

FUTURE OF THE UK LABOUR MARKET

Families in which at least one adult works have become the largest poverty group in the UK. This round-up summarises the findings of a series of projects looking at the links between jobs, skills and poverty to identify sustainable solutions to in-work poverty and worklessness.

Key points

- The UK has a large number of low-paid, low-skilled jobs compared to other developed countries. People working in these jobs are more likely to face insecurity and less likely to receive training, hampering their chances of progressing.
- The relationship between low pay and in-work poverty is not straightforward. Whether someone in low pay experiences in-work poverty will depend on who else they live with, as well as what other benefits they receive and the costs they face.
- The welfare to work system is focused on moving people into work quickly or sustaining employment. It does not address progression. Attaching conditions to in-work benefits may help here, so long as they are supportive. But any approaches need to be tested further.
- Tax and benefit reforms will not address poverty unless the bottom end of the UK labour market is also addressed. There must also be greater demand for skilled workers from employers.
- How companies choose to compete in markets influences their approach to progressing low-paid, low-skilled staff.
- The city regional agenda can help link skills strategies with economic development, innovation and business support to help companies compete on quality rather than cost and build progression structures. However, the city region programmes need greater capacity.
- Individual employers can help poverty by paying the Living Wage and helping low-paid staff progress. This progression is supported by developing a business case for 'better jobs' and cultivating an ethos of progression.

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INTRODUCTION

In-work poverty has been a growing problem in recent decades, and is something of an inconvenient truth for politicians – from all parties – who have hailed work as the best route out of poverty. While it remains the case that families with no work face the greatest risk of poverty, families where at least one adult is in work are now the largest group experiencing poverty in the UK.

This has fuelled a debate about the need for a Living Wage in the UK – that is a voluntary rate of pay set to reflect changes to the cost of living, unlike the minimum wage, which is rooted in an assessment of what the labour market can bear. Institute for Fiscal Studies (IFS) analysis has considered the relationship between poverty and employment characteristics (sector of work, occupational group, hours of work and hourly wage) and finds pay is the strongest predictor of how likely it is a person will experience in-work poverty (Cribb et al, 2013). This makes the debate about the living wage an important development, but alone it does not offer a sufficient response to the problem of poverty.

A number of factors influence how likely someone is to experience poverty. Whether they live with others, the size of the family, the work status of others in the household and the presence of ill-health or disability all influence the risk of poverty. At a time when wages have stagnated and the real value of benefits has been cut, the rising cost of essentials means disposable income has been squeezed, making it harder for people on low incomes to meet their needs. Past responses – like indexing benefits to the cost of living, driving up household incomes through more generous benefits for families with children and subsidising low wages through tax credits – made some progress in reducing poverty (MacInnes et al, 2013; Ray et al, 2014 forthcoming), but they are more difficult to deliver in the current fiscal context. Furthermore, only focusing on the contribution of the welfare system to address poverty is a partial response; the nature of the labour market must also be addressed.

And while the debate about pay has gathered some momentum, it is not the only labour market intervention that matters. As previous JRF research shows, terms and conditions, job security and progression in work must also be addressed for work to act as a more reliable route out of poverty (Goulden, 2010). ‘Bad’ jobs, that do not fulfil these criteria, prevent paid work acting as a route out of poverty.

Compared to other developed countries, the UK has a relatively large number of people working in low-paid, low-skilled jobs (see for example Whittaker, 2013; Lanning and Lawton, 2012). It is estimated that around 4.9 million people were paid below the living wage in April 2012 (MacInnes et al, 2013). Research for JRF shows this group is less likely to be offered training by their employer, hampering their chances of progressing to a better job (Philpott, 2014 forthcoming; Devins et al, 2014). The UK labour market also has high levels of underemployment at present, with some 1.4 million people working part time when they would prefer to work full time (MacInnes et al, 2013).

Furthermore, research for JRF has found people in low pay are also more likely to experience insecure work (Metcalf and Dhudwar, 2010). This reinforces the observation that there is not simply a group of people that are in work and another that are out of work, with each requiring different sorts of policy intervention. Rather, people move between these states as they find and lose jobs, and for a minority these moves are frequent. This has become known as the low-pay, no-pay cycle (Shildrick et al, 2012). One recent study estimates nearly 5% of the UK workforce was at risk of cycling between low paid work and unemployment (Wilson et al, 2013). A further study estimates that 5% of the workforce – or 1.3 million people – were stuck in persistent low pay between 2002 and 2012 (Hurrell, 2013)¹.

Relatively large numbers of people experiencing bad jobs also has implications for the country as a whole. The UK’s reliance on so much low-paid, low-skilled work holds back UK productivity, which compares poorly to other countries (OECD, 2012).

JRF's Future UK Labour Market Programme – the first phases of which were carried out in partnership with the UK Commission for Employment and Skills – sought to examine the links between skills, jobs and poverty, so as to influence sustainable solutions to in-work poverty and worklessness across the UK. In particular, the programme focused on how skills and employment policy and poverty are, or can be, linked in practice.

Box 1 summarises the reports that were published as part of this programme. This round-up provides a summary of the key messages and findings, placing them in the current context of the debate about in-work poverty. Section 2 considers the scale of 'bad jobs' in the UK and the likely future shape of the labour market; section 3 outlines the need to target interventions at households in poverty and what this means for service providers; section 4 looks at the role of employers in tackling poverty and the opportunities presented at a local level.

Box 1: The research

This paper draws on the following reports from JRF's The Future UK Labour Market Programme (all published by the Joseph Rowntree Foundation, York)

Devins, D. Bickerstaffe, T. Mitchell, B. and Halliday, S. (2014) *Improving progression in low-paid, low-skilled retail, catering and care jobs*

Russell, L. et al (2014) *Helping young people to find private-sector work*

Sissons, P. and Jones, K. (2014) *How can local skills strategies help low earners?*

Lawton and Thompson (2013) *Tackling in-work poverty by supporting dual-earning families*

Barnes, M. and Lord, C. (2013) *Poverty, economic status and skills: What are the links?*

Taylor, M. Haux, T. and Pudney, S. (2012) *Can improving UK skills levels reduce poverty and income inequality by 2020?*

Taylor, M. Haux, T. and Pudney, S. (2012) *Skills, employment, income inequality and poverty: Theory, evidence and an estimation framework*

Paull, G. and Patel, T. (2012) *An international review of skills, jobs and poverty*

Brewer, M. Dickerson, A. Gambin, L. Green, A. Joyce, R. and Wilson, R. (2012) *The impact of employment changes on poverty in 2020*

Webber, D. Page, D. Veliziotis, M. and Johnson, S. (2014 forthcoming) *Is poor health a barrier to finding and keeping good work?*

'Bad' jobs and the future UK labour market

Table 1 below sets out the characteristics of individuals that are likely to experience low pay, the low-pay, no-pay cycle, or to find themselves stuck in low-paying jobs. These groups are more vulnerable to negative experiences in the labour market.

Table 1

Groups most at risk of low pay	Groups most at risk of cycling between low pay and no pay	Groups most at risk of getting stuck in low pay
• Young people (16-24)	• Young people	• Women
• Low or no qualifications	• Low or no qualifications	• Living in the North East
• Lone parents	• BME groups	• Working in elementary occupation (unskilled, manual jobs)
• Some BME groups (e.g. Bangladeshi, Pakistani, Black African)	• Lone parents	
• Women	• Disabled people	
• Disabled people		
• Living outside London		

Based on Wilson et al (2013); Hurrell (2013)

Part of the explanation for why these groups are more likely to experience low-paid work lies in the industries and occupations they work in. Those working in the hotel and restaurant; wholesale and retail; admin and support services industries, or in elementary occupations (jobs involving simple and routine tasks, often involving physical effort), sales and customer services and personal services occupations are all more likely to be low paid (Whittaker, 2013). This is reflected in poverty rates. Retail, hospitality, personal services and residential care have a poverty rate of 17% (after housing costs) compared to 8% for all other employees. Poverty rates are also high for those working in elementary occupations (21%), sales (16%) and caring (14%) (Cribb et al, 2013).

Those working part time or on temporary contracts are also more likely to experience low pay (Whittaker, 2013), as are those working in smaller companies. Here the incidence of low pay rises as the size of the organisation falls. For example, minimum wage jobs account for 1 in 20 jobs in large firms (250 or more employees) but 1 in 12 in small firms (10-49 employees) and 1 in 8 in micro firms (1-9) employees (Philpott, 2014 forthcoming).

Quantitative research carried out for this programme looked at the labour market transitions of people self-reporting poor physical, mental or general health. While they were generally significantly less likely to experience positive labour market transitions, the research suggested that the presence of qualifications, in some instances, acted as a mitigating factor (Webber et al, 2013). This research hints at an important role for skills policy in tackling poverty by increasing the skill and qualification levels of the workforce.

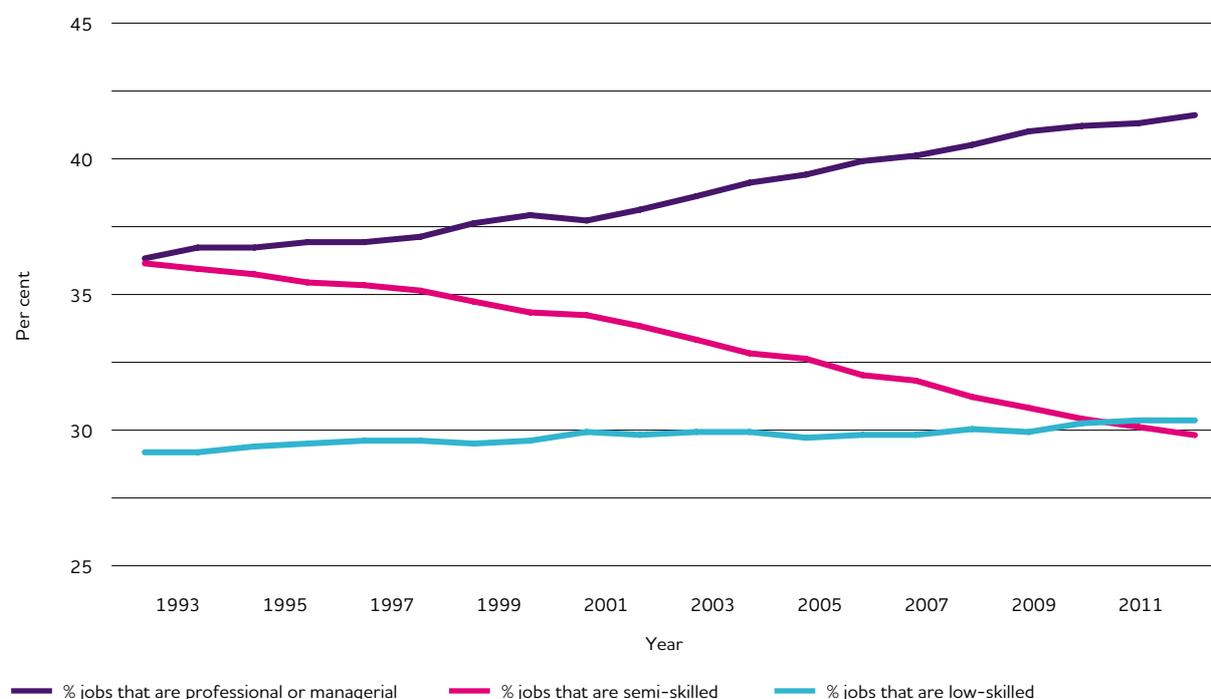
The idea that higher skill levels result in better labour market transitions is broadly in line with human capital theory: people with low skills are less likely to be in work, keep a job or command a decent wage (Taylor et al, 2012). However, the relationship is more complicated in practice, and influenced by the features of the labour market the individual operates in. A wide range of factors shape the context for low-skilled workers, including the level of economic development, pace of technical change, level of migration and the skills of migrants, penetration of trades unions and collective bargaining, whether or not there is a minimum wage and the tax structure (Paull and Patel, 2012). With regard to how likely people are to experience in-work poverty, support offered through the benefits system for those with low earnings is also important. So while the obvious response to human capital theory might seem to be to increase skills and qualification levels in order to reduce the risk of poverty, it is not always the most appropriate response for directly reducing poverty. Furthermore, a focus on increasing skills and qualification levels without a corresponding increase in demand for skills by employers may simply result in people working in jobs they are over-qualified for.

The future shape of the UK labour market

Research to project levels of poverty and inequality in 2020 examined how changes to the structure of employment to 2020 in terms of gender, occupation, qualifications, region and sector are likely to affect the distribution of incomes, and therefore levels of poverty. It found both poverty and inequality are likely to increase, with changes to the tax and benefit system having the biggest impact, although ongoing changes in the labour market exacerbate the effect (Brewer et al, 2012). This is because of the ongoing polarisation of the labour market into high-skilled, high-paid jobs on the one hand and low-paid, low-skilled jobs on the other. This is variously referred to as the 'hour glass' labour market or the 'hollowing out' of the labour market, as globalisation and technological change steadily reduces the number of skilled and semi-skilled jobs in the middle of the labour market (Goos and Manning, 2007). This is a process that has continued unabated through the economic downturn, as figure 1 shows.

However, there has been some debate around the concept of polarisation. Much of the research has analysed changes to occupations, whereas Mayhew (2012) looks at changes to the wage distribution. He finds that while there has been a growth in high-paid and low-paid jobs resulting from changes to occupations, increased educational attainment at the top of the pay scale, and declining unionisation at the bottom of the pay scale have been more significant drivers of polarisation.

Figure 1: Employment shares of occupation groups



Source: IFS slide pack for HMT Labour Market Conference October 2013

Modelling carried out by Brewer et al (2012) considered different scenarios for how the structure of employment and pay might change by 2020. These included: narrowing the gender pay gap, changing the balance of employment by sector, altering the regional distribution of employment and increasing qualifications. It found a general increase in qualifications results in greater income inequality with only small effects on poverty, while increased polarisation by occupation results in higher inequality but has little impact on the poverty rate (Brewer et al, 2012). However, it should be noted the analysis assumes a fixed level of total employment – the additional 1.5 million jobs by 2020 projected by the UK Commission for Employment and Skills (UKCES) Working Futures model – and so considered different distributions of employment rather than the impact of increased employment. If employment rates were to increase beyond those projected, and new jobs be taken up by those living in poverty, this could make a greater difference to poverty rates (Brewer et al, 2012).

However, the report highlights two problems with relying solely on labour market change as a means of tackling poverty. First, it will not necessarily help those that remain workless, who will be left further behind in a context where earnings are expected to grow while the value of benefits and tax credits continues to be held down. Second, continued polarisation in the labour market is expected to increase pay inequality, which is likely to have the effect of increasing median household income while only having a small impact on incomes below the median; as a result, relative poverty will increase (Brewer et al, 2012). In short, to have more impact on poverty reduction, interventions to increase qualifications or earnings would need to be targeted at those at the bottom end of the household income distribution.

This second problem points to a more general challenge: the relationship between low pay and in-work poverty is not as straightforward as it may appear. While labour market statistics – and indeed interventions – look at individuals, poverty is generally assessed and experienced at a household level. Clearly if a low paid-person lives with a much higher-paid person, they are unlikely to live in poverty. Indeed, only 54% of low paid workers live in low to middle-income households (Whittaker, 2012); although it should be noted that looking only at overall income hides who has power over resources within a family. Furthermore, figures from the New Policy Institute show 44% of people experiencing in-work poverty are not low paid, and do not live with anyone who is (Barnard 2014). So, while there are good reasons for seeking to improve the skills and pay of people that are in low-paid, low-skilled jobs in general, if the goal is to address in and out-of-work poverty in the context of constrained public finances, a general uplift in skills is not necessarily the most efficient way of doing this. A far more targeted approach is required.

Targeting households in poverty

In an ideal world, employment support and skills providers would identify households experiencing poverty, and then identify the appropriate interventions to boost their income. Depending on the circumstances of the individuals within the household, that could mean support to move into work; help to gain qualifications to secure a better paying job; help to increase the hours worked to boost overall household income; or support to overcome other barriers to work such as access to affordable childcare or the need for flexible working to accommodate caring responsibilities.

Research by Barnes and Lord (2013) breaks down in detail the work status and skill levels of individuals within households in different parts of the income spectrum. This enables detailed consideration of the circumstances within the household and insight into the responses that may be appropriate.

The research throws up some surprising results, such as 6% of households with children in poverty are dual-earning couples where both work full time; and nearly 20% of households in poverty contain someone with degree-level qualifications or above. Clearly the answer to in-work poverty is not as straightforward as simply increasing hours or increasing qualifications.

Some of the other findings are less surprising, confirming that workless households have the greatest risk of poverty, and that the working poor – especially where there are children present – are the largest group in poverty. Indeed, the largest single group of families with children living in poverty are ‘single breadwinner couple’ families. This suggests the choice of the traditional model of family life is no longer open to families on very low incomes if they want to avoid poverty (Lawton and Thompson, 2013; Schmuecker, 2013).

Considering the case of single breadwinner families demonstrates the way in which the labour market, tax and benefit systems interact to the detriment of some families. For example, one strategy to reduce in-work poverty for these families would be to support more second earners to work. However the work incentives within the benefits system are not strong for this group, and they are set to lose out in the transition to Universal Credit (UC), as it has no earnings allowance for second earners, meaning the value of UC payments reduces as soon as the second earner enters work (Hirsch, 2013). Yet the evidence suggests financial incentives are particularly important for second earners in low income households to move into work or work more hours. To this end, introducing an earning disregard for second earners, so they can keep more of their pay before benefits begin to be withdrawn, is likely to help this group (Lawton and Thompson, 2013). Other barriers, however,

frequently prevent it 'paying to work'. Chief among these is the cost of childcare and the challenge of balancing working and caring (Lawton and Thompson, 2013). Addressing the cost of childcare would also help to make work pay for lone parents (Hirsch, 2013).

While the evidence points to the need to target interventions better, this is likely to prove difficult in practice. Barnes and Lord (2013) suggest the data collected through Universal Credit presents an opportunity to better target interventions at households experiencing poverty, both in and out of work, as it will hold a wide variety of information about households that receive the benefit. Using and sharing this data across local services could significantly improve the targeting of labour market interventions to reduce poverty. Judging by past experience, permission and willingness to share data cannot be assumed, and steps should be taken to ensure it is shared.

Moving into work

Even without detailed data to enable interventions to be targeted at households that are experiencing poverty, the programme outputs offer insights into how welfare to work interventions for individuals can be improved to help people move into work, keep work and progress.

There is considerable international evidence about what works in welfare to work services. However, there are some tensions and choices to be made between different goals in the system. For example, evaluations show a 'work first' system – which encourages people to take up employment as quickly as possible – reduces the time that people spend out of the labour market and is cost-effective to deliver (Finn, 2012). However, a work first approach is not always conducive to an effective job match – where people move into jobs that they are suited to and that correspond to their skills and aspirations. Studies that look at medium-term impacts find more careful job matching and providing training can be more effective over this period, resulting in sustained employment (Devins et al, 2011). However, it should be noted that effective training is typically small-scale, targeted, addresses other barriers and takes place in a 'real world' environment (such as in a workplace or combined with a placement or work trial, rather than in a classroom) (Ray et al 2014 forthcoming; McQuaid et al, 2012).

Two projects in the programme considered the policy responses geared at specific disadvantaged groups in the labour market. Both of these projects highlight lessons for supply side policy measures.

A study of the transition into employment of young people who are not in employment, education or training (NEETs) found the quality of careers advice and support is particularly important for this group, as is personalised, face-to-face support, especially for vulnerable NEETs². However, a detailed qualitative study found NEET young people's aspirations are too often ignored and they do not always get the support they need. In particular, service providers struggled to identify suitable and high-quality work placements for the young people they worked with. In one case, expected ongoing support while on a work placement was not provided, to the detriment of the young person involved (Russell et al, 2014).

Another group disadvantaged in the labour market is those experiencing poor physical and/or mental health. A quantitative study for this programme analysed longitudinal data (following data for the same group of people over time) to track transitions into work, transitions once in work, and exit from work. It found those reporting poor health are significantly more likely to experience negative labour market transitions (such as becoming unemployed, failing to find work or moving into low paid work from a better paid job). This was especially the case where poor mental health was reported. As a result, the authors question whether a work first approach is appropriate for this group, given their propensity to negative labour market experiences. Instead they argue that Work Programme providers and other welfare to work providers need a much better capacity and capability to identify those with poor health, especially poor mental health, and recognise that they are likely to need a higher level of support to find and sustain good-quality work (Webber et al, 2014). The poor performance of the Work Programme for 'harder to help' jobseekers, including those moving off sickness and disability benefits, reinforces this finding (Work and Pensions Select Committee, 2013).

However, it should be noted that there are gaps in these findings, and there are a number of other groups – such as the self-employed, the long-term unemployed, lone parents, older workers, some ethnic groups and those with few or no qualifications – that would need to feature in a more comprehensive approach to using employment and skills policy to address poverty.

Progression in work

Given the scale of in-work poverty, which now affects more people than out-of-work poverty (MacInnes et al, 2013), the challenge on the supply side is not simply moving people into work, but supporting them to progress once in work, to increase their income and protect against poverty. In this sense, progression could mean helping someone move into a better job (with the same employer or a different one) with better pay or, where possible, to work more hours. Currently, the welfare to work system is focused on moving people into work quickly, and – in the case of the Work Programme – sustaining employment. However, a stronger focus on progression in work would help households move beyond in-work poverty, and turn dead-end jobs into stepping stones. It would also help to move people out of the benefits system altogether, rather than simply moving them from out of work benefits to in work benefits.

The UK system is heading in this direction with the introduction of in work conditionality within Universal Credit, whereby claimants on low-wages and/or low hours will be expected to take steps to increase their earnings. However, this is an area where evidence of what works remains relatively light, as does the readiness of welfare to work services to deliver it. Recent research suggests that employment and skills providers gear their support towards sustaining employment, rather than progression. This is perhaps not surprising given the many of the participants in the study held Work Programme contracts, which are structured to reward sustained employment (Wilson et al, 2013).

The negotiation of the next round of Work Programme contracts offers an opportunity to consider how the system can be geared to better support progression. However, this would need to go hand-in-hand with strengthening the evidence for what works in supporting progression. When asked about the services they offer to clients once in work, providers do not regard financial incentives to progress as a priority part of their offer, and generally offer ongoing advice instead. However, evidence suggests advice on its own is not effective. The evidence appears to support ensuring people are placed in jobs they are suited to, combined with advice, training and financial incentives to sustain employment and progress (Wilson et al, 2013; Ray et al, 2014 forthcoming). However, even here the evidence is mixed, with doubts about whether financial incentives have a lasting impact beyond the life of the programme in many cases (Ray et al, 2014 forthcoming), and there remain few good quality studies in this area.

Shifting the system towards progression will also require employers to take a keener interest in progressing their low-paid staff, but the evidence demonstrates few employers offer training to those in elementary occupations (McIntosh, 2013). Furthermore, employees will need to be willing to receive support and undertake training. A study of what motivates low-paid employees in the care and hotel sectors to undertake training found that low-paid employees valued it as a way of improving their employment prospects. However, the same study also found cost was the major factor affecting the decision to undertake qualifications (54% reported this), followed by the times at which training was offered, which accounted for 26% (with training conducted in their own time a significant barrier). Job attributes such as anticipated job satisfaction, security or greater responsibility were only responsible for 15% (McQuaid et al, 2012).

Not only do low-paid staff need to be willing to undertake training, there must also be jobs available for them to progress into. To this end, the role of employers is critical through their demand for skills, as discussed in the next section.

The role of employers

Several reports for the programme focused on how employers can reduce poverty by ensuring people remain in work, and have the opportunity to progress, making it more likely that work is a route out of poverty. This requires employers to focus on the demand for labour and skills – an arena public policy has been somewhat reticent to enter (Sissons and Jones, 2014). On the one hand, this means

understanding the pressures and drivers acting on business at a structural level – pressures that shape decisions about how to compete in markets. On the other hand, it is also about understanding how decisions are taken within individual businesses and how a business case for better jobs can be made.

The big picture: structural issues

To understand firm-level behaviour, it is essential to understand the economic context that the firm is operating in. Research by Devins et al (2014) looks in detail at pay and progression practices in retail, catering and care. The three sectors employ almost six million workers and account for about a quarter of all employment in the UK economy. More than half of the UK's low-paid workers are employed in these sectors, and non-standard working contracts (for example, part time, temporary and zero-hours) are common.

On the face of it, these three sectors may seem to have a number of similarities, not least their large volumes of low-paid, low-skilled work. But the pressures driving firm behaviour vary somewhat. In retail, globalisation, technological change and consumer demand are affecting the supply chains, exports and in-store operations, and the growing number of discount retailers is placing pressure on many retailers to continue to reduce costs. In catering, the same broad drivers have resulted in a growth of routinised processes, with some jobs – such as chefs – being de-skilled as a more standardised 'production line' approach is taken by some firms to ensure consistency across different sites. However, in some areas consumer resistance to standardisation is driving some businesses to up-skill their workforce in order to offer a more personalised experience. In the care sector, globalisation and technological change are also changing approaches and creating new opportunities, but it is the marketisation of services and a squeeze on public funding that are having a more significant impact on employer strategy (Devins et al, 2014).

Within this context, the strategies of individual employers – and how they choose to compete in the markets they operate in – determine their approach to supporting low-paid and low-skilled workers' progression. This is often reduced to differentiating between 'high road' and 'low road', or 'added value' and 'cost-minimisation' strategies. The 'low road' or 'cost-minimising' strategies tend to result in relatively short-term and ad hoc approaches to worker development, which in turn influences low levels of investment. However, while these metaphors are useful as a rule of thumb, in reality they mask considerable diversity, both between and within firms.

Nonetheless, there are many employers that are able to successfully compete on the basis of low cost, with an operating model underpinned by low wages, little training and few progression opportunities, and high staff turnover. For many businesses in low-paying sectors such as retail, catering and care, high staff turnover is simply accepted as a business cost (Devins et al, 2014). One of the reasons firms are able to compete on this basis is the plentiful labour supply for low-skilled, low-paid jobs resulting from women and students seeking part-time work, active labour market policies pushing previously inactive people back into the labour market and international migration (Philpott, 2014 forthcoming).

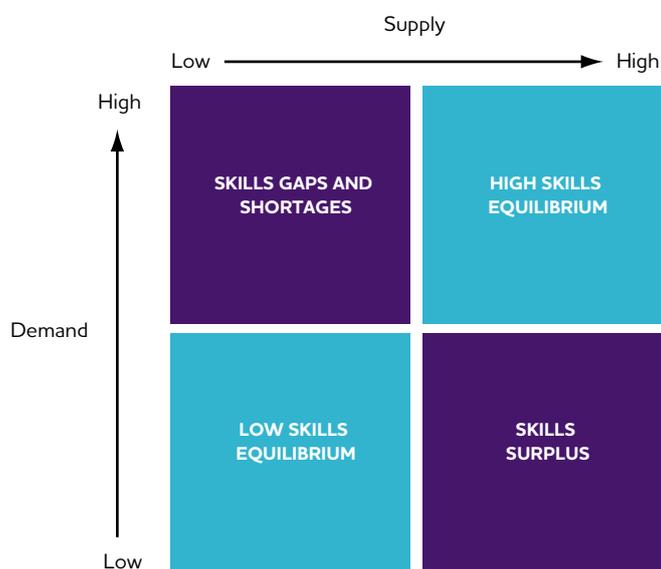
Wider labour market structures are also important here. Legal and regulatory requirements such as minimum wages, employment law and training and skills requirements in certain occupations and the presence (or absence) of collectivism in workplaces – through organisations like trades unions – all influence the competitiveness strategies firms pursue (Philpott, 2014 forthcoming; Lawton and Lanning, 2012). There are also opportunities for change at both a local level and an individual firm level, both of which were explored in parts of the programme.

The medium picture: opportunities at a local level

Employer demand for skills matters, and can provide opportunities for workers to progress in the labour market. But the nature of the labour market varies considerably between places. Green (2012) uses the idea of high and low-skills equilibriums (see diagram in figure 1) to identify the main skills challenges in different parts of the UK. Areas of most concern are those with low-skills equilibrium, as they are characterised by a predominance of low-skill and low-wage firms operating with lower value added product market strategies which compete primarily on cost rather than quality. Peripheral rural

areas and former industrial areas are more likely to be in low-skills equilibrium. Skills surplus areas are also of concern, as skills are more likely to be under-used here, meaning people work in jobs they are over-qualified for and don't make use of the skills they have. Not only does this mean they risk their skills atrophying through lack of use, but also the productivity gain that should flow from higher skills is not exploited (Sissons and Jones, 2014).

Figure 2: Low and high-skills equilibriums



Taken from Sissons and Jones (2014)

Being trapped in labour markets where the dominant problem is either low-skills equilibrium or skills surplus is not only bad for the people that live there – who may find it harder to find good work – it is also bad for the local economy. Evidence suggests that in these areas, integrating local skills strategies with economic development, innovation and business support strategies can result in more opportunities to shape firms' demand for skills (Sissons and Jones, 2014). However, the precise interventions are less clear as this is an area where public policy is less established and more experimentation is needed. Nonetheless, research to date has highlighted:

- incremental innovation (gradual improvements to processes, goods and services): Low-wage sectors are often labour intensive, and it is skills, management and working practices that are likely to boost productivity rather than investments in technology (Ashton and Sung, 2011). Strategies include moving to higher-value, more customised goods or services;
- structured progression programmes for low-earners: Developed in partnership with employers, these programmes promote advancement in work by linking training for low-wage workers with structured progression opportunities within their firm, sector or community;
- stakeholder involvement in the design and delivery of training: involving employers, trades unions and training providers in this process helps ensure course content delivers the skills needed by employers. Furthermore, research highlights employer networks as an effective way to spread good practice and reduce the cost of negotiating course content (Cox, 2013).

Some international examples of these approaches can be found in box 2. In the UK, skills policy is devolved to Scotland, Wales and Northern Ireland. Within England, policy-makers have been moving towards decentralising skills responsibilities and budgets to city regions and employers. This should make it easier for different places to address the specific challenges in their area, and presents opportunities for functions to be joined up in a way that tends to approximately correspond to labour

market areas. However, the experience in one of the first city regions to gain a substantial skills settlement suggests further capacity building will be required for local skills strategies to help drive demand for skills and develop appropriate strategies to tackle poverty. Improved data availability – such as UKCES provision of employer skills survey data at city regional level – should help here. Nonetheless, challenges identified by Sissons and Jones (2014) include:

- having the skills and labour market intelligence to be able to identify the local priorities and challenges, and how these differ between different sectors;
- identifying measures to support high employment as well as high-value sectors. This is likely to require interventions such as incremental innovation programmes. However, this sort of thinking is less evident in city regions, which tend to be more focused on high-value sectors of the local economy;
- whether to target all firms or to focus resources on growing firms, firms with potential for growth, or firms creating ‘good jobs’. How to effectively engage a lot of employers also remains a challenge.

These are topics that will be explored further through JRF’s Cities, growth and poverty programme.

Box 2: International examples

Jobs with a Future Partnership, based in the US state of Wisconsin, created a training programme in phlebotomy (drawing blood from a patient for medical testing) which provided a career progression route for low-paid workers in the health care sector. The programme offered a six-week training course which enabled certified nursing assistants to move up into entry-level phlebotomist positions. Employer engagement in the programme was partially driven by a shortage of phlebotomists and the time it took to train them. It therefore benefited both workers and employers. The Jobs with a Future Partnership has also developed programmes with job seekers and manufacturing employers. It has effectively engaged large numbers of employers and enabled them to collaborate. It also built relationships between employers, job centres and technical colleges.

Workplace Development Programme was a Finnish scheme to reduce the under-use of skills through workplace practice, in turn increasing productivity and quality of life. Covering 1,600 workplaces and 135,000 people between 1996 and 2003, the programme involved three main types of activity: use of external support for workplace development; dissemination of knowledge; and strengthening workforce development infrastructure. The evaluation findings for the programme were largely positive and as Payne (2004; 495) states: “At its best, the programme supports the simultaneous development of technologies, work organization, management strategies, staff skills, working conditions and occupational health.”³

Adapted from Sissons and Jones (2014)

The small picture: actions by individual employers

Beyond the big picture and the opportunities for functions to be joined up at the city regional level, there is also scope for individual employers to make a difference to in-work poverty. A clear example of this is the 433 employers accredited as Living Wage employers by November 2013. However, being a Living Wage employer is not the only action employers can take to address the problem of bad work in the UK.

Detailed qualitative research into the experiences of NEET young people found that personalised, face-to-face support that is rooted in the aspirations and interests of the young person and overcomes the specific barriers they face is important in helping them enter work. However, it also found that the transition into work can be smoothed by the actions of employers, helping to increase the likelihood of work being sustained. In particular, well-established structures for socialising new

employees into the workplace such as formal induction and training, mentoring arrangements and clear opportunities for progression all appear important (Russell et al, 2014).

The role of employers was also emphasised in research into progression practices in the retail catering and care sectors. Positive practices included , extensive mapping of job roles at lower levels and their alignment with training and development opportunities to create 'progression ladders', particularly in larger organisations where there are a larger number of job opportunities. Less formal practices can also support progression, including job rotation, coaching and mentoring (Devins et al, 2014).

But the development of progression routes must go hand-in-hand with positive management practice, with managers alerting staff to new opportunities, encouraging them to learn and providing constructive feedback and support, both within and outside their personal development reviews.

Many low-paid workers do not feel that this support is forthcoming. They are also trapped in low pay due to excessive focus on formal training for their existing job, rather than transferable skills, and a lack of informal development opportunities such as shadowing or mentoring. Even employers that have good progression structures can experience pockets of bad practice (Hudson et al, 2013). As such, it is critical that opportunities are clearly defined and communicated to all workers; that senior staff, middle managers and supervisors commit to the ethos of progression; and that staff development and progression is written into the performance objectives of line managers (Hudson et al, 2013; Devins et al, 2014; Philpott, 2014 forthcoming).

Case studies with low-paid employers show those that offer progression routes are convinced of the business benefits of doing so. Key factors associated with developing progression practices are outlined in box 3. These experiences and models need to be shared more widely among employers, which can be effectively spread through peer-to-peer learning opportunities (Devins et al, 2014; Sissons and Jones, 2014; Stanfield et al, 2009). These are themes that will be explored further in JRF's Anti-poverty employer programme.

Box 3: Ways employers can develop progression practices in low-paid, low-skilled sectors

- Developing persuasive evidence and a business case to 'sell' the idea of progression in the organisation. For example: reducing the costs of labour turnover and sickness; improving quality and service; succession planning to ensure a 'pipeline of talent' that supports organisational growth; incentivising higher productivity. The most effective arguments will vary between employers and depend on the challenges and opportunities an individual business faces.
- Galvanising senior management support for the progression of low-paid, low-skilled workers through a sound business case, employee campaigns or peer-to-peer and social pressure. This may be expressed through a high-profile, clear company policy. Good management throughout the organisation is also needed to ensure policies are put into practice. An employer ethos that values learning and progression seems to help here.
- A coalition of champions at different levels of the organisation to develop, implement and sustain progression practices. This should include senior management, line managers, employees and union representatives, including union learning representatives.

Devins et al (2014)

It should, however, be acknowledged that the incentives to progress from entry-level jobs are typically relatively small. Often the reward for promotion is merely a small pay increase, and it can take several promotions before reaching average earnings levels (ONS, 2012). It is therefore perhaps not surprising that other research finds limited interest in progression among low-paid, low-skilled people

who report the extra responsibility, stress and changed relationships with colleagues is not justified by the additional pay (Wilson et al, 2013; McQuaid et al, 2012).

Implications for policy and practice

Action on a number of fronts is needed for work to act as a more reliable route out of poverty. Not only must welfare reforms to 'make work pay' be realised, but it must also be recognised that changes to the tax and benefit system cannot succeed in isolation from changes to the nature of work at the bottom of the labour market. Alongside welfare reform and changes to the tax system, welfare to work and skills policy must be used more effectively to combat poverty, especially in-work poverty.

This will require interventions to be more closely targeted at households with the lowest incomes, tailored to suit their circumstances. Universal Credit should offer some opportunities in this regard. But data will need to be shared with other local service providers for greater progress to be achieved. Evidence shows personalised and flexible support for people moving into work, along with a good job match, helps to deliver sustained and better quality employment. Currently, this is not being delivered effectively for some groups.

The introduction of in-work conditionality within the benefits system has potential to help reduce in-work poverty, if people are supported to increase their hours, move into a better-paid job or undertake training to progress in work. However, for some people, wider barriers to work such as caring responsibilities or the high cost of childcare will also need to be addressed. Evidence of what actually supports progression remains light, and providers will need to be differently incentivised to shift their focus from entering and sustaining employment to progression.

The current government's adult skills policy also has the right ambitions: to drive up the quality of qualifications, ensure qualifications are relevant to the labour market and increase employers' involvement in the design and delivery of training to ensure people have the skills businesses need. However, the key challenge is how to drive up employer demand for skills and their commitment to the progression and development of their low-paid, low-skilled workforce. In part, this can be done at individual employer level, by making the business case for better employment practice, improving management practice so well-intentioned policies for staff learning and development are rolled out consistently. But there is likely to be a role too for sharing practice among employers.

One opportunity for wider change is presented by the city regional agenda, through the integration of some elements of employment and skills policy with industrial strategy and business support. However, to achieve this potential will require greater strategic capacity at a city regional level, along with more experimentation around ways to drive up employer demand for skills and building progression structures.

However, the potential that these policy development offer is hard to realise at a time when the value of in and out-of-work benefits is being eroded, the cost of essentials has been increasing sharply and average earnings are forecast to remain stagnant until some time in 2014. As economic growth picks up, attention needs to focus on ensuring those experiencing poverty share the benefits of recovery. For work to offer a sustained route out of poverty, this has to include improvements to pay, employment conditions and progression opportunities for those in low-paid, low-skilled work.

About this paper

This round-up draws on the JRF programme of research on the future UK labour market and poverty, managed by Katie Schmuecker, a programme manager in the policy and research department at JRF. Earlier phases of the programme were managed by Chris Goulden and Helen Barnard.

Notes

- 1 It should be noted that the measure used for being stuck in persistent low pay was whether people have only held low-paid work while in employment during the period; this means there will be overlap between the group stuck in low pay identified by Hurrell (2013) and those cycling in and out of low pay identified by Wilson et al (2013).
- 2 Vulnerable NEETs are defined in the report as those with few or no qualifications and minimal work experience; those experiencing personal and social barriers to participation, such as learning difficulties, caring responsibilities or early parenthood; those with unstable circumstances as a result of factors such as estrangement from family or youth offending; and those with negative experiences of education or employment.
- 3 The evaluation findings relied largely on self-reporting, with less 'hard evaluation' evidence (see Alasoini et al, 2005; Alasoini et al, 2008; Payne, 2004)

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