

Work in progress

Low pay and progression in London and the UK

Trust for London commissioned the Centre for Economic and Social Inclusion to explore 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. Improving progression will be central to delivering the Government’s ambitions on social mobility and welfare reform.

Key findings

- 21% of London workers (625,000 people) are paid below the London Living Wage, compared with 25% of workers outside London (5.9 million people).
- Overall, those who start in low pay have on average higher hourly wage growth than the population as a whole – with median hourly wage growth (London and the UK) of 10% for the low paid, compared with 3.9% in London and 2.9% in the UK for workers overall.
- However, 28% of those in low pay in London, and 33% of those in low pay nationwide, see annual increases in hourly pay of less than the national median.
- There are 14 occupations in London where a majority of staff are paid below the Living Wage, with all but two seeing below average pay growth over the last five years. At the same time, employment in these occupations has grown. Low pay appears to be becoming more prevalent, and more entrenched.
- 571,000 Londoners (14% of the non-student population) and 5.4 million people across the UK as a whole (17%) have been stuck in low pay (hourly pay below the Living Wage) for at least a year.
- A further 1.2 million people nationally, 164,000 in London, may be at risk of cycling between work and low pay.
- Low paid young Londoners are more than twice as likely to see below average pay rises as low paid young people in the UK as a whole.
- Low paid workers that change jobs see far greater wage progression than those that do not: 33% compared with 9%.
- Job related training increases average wage progression among the low paid by five percentage points (13% compared with 8%).
- Services offered by employment and skills providers to those in work are typically light touch (mentoring and phone line support) with very limited use of financial incentives, training or HR/employer support.
- Those out of work or in low-paid work recognise the benefits of progression – in terms of salary, confidence, satisfaction, job security and responsibility; but also the trade-offs around stress and time. Many felt that current employment had few or no opportunities to progress, and/or did not match their own aspirations.
- There is growing evidence on “what works” in supporting retention and progression – in particular: overcoming barriers to staying in work; personalising support to progress in work (with training and financial incentives appearing to play important roles); engaging and supporting employers to grow their workforce; and building a stronger ethos in the workplace around progression.

Background

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 also need to understand why those in low pay do not progress, and what more can be done to improve job retention, pay and progression.

Ensuring 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 now 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. There is limited evidence on what works in supporting people in low pay to progress in work.

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 focus is important as many of the challenges set out above are particularly acute in the capital.

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*.

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.

*The Living Wage is used in this report as a proxy for low pay.

Focusing on **wage progression**, the average hourly wage growth for those starting in low pay is significantly higher than 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 UK 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 these are important findings, they should 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 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 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 the **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.

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

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.

Trust for London

www.trustforlondon.org.uk

The Trust is the largest independent charitable foundation funding work which tackles poverty and inequality in the capital. It supports work providing greater insights into the root causes of London’s social problems and how they can be overcome; activities which help people improve their lives; and work empowering Londoners to influence and change policy, practice and public attitudes.

6 Middle Street, London EC1A 7PH
t +44 (0)20 7606 6145
e: info@trustforlondon.org.uk

Centre for Economic and Social Inclusion

www.cesi.org.uk

Inclusion is the UK’s leading not for profit company dedicated to tackling disadvantage and promoting social inclusion in the labour market.

Inclusion delivers cutting edge research and develops new approaches to policy in a range of areas including employment and skills, welfare to work, regeneration, and social exclusion.

Third Floor, 89 Albert Embankment, London SE1 7TP
t +44 (0)20 7852 7221
e: info@cesi.org.uk

The full report can be downloaded from: www.cesi.org.uk/publications/work-progress