

London ESIF 2014-20 Programme Background Information
Low Pay (in-work poverty)
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1. TARGET GROUP(S)

Who are the key groups to be targeted? **What is the evidence of need?** Please be as specific as possible about who the provision will target.

In-work poverty is an increasing issue for London and the UK. Stark statistics from 2012 showed that there are now more people in poverty in working households in the UK (6.1 million) than there are in workless households (5.1 million).¹ There has also been a rising concern that many of those in low paid work are unable to progress beyond it into better paid and more stable jobs.

The rise of in-work poverty has in part been caused by structural changes in the labour market. A recent Work Foundation report describes the UK as having an “hour-glass economy,” with most new jobs created being low-skilled and low-waged, with others being high-skilled and high-waged.² There has also been a ‘hollowing out’ of the economy with many mid-level jobs being lost as a result of deindustrialisation, increased competition as a result of globalisation and technological advances. The overall effect of this is intense competition at the ‘bottom’ end of the labour market, with those with mid and low-level skills competing for the same jobs. This UK wide picture is even more intense in London.³ HM Treasury estimated in 2006 that there were 3.1 low-skilled residents to every low-skilled job in London, compared to 2.3 in the rest of the UK.⁴

The flexible nature many jobs has compounded this ‘hollowing out’ of the labour market. In the 1980s and 1990s successive governments relaxed employment law making it easier to hire and fire staff. This led to an increase in part-time and temporary work, subcontracting and agency work. Whilst this allowed greater participation in the labour market (for example, for women), it also led in some cases to underemployment, falling wages, the removal of benefits (such as sick pay and pension contributions) and insecurity. The new flexible labour market, with an oversupply of mid and low-skilled people, discourages some employers from investing in their staff and fostering progression.⁵

As such, there is now a significant problem with many people are stuck in or cycling in and out of low paid, insecure employment with few progression opportunities. Overall, 21% of London workers (625,000 people) are paid below the Living Wage. Whilst median hourly wage growth for low paid Londoners is on average higher than for the workforce as a whole (10% v 4%), there are a sizeable proportion of low paid workers, 28%, who experience hourly wage growth of less than the national median (2.5%), and this is the group that can be described as ‘stuck in low pay’.⁶ Research by the JRF found that those in low-skilled occupations and on part-time/temporary contracts are far less likely to have career progression opportunities than others.⁷

There are, therefore, two sides to the problem. On the one hand there is low pay which is fuelling increasing in-work poverty and on the other there is a lack of progression opportunities, which is limiting the ability of individuals to get out of the low pay.⁸

There are a number of factors that can trap people in low-paid work with limited progression opportunities:

Many individuals in low paid work lack the **aspiration or motivation** to look to progress, often because of a perception that their sector/employer does not provide progression

opportunities.⁹ Others are concerned about the stress of progressing, given increased workload and responsibility. Others see the only progression route as changing jobs and thus shun the idea, as the desirability of progression is outweighed by the fear of losing the stability of their current employment even if it is low paid. Finally, transportation costs, especially in London, can act as a barrier to progression, when progression will mean changing jobs. The quality of the initial job match is also very important; where people are in jobs that do not match their aspirations or talents they are more likely to leave the job early or too be less motivated to look to advance.¹⁰

Lack of skills is a significant barrier to progression and levels of skills are strongly correlated with employment rates and earnings. For example, whilst 21% of Londoners in work were earning less than the Living Wage, the proportion of those with no qualifications who were doing so was more than double, at 54%.¹¹ Similarly, *Inclusion's* analysis suggests that those with no qualifications were 61% more likely to be at risk of cycling in and out of work than the workforce as a whole.¹²

As well as the 'supply side' issues noted above relating to the skills and motivation of employees, progression requires good 'demand side' **employer practices**, including having processes and an organisational ethos that allow progression. The literature identifies a number of sectors or occupational roles as having particularly low levels of progression including customer services roles, elementary roles and the hospitality and care sectors. In retail 48% of employees earn £7 an hour or less and in hospitality the figures is 65%.¹³ Moreover, low pay is concentrated amongst young people working in these sectors.¹⁴ These sectors and roles are also those where there is the greatest risk of cycling in and out of work.¹⁵ The fact that there is a consistent concentration of low-pay, low-progression in these sectors suggests that sector focussed intervention may be effective.

It is possible to identify some specific groups where the issues are even more prevalent:

Inclusion reports that in 2012-13 there were 164,000 Londoners at risk of **cycling in and out of work** (defined as those who had either become unemployed or moved from unemployment into low-paid work in the previous year).¹⁶ Recent figures published by the DWP show that sizeable proportions of 'new' JSA claims are made by people who have made a series of previous claims, and can therefore be said to cycling in and out of work. In total, 28% of individuals aged 22-24 who made a JSA claim in 2010-11 who had had 3 or more spells on JSA lasting a combined time of 1 year or more over the previous four years. The equivalent figure for those aged 32-24 was 17% (23% had made 3 or more previous claims for a total duration of 6 months or more). Those cycling in and out of work have an increased likelihood of flowing into long term unemployment; 55% of those with 4 or more spells on JSA with a cumulative duration of 2-4 years were still in receipt of JSA 12 months later, compared to only 12% of those with no previous claims.¹⁷

Young People in London have the highest risk of being stuck in low-pay jobs with a lack of progression opportunities. Indeed, young Londoners are apparently more than twice as likely to be stuck in low pay than Londoners as a whole.¹⁸ Of course, young people often find their first step onto the career ladder through low paid work and progress later on in life however, "a feature of the [economic] recovery has been a significant increase in under-employment, with record levels of those in part-time work saying they would prefer to have a full time job and significant numbers wanting more hours."¹⁹ Young women in particular face poor progression prospects as compared to young men, in part because young women were more likely to be employed in customer services and elementary roles

or in the hospitality sector.²⁰ Key barriers faced by young people include lack of motivation, work experience and relevant work related skills.

Women and lone parents. In total, 24% of women and 42% of lone parents in London who are in work are earning below the Living Wage.²¹ IPPR have found that there was strong evidence of a 'gender pay gap' with 64% of low-paid workers in a 2006 survey being women.²² For many, a principle barrier is the lack of quality part-time or flexible work that balances childcare commitments with employment, particularly given the high costs of childcare in London.

The evidence shows that lone parents are a particular area for concern; lone parents are 19% more likely to be at risk of cycling between low-pay and unemployment than the workforce as a whole.²³ This in turn increases the likelihood of the family, and thus the children, being in poverty. Lone parents face particular barriers to securing fixed employment with routes for progression, including motivational or confidence barriers stemming from long periods out of the labour market.

BAME people. In total, 29% of BAME people in work in London earn less than the Living Wage, compared to 21% of the entire workforce.¹ The latest edition of the Mayor's Annual Equality Report (from 2012/13) noted that the gap in median pay between BAME and white groups was 24.4%. Research has found that progression opportunities can be limited because of informal workplace practices, including "workplace favouritism, stereotyping (including type-casting in certain roles) and under-recognition of skills and experience" of BAME employees.²⁴ Moreover, given that ESOL provision is not funded for those in work, this can trap those without good English in particular types of employment, meaning they have fewer opportunities for progression.

What evidence of good practice/what works will the proposed intervention build on?

There is not a great deal of evidence as to what works in terms of increasing pay and fostering progression. What is clear, however, is that there are two distinct strands of activity that are likely to be needed: customer focused ('supply side') support and employer focused ('demand side') support.

The most concerted effort in the UK to improve retention and progression was the Employment Retention and Advancement (ERA) programme, which ran in six JCP districts from 2003 to 2007. The programme focused on unemployed and low-paid lone parents and the long-term unemployed on New Deal 25+. The programme provided up to nine months pre-employment support followed by two years of in-work assistance. Specialist Advancement Support Advisers (ASAs) helped clients find, sustain and progress in work. A key feature of ERA was financial incentives to encourage people to work over 30 hours a week. ERA seems to have been most effective for the long term unemployed, with limited and un-sustained impacts for lone parents. Nevertheless, successful elements from ERA should be considered when formulating any progression programme.

Research evidence shows that the role of the **personal advisor** is key to successful delivery of interventions aimed at sustainment and progression. *Inclusion* found that "good quality adviser support would appear to be critical. This needs to be based on supporting

¹ CESI p.28.

customers to set and develop their career goals, maintain momentum, and find and access the support that they need.”²⁵ One key element of ERA was the Advancement Support Adviser, despite the fact that many advisers had not been trained adequately. Similarly, one successful progression-focussed intervention in the USA emphasised the importance of “individualised services to support training completion and success on the job” delivered by personal advisers.²⁶

However, it should also be noted that customers of employment programmes often do not want continued support from their advisers after they have entered work. For example, Want to Work, an employment programme for economically inactive people in Wales, found there was low take-up of offers of in-work support.²⁷ Similarly, Work Programme providers have also anecdotally reported lack of customer interest for in work support.

Research evidence suggests that one of the best ways to increase wages is to **change job**. *Inclusion* found that those in low-paid work that change jobs experience greater median wage progression (33%) compared with those who do not (9%).²⁸

Whilst there has been a ‘hollowing out’ of mid-level skilled jobs in the labour market, there are nevertheless skills gaps in the economy that can be filled with **training**. UK Employer Skills Survey data demonstrates that employers often struggle to find skilled individuals for trades and manufacturing roles in particular.²⁹ These shortages evidence a need for training to be incorporated in provision to unlock the skills which will allow for the individual to develop and progress. *Inclusion’s* recent *Work in Progress* report identified that job related training increased average wage progression among the low-paid by 5 percentage points compared to those who did not receive any training (13% compared with 8%).³⁰

The key with training is to ensure that it meets employers’ needs. Research showed that training was associated with a wage increase of around 0.5% but that this jumped up to 2% if employer led.³¹ Similarly, the positive impact of training within ERA was most pronounced where it was targeted at labour market opportunities. Too often training was not used strategically and thus failed to have the greater impact that it might.³² Even when training was not used strategically, it was still felt to be important in engaging customers with the programme. The Employer Ownership of Skills Pilots have demonstrated the positive effects of engaging employers in the design of training and the central role that employer plays in progression.³³

Financial incentives have an important role in helping people sustain and progress in work. The ERA pilots used financial incentives to encourage people to work longer hours than they might have otherwise by offering up to six payments of £400 (over two years) if participants worked 30 or more hours per week. The effect of this seems to have been positive for example 52 per cent of WTC bonus recipients indicated that the bonus had a major influence on their decision to work full time.³⁴ ERA also offered financial incentives for undertaking training. As well as paying up to £1000 of tuition fees, ERA also made a small payment to customers for every hour of training completed (up to £1000). Again, this seemed to have a positive effect in encouraging participants to take up training opportunities.³⁵

Financial support for transportation and childcare of up to £300 was provided as part of ERA through the emergency discretion fund (EDF). *Work in Progress* identifies that transport costs and childcare are two of the key barriers to work and advancement faced by customers and that this is exacerbated by the high price of both in London.³⁶

The **engagement of employers** is central to the facilitation of progression for an individual, as ultimately it requires employers to provide opportunities to their employees. What this means for programme design is that this cannot be a single approach and that there must be a focus on both the employer and employee.

Employers may be reticent about working with providers to support their employees to progress as they may see this as encouraging employees to leave their organisation or giving them unrealistic expectations. Moreover, stakeholders have reported that employers are “flooded” with offers from employment and skills providers, making it harder to engage with them. Nevertheless, offering progression opportunities has a series of benefits for organisations, including lower staff turnover, increased staff morale and motivation, a workforce with tailored skills and increased productivity.

There are a number of examples of good practice that can be learned from.

- In the US local ‘career clusters’ have been established which design training to help people enter and progress in work in particular sector. Provision was designed collaboratively by actors in a range of sectors, including government, education and business, in order to design a curriculum based on their knowledge of progression needs in that sector.³⁷
- Firm-level approaches, whereby a provider offers support to individual companies in terms of employment and workforce development can be effective, as they ensure that for employers the support is aimed specially at meeting their needs, rather than those of the unemployed person. In the UK, Women Like Us offer parallel recruitment and HR services for small businesses alongside support for customers.³⁸
- Another US programme developed three successful sector-focused interventions that aimed to bring disadvantaged job seekers into employment and to help low-skilled workers progress. Whilst each intervention employed a unique strategy and designed a programme reflective of local needs, there were some common elements to all programmes, including having a strong relationships with local employers and an detailed understanding of the jobs that they were targeting. For example, one intervention had a focus on the IT sector, and the provider, knowing that practical experience was valued by the employers he was working with, arranged internship opportunities and brokered interviews.³⁹
- In Scotland there has been a focus on skills utilisation. Skills utilisation comprises two elements; the use of better skills and the better use of skills. The concept is about unlocking the skills held by an individual and utilising them to the greatest effect to the benefit of both the individual, the employer and, ultimately, the economy.⁴⁰ Twelve projects demonstrated different ways that this can be carried out and involved the employer and employees working together to make better use of employees skills. For example, one machine operative was found to have linguistic skills which allowed him to progress into a distribution role, benefitting both him (in terms of career progression) and his employer (in terms of access to new markets).⁴¹

Sectors that are growing may offer better opportunities to engage with employers, as these employers may be operating with slightly higher margins than declining or mature sectors and therefore have the capacity to develop their workforce.⁴² London is a vibrant and growing city. The Growth Deal for London highlights three sectors that are growing in particular and which may present opportunities (including in support roles): digital creative; science; and technology.⁴³

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- ² E. Anderton & S. Bevan, *Constrained Work? Job enrichment & employee engagement in low wage, low skill jobs*, The Work Foundation, (Feb 2014), p. 3.
- ³ 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*, London: IPPR
- ⁴ *Ibid.*, pp. 6-7.
- ⁵ *Ibid.*
- ⁶ T. Wilson, L. Gardiner, K. Krasnowski, *Work in Progress: Low pay and progression in London and the UK*, Centre for Economic and Social Inclusion, (Oct 2013) p. 6.
- ⁸ T. Shildrick, R. MacDonald, C. Webster and K. Garthwaite, *The low-pay, no-pay cycle: Understanding recurrent poverty*, (November 2010).
- ⁹ *Ibid.*, p. 57.
- ¹⁰ *Work in Progress*, p. 34.
- ¹¹ Inclusion, p.28
- ¹² *Ibid.*, p.34.
- ¹³ Low Pay by Industry, *The Poverty Site*, <http://www.poverty.org.uk/52/index.shtml?2>
- ¹⁴ *Ibid.*
- ¹⁵ *Work in Progress*, p. 40.
- ¹⁶ *Work in Progress*, p. 33
- ¹⁷ Department for Work and Pensions, *JSA benefit history and benefit receipt*, (March 2013), p. 6.
- ¹⁸ *Work in Progress*, p. 34
- ¹⁹ I. Brinkley, K. Jones & N. Lee, *The Gender Jobs Split: How you men and women experience the labour market*, Touchstone Extras (2013), p. 6
- ²⁰ *Ibid.*, p. 12.
- ²¹ ONS data from *Work in Progress*, p. 28.
- ²² G. Cooke & K. Lawton, *Working out of poverty: A study of the low-paid and the 'working poor'*, (2008) p.10.
- ²³ *Work in Progress*, p. 79
- ²⁴ Hudson, M. et.al (2013), *In-work poverty, ethnicity and workplace cultures*, p.49
- ²⁵ *Work in Progress* p. 74.
- ²⁶ S. Maguire, J. Freely, C. Clyner, M. Conway, & D. Schwartz, *Tuning in to Local Labor Markets: Findings from the sectoral employment*, (2010) p. 51.
- ²⁷ Riley, T. et al (20xx), *Want to Work Evaluation. Final report*
- ²⁸ *Work in Progress*, p. 41
- ²⁹ J. Clifton, S. Thompson, C. Thorley, *Winning the global race? Jobs, skills and then importance of vocational education*, (June 2014) p. 5.
- ³⁰ *Work in Progress*, p. 43
- ³¹ *Work in Progress*, p. 43.
- ³² *Ibid.*, p. 68
- ³³ UKCES, *Employer Ownership of Skills: Building the Momentum* (March 2013), p. 4.
- ³⁴ DWP, *Breaking the low-pay, no-pay cycle: Final evidence from the UK Employment Retention and Advancement (ERA) demonstration* (2011), p.64
- ³⁵ *Ibid.*, p.65
- ³⁶ *Work in Progress*, p.34
- ³⁷ *More than a foot in the door*, p. 20.
- ³⁸ *More than a foot in the door*, p. 20.
- ³⁹ S. Maguire, J. Freely, C. Clyner, M. Conway, & D. Schwartz, *Tuning in to Local Labor Markets: Findings from the sectoral employment*, (2010) p. 49.
- ⁴⁰ C. Warhurst & P. Findlay, *More Effective Skills Utilisation: Shifting the Terrain of Skills Policy in Scotland*, (2012), p. 10.
- ⁴¹ J. Payne, *Scotland's Skills Utilisation programme: an Interim Evaluation*, SKOPE Research paper No. 101, (June 2011), p. 9.
- ⁴² *Ibid.* p.19
- ⁴³ London Enterprise Panel, *A Growth Deal for London* (2014), p. 5.