

## Tackling poverty from the DWP: a briefing for the Secretary of State

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### Key points

- To substantially reduce poverty levels in the UK two things can be done: the resources available to individuals and households either needs to increase or the costs of meeting their needs must be brought down.
- The government's impressive employment figures have not presently translated into a sustained reduction in poverty. Action must be taken to improve the quality of jobs and opportunities for progression if we are to capitalise on our labour market strengths. Sector-specific strategies for low paying sectors, and a service to help people get on in work would be a major step forward.
- Re-shaping welfare to work programmes to incentivise higher earnings, as well as sustained employment, would improve the allocation of labour supply to demand and maximise reductions in ongoing state support for those who enter work.
- Universal Credit can deliver the government's aspirations of making work pay, but careful attention must be paid to the continuing effectiveness of its incentive structure following budget savings. The Work Allowance in particular is crucial to alleviating the poverty trap.
- The cost of pensioner benefits has continued to escalate, despite the serious fiscal pressures facing the government. Replacing the 'triple lock' with a 'fair pensions lock' would allow the Department budgetary headroom to better target support to those of working age, while protecting the living standards of older people.

## Introduction

For those who can, work remains the best route of poverty. But for some groups, countervailing forces in Britain's labour market mean that strong employment growth is not translating into significant reductions in the number of households struggling to meet their basic needs. To substantially reduce poverty levels in the UK two things can be done: the resources available to individuals and households either needs to increase or the costs of meeting their needs must be brought down.

The state's role is clearly important, particularly the tax and benefit system, but fiscal policy alone will not reduce poverty. The nature of jobs at the bottom end of the labour market; the cost of essential goods and services; where people live; whether they are able to fulfil their potential; and the choices people make all matter too. Working on any one of these aspects in isolation won't succeed: a more comprehensive approach is needed. In this concise briefing we set out a number of areas where we think the Secretary of State has scope, either through his direct commissioning and spending powers or via influence with Cabinet colleagues; local government and employers to make a positive difference in his new role.

## A greater focus on better jobs

The government has presided over impressive employment growth; the most recent assessment shows a rate of 74.1%, the highest since comparable records began in 1971. However decades of sluggish productivity growth (across the majority of advanced economies) has led to flat-lining wages, depressing the purchasing power of low income UK households as prices for many essential goods and services rose over the same period. Over half of people in poverty live in households where someone works.

The Chancellor has rightly moved to address this problem with the introduction of the National Living Wage from April 2016, but he has had to reduce the value and scope of benefit entitlements at a much faster rate (and for a wider group) than will be covered by this earnings increase to hold to his fiscal consolidation ambitions. Alongside the fundamental shift in the balance of incomes and costs for UK households, the shape of the labour market itself is changing, which is in turn affecting the character and conditions of work.

We have seen a decline in middle earning jobs, removing steps in the ladder out of low pay. There has also been an expanding pool of precarious work at the bottom end of the labour market. While it is clear that a flexible labour market has helped to buffer the UK against economic shocks and keep unemployment low, under the current circumstances too much risk is placed upon the employee to negotiate this flexibility, for example by meeting the cost of training and development, or to access flexible, high quality childcare. This is likely to be depressing progression within work, further driving a poor allocation of labour supply to demand.

Over two million workers in the retail and hospitality sectors earn less than the voluntary, higher Living Wage, and low-paid workers often face being trapped: only one-fifth have left low-paid work completely 10 years later. If we were to raise productivity levels in low-wage sectors to levels seen elsewhere, the UK could close a third of the productivity gap with leading Western European economies. But to get there the Government, local leaders and businesses must all do the heavy lifting to rebalance the economy and ensure more people benefit from economic growth, creating the conditions of a virtuous cycle of higher skills,

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more demand for skills, jobs progression and better pay in the lowest paid sectors. Government convened, sector-specific strategies for retail, hospitality and care, which look to improve job design and offer effective business support would be a major step forward.

To properly improve allocation of labour, while supporting employees to progress into better paid positions, it is necessary to invest in a service to help people to get on in work. Our evidence suggests that a combination of ongoing support from an adviser who is able to foster links with employers offering good quality jobs; the provision of well targeted training that is linked to realistic career progression; and financial incentive payments have had a positive impact on the retention and progression of lone parents and the long-term unemployed. The Department for Work and Pensions is making headway in developing a similar system for those in-work and on Universal Credit.

## Re-shape welfare to work programmes to deliver a high wage economy

The Autumn Statement committed the government to replacing the Work Programme and Work Choice with a new Work and Health programme, alongside the devolution of some employment support programmes to city regions to allow for co-production of more localised schemes. JRF's research recommends re-orienting the whole employment service – including the services offered by Jobcentre Plus - so it concentrates on sustained employment and higher earnings. This will not only help to continue to push up employment figures, but will also increase participants' chances of securing jobs with as high a level of pay as possible in the first instance. It would give service providers a clear rationale to prioritise ongoing support, advice and access to training once people are in work in order to progress to jobs with higher earnings or more hours. By incentivising an efficient match of labour to demand it would maximise the possible reductions in state support to individuals.

JRF also recommends developing a segmentation tool to more accurately identify the barriers individuals face to work, to enable earlier referral to more personalised and intensive services for those that need them, and very light touch support for those with fewer barriers to work. Delivering such services through hubs that bring together local authority services and other advice and support services (such as debt advice, careers advice and help with childcare access and individual transport planning) will enable people to access a wider integrated offer to support their move into work.

With regard to the Work and Health programme specifically, our research finds that many people with a disability or health condition want to work and there is evidence that work is generally good for health. For individuals with health conditions or disabilities their perception of their health condition has proved important in evaluations of previous programmes. As such, joining up employment support with condition management and occupational health services is crucial, but evaluation of the Work Programme finds advisers lack the skills and knowledge to be able to do this. Better outcomes from the Work and Health Programme will require more experimentation with different types of support combined with more specialist advisers. This could include greater use of intermediate labour market programmes and Individual Placement and Support, the co-location and joint working between employment support specialists and clinical teams, within a more localised system of delivery to encourage better co-ordination between the Jobcentre Plus, local authorities and the NHS.

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Finally, the persistently low employment rate among people with disabilities and long term health conditions implies a structural problem, requiring a different response that prioritises contact with employers as well as support for individuals. Working with employers to take on people, and supporting them to make adjustments to accommodate people's needs is crucial, this includes the needs of existing employees, to prevent them dropping out of employment. The Evidence Based Review of Work Capability Assessment outcomes found 83% of claimants deemed fit for work need on average two or three adjustments to be able to return to work, with 50% needing flexible working hours and 24% needing a support worker. There is therefore a case for a more integrated service which can deliver both for individual service users and employers, incorporating support to employers through advice and engagement alongside funding through the Access to Work scheme.

## The full implementation of Universal Credit

JRF have supported the principle of an integrated benefits system, one that makes work pay and eases claimant's transitions into and out of employment, since its inception and throughout its ongoing development. The UK needs a benefit system that can meet the demands of a flexible labour market, one which can adequately respond to the low-pay, no-pay cycle that many at the bottom end of the labour market are experiencing without removing work incentives. In principle, Universal Credit can deliver this aspiration.

However, since its inception the budget for Universal Credit has faced significant savings that have impacted upon its effectiveness in the above regard. There are now fewer households whose support will be enhanced by the programme, and more who will get a lower entitlement than they do from the current system. More detrimental though, has been the erosion of the generosity of work incentives over the course of the project. Reductions in the Work Allowance (the amount people can earn before their state support starts to be withdrawn) announced in the Summer Budget will significantly impact upon the incentives to work that the system creates, this is especially the case for lone parents. Rather than further increases to the personal tax threshold, expenditure would be better targeted at restoring the Work Allowance in order to assist low income working households, as this will help to incentivise those on the lowest incomes into work, reducing ongoing welfare costs to the state.

## Ensuring state support is better targeted

Over successive parliamentary cycles we have broken the stubborn link between poverty and old age across the UK. Fewer than 8% of pensioners now live on less than they need. This is a huge accomplishment, and shows that it is possible to bring about a sustained reduction in poverty once consensus is reached. However, the cost of pensioner benefits has continued to escalate, despite the serious fiscal pressures that this government faces. The commitment to the triple lock on pensions, together with the choice to protect some departments from savings while pursuing a budget surplus, has shifted the burden of these pressures on to working age welfare, with big implications for those affected.

The new Secretary of State is in a position to re-visit the 'triple lock' protection of pensioner income, with a view to sharing the burden of total savings more evenly, and therefore ensuring that working age incentives remain properly aligned behind work. Research by the University of Loughborough proposed a new 'fair pensions lock', under which pensions would be increased at least in line with the past years increase in CPI inflation, and at least in line with the past ten years' increase in average earnings. This would adequately protect

pensioners from inflationary pressures, without holding the government to an expensive 2.5% minimum increase.

## Conclusion

The above briefing sets out JRF's four suggested priority areas for the new Secretary of State to focus upon, ones that our evidence suggests would bring about a sustained reduction in poverty levels in the UK. These are drawn from the research that we have undertaken to produce a comprehensive plan for prosperity in Britain, to be published in September this year. We would welcome the opportunity for our Chief Executive, Julia Unwin, to meet with the Secretary of State to discuss how we might contribute to the government's ambition to make work pay and reform welfare, including briefing DWP ahead of the launch of our plan to tackle poverty in the UK.

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## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an endowed foundation funding a UK-wide research and development programme.

We work for social change in the UK by researching the root causes of social problems and developing solutions. Together with the Joseph Rowntree Housing Trust, we use our evidence and practical experience of developing housing and care services to influence policy, practice and public debate.

All research published by JRF, including publications in the references, is available to download from [www.jrf.org.uk](http://www.jrf.org.uk)