The following diagram outlines how both groups prioritised positive aspects of progression.

Figure 4.5: Focus group participants' prioritisation of positive aspects of progression



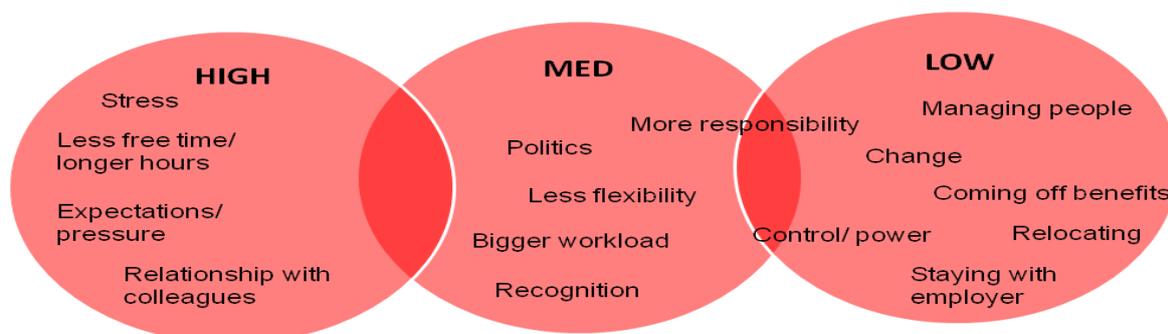
Source: 'Employment retention and progression' focus groups, 2012, *Inclusion*

Salary emerged as the most important aspect of progression. Beyond this, people ranked **confidence**, **satisfaction** and **experience** as key factors. Having additional perks and benefits such as an improved pension and bonuses were also seen as important. Flexibility was a priority for those with children, especially lone mothers. Those currently in employment also cited job security as a high priority.

The negatives

The following diagram outlines how both groups prioritised negative aspects of progression.

Figure 4.6: Focus group participants' prioritisation of negative aspects of progression



Source: 'Employment retention and progression' focus groups, 2012, *Inclusion*

All participants agreed that a high level of **stress** was the largest downside of progression. A few had previously turned down opportunities in order to avoid increased stress.

'I had no responsibility in my job, and if I had gone up to the next grade then I would have had at least two staff and [would have had to] get in at nine on the dot every day, and I'd have to stay late...I just know I'm not that sort of person.' (Male, unemployed)

However, participants generally accepted that the 'negatives' associated with progression were simply part of moving up – around more responsibility, higher expectations and a different relationship with colleagues. For many this was not a deterrent to progress.

'You don't really have a choice do you, because in order to get progression this comes as part of the package...To say what I wouldn't want to do, then I wouldn't be able to progress.' (Female, employed)

Grey areas

There were also a number of elements that participants felt could be both positive and negative. These were most commonly those factors rated as lowest in importance as either pros and cons, as illustrated in the diagram below.

Figure: 4.7: Focus group participants' views on the 'grey areas surrounding progression



Source: 'Employment retention and progression' focus groups, 2012, *Inclusion*

Whether a grey area was a positive or negative was generally considered to be down to the attitude of the individual themselves.

'Responsibility depends on whether you can handle that responsibility. If you can then that's not really an issue.' (Male, employed)

In regards to leaving the benefits system, participants were not overly concerned about this, provided they earned enough to support themselves.

'The jobcentre isn't the nicest place to go every week so it would be nice not to have to go in there.' (Male, unemployed)

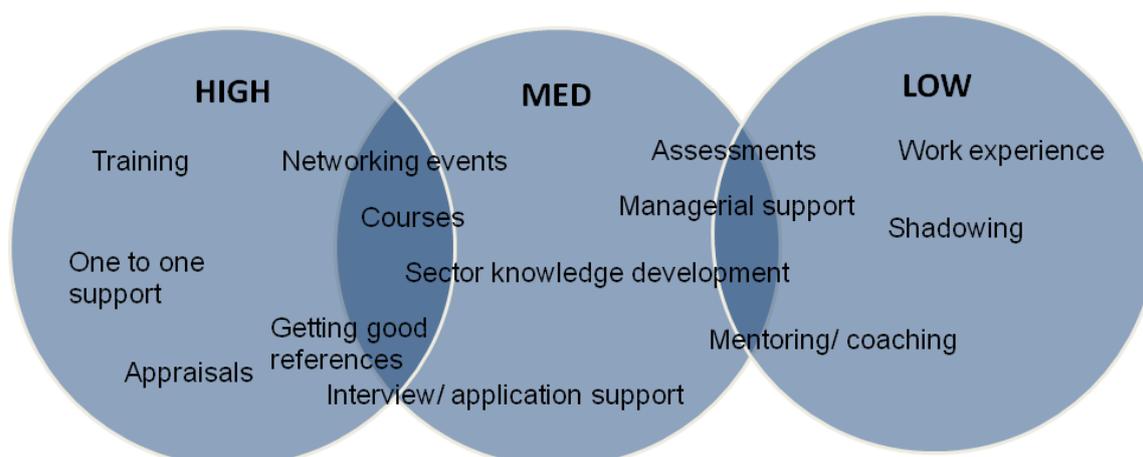
There was a debate amongst participants around how long was 'too long' to spend with one employer. The groups generally agreed that staying with one employer for longer than 10 years was potentially detrimental, and could make finding another job problematic. One to three years was seen as an optimum period to stay in one job, depending on the industry.

'Before, it was a good thing to say "I've stayed in my job this long" ... you've made it this far and you've done 40 years with one company. But now we're doing so many different things, we don't want to tie ourselves to one job like we did before.' (Male, employed)

4.2.4 Support to achieve progression

The groups identified several ways in which they could be supported to progress. The diagram below outlines the types of support participants felt that they needed, and how these were rated in order of importance.

Figure 4.8: Focus group participants' perceptions of what works in supporting progression



Source: 'Employment retention and progression' focus groups, 2012, *Inclusion*

Overwhelmingly, **training** was seen as the most important form of support in helping people to progress. The groups felt that training should be appropriate for the type of jobs and level they were aiming to progress to, and should have an element of assessment to enable employers to see how individuals had performed. The general view was that training should be ongoing and regular.

Participants also suggested that regular **appraisals** were important, to check performance against targets and objectives. Many participants did not have regular appraisals or discussions about their performance and personal development.

'After you've been in a position long enough to gain experience you get an appraisal saying you've done this well, you need to do this to move up.'
(Male, employed)

Other areas identified as important included opportunities to **network** (with peers as well as more senior people, to understand the challenges and opportunities to progress) and having a **mentor or coach** to provide one to one support as part of the progression and appraisal process.

Work experience, interestingly, was not considered useful or important for progression. Much of the work experience that participants had undertaken had had limited relevance to the jobs that they wanted to progress to, and often involved doing menial tasks. Shadowing was seen to be more valuable as it offered the opportunity to work directly with someone in a senior position and observe what their job entailed.

4.2.5 Conclusions

Taking all this together, the key conclusions from the focus groups were:

- While general attitudes towards progression are positive, and it is seen as something to aim for, progression is seen as part of career development and not wholly relevant to jobs or industries that are seen as temporary;
- If progression opportunities are to be taken in low-paid or temporary employment, they must be 'worth the while' of the individual. In particular, an increase in salary should be included, and should reflect the level of responsibility being taken;
- Whilst pay is of primary importance when considering progression, work/ life balance and job satisfaction are also crucial. Progression should also offer the opportunity to gain experience; and
- Training is seen to be the most important form of support, but must be relevant to the job and/or industry. Much of the support that individuals want, however, are things that 'good' employers take for granted: regular appraisals, opportunities to network, and support and encouragement from managers.

5 Breaking the cycle

This chapter looks at the evidence around 'what works' in tackling low pay and increasing retention and progression – first drawing on what we know from programmes in the UK and internationally, and then by looking at specific case studies that were engaged in this research.

5.1 What works in improving job retention

There is growing evidence on what works in supporting and improving retention in work. Broadly, support needs to address the barriers and issues identified in Chapters 3 and 4, and where appropriate target those individuals most at risk of dropping out.⁷³

In particular this means:

- **Getting the job match right in the first place** – focusing on ensuring that the job role, expectations, responsibility, location and so on are a good fit;
- **Making support personal**, in particular through individual case management and ongoing support;
- **Effective pre-employment support** – including, where appropriate, pre-employment training;
- **Transitional financial support** (including emergency support) where it is needed;
- **Effective employer engagement** – based on a good understanding of local labour markets and labour demand; and
- There is also some evidence that employers that provide **childcare support and transport to work** have higher retention, while specialist in-work support including workplace modifications for disabled people can also make a difference.

⁷³ For useful summaries see Hakeney, S. et al. (2009) *Staying in, moving up: Employment retention and progression in London*, London Development Agency, Labour Market Research Series 01; and NAO (2007) *Sustainable Employment: Supporting people to stay in work and advance*, National Audit Office

5.1.1 The role of financial incentives

Research suggests that **financial incentives** can support job retention, although effects can often be short-lived.⁷⁴ However, three programmes have demonstrated how financial incentives can also lead to lasting benefits for some groups.

- In the UK, the Employment Retention and Advancement (ERA) demonstration project tested the use of a 'retention bonus' paid to participants who managed to stay in full-time work. This was paid three times per year, totalling up to £2,400. While it led to only temporary gains for lone parents in the study, there were more impressive results for a study group of long term unemployed people (mostly men) who saw modest but sustained increases (of 12%) in earnings from employment, and a lasting reduction in receipt of benefits.⁷⁵
- In Canada, the Canadian Self-Sufficiency project provided a temporary earnings supplement for lone parents – leading to increases in both earnings and employment retention compared to a control group.⁷⁶
- In the US, the Jobs-Plus project found that by decreasing financial disincentives in support for public housing, participants' earnings increased compared to those not able to access the support.⁷⁷

5.2 Supporting progression

As noted in Chapters 3 and 4, the two key factors affecting progression that are within our control are around **the individual** – particularly their goals, motivation and their specific barriers to earning more; and **the employer** – their sector and occupation, but also their approach, size and ethos. We have therefore explored the evidence on these two factors separately.

⁷⁴ Kellard, K., Adelman, L., Cebulla, A. and Heaven, C. (2002) *From job seekers to job keepers: job retention, advancement and the role of in-work support programmes*, Department for Work and Pensions Research Report No.170

⁷⁵ Hendra, R., Riccio, J., Dorsett, R., Greenberg, D., Knight, G., Phillips, J., Robins, P., Vegeris, S. and Walter, J. (2011) *Breaking the low-pay, no-pay cycle: Final evidence from the UK Employment Retention and Advancement (ERA) demonstration*, Department for Work and Pensions Research Report No.765

⁷⁶ Bitler, M., Gelbach, J. and Hoynes, H. (2005) *Distributional Impacts of the Self-Sufficiency Project*, National Bureau of Economic Research

⁷⁷ Riccio, J. (2010) *Sustained Earnings Gains for Residents in a Public Housing Jobs Program: Seven Year Findings from the Jobs-Plus Demonstration*, MDRC Policy Brief No 33

5.2.1 Supporting individuals

There have been relatively few attempts to develop programmes to support people to progress in work, so as a consequence there is limited evidence on what forms of support are most effective.

The most systematic attempt to support progression was through the **Employment, Retention and Advancement demonstration project** mentioned above (ERA) – which sought to test approaches in an experimental way between 2003 and 2007, in sites in the UK and US.⁷⁸ The project was aimed at long-term unemployed jobseekers (New Deal 25+ customers), lone parents on Income Support, and lone parents receiving Working Tax Credit. Under the programme, participants were supported in three ways, through:

- **Face to face adviser support** – with help around setting goals, career planning, motivation and overcoming barriers;
- **Money for training** – advisers had to agree to how the money would be spent, but it did not have to relate to a specific job and customers had fairly wide discretion in how they used it; and
- **Cash bonuses for staying in work.**

The project ran as a randomised control trial – where customers were referred randomly either into the programme or into a ‘control’ group that did not receive that support, with the differences between the two being compared.

The evaluation found that ERA did produce short-term improved retention and earnings for all groups, and that these held over the longer term for the long-term unemployed group. However for lone parents, earning gains tended to fall back again once the support had finished (it is also important to note that in all cases the gains were fairly modest).

The ERA project did not attempt to test which of the three forms of support were most effective for which groups, so it is hard to draw conclusions about why the project was successful for some but not others (and whether some support could have been done differently or not at all). However, qualitative research did identify concerns around the effectiveness of the training spending, as it was not closely

⁷⁸ Hendra, R. et al. (2011) *Breaking the low-pay, no-pay cycle: Final evidence from the UK Employment Retention and Advancement (ERA) demonstration*, Department for Work and Pensions Research Report No.765

linked to labour market opportunities; while in the US there is some evidence that areas with better-organised adviser resource appeared to perform better.

Interestingly, the evaluation of ERA also suggested that apparent 'barriers' to retention and progression often still existed for those who progressed in work – such as transport costs, caring responsibilities or health conditions. So it did not appear to be necessary to permanently overcome barriers or risk factors.

Beyond this demonstration project, many of the factors identified in supporting progression are similar to those that support retention: with a particular focus on effective and personalised case management⁷⁹ and workplace training.⁸⁰

In the case of training, the evidence on what works is mixed. However it appears to be more successful when:

- **It is linked to the local labour market and employer requirements;**⁸¹
- **It is focused on industry-specific needs** and involves employers in its design and implementation;⁸² and
- **It is accompanied by the opportunity to put skills gained into practice in real jobs.**⁸³

5.2.2 Employers and progression

Employees that progress either do so by **moving up** or by **moving out** – i.e. by increasing their responsibility and earnings within a company, or using their resources to find 'better' employment elsewhere. This in turn creates a challenge for employers – why invest in developing staff if the benefits are felt by my competitors?

The answer, of course, is that in many cases for many employers, they themselves can benefit more – by reducing their recruitment costs (by growing their own) and

⁷⁹ Hakeney, S. et al (2009) *Staying in, moving up: Employment retention and progression in London*, LDA Labour Market Research Series 01

⁸⁰ Yi Cheung, S. and McKay, S. (2010) *Training and progression in the labour market*, Department for Work and Pensions Research Report No.680

⁸¹ Kellard, K. and Mitchell, L. (2006) 'In-work support and job sustainability: A brief review', in Kellard, K., Francis, J. and Mitchell, L. (2007) *An evaluation of the Wise Group 'next steps' and One Plus 'sustainable employment' projects*, Scottish Executive

⁸² Maguire, S., Freely, J., Clymer, C. and Conway, M. (2009) 'Job training that works: Findings from the sectoral employment impact study', *P/PV In Brief Issue 7*, Public/Private Ventures

⁸³ Eurofound (2010) *2009 Yearbook: Living and Working in Europe*, European Foundation for the Improvement of Living and Working Conditions

improving the capabilities of their staff (boosting productivity). Indeed a study published last year found a consensus among employers that progression had a subsequent effect on business performance and company reputation.⁸⁴

For many employers, these approaches have been motivated by their own recruitment and retention difficulties. However, employers also benefit from a more flexible and responsive workforce, such as in schools – where teaching assistants can gain the necessary training and experience to cover lessons in cases of teacher absence.⁸⁵

So looking specifically at those employers that **do** progress their staff, there is some useful recent evidence on their characteristics – which also provides pointers on what employer approaches are most likely to support progression. In particular, recent research has identified a series of ‘enablers’ to progression for low-paid staff within companies. These can broadly be grouped into three:⁸⁶

■ **Management and support systems:**

- Commitment from senior managers and all staff – seeing the low-paid as a talent pool for development
- A systematic approach to HR – i.e. induction and appraisals which are aligned to a clear progression structure
- Spending money on training

■ **Staff culture and behaviour:**

- A clear understanding among employees of opportunities
- Peer support

■ **Company factors:**

- Organisational growth and optimal staff turnover (creating opportunities for new entrants and progression)
- Company size – with stronger progression in larger companies

⁸⁴ UKCES (2012) *Employer practice in progressing low paid staff*, UK Commission for Employment and Skills

⁸⁵ Ibid.

⁸⁶ Metcalf, H. and Dhudwar, A. (2010) *Employers’ role in the low pay/no pay cycle*, Joseph Rowntree Foundation

Often, the first stage is for employees to **self-identify** as being interested in progression – which will of course depend on their own motivation and goals, but also their assessment of the opportunities (and risks) to progress. Once this has been done then the ‘process’ starts.

While this is relatively unfamiliar territory in employment and skills provision, these are all areas that are currently addressed and improved through good quality, professional, ‘business to business’ support. In particular, there are good examples emerging within companies and sectors from the UK Commission for Employment and Skills’ Employer Ownership pilots (one of which, delivered by Price Waterhouse Coopers, is explored in more depth below).

In a different context, the Union Learning Fund has also supported a growth in employer-based learning and support over the last decade in those work places where Union Learning Reps have operated. There is some evidence that the Reps’ role, which focused on liaising between employers and employees to build and improve learning opportunities, has increased employer engagement and commitment.⁸⁷

5.3 Examples of good practice – case studies

Looking at specific companies, there are a number of (often well known) examples of good practice in progression for low-paid, entry-level staff – particularly in the service sector:

- **McDonald’s**, for example, have developed a detailed prospectus of progression opportunities that outlines the responsibilities associated with each role, the skills required and the rewards associated with each step.⁸⁸ This prospectus is given to everyone including employees on temporary work experience. McDonald’s has developed and delivers a range of recognised qualifications (from NQF Level 1 through to Foundation Degree) which provide a clear progression matrix for employees based on their position in the organisation and their future plans. McDonald’s has estimated that this approach saves £650 per retained employee due to the unit cost of recruiting and training a new one.
- **Morrisons** and **Asda** have created Skills Academies which offer accredited training, including in partnership with academic institutions. These approaches

⁸⁷ Wood, H. and Moore, S. (2005) *An Evaluation of the UK Union Learning Fund: Its Impact on Unions and Employers*, Working Lives Research Institute, London Metropolitan University

⁸⁸ McDonald’s 2012 prospectus

also enable an employee to clearly evidence transferable skills when applying for jobs with other employers – a potentially key tool for firm-to-firm progression.

- **Thrifty car rental** is also often cited by the European Commission in its analysis of skills transferability. The company has arranged opportunities for employees to move across departments to learn skills not directly relevant to their role – including communications, sales and ICT skills. 50% of the company's employees have taken part in this scheme and a higher proportion of these found new jobs when the company underwent a subsequent period of restructuring.⁸⁹

As part of this research, we have also looked in depth (via face-to-face and telephone interviews, and analysis of data and documents supplied) at four current or recent case studies of good practice in the UK, which draw out key lessons and innovative approaches. These reflect, broadly, four stages in supporting retention and progression:

- **Supporting those out of work** to move into sustainable, new opportunities;
- **Supporting individuals in work to stay there;**
- **Supporting employers to retain and grow their businesses;** and,
- **Building career ladders and structures within an industry.**

These case studies are summarised below.

5.3.1 Supporting those out of work to move into sustainable, new opportunities – RCT Homes and the Can Do Toolkit

RCT Homes is one of a number of housing associations across Wales working in partnership with the Chartered Institute of Housing to implement the 'Can Do Toolkit'. This toolkit has been developed to support social landlords to use socially inclusive recruitment and training (in particular as part of meeting social clauses within contracts). Typically, this includes funding training and apprenticeships, and placing people in temporary employment opportunities with other companies.

RCT Homes works with local colleges, Jobcentre Plus and local businesses on delivery of its programmes. College training sits alongside support with employability skills from RCT, with RCT staff also 'on the ground' ensuring that participants can get the personal support that they need to make the transition into work – from

⁸⁹ European Commission (2011) *Transferability of Skills across Economic Sectors: Role and Importance for Employment at European Level*

getting up in the morning to sorting out HR issues. RCT Homes also taps into its own supply chain to encourage these organisations to take on their trainees.

Between 2008 and 2011, the Can Do Toolkit created 2,581 job and training opportunities. RCT Homes have undertaken analysis of how opportunities through Grow Enterprise Wales, a social enterprise partner, have affected job retention of participants. Using DWP and ONS data, RCT Homes has calculated that at twelve months from start of programme placement (i.e. 6 months after end of placement), engaged participants⁹⁰ were **50% more likely to be in work** than a person claiming JSA not on an RCT Homes programme.

Key Lessons

Employability

Critically, RCT and CIH staff felt that the focus on employability skills – around time management, confidence and teamwork – was a key driver of their success in improving retention. RCT Homes developed the Progress Tree, a toolkit for assessment, action planning and supporting the improvement of soft skills. In addition, RCT is addressing issues around literacy and numeracy through ‘train to trade’: with training specifically aimed both at employability and technical elements which will be relevant to certain roles.

Transferability

i2i, who developed the Can Do toolkit, also point to its transferability as a key factor in its success. The toolkit has already been used with larger organisations such as Morrison’s and ASDA.

5.3.2 Supporting individuals in work to stay there – Renovo

Renovo is a private sector organisation which provides in-work support by means of a personalised, one to one gateway referral service, integrated with a training offer. The service has been funded via DWP programmes, apprenticeship funding and social housing initiatives. All services are provided virtually; by phone, text and via online resources.

Individuals are partnered with a work coach who is the same person throughout the time they are in contact with Renovo. A work coach agrees a contact pattern with a client based on what is convenient for the client. The purpose of the contact is to

⁹⁰ Meaning those participants who had stayed in a programme for three months or more

establish whether an individual is still in work, whether they are at risk of falling out of work and what support they need to retain their job.

A key element of Renovo's support for customers is *Workfriend*: a tool which combines a 24-hour helpline and online support around any personal barriers, careers advice, financial matters, advice on workplace relationships, health and wellbeing and support with any concerns on working conditions. The model also has a substantial job search element, as Renovo recognises that customers often require help to move on to the next job in order to retain work or progress.

Renovo uses a range of channels to engage customers. In many cases, phone calls are **least** effective – with many customers not wanting to engage with support. So live chat, social media and a mobile app enable customers to access support when they need it, and to know it is there.

The organisation also believes that close links with employers, clearly explaining how Renovo can benefit them, improves retention for customers. Renovo produces materials specifically targeted at employers that outline how they support employees and how this will benefit employers by reducing turnover and mediating disputes.

Key Lessons

Overcoming barriers to retention

In Renovo's experience, key barriers to retention are around: the financial costs of the transition to work (particularly travel), issues around confidence and esteem in work, and whether the job is temporary or not. Renovo's service focuses specifically on supporting individuals to address and overcome these barriers.

5.3.3 Supporting employers to retain and grow their workforce – Price Waterhouse Coopers and employer ownership

Price Waterhouse Coopers (pwc) are delivering an Employer Ownership of Skills Pilot (EOSP) on behalf of the UK Commission for Employment and Skills. These pilots give employers more say in how they co-invest in training with the government, simplify the process for employers, and help to create new jobs. pwc has been granted £60 million to coordinate activity across the professional services industry. There were three broad reasons pwc decided to take part: to provide a school leaver route into professional services for people who might not want or be able to afford to go to university; to increase diversity in professional services; and to ensure that SMEs are better able to grow their talent.

Through the pilot, pwc is supporting organisations to understand how training can improve their workforce, to decide what training meets their needs and then to support them in accessing government funding and finding the right training provider. In so doing, the pilot should also improve progression opportunities as employers improve their skills, develop their staff and grow their business.

A key element in this approach is increasing the take-up of apprenticeships and building clear frameworks for subsequent progression. For pwc, the pilot is helping to diversify their own intake of apprentices (including their Higher Apprenticeship in Management Consulting) and to mentor other employers in the process. Apprentices have an extensive support network which includes line management, a 'people manager' and a 'buddy' who is usually a recent graduate of the programme. Through EOSP, pwc will be managing apprenticeships on behalf of small employers, helping them to source the right qualifications and training provider and where appropriate providing some of the training themselves.

The pilot is expected to lead to 1,750 apprenticeships, 4,000 days of business skills training and engagement with around 20 large employers and 200 SMEs.

Key Lessons

The pwc pilot provides an indication of how 'business to business' support can be marshalled to improve HR capability in small employers, and to enable employers to identify and meet skills needs. Critically, it is underpinned by strong senior leadership and commitment.

Alongside this, the strong focus on access and diversity should ensure that progression opportunities are made available to as wide a pool as possible, with business and social benefits.

5.3.4 Building career ladders and structures within an industry – the Employment Related Services Qualification

The employability sector, which provides employment support for those out of work and moving into work, has developed over the last two decades with very little development of career structures and 'ladders' from the front line to senior leadership. As a consequence, this has meant that for many individuals the skills and experience gained with one role or employer have had little currency elsewhere – as professional standards often varied widely.

So in 2011, the first qualification framework was launched by the Professionalisation of Welfare Expert Reference Group (the PoWER Group). The framework was designed around real job roles, shared from various organisations. The framework is

modular, containing both core and optional units at three levels: **award, certificate** and **diploma**. The work of the PoWER group has now been subsumed into the Institute of Employability Professionals (IEP).

The awarding body, EDI, works alongside the IEP to develop the qualifications. This has included the development of Advanced and Higher Level Apprenticeships to ensure progression is available within the sector. The framework is now established, and being used across the employability sector and increasingly within recruitment services.

For example, **Stafforce** specialise in recruitment of middle and senior management in the engineering, manufacturing and IT sectors. Staff members have attested to how the qualification framework has supported them to provide a better service to clients. Management have noted a shift in mindset amongst employees, who feel empowered to implement what they learn in their daily tasks. This in turn is improving progression prospects. The (Employment Related Services) ERS qualification forms part of a wider offer within Stafforce known as 'The Academy'. They run workshops, webinars, online training and demonstrations, and one-to-one sessions during work hours.

Key Lessons

The ERS illustrates how efforts to build recognised career ladders and structures within an industry can in turn support employers to engage, retain and progress their staff. In time, these benefits should also lead to higher productivity, improved outcomes and better value for money in programmes.

Having said this, the ERS also highlights the critical importance of buy-in – the government has a role to play in supporting its development (particularly through Jobcentre Plus) while the entry costs for accessing qualifications mean that some smaller organisations have not been able to take them up.

5.4 Conclusions

In summary, then, there is enough evidence to draw conclusions on what may work in supporting retention and progression.

First, supporting retention means overcoming barriers to work

In particular this means getting the job match right in the first place, personalising support, and really focusing on supporting people through the transition to work.

Secondly, support needs to focus on the individual

Good quality adviser support would appear to be critical. This needs to be based on supporting customers to set and develop their career goals, maintain momentum, and find and access the support that they need.

While this adviser support should also seek to address specific barriers that customers say can get in the way – like health, caring and qualifications – the evidence suggests that these barriers do not need to be permanently removed. Rather, as with entering work, support should be focused on making the transition.

One way that may be effective in helping customers overcome barriers, and in addressing inertia once in work, is to pay cash bonuses for achieving progression milestones.

Third, employers need to be bought in and need to enable progression.

Looking at the enablers for progression and the lessons from Price Waterhouse Coopers and the Employment Related Services industry, progression prospects can be improved by employers investing in management, HR and training; by supporting staff to access opportunities and to develop peer networks; and by building a stronger ethos around progression, particularly at senior levels.

However it is important to recognise that in some cases employers will simply be too small, poorly performing or not have the turnover to be willing or able to take steps to support their staff to progress. In these cases progression would seem more likely to be achieved by moving out rather than moving up.

6 Conclusions and recommendations

6.1 The extent of low pay and poor progression

We have used a range of different measures to enable us to quantify low pay, cycling and progression in London and the UK to set out the scale of the challenge:

Low pay

- **625,000 Londoners and 5.9 million people in the UK are low-paid**, equivalent to one in five and one in four people, respectively. Groups often considered the most disadvantaged in the labour market are at greatest risk of low pay – with those with no qualifications, young people and lone parents all more than twice as likely to be low-paid as the average, and part-time workers and some ethnic minority groups also at high risk.
- Certain sectors have higher proportions of low-paid jobs than others, including manufacturing, education, health and social work, business and retail, and hospitality. Occupations in which low pay is most highly concentrated are labouring, waiting, childminding, hairdressing, cleaning, sales and factory work.

Potential 'cyclers'

- **There were 164,000 movers between unemployment and low pay in London** – 3.9% of the working age population who were not full-time students, and 5.0% of the active workforce. In comparison, movers between unemployment and low pay in the UK represented 4.8% of the workforce.
- Young people are over two times more likely to be in this group than the workforce overall. People with no qualifications are 61% more likely to be movers between unemployment and low pay, Black, Asian and minority ethnic (BAME) people are 46% more likely, lone parents are 19% more likely and disabled people 12% (UK only).

Wage progression

- **One third of low-paid workers in the UK are stuck in low pay for at least a year** – low earners whose wage growth is less than the overall national median. In London this is slightly lower at 28%. The situation is

particularly acute for young Londoners where almost two thirds see wage growth below the national median, twice as much as young people in the UK.

- However, low-paid workers are able to see significant pay increases over the course of a year – with two in three low-paid workers seeing their wages rise quicker than the national median in recent years. This supports the view that wage progression is possible even in weak labour markets.
- The low-paid who see the greatest wage progression tend to change jobs rather than stay within firm – with the annual change in hourly pay for low-paid people who change jobs nearly four times that of those that do not.

Our combined analysis suggests that individual characteristics, experiences and the types of jobs and sectors where people work are clearly associated with a higher risk of cycling in and out of work, low pay and poor progression.

However, even in low paying occupations and sectors there is still good practice and in many cases still opportunities to progress.

Tackling low pay and poor progression has the potential to make significant inroads into tackling poverty and benefit dependency – as most people living in poverty now live in households where someone works, and the majority of households on benefit are in working households. Raising wages for these lower income households could have significant fiscal impacts – we estimate that the government could benefit by around **£2.8 billion** from raising pay to the Living Wage for low-paid workers in lower income households.

6.2 Improving retention and supporting progression

Successive governments have recognised the need to do more to encourage both retention and progression through employment and skills programmes – but efforts have so far been limited. The Employment Retention and Advancement demonstration in the mid-2000s generated extensive evidence but has never been rolled out more fully; while the government’s flagship Work Programme has in practice done little to change the focus on job entry and ‘work first’.

Our research with providers of employment and skills support found that while almost all feel that supporting people to stay in work was important (and large majorities feel that supporting progression mattered), they are often held back because of the way that programmes are structured and funded. Less than a third of providers offer in-work training, and virtually none use financial incentives to support

retention and progression – despite relatively strong evidence on their effectiveness. Instead, in-work support is relatively light touch: a caseworker, telephone helpline, and support to overcome specific barriers like travel or childcare.

From the perspective of those out of work or in low pay, **aspiration** and **opportunities** appear to be the critical drivers of progression. In many cases, those interviewed for this research neither aspired in their current jobs to progress nor felt that they had the opportunity to do so. However that is not to say that they did not want to progress in the future – participants identified the benefits of progression around increased salary, greater experience, confidence and satisfaction – but also the potential trade-offs through greater stress and higher expectations.

We found good evidence of ‘what works’ in supporting retention and progression, both in previously evaluated programmes and in our own case studies. All of this needs to be brought to bear in the design and delivery of employment support.

6.3 Immediate priorities: supporting retention and progression now

We consider that there are now five immediate priorities for supporting those out of work to move into and stay in work, and those in low-paid work to increase their earnings:

- Sharing what works;
- Reforming how success is measured in Jobcentre Plus;
- Supporting the Work Programme to improve;
- Unlocking adult skills funding; and
- Rigorous testing of new approaches.

These are taken in turn below.

6.3.1 Sharing what works

Recommendation 1: The government and providers of employment and skills support should work together to develop an evidence-based, best practice toolkit for supporting retention and progression in employment programmes – based around a ‘Stick, Stay, Progress’ model.

We consider that there is sufficient evidence to form a clear view of how support should be targeted, what groups' barriers are, what good practice looks like and what may work. An outline of how the toolkit could look is set out below – based around a 'Stick, Stay, Progress' model.

Stick, Stay and Progress: a toolkit for supporting retention and progression

In our view, a 'what works' toolkit could be structured around three key objectives for ensuring that claimants stay and progress in work, that:

1. Those entering employment can **stick out** the first few weeks;
2. Those in employment then **stay** in employment in the longer term; and
3. They have opportunities to **progress** in work.

In each case, the evidence suggests that there are common risk factors around the individual and the employer, but that those in low-paid and insecure work have diverse needs. So the toolkit should explore within this:

1. How support should be targeted. There are a number of groups at greater risk first of poor retention and then of poor progression.

- On **retention**, our analysis suggests that young people, those with no qualifications, those in ethnic minorities and lone parents have significantly higher risks of not stay in work.
- On **progression**, our analysis found limited differences based on personal characteristics, but a clear association between occupations and poor progression – with customer services, elementary roles and hospitality all seeing far higher incidences of below-average progression for low-paid staff.

2. How to identify the barriers to, and opportunities for, retention and progression. Our research finds a range of potential opportunities and challenges. So the toolkit should set out how these can be identified and prioritised.

- **Barriers** include the quality of the initial job match, individuals' aspirations, their employability skills, practical considerations like caring responsibilities, travel and personal finance, and the characteristics of the employer themselves (particularly smaller employers in some lower paying occupations and sectors).

■ **Opportunities** include individuals' aspirations and skills, the availability of workplace training, employer buy-in (including professional HR functions and senior support) and the ability to find better paid work elsewhere (moving out to move up)

3. What works. Finally, the toolkit should set out practical and evidence based examples of what works in supporting individuals to stick, stay and progress in work in different circumstances.

In our view, there are three key elements to this:

■ **On supporting people to stick and then stay in work** – providing tailored support to overcome the barriers that individuals may face: by getting the job match right, personalising support, and really focusing on supporting people through the transition to work.

■ **On support to progress in work** – personalising support to the individual's needs. This needs to be based on supporting individuals to set and develop their career goals, maintain momentum, and find and access the support that they need. Job-related training and financial incentives also appear to play an important role in supporting progression.

■ **Providing the right (business to business) support to employers** to grow their workforce and therefore their business. Progression prospects can be improved by employers investing in management, HR and training; by supporting staff to access opportunities and to develop peer networks; and by building a stronger ethos around progression – particularly at senior levels. However some employers will simply be too small, poorly performing or not have the turnover to be able to take steps to support staff to progress. In these cases progression would seem more likely to be achieved by moving out rather than moving up.

6.3.2 Reforming how success is measured in Jobcentre Plus

Recommendation 2: Jobcentre Plus success should be measured against the time that those leaving benefit spend off benefit, in addition to the current measure of leaving benefit within twelve months. In the medium term, success should be measured in terms of time spent in employment after exiting benefit.

When it was first introduced, the Jobcentre Plus Performance Management Framework (PMF) was intended to increase the focus on outcomes rather than procedural targets. Its two key measures were the proportion of claimants exiting

benefit and moving **into employment**; and reducing the monetary value of fraud and error.⁹¹ However, subsequently the first objective measured has changed simply to movements **off benefit**. The change to an off-flow measure means that Jobcentre Plus's primary target is for short-term outputs (leaving benefit) rather than longer term outcomes (sustained employment).

As noted previously, 'ad hoc' analysis by DWP has found that 30% of 'new' young JSA claimants have had four or more claims in the previous four years, and most of these have spent more than a year of that time on JSA.⁹² We consider that this ad hoc analysis should be extended to provide a regular assessment at Jobcentre Plus District level of the time spent off benefit by those exiting JSA. This should be used in addition to the current Performance Management Framework measure, to help to ensure that Jobcentre Plus focuses on sustained employment.

Clearly, it would be preferable for Jobcentre Plus's key performance measures to be based on employment entry/ sustainment rather than benefit off-flow. In this past, this has not been possible due to data limitations. However as the government rolls out its 'Real Time Information' system for reporting employee earnings it should be increasingly possible to provide timely, robust data on employment as well as benefit exit. Therefore we also recommend that the Department moves to employment-based measures of performance as soon as the data allows.

6.3.3 Improving the Work Programme

Recommendation 3: Work Programme providers and government should work together to promote best practice on supporting retention and progression – in particular through the new Work Programme Best Practice Group.

So far, 1.31 million claimants have been referred to the Work Programme.⁹³ As noted, recent evaluations have found a strong focus on job entry and 'work first' in the programme, with less systematic evidence of effective support to encourage claimants to stay in work or progress. Nonetheless, there are clear financial incentives for keeping people in work (with outcome payments made only after three or six months in employment, and regular 'sustainment' payments for each

⁹¹ Nunn, A. and Devins, D. (2012) *Process Evaluation of the Jobcentre Plus Performance Management Framework*, Department for Work and Pensions Research Report No.801

⁹² Department for Work and Pensions (2013) *JSA benefit history and benefit receipt*, Department for Work and Pensions ad-hoc analysis

⁹³ Source: Work Programme Official Statistics, Department for Work and Pensions

subsequent month) and performance data suggests that some providers are more successful than others in achieving sustained employment.

The Department has recently established a new 'Best Practice Group' of Work Programme providers and representative bodies, chaired by Andrew Sells and tasked with identifying and sharing best practice across the industry. We consider that the group should, as an early priority, look to identify and promote best practice in supporting retention in work. This should also build on the model set out in Recommendation 1, around a 'what works' toolkit for retention and progression.

On balance, we have not recommended making structural (contractual) changes to the design of the Work Programme at this stage – for example to change the way that performance is measured, or to build in additional funding for progression. In the case of the former, this would likely lead to renegotiation of contracts and would distract from focusing on performance improvement. In the case of the latter, in our view the immediate priority should be to ensure that the adult skills system can be used more flexibly to support progression. This is set out below.

6.3.4 Unlocking adult skills funding

Recommendation 4: The £2 billion Adult Skills Budget should be unlocked to support progression. Eligibility for full funding for Level 2 training should be extended to all Work Programme participants – so that those in work can access workplace training.

Recommendation 5: Eligibility for full funding for Level 2 training should also be extended to those in work and identified as most at risk of low pay and poor progression – including those with no qualifications, lone parents, young people, disabled people and those working in low paying occupations and sectors.

Current rules on eligibility for full adult skills funding are highly prescribed, meaning that there is generally no support available for up-skilling in work. In mainstream adult skills budgets, full funding of skills provision for those aged 24 or over is only available to those unemployed and claiming benefit. 'Co-funding', where the employer makes a contribution, is also not generally available – with only Small and Medium Enterprises qualifying, and even then workplace training only co-funded where it leads to a full Level 2 qualification (equivalent to five good GCSEs)⁹⁴.

⁹⁴ Skills Funding Agency (2013) *Funding Rules 2013/14 Version 2.1*

Separately, the European Social Fund has been used to procure 'Skills Support for the Workforce' – which again allows SMEs in certain target sectors to access funding for training. In London, this provision is worth less than £20 million over three years. The Adult Skills Budget, by comparison, is £2.0 billion for England in 2013/14 alone.⁹⁵

This generally limited access to funding for in-work training leads to the odd position that disadvantaged people on the Work Programme are able to access training while they are **out of work** but cannot then access additional support if they move **into work** – even where it may be low-paid and where training could offer significant benefits in terms of their likelihood of being retained or progressing.

Similarly, those groups identified in this research as being at risk of being in low pay and not progressing can access classroom training out of work but cannot get support for workplace training if they secure employment.

As we have shown, workplace training is strongly associated with seeing above-average wage increases. In our view, there is a clear case for extending eligibility rules so that targeted, workplace-based training can be funded for those who are in work but are demonstrably at greater risk of not progressing and who have significant disadvantages in the labour market.

6.3.5 Rigorous testing of new approaches

Recommendation 6: The government should establish an 'open source' Innovation Fund to rigorously test new approaches to improving retention and progression, evaluate them and share the results widely.

This report illustrates that there is an emerging evidence base on supporting retention and progression, but that there remain clear gaps in the evidence around what works, why and for whom. With the future rollout of Universal Credit, there is a clear need to test, evaluate and share new approaches.

The government has announced a limited number of pilots of new approaches to providing support in work, and intends to announce further measures in the future.⁹⁶ We consider that there is scope to go further still, by establishing an Innovation Fund that organisations could bid to, with partners, to deliver and evaluate new approaches. This fund should be fully 'open source' – with successful bidders

⁹⁵ Source: Skills Funding Agency

⁹⁶ 'Developing in-work support for people claiming Universal Credit', at <https://www.gov.uk/government/publications/developing-in-work-support-for-people-claiming-universal-credit> – accessed 26 September 2013

expected to open up their operating models, management data and outputs and outcomes to government, other providers and local partners.

6.4 Longer-term reform

Looking beyond the immediate term, the future rollout of Universal Credit and decisions on future employment programmes present new imperatives to improve retention and progression.

We consider that there are three areas for focus:

- Measuring success;
- Ensuring mutual obligations; and
- Developing a new employment and skills approach: Employment Plus.

These are taken in turn below.

6.4.1 Measuring success

Recommendation 7: The government should identify and consult on a 'basket of indicators' for measuring progression in the economy and programmes.

As discussed in this report, living standards, pay and working poverty are subjects of increasing political and public debate. However there is no single, shared view of how we define progression for those on the lowest incomes or in low-paid work.

Chapter 2 sets out a number of common definitions of progression – around income, social status and skills. Within these, there are then also a range of potential indicators. We consider that there would be value in the government identifying, and then consulting on, a basket of indicators that could be used more systematically to define and then monitor progression – in the labour market and economy, in individual programmes and across working lives.

This basket of indicators could comprise 'core' and 'non-core' measures.

Core measures could include both income and non-income based measures. Income based indicators could comprise:

- **Hourly wage progression** – for example based on:

- An increase in hourly wages that is greater than median annual wage growth (based on the ONS Index of Average Weekly Earnings) for those on lower incomes – broadly the approach used in this report; and
 - Transitions over key thresholds – from below to above the Living Wage; from the Living Wage to Minimum Income Standard; from Minimum Income Standard to above Universal Credit entitlement.
- **Earnings progression** – defined as an increase in total weekly earnings that is greater than median earnings growth (which could include by working more hours)

Non-income-based core measures could include:

- **Movement from insecure to secure employment** – for example from temporary to permanent employment; and
- **Socio-economic progression** – capturing an increase in social economic status from one NS-SEC group to another.

Non-core progression indicators could include:

- **Greater occupational responsibility** – either in the form of greater autonomy at work or in management responsibility; and
- **Skills progression** – increases in qualification levels or skills acquisition related to a job or occupation. Importantly, this measure should be closely associated with wages or greater occupational responsibility.

The government should consult on the selection of indicators, and on the balance or weighting between them in measuring progression. We would expect that the 'basket' could be used to assess improvements in progression for different areas, groups or workers in specified occupations. This would necessarily involve analysis of both cross-sections of the working population at different points in time, as well as tracking progression for samples with certain characteristics. Individual measures from the basket could then also form the basis for developing success measures in future employment and skills programmes.

6.4.2 Ensuring mutual obligations

Recommendation 8: The Universal Credit Claimant Commitment should include a 'Progression Pact' – setting out both expectations for increasing incomes in-work and the additional support that claimants will receive.

Universal Credit will, for the first time, extend to claimants that are in work but on low earnings the requirement to take steps to increase earnings up to a 'conditionality threshold' (usually equivalent to full-time work at the National Minimum Wage). Initially, there will be no hard requirements or sanctions for those earning above the level of current benefits but below this threshold. However, in time it is expected that the 'Claimant Commitment' will include conditions, requirements and the threat of sanctions for all of those earning below their conditionality threshold.

This approach has not been previously tested in the UK or overseas. In principle, this sort of 'something for something' approach is appropriate and fair: those who are able to work and to increase their hours should be expected to take steps to do so. However, this increased conditionality must be matched by the right support – and clear messages on what support claimants should expect to receive.

In our view, the Claimant Commitment should therefore include a clear 'Progression Pact' that sets out the support to progress that those in low earning work can expect to receive as well as the requirements that will be placed on them. The Pact would be agreed for all of those on Universal Credit who are in work or enter work, and would be personalised and tailored to recognise their specific needs. Individuals would in return be expected to take steps to increase their incomes – including through training, increasing hours or taking on more responsibilities, or by looking for additional or new employment.

6.4.3 A new employment and skills approach: 'Employment Plus'

Recommendation 9: Building on these recommendations, national and local commissioners should start the process of developing a new employment and skills model – 'Employment Plus' – that combines support to find work, stay in work and progress in work. Rather than following traditional top-down procurement, government should look to co-commission or devolve: aligning and integrating funding streams and support. This 'Employment Plus' approach should also be incorporated into any successor to the Work Programme – with clear incentives to support progression as well as retention.

We consider that the government should start the process of developing an integrated and new approach to employment and skills, that draws together and builds on the recommendations above: around developing a 'what works' toolkit; reforming how we measure success in Jobcentre Plus; improving the Work

Programme; unlocking adult skills funding; rigorously testing new approaches; developing a basket of success measures; and building mutual obligations.

This 'Employment Plus' model would focus on supporting individuals to move into work, to stay there and to progress in work.

Given the diverse experiences of those in low pay – many of whom move in and out of work, stay in low pay or have poor progression, driven by a range of individual and employer factors – we do not consider that it is feasible or desirable to attempt to commission an end-to-end 'Employment Plus' model nationally for all. Logistically, this would also imply the integration of most or all of Jobcentre Plus, Adult Skills and Work Programme budgets.

Rather, we would propose that commissioners (including national government departments and local government) look to develop an approach to pooling, aligning, co-commissioning and/ or integrating elements of current employment and skills funding to deliver joined-up support within an evidence-based, 'Employment Plus' framework. This could build upon the learning from Community Budgets, including recent research by *Inclusion* on how employment and skills can be mainstreamed within local Community Budgeting models,⁹⁷ as well as building on the opportunities from City Deals – where future Deals could include pooling or devolving of employment and skills funding to city authorities, alongside testing of new approaches to supporting retention and progression.

In practice, this 'Employment Plus' model could include:

- Jobcentre Plus and local employment and skills providers working to deliver support targeted at those who secure low-paid work but are at risk of cycling – first to stay in work and then to develop the skills to progress;
- Work Programme providers and skills providers working to provide more intensive case management, training, financial incentives and employer support to improve retention and progression for the long-term unemployed; and
- Elements of national employment and skills funding being devolved to a single or combined authority to commission an integrated progression programme targeting those in low-paid work and not recently engaged with Jobcentre Plus or the Work Programme.

⁹⁷ Wilson, T. and Gallagher, P. (2013) *Community Works: Putting work, skills and enterprise at the heart of Community Budgets*, Centre for Economic and Social Inclusion

This 'Employment Plus' approach would need to operate within a clearly defined framework of how support is targeted, where responsibilities lie, what works and how success is measured – all of which would flow from previous recommendations.

6.5 Role for London

Focusing in on London, we make two further recommendations.

Recommendation 10: London should develop its own framework to test and evaluate progression, seeking providers to test different components of progression within existing contracts as well as its own programmes.

We consider that this should be a key focus for future European Social Fund provision, where the Mayor and the Local Enterprise Partnership will be identifying and setting priorities. We would propose a particular focus on young people – where young Londoners are significantly less likely to progress than other Londoners and their young peers in other parts of the country – and on support for lone parents and non-working parents in couple households.

Recommendation 11: London should take the lead in developing the 'Employment Plus' model – with as a starting point, Jobcentre Plus developing a 'Super Adviser' pilot to test approaches to joining up support.

London is uniquely well placed to take a lead on developing the 'Employment Plus' approach: it has devolved responsibilities on skills and enterprise, it is delivering a Whole Place Community Budget (testing approaches to aligning funding) and the boundaries of the GLA, the Local Enterprise Partnership and Jobcentre Plus are coterminous.

Clearly, many elements of the 'Employment Plus' approach will take time to establish. However London could begin to test or roll out others almost straight away. In particular, we recommend that Jobcentre Plus London and the GLA look to develop a proposal for testing a 'Super Adviser' model, where key personal advisers would be empowered to work with individuals, employers and existing employment and skills support to access and join up existing provision.

Annex A – estimating the fiscal impact of tackling low pay

Increasing wages from the National Minimum Wage to the Living Wage has the potential to improve government finances by **increasing tax revenues** and by **reducing in-work income-based financial support**.

The impacts on taxation comprise both direct taxes (income tax and national insurance contributions) and indirect taxes (VAT, vehicle fuel, vehicle excise duty). The impacts on income-based financial support mainly comprise tax credits, Housing Benefit and support with Council Tax. Direct taxes are based on individual income, while income-based support is based on household income. Therefore the impacts on the Exchequer from raising wages will depend not just on what wages increase from and to, but also what household incomes were before and after the increase. By the same token, the impacts of higher wages on households themselves will be felt across the income distribution – as many of those in low pay live in households where other adults earn more.

In this research, we are particularly interested in the impacts of supporting low-paid workers in relatively lower income households to progress in work. In addition, any additional support to progress in work is likely to be targeted at those with relatively lower household incomes. We have therefore sought to model the potential fiscal benefits of raising earnings to the Living Wage in lower income households.

We have modelled the impact of increasing wages from the National Minimum Wage to the Living Wage for lower income households by using a proxy of the impact of pay progression for (non-retired) households in the third decile of household incomes. This comprises 1.9 million households with an average wage of £13,525 (equivalent to £7 an hour for full-time workers). We have taken the patterns of taxes and benefits from the ONS analysis 'Effects of Taxes and Benefits on household income'⁹⁸ and apportioned the difference between tax and benefit patterns in the third and the fourth deciles according to the difference between minimum and living wages.

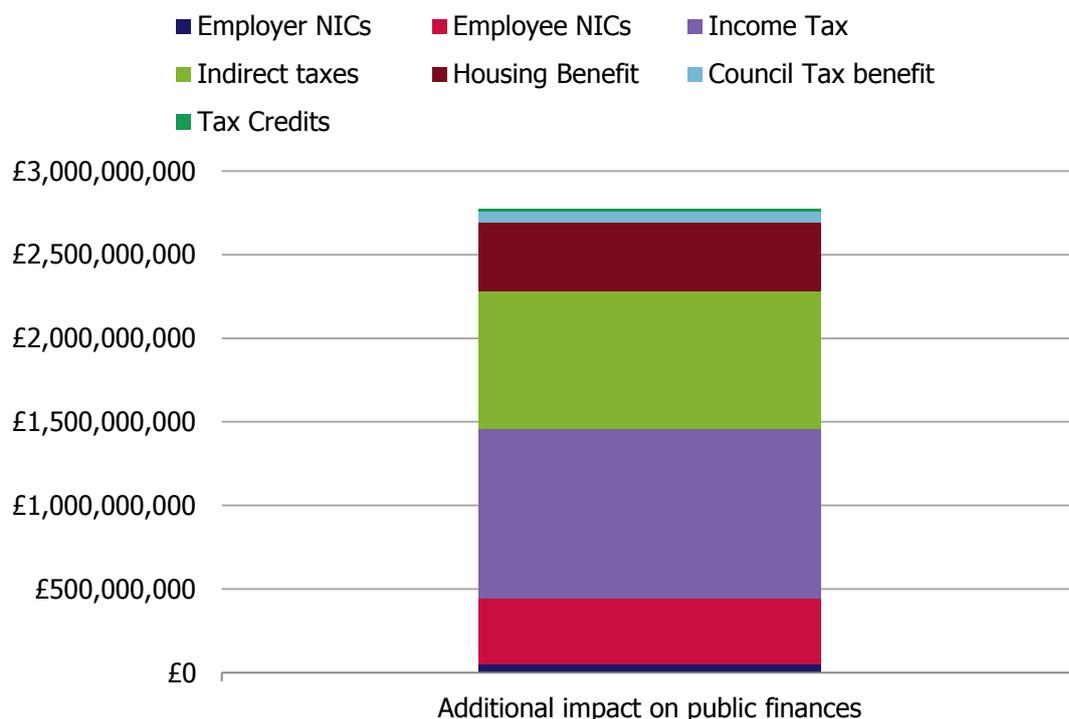
⁹⁸ Office for National Statistics (2013) *The Effects of Taxes and Benefits on Household Income, 2011-12*, Office for National Statistics

The difference in average wages between the third and fourth deciles equates to £2.94 an hour in average wages, so we have modelled fiscal impacts on the basis that the population in the third decile advance 47% of the way to the fourth decile.

Clearly, some of the impact of increasing wages from the National Minimum Wage to the Living Wage will be felt by households outside the third decile – for example, households in lower deciles with single earners in part-time work will be impacted, as will households in higher deciles with two earners. Likewise some households in the third decile will not be impacted (where they work part-time and earn at or above the Living Wage). However we consider that modelling the impact on the basis of households in the third decile progressing 47% of the way to the fourth decile is a reasonable proxy for the impacts on lower income households.

Overall, based on this methodology, we have estimated that increasing wages from the National Minimum Wage to the Living Wage would benefit government finances by **£2.8 billion**. This is set out in the graph below.

Figure A1: Estimated impact of wages increasing from National Minimum Wage to Living Wage



Source: Office for National Statistics and *Inclusion* calculations

More than half of this impact is from increased National Insurance payments and tax revenues. The tax revenues will also include an element of tax credit savings, as part of these are counted as negative income tax in the national accounts. The remaining

impact comes from remaining savings in Working and Child Tax Credit (2-4% of savings depending on calculation differences) and Housing Benefit (15% of savings).

Note also that this analysis includes an estimated £750 million impact on indirect tax receipts – as people spend more on VAT-able items, vehicle fuel and Vehicle Excise Duty. The ONS calculations for the effects of taxes and benefits use additional survey material to estimate different spending patterns for different household income groups. We would expect moving to the Living Wage to enable people to spend more out of their higher disposable income, and so pay more VAT and other indirect taxes. We are therefore building on an established ONS methodology.

Previous analyses of fiscal impacts have not included indirect taxes, so this analysis suggests that gross impacts could be up to one third higher if indirect taxes were included.

It is important to note that in this analysis and other analyses of the impacts of higher wages, no account is taken of impacts elsewhere in the economy – for example increases in wages that are not accompanied by increases in company output could lead to reductions in profits and therefore tax receipts. On the other hand, higher wages and higher productivity would be expected to have the opposite impact.