

Low Pay and Progression in Greater Manchester

**A report by the Centre of Economic &
Social Inclusion**

Paul Bivand



European Union
European Social Fund
Investing in jobs and skills

**new
economy**

CONTENTS

| | |
|---|----|
| EXECUTIVE SUMMARY..... | 3 |
| 1 The context for this report..... | 7 |
| 2 Defining low pay and ‘stuck’ in low pay..... | 9 |
| 3 Supporting progression – a review of the literature..... | 12 |
| 4 The dynamics of low pay in Greater Manchester..... | 31 |
| 5 The personal characteristics of people who are stuck in low pay, escape or decline..... | 34 |
| 6 Low pay dynamics and the jobs low paid people are doing in Greater Manchester..... | 42 |
| 7 What do local employers think about progression and low pay?..... | 48 |
| 8 Ways forward to tackle low pay for those stuck in low pay in Greater Manchester..... | 50 |

EXECUTIVE SUMMARY

- This report is part of a larger project looking at low pay in Greater Manchester carried out during 2015. This report examines low-pay dynamics: people who decline into low pay, people who escape from low pay and people who are stuck in low pay. It was commissioned by New Economy from the Centre for Social and Economic Inclusion.
- Greater Manchester is due to get greater powers over aspects of the skills and employment system in 2017 following the devolution deals, in particular control of the Adult Education Budget and influence over commissioning employment programmes.
- For this report we looked at three definitions of low pay: below the National Minimum Wage, below the Living Wage and below two-thirds of median hourly pay.
- We chose below two-thirds of median hourly wages because of the data available. There is limited data on changes in earnings in Greater Manchester, and this definition gave us enough to report on.
- We defined 'escapers' as those who were working below the low-pay level at the beginning of the survey and were working above the low-pay level 15-months later. 'Decliners' follow the opposite pattern, and 'stuck in low pay' are those below the low pay threshold at both points.
- We used Office for National Statistics' Labour Force Survey data based on individual responses for the analysis. Using this data we examined responses over a 15 month period to understand the dynamics of the labour market over this period. We defined post-2011 as the post-recession period, presenting us with fairly consistent measures of major factors to analyse.
- The issue of who is stuck in low pay, and how to help them progress, has become an increasingly high-profile issue. Several major reports have examined the issue over the last few years, and there has been official interest through the UK Commission for Employment and Skills (UKCES) and through DWP's In-Work Conditionality under Universal Credit.
- The majority of people in Greater Manchester who were low paid at the start of the observation were still in low pay at the end. We call this group of people 'the stuck'. We estimate there are 99,000 people in this category in Greater Manchester. There are also 53,000 who moved to higher paid work ('the escapers') and 51,000 who moved down into low pay ('the decliners'). The total low-paid workforce also includes those who left work and those who had just started work, but they are not included as subjects of this report.
- Those stuck in low pay are more likely to be over 30, female, have children, and be disabled.

- The characteristics of decliners and escapers are, in most cases, similar. They are, on average, younger than those stuck on low pay, and, which may be connected to their age, better qualified. This similarity may indicate that their escape may not be permanent and they may cycle above and below the low pay threshold
- Of all the low-paid workers in Greater Manchester, 55% work in three occupational groups: caring personal services (e.g. social care); sales and elementary administration; and services, including cleaning, security, and shelf-stacking. The rest work in a wide variety of jobs.
- Of those stuck in low pay, 64% work in these three occupational groups. Escapers, particularly, were more widely spread and were much less likely to work in sales.
- When we analysed low-pay patterns by sector, we found the largest group stuck in low-pay work in distribution, hotels and restaurants. This group includes jobs such as bar work, waiters and retail. A large group of those classed as stuck in low pay work in public administration, education and health. As this sector includes social care and the lowest paid workers in schools, this may be less surprising than it would first appear.
- Most low-paid people are on permanent contracts (91%). However, workers on temporary contracts were significantly more likely to be low paid.
- Of the people who were low paid and on a temporary contract 62% were stuck in low pay.
- Under half (43%) of low-paid people in Greater Manchester said they had some training over the 15-month survey window. This is 13% lower than the average Greater Manchester worker. Of those stuck in low pay 40% had received training.
- Escapers from low pay were less likely to have been trained than other groups. This could be to do with changing jobs.
- While low-paid people changed job more often than the overall Greater Manchester workforce, this was not the case for those stuck in low pay. Escapers were the most likely to have changed jobs.
- Local employers we interviewed were cautious about the government's role at any level in progression. They saw progression as primarily a matter for the employer and employee. They saw government's role as facilitating skills development, not encouraging people to move jobs.
- Employers were also concerned about the impact of transport costs for low-paid people within Greater Manchester, and suggested that current schemes were too focused on young people.

- In this report we look at ways Greater Manchester can help progression for low-paid people. These are focused on both individuals and on employers:
 - **Skills**

People stuck in low pay are low qualified. Greater Manchester should investigate ways of providing skills and training.
 - **Ambition**

People who have been low-paid for a long time may not believe that progression is possible. Greater Manchester should prioritise activities that provide information, advice and guidance - alongside skills and training support where necessary - to ensure that residents are informed about the progression opportunities that are available to them.
 - **Successor to the Work Programme**

Greater Manchester should take progression into account when commissioning the successor to the Work Programme. Payments linked to earnings (which will be known via the Universal Credit systems) should be used and rise with earnings.
 - **Universal Credit**

In-work conditionality in Universal Credit - and the design of Universal Credit itself - shows there can be savings from increasing earnings. Universal Credit payments depend on the family's earned income and their needs. Thus increasing earned income by better pay and/or by increasing hours creates savings. Most work to date has been on increasing hours, but getting employers to provide higher-paid part-time jobs can have a role too.
 - **Job Design**

Job design initiatives are important in enabling progression. The Living Wage approach has been for those at the top of the supply chain to determine the acceptable minimum, and challenge those below them to deliver the productivity. In large part, this has been successful, but it is not the only approach. The aim should be to develop a higher productivity, more profitable and higher wage set of businesses. Public sector agencies sit at the top of supply chains and can either require or test whether higher pay can be delivered within the same cost envelope. However, a role such as that of the UKCES, running small-scale trials to develop better practices, is feasible. If they produce savings through benefits and Tax Credits reductions, and increases in Income Tax and National Insurance, such trials could be funded. A Greater Manchester

role could include dissemination of the results of work such as the UKCES trials, to enable local businesses to learn from successes and failures.

1 The context for this report

- 1.1 The challenge of low pay is felt acutely in Greater Manchester and the wider North West. In the North West 6.1% of jobs were National Minimum Wage (NMW), which is above the England average (5%). While not the highest (North East, 7.5%) this figures masks considerable variation across the region. For example, 17.9% of jobs within West Lancashire are NMW jobs in contrast to 3% in Barrow-in-Furness.
- 1.2 New Economy research has found that were a Living Wage of £7.65 an hour to be introduced in Greater Manchester, 21.8% of people in the city region would benefit. In some parts of the city region a living wage would mean almost a third of the workforce would gain.
- 1.3 There has been strong job growth over the course of 2014 and total employment and total hours worked are now well above their pre-recession peaks. However this has not been matched by growing productivity and wages have remained largely stagnant, at least until very recently. According to the Low Pay Commission, the level of productivity is around 4% below the level it was in the first quarter of 2008 (based on output per hour and output per worker).
- 1.4 There is concern that many jobs are not paying enough to meet the cost of living, reduce poverty and lift workers out of social safety nets such as Tax Credits. Moreover, according to some research, the share of low paying work may be increasing. Approximately a 250,000 people rely on Tax Credits to top up their income in Greater Manchester at a cost to the taxpayer of £1.1 billion, in effect a form of corporate dependency.
- 1.5 The overall project covers analyses of low pay, technological change, labour demand, business models, skills and progression, welfare reform, public spending and policy interventions. However, this report focuses on a central aspect of the research: the ability of the low paid to progress in work, particularly through skills acquisition.
- 1.6 This report aims to present a detailed understanding of progression out of low-paid work. Existing research carried out in London suggests that large numbers of low paid are 'stuck' in low pay for long periods of time, with increases in hourly pay for low paid workers possibly running at lower levels than the median. Lack of skills and training are likely to be an important barrier to progression.
- 1.7 However, the question here is the nature of labour demand and the capacity of training to affect it. To what extent is low pay a by-product of supply or demand? There remains concern that significant numbers of employers rely on low-skilled labour to support their business models. If so, is there a role for business support and development activities to help employers move up the value chain to compete for higher value goods and services?

- 1.8 In November 2014, Greater Manchester secured its devolution deal which included greater influence over certain aspects of public funding, including with skills funding. What capacity exists, or could be nurtured, to use this influence to enable progression?
- 1.9 The objectives of the research are to assess:
- What is the demographic of those stuck in low pay in Greater Manchester? This will examine characteristics including geography, age, skills, disability, sector and occupation.
 - What are the alternatives for measuring progression and which is most appropriate to Greater Manchester?
 - Based on these definitions, what is the scale of progression from low-pay work to better paying work, and from unemployment into work?
 - How can training be designed to enable employees to progress in low paying work?
 - To what extent do employers in low-paying sectors want more highly skilled staff? (i.e. are business models predicated on low paying work?)
 - What can be done by employers, LEPs, local authorities and their partners to most effectively support 'stuck' low paid-workers to progress and low-paying businesses to upskill, both currently and as part of further devolution?
 - What is the international evidence for how other areas have attempted to increase progression from low paying work?

2 Defining low pay and ‘stuck’ in low pay

- 2.1 The definition of low pay we have used in this analysis covers people working in Greater Manchester whose hourly pay was lower than two-thirds of the national UK median.
- 2.2 We have defined those who are 'stuck' in low pay as those who are below this low pay threshold at two intervals 15-months apart. In addition we have identified 'decliners' as those who were working above the low pay threshold at one point, and were below it 15-months later, and 'escapers' who were below the low-pay threshold when first observed, and above it later.
- 2.3 We have examined a range of further definitions as part of this research and decided on this one as the most appropriate for Greater Manchester at this stage. The definitions we examined were:

- **The National Minimum Wage.**

We have not used this because identifying people below or at the NMW using survey resources that can identify progression at the Greater Manchester level is not possible. The NMW itself has three age-specific rates plus an Apprenticeship rate. The numbers who are paid below the NMW and appear in the surveys are very small (those paid unlawfully do not often appear in surveys), and the numbers at the NMW in Greater Manchester are not sufficient to draw robust conclusions about progression.

- **The Living Wage.**

We examined using the Living Wage in this analysis. However, because there are relatively small Greater Manchester sample numbers within the longitudinal Labour Force Survey we have used, we need to pool successive datasets to identify sufficient people who have progressed (or are stuck in low pay) to report. We would need to include datasets from before the out-of-London Living Wage was first published by the Living Wage Foundation. Therefore, we would need to estimate what the out-of-London Living Wage would have been, based on the London Living Wage. This estimation would itself have made our conclusions less robust.

- **Defining Progression.**

We define progression by whether median hourly pay rises or stays the same at each time period. We have examined measures looking at the increase in overall median pay between time periods, or the median increase in pay. Each of these definitions has different impacts on the results. The context is that people who are in continuous employment have had larger pay increases than those who have

entered or exited the labour market. The definition we have used in this study is conceptually simple and preferred on those grounds.

- 2.4** We have used the Labour Force Survey longitudinal datasets for this analysis. It is a rich dataset containing a lot of information on respondents, and it is large enough to analyse on a Greater Manchester level. But it also has disadvantages. It only observes pay for respondents at two points, 15-months apart, and while analysis at Greater Manchester level is feasible, it requires the pooling of a large number of datasets. In this analysis, we have pooled 17 datasets covering the period since the first quarter of 2011. The reason for limiting the analysis to the post-2011 period is that a) we are reporting on the post-recession situation and b) the Office for National Statistics introduced a new occupational classification (SOC 2010) that took effect in 2011. It changed top-level classifications for some lower-paid groupings leading to managers, such as shop managers, being added to groups they supervised. In previous classifications these had been included in a managerial category. This caused a rise in the average pay in these groups.
- 2.5** In the Labour Force Survey, pay is only defined for people who are employees. Income levels for self-employed people are not defined. This is the same for most other data sources that cover incomes.
- 2.6** Other surveys that cover issues of low pay include the Annual Survey of Hours and Earnings (ASHE) Panel Database, and Understanding Society, the ESRC-funded panel survey that expands on the British Household Panel Study.
- 2.7** The ASHE database is based on an annual ONS survey of employers to identify the earnings of specified employees. It has a large sample, and so could potentially produce results at Greater Manchester level over a longer time window than we have used. However, as an employer survey, the information on the employee is limited to age and gender. Information on the job is more complete, with information on part- and full-time hours, occupation and sector. However, the ASHE database does not include information on the qualifications of workers, their ethnicity or recent training, all of which are contained within the Labour Force Survey. Use of the ASHE database would enable identification of people who were stuck in low pay for longer periods, but has less information on the individuals than the Labour Force Survey, and no information on what they were doing when they were not employees. The Labour Force Survey has information on people who left work and returned ('cyclers'), albeit covering a shorter period.
- 2.8** Understanding Society is a household survey that re-surveys respondents annually, some for as long as 25 years. Recently, the sample has been extended, but it is still much smaller than the Labour Force Survey. Therefore, reporting at Greater Manchester level would require pooling data from a much longer time-span, including the recession and the preceding period. This would be arguably less relevant than the more current data we get from the London Force Survey. Cyclers can be defined in Understanding Society, based on annual interviews and on the intervening work history that respondents provide.

- 2.9** People who were not in work at either their first and fifth Labour Force Survey interview cannot be defined as stuck, decliners or escapers and, as such, are not a focus of this report. Given the high staff turnover in some low-paid occupations, these are significant groups, and we provide some high-level analysis of the low-paid who enter or exit work in this way.
- 2.10** We have identified whether people are in low pay (according to the low pay threshold) in the first and fifth wave response in each dataset. Therefore the low pay definition is contemporaneous within each of the 17 datasets before they are pooled. We have calculated the national medians from the datasets we have used. We have done this in case there are systematic differences between survey sources. For example, the ASHE is from employer sources and the Labour Force Survey is based on the individual, which will lead to a variance in reporting on pay levels. Nationally, the different sources track each other's changes, but the figures are not the same.
- 2.11** The number of escapes, decliners and those stuck in low pay are sensitive to the definition of low pay selected and for the pay change. Our analysis is based on whether or not people are below two-thirds of median pay calculated at two separate points, including those who move in or out of jobs. The Office for National Statistics has analysed the ASHE for those who are in continuous employment and those who are not. The annual change in pay for those in continuous employment in their analysis is higher than an annual change in pay calculated on all records, including those entering or leaving jobs.

3 Supporting progression – a review of the literature

- 3.1 Progression of low paid workers has been discussed in a small, but increasing, number of recent reports. Inclusion produced a report in 2013 for the Trust for London, published as *Work in progress*¹. In 2014 Tooley Street Research published *Pay progression: understanding the barriers for the lowest paid for the Chartered Institute of Personnel and Development (CIPD) looking at the barriers to progression*². The Resolution Foundation published *Escape Plan, Understanding who progresses from low pay and who gets stuck in late 2014* examining who progresses and who gets stuck in low pay³. NIACE, the national voice for lifelong learning, published *No Limits: from getting by to getting on in early 2015*⁴. Each of these reports reviewed the literature to date, and therefore here we will summarise key features and examine the conclusions and recommendations. UKCES have identified a need to develop progression pathways in some low-paying and high-turnover sectors as part of their Futures programme, and are funding pilots to develop pathways and toolkits for employers to assist with employee progression⁵.
- 3.2 We quote extensively from these reports.
- 3.3 The reports concentrate on both individual and employer factors, though the balance between looking at individual barriers and market factors and their effect on employer behaviours differs between the reports.

¹ Tony Wilson, Laura Gardiner, Kris Krasnowski; *Work in progress, Low pay and progression in London and the UK* Trust for London (2013) <http://www.trustforlondon.org.uk/research/latest-research/work-in-progress-low-pay-and-progression-in-london-and-the-uk/>

² Ashwin Kumar, Monique Rotik, Kitty Ussher, Tooley Street Research; *Pay progression: understanding the barriers for the lowest paid*; CIPD (2014)

³ Conor D’Arcy & Alex Hurrell; *Escape Plan, Understanding who progresses from low pay and who gets stuck*, Resolution Foundation (2014)

⁴ *No limits: from getting by to getting on*; NIACE Policy Solutions Issue 1, NIACE, 2015

⁵ UKCES Futures Programme: progression pathways in retail and hospitality competition <https://www.gov.uk/government/publications/ukces-futures-programme-progression-pathways-in-hospitality-and-retail-competition-brief>

Work in Progress – an Inclusion report for the Trust for London

Supporting Individuals

- 3.4 Inclusion's Work in Progress report found 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.
- 3.5 The most systematic attempt to do so was through the Employment, Retention and Advancement Demonstration (ERAD) project, which tested approaches in an experimental way in the UK and US between 2003 and 2007⁶. The project was aimed at long-term unemployed jobseekers (New Deal 25+ customers), lone parents on Income Support, and lone parents receiving Working Tax Credits. Under the programme, participants were supported in three ways:
- Face-to-face adviser support: Help around setting goals, career planning, motivation and overcoming barriers;
 - Money for training: Advisers had to agree to how the money would be spent, but it did not have to relate to a specific job and customers had fairly wide discretion in how they used it; and,
 - Cash bonuses for staying in work.
- 3.6 The project ran as a randomised control trial, where customers were referred randomly either into the programme or into a control group that did not receive that support. The differences between the two were then compared.
- 3.7 The evaluation found that ERAD did produce short-term improved retention and earnings for all groups, and that these were maintained for the long-term unemployed. However for lone parents, gains in earnings tended to fall back once the support had finished. It is also important to note that in all cases the gains were fairly modest.
- 3.8 The ERAD project did not attempt to test which of the three forms of support were most effective for which groups, so it is hard to draw conclusions about why the project was successful for some but not others (and whether some support could have been done differently or not at all). However, qualitative research did find concerns about the effectiveness of the training spending, as it was not closely linked to the labour market. In the US there is some evidence areas with a better-organised adviser resource appeared to perform better.

⁶ Hendra, R. et al. (2011) *Breaking the low-pay, no-pay cycle: Final evidence from the UK Employment Retention and Advancement (ERA) demonstration*, Department for Work and Pensions Research Report No.765

- 3.9** Interestingly, the evaluation of ERAD also suggested that often apparent barriers to retention and progression still existed for those who progressed in work, such as transport costs, caring responsibilities or health conditions. So it did not appear to be necessary to permanently overcome barriers or risk factors.
- 3.10** Beyond this, many of the factors identified in supporting progression are similar to those for supporting retention, with a particular focus on effective and personalised case management,⁷ and workplace training.⁸
- 3.11** In the case of training, the evidence on what works is mixed. However it appears to be more successful when:
- It is linked to the local labour market and employer requirements;⁹
 - It is focused on industry specific needs and involves employers in its design and implementation;¹⁰ and,
 - It is accompanied by the opportunity to put skills gained in practice into real jobs.¹¹

What do employers do?

- 3.12** Inclusion found employees that progress either do so by moving up or by moving out, i.e. by increasing their responsibility and earnings within a company, or using their resources to find better employment elsewhere. This in turn creates a challenge for employers: Why invest in developing staff if the benefits are gained by competitors?
- 3.13** The answer, of course, is that in many cases the employers benefit more. They reduce the cost of recruiting (be developing their own) and improve existing capability (boosting productivity).
- 3.14** Indeed one study found a consensus among employers that progression had a subsequent effect on business performance (through higher retention and more flexibility) and company reputation.¹²

⁷ London Development Agency (2009) *Staying in, moving up: Employment retention and progression in London*, LDA Labour Market Research Series 01

⁸ Yi Cheung, S. and McKay, S. (2010) *Training and progression in the labour market*, Department for Work and Pensions Research Report No.680

⁹ Kellard, K. and Mitchell, L. (2006) 'In-work support and job sustainability: A brief review', in Kellard, K., Francis, J. and Mitchell, L. (2007) *An evaluation of the Wise Group 'next steps' and One Plus 'sustainable employment' projects*, Scottish Executive

¹⁰ Maguire, S., Freely, J., Clymer, C. and Conway, M. (2009) *Job training that works: Findings from the sectoral employment impact study*, In Brief (7), Public/Private Ventures

¹¹ Eurofound (2010) *2009 Yearbook: Living and Working in Europe*, European Foundation for the Improvement of Living and Working Conditions

¹² UK Commission for Employment and Skills (2012) *Employer practice in progressing low paid staff*

- 3.15** Looking at those employers that do progress staff, there is some useful recent evidence on their practices. In 2010 research identified a series of enablers that supported progression for low-paid staff within companies. These can broadly be grouped into three¹³:

Management and Support Systems

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

Staff Culture and behaviour

- Clear understanding among employees of opportunities; and
- Peer support.

Company factors

- Organisational growth and optimal staff turnover (creating opportunities for new entrants and progression); and
 - Company size, with stronger progression in larger companies.
- 3.16** Often, the first stage is for employees to self-identify as being interested in progression, which will depend on their own motivation and goals, but also their assessment of the opportunities and risks to progress. Once this has been done then the process starts.
- 3.17** While this is relatively unfamiliar territory in employment and skills provision, these are all areas that are currently addressed and improved through good quality, professional, business-to-business support. In particular, there are good examples emerging within companies and sectors from the UKCES Employer Ownership pilots, one of which, delivered by Price Waterhouse Coopers, is explored in more depth below.
- 3.18** In a different context, the Union Learning Fund has supported a growth in employer-based learning and support over the last decade in those work places where Union Learning Reps have operated. There is some evidence that the Reps' role, which focused on liaising between employers and employees to build

¹³ Metcalf, H. and Dhudwar, A. (2010) *Employers' role in the low pay/no pay cycle*, Joseph Rowntree Foundation

and improve learning opportunities, has increased employer engagement and commitment.¹⁴

Examples of good practice – case studies

- 3.19** Inclusion looked at specific companies, where there are a number of (often well known) examples of good practice in progression. McDonald's, for example, have developed a detailed prospectus of progression opportunities, outlining the responsibilities associated with each role, the skills required and the rewards associated with each step¹⁵. This prospectus is given to everyone including employees on temporary work experience. McDonald's has developed and delivers a range of recognised qualifications, from NQF Level 1 through to Foundation Degree, which provide a clear progression matrix for employees based on their position in the organisation and their future plans.
- 3.20** Thrifty car rental is also often cited by the European Commission in its analysis of skills transferability in the European Union. The company arranged opportunities for employees to move across departments within the company to learn skills not directly relevant to their role. Employees developed their communication, sales and ICT skills. Half of the company's employees took part in this scheme and a higher proportion of these found new jobs when the company underwent a subsequent period of restructuring¹⁶.
- 3.21** Inclusion's analysis in London suggests that individuals' characteristics, experiences and job type and sector are all clearly associated with a higher risk of cycling in and out of work, low pay and poor progression. However, it is important to note that people shouldn't be dissuaded from entering certain jobs and sectors, especially people who do not have recent work experience. Evidence from the US suggests they can be used as stepping stones to better jobs, although in some instances it may be appropriate to create ongoing engagement activity and touch points to pre-empt labour market detachment.
- 3.22** Low pay and lack of progression is concentrated among particular demographic groups and employment sectors. These groups and sectors should be the target of interventions.
- 3.23** We recommend that greater attention is placed on preventative measures to reduce the risk of cycling from publicly funded skills and employment provision. Public, private and voluntary sector providers should develop a traffic light system that reflects propensity to cycle by characteristic types, the types of jobs and the

¹⁴ Wood, H. and Moore, S. (2005) *An Evaluation of the UK Union Learning Fund: Its Impact on Unions and Employers*, London Metropolitan University

¹⁵ McDonald's 2012 Prospectus

¹⁶ European Commission (2011) *Transferability of Skills across Economic Sectors: Role and Importance for Employment at European Level*

sectors individuals are placed in to predict whether further work, contact and activity may be required to keep people in work or to help them progress.

- 3.24** Inclusion also found evidence in London and nationally that low-paid workers are able to see significant pay increases over the course of a year. Two-in-three low-paid workers saw their wages rise quicker than the national median in recent years. This supports the view that wage progression is possible even during subdued labour market performance.
- 3.25** In this report on London, Inclusion found that the median increase in pay for those paid below the London Living Wage (and were in employment at Labour Force Survey waves one and five) was around 10%. Using the dataset, Inclusion have assembled for this analysis on Greater Manchester, we have calculated an equivalent figure. This gives a slightly larger rise in median hourly earnings of the low-paid of 11.3%. Some of this improvement may be due to a less subdued labour market performance in 2014/15. This calculation is based on those who were in employment at both waves one and five, and therefore excludes the depressing effect on overall pay of new entrants to the labour market who enter low pay.

Delivering progression: immediate priorities

- 3.26** Successive governments have recognised the need to do more to encourage both retention and progression through employment programmes, but efforts have so far been limited. The ERAD pilots in the mid-2000s generated extensive evidence but have never been rolled out. Meanwhile the current government's flagship Work Programme only rewards sustained employment (usually a minimum of six months, with ongoing payments for each month after that) but in practice this has done little to change the focus on job entries and 'work first'.
- 3.27** Inclusion's Work In Progress report identified six immediate priorities for supporting those out-of-work to stay-in-work, and those in low-paid work to increase their earnings:
- Sharing what works.
 - Reforming how success is measured in Jobcentre Plus.
 - Improving the Work Programme.
 - Reforming adult skills funding.
 - Rigorous testing of new approaches.
 - Supporting City Deals and Local Enterprise Partnerships.

The Resolution Foundation’s Escape Plan: Understanding who progresses from low pay and who gets stuck

3.28 In summarising the Resolution Foundation's analysis¹⁷, we are concentrating on the employer role rather than their analysis of the characteristics of escapers or those stuck in low pay. The Resolution Foundation analysis of individuals examines progression based on annual data over a period of different years; therefore they are examining progression over a longer period than the Inclusion analysis for London and this report.

Employees, firms and progression

3.29 Which aspects of the employer-employee relationship most strongly influence, positively and negatively, pay progression? Table 1 below presents the characteristics the Resolution Foundation regression analysis found to be most influential. First, even with employees who are in work five-out-of-nine years following the initial period, the more years a person is in employment the more likely they are to escape low pay.

3.30 This lends support to a focus on the barriers affecting those who remain mostly in work but do not progress as opposed to those who are more loosely attached to the labour market.

3.31 For those seeking to move elsewhere, a track record of regular employment highlighted reliability, one of the most cited personal attributes needed to progress. Being a ‘job-hopper’, someone who moves frequently from firm-to-firm, was seen as a negative by some managers who had a preference for staff whom they could expect to be loyal. This supports the findings of previous research although other studies do identify positive effects to switching jobs. In our analysis of the data this time, job-switching was found to have an insignificant impact on progression.

Table 1: Employee and firm-level factors associated with pay progression among the low paid who remain predominantly in work - Resolution Foundation

| Positively linked to progression | Negatively linked to progression |
|--|---|
| Proportion of interim years recorded as in employment | Proportion of interim years recorded as working part-time |
| Proportion of interim years recorded as working for a large employer (1000+ employees) | |

Source: RF analysis of British Household Panel Survey and Understanding Society data, 2001-2011

¹⁷ Conor D’Arcy & Alex Hurrell November 2014 Resolution Foundation

- 3.32** The Resolution Foundation found that working for a large employer (1000+ employees) is positively associated with progression. What explains this 'progression premium' of large employers? On a practical level, the size of large employers may well be crucial. As they will usually be spread across a number of sites, a person who is keen to escape low pay is unlikely to have a long wait until a suitable vacancy opens up. Most respondents we spoke to said that vacancies were advertised in the staff room and their experience and knowledge was highly transferrable. Large employers are more likely to have HR departments which can focus on the needs of staff and implement best practice.
- 3.33** The literature puts forward other reasons why progression may be higher in large employers. The relationship between firm size and wages has been widely examined and generally finds a premium attached to large companies, even in low-paying industries. There was consensus among interviewees that it was only large employers that would "do anything for you" in terms of progression. This was partly because their size meant they regularly had new positions to fill but reputation also played a role with firms keen to be seen in 'Best Employers' lists.
- 3.34** Negatively, the more years a person spent working part-time the less likely they were to progress. The Resolution Foundation qualitative interviews attempted to tease out what it was about part-time jobs that made progression difficult. In the eyes of some respondents, part-time workers were often thought of as older women in relatively comfortable households who derive as much value from the social element of the workplace as the financial reward. There will undoubtedly be people in this position but the Resolution Foundation analysis of British Household Panel Survey and Understanding Society data found that household income or being a second earner were not strongly associated with pay progression and points towards other considerations being of greater importance. While being female was not in itself found to be a negative factor for pay progression, it is difficult to ignore the highly gendered impact of low progression out of part-time jobs. As of October 2014, 77% all part-time roles were filled by women.
- 3.35** Perhaps the most pervasive issue was the ingrained idea that 'part-timers don't progress'. For the most part, this appeared to be well-grounded. From the point of view of managers, having two part-time supervisors rather than one working full-time was more work for them, having to oversee two people instead of one and coordinating their schedules and responsibilities.
- 3.36** The hassle of committing time and effort in training up people who were only in the store half the amount of time as full-time workers was also discussed. Many part-time respondents explained they felt removed from the full range of processes within their workplace. This discouraged some from trying to progress as they did not know the full extent of the additional responsibilities, training and skills which

would be required and whether there would be any costs. As a result, some assumed it would be a long, complicated and perhaps expensive journey.

- 3.37** Training emerged as consistently insignificant for progression, despite a variety of training being featured in the data, including courses to improve skills for their current job or courses to prepare for future jobs. Despite this finding, it should be acknowledged that a number of other studies have found positive wage returns to training. Moreover, we cannot say from this study that training will always be ineffective for boosting progression prospects among low earners. Instead, the training that is currently offered to low-paid workers at risk of being stuck in low paid jobs may not be of high enough quality to assist progression.
- 3.38** The limited effectiveness of training in and of itself chimed with the experiences of many respondents. For those who had progressed, training was a step on the path once moving up had been set in motion. Even in industries like childcare, where training and qualifications are more common, completing training or acquiring a degree were not seen as a guarantee of higher earnings. Across retail and hospitality, the skills required to progress were seen as those for which it is difficult to train, with people skills and personality ranking highest. For many low-paid employees training primarily functioned as a break from their everyday routine and an indicator that the company was willing to invest in them. Training from external providers was valued more highly as it felt more 'real' than another member of staff talking them through a manual. External training though was discussed as one of the first expenses to be cut in response to the recession with only a handful of companies having returned to their pre-2008 patterns.
- 3.39** For pay progression, the role of trade unions appears limited with both union membership and having a union or employee voice mechanism present in the workplace found to be insignificant. Taken together with training, this indicates that two of the most relied upon tools to boost the wages of low earners appear to have a limited effect on the share of people escaping.

Enablers

- 3.40** Among the Resolution Foundation's respondents, what were the policies or cultures present within firms which facilitated progression?

Progression policies

- 3.41** It was notable that the majority of large employers had some kind of progression policy in place. Most offered at least one of the following:
- Internal vacancies were advertised among all staff members.
 - Progression and required next steps were discussed during appraisals.

- Employees were given training beyond that needed to fulfil their current position.
- Employees were offered the opportunity to try out different roles within the firm.
- Managers who had progressed through the firm themselves championed the progression policies in place.

3.42 These policies were generally well-regarded by managers and employees. Even for those employees who described themselves as not looking to progress, getting to try someone else's job for a day or taking part in training was appreciated for the break from their routine, as well as making them feel valued by their employer, improving morale.

Fair and well-trained management

3.43 There was a consensus among employees that having a fair manager who encouraged and respected their contribution in the workplace was a prerequisite to progress. Many of the managers who had escaped from low pay themselves credited helpful and understanding management for assisting them. There were a number of softer, implicit approaches that employees held in high regard such as being acknowledged for good work (most contact with senior staff was being told off for mistakes) and managers who were willing to 'get their hands dirty' on the shop floor.

3.44 Those who had risen up through the ranks felt they were better positioned than graduates to advise their low-paid employees. Staff members strongly agreed that managers who had progressed intuitively understood their position and were more likely to help them with their own development.

Attitude

3.45 Almost universally, when asked what the most important characteristic was needed to progress, employees and managers both said 'the right attitude'. Maxims such as 'employ for attitude, train for skills', 'you can teach people anything' and 'you can't coach character' were frequently cited. Quality management was seen as one way to develop a positive attitude and stronger work ethic in someone who showed little interest in progressing.

Key life stages

3.46 Linked closely to the earlier discussion of personal and household factors was the importance of key life stages. There were a number of points at which employers had the opportunity to assist employees:

- **Recruitment**

The language used when advertising the role was seen to be important. The standard format was to list the role, pay and experience required. Some managers chose to use this as an opportunity to make it clear that progression was 'built-in' to the role to highlight the potential for progression to prospective employees.

- **First weeks on the job**

After being hired, employees generally felt keen to learn and were eager to develop. The best-regarded firms made use of these early weeks of enthusiasm to communicate the culture of progression as an opportunity.

- **Changes outside work**

Developments in employee's lives could act as trigger points for progression. The most commonly raised example was when children start attending school, as parents are likely to have more time. A good employee-manager relationship facilitated these conversations as they knew more about the worker's personal life.

- **18 to 24 months**

A touchstone for several respondents was that after an extended period without any progression, employees could become "turned off" at work. Feeling comfortable within their role but seeing little chance of progression on the horizon, their interest in the role diminished. Interventions before this point were deemed to be more effective.

- **Times of expansion**

From the point of view of the life cycle of a company, hiring staff during periods of growth, when new stores are opening regularly with positions to be filled meant employees who showed promise could expect to move into higher paying roles more quickly.

Barriers

3.47 While many firms put in place some of the helpful practices and behaviours described above, others fell short or created barriers.

Small wage increases and low pay

- 3.48** An initial assumption of this research was that if an employee moves up from a low-paid position into a role with more responsibilities, they could expect to be getting close to, if not moving above, the low-pay threshold. The qualitative research suggests that in many instances this is not in fact occurring.
- 3.49** Just under half of the low paid staff the Resolution Foundation interviewed were earning within 30p of the NMW. In most firms, an employee who remained in their role for five to ten years was unlikely to be earning significantly more than those who had started recently. For many workers, the only time they saw a wage increase was just before the NMW rose and would generally be in line with the size of the increase, i.e. 10 to 20p and below the rate of inflation.
- 3.50** With no expectation of regular real wage increases, the only way for many of these staff to move onto higher earnings was promotion. The next step on the ladder was usually a supervisor position. In the eyes of most employees and managers, the step up from these basic roles to supervisory positions brought with it increased stress levels and pressures upon work-life balance with demands for work longer hours and no guarantee of further progression.
- 3.51** Given the extra responsibilities placed upon supervisors, it might be expected that there would be a significant wage increase attached for moving up into this role. In most firms however, a promotion would usually bring with it an extra 30 to 50p per hour. The small increases meant that despite the progression policies, encouragement and training some employers put in place, there was no strong incentive for staff to move up. Some worried that earning a higher wage would mean reduced benefit entitlement and resulting in a worse overall financial position.
- 3.52** Another frequent complaint was that staff who were let go in response to the recession had never been replaced, despite the volume of trade and customers returning to pre-recession levels. This meant that employees were now effectively doing the work of two people for the same money.
- 3.53** As result of this combination of factors, the conclusion which many employees and managers reached was that unless you expected to rise further than the supervisory level, the trade-off involved in moving up was not worth it. When asked whether such changes looked likely to be rolled back in coming months or years, most respondents were pessimistic. One shared a recent example of an expanding supermarket chain where new entrants received 15p less an hour for the exact same role with the only difference being the six months between their starting dates. Starting closer to the NMW, and further from the low pay threshold, means climbing high enough within the company to escape low pay is likely to be even more challenging. One manager explained it was the result of head office seeing that they could operate the stores on this limited staffing basis and with minimal

perks. Many respondents felt this was unsustainable and that good staff would not tolerate worsening conditions over a long period.

Large Employers offer greater opportunities

- 3.54 Large employers appear to be able to offer progression opportunities which smaller firms cannot. That is not to say however there is nothing that SMEs can do to help their low-paid employees increase their hourly earnings. Indeed there can be additional opportunities within smaller firms due to a likely closer relationship with senior staff and the need to fill roles at short notice. Knowing that most low-paid employees do not work in these large companies however means better understanding of what they do to help employees and how far that could be extended to SMEs would be of value.
- 3.55 Even though big employers emerge in the data as the best place to escape from low pay, employees and managers agreed the progression policies they put in place were often ineffectual and at times counterproductive. This was a combination of the processes not being taken seriously and clashes between management and staff. The majority of managers interviewed acknowledged these shortcomings but highlighted the lack of training they had received on how to develop their workforce.
- 3.56 The lack of quality part-time jobs has long been recognised. The Resolution Foundation analysis confirms perceptions that for those seeking to work less than full-time hours the opportunities to progress are slim.
- 3.57 The shift to staff working predominately part-time is a concern in the light of this evidence.

Pay progression – understanding the barriers for the lowest paid (Tooley Street Research for CIPD)

- 3.58 The Chartered Institute of Personnel and Development (CIPD) commissioned Tooley Street Research to examine key factors in relation to progression out of low pay. Peter Cheese, the CIPD chief executive, explained why they did so:
- 3.59 “To date there has been little evidence on what factors mean that some people become stuck in low-paid jobs for most or all of their working lives, whereas others escape it or cycle in and out of low pay. This research shines a light on these issues by using data with a richer set of personal and household characteristics.
- 3.60 “Low-paid workers need opportunities to progress to a higher-paying job without leaving their employer and HR has a role to play in delivering it, especially in

supporting and challenging managers in the creation of meaningful progression pathways for people wanting to work part-time.

- 3.61 "Employers should also think about designing jobs which allow employees to build their skills and use them to add value for the employer as alternatives to the management track, for example, in enhanced customer service roles."
- 3.62 The CIPD is a professional institution for HR managers and learning and development staff, largely within larger organisations in both the private and public sectors.
- 3.63 Tooley Street Research's work, like the Resolution Foundation's, is based on survey sources that look at pay on an annual basis, so their definitions of being stuck in low pay are based on people being in low pay for a longer period than the Inclusion research both in this report and for the Trust for London.
- 3.64 Tooley Street Research found that for those who started the period in low pay, the likelihood of being 'stuck' is strongly correlated with being female and increases with age, with outcomes worse outside London. Among women, having children is not in itself associated with a higher chance of being stuck but being a lone parent or having young children does exhibit a correlation with being stuck, as does having a work-limiting health condition for both genders.
- 3.65 Job satisfaction exhibits a U-shaped relationship with being stuck. Those who are most satisfied are more likely to be stuck, as are those who are least satisfied.
- 3.66 Working part-time, in a small workplace, or in a low-wage industry are strongly associated with being stuck in low pay once the person has had this status for more than a year. Having higher qualifications, working in the public sector or in a workplace with annual pay increments helps prevent people from being stuck.
- 3.67 Conversely, the likelihood of someone starting in low pay escaping over time is greater for younger people. Being female doesn't decrease the likelihood that someone will escape but being a lone parent, or having children under five does, as does having a disability or health condition that limits work. Making the transition from the private to the public sector is also significantly associated with escaping low pay.

Implications for employers

Part-time working

- 3.68 There is a strong correlation in the data between being stuck on the lowest levels of pay and working part-time. There is evidence part-time workers fear signalling their dissatisfaction with pay or their desire to progress as it may jeopardise their ability to work reduced hours. Indeed, they believe that it isn't possible to exercise more responsibility without putting in more hours.

- 3.69** There may therefore be benefits to employers in exploring the untapped potential of part-time workers. If a business could invest in their staff and increase the responsibility of the job without increasing hours worked, either through job-sharing or simply by creating explicit progression paths for part-time workers, they might find an untapped reservoir of talent and experience within existing teams.

People who are stuck in low pay and job satisfaction

- 3.70** Using surveys that asked about job satisfaction Tooley Street Research, found the chance of escaping low pay was greatest for those with middle levels of job satisfaction. Those with both high and low levels of job satisfaction were more likely to remain stuck, sometimes for extended periods.
- 3.71** In particular, the research finds that job satisfaction with hours worked fits this U-shaped pattern. Given the high proportion of part-time workers they find within the stuck group this may indicate that the satisfaction is primarily with the hours worked rather than the pay. They may have become habituated to low pay within a work arrangement that suits their lives. They may also believe (as discussed elsewhere in the report) that if they raised the question of pay with their managers this working pattern might be threatened.
- 3.72** The research specifically tested whether or not household earnings were a factor in being stuck in low pay. They concluded that "there is nothing to suggest that people are satisfied with low wages because they have a partner who is earning more."

NIACE Advancement Service proposal

- 3.73** The National Institute of Adult Continuing Education (NIACE) has proposed the development of a National Advancement Service, aimed at helping individuals progress. It focusses on changing job design so that employers can progress their workers. The proposals provide a workable set of tools that have been tried in a number of areas, although as yet no full evaluation has been undertaken.
- 3.74** The results are systems that have created a 'missing middle' of support for low paid workers: they can only get support if they lose their job, are young, or have very low previous qualifications. Each of these systems may make sense in isolation, but put together they miss the changes in working lives. Who is there to help people in low-paid work to progress when they've done the 'right thing' by working?

Reasons to be cheerful?

- 3.75 There are a number of developments that begin to point the way to better support for low-paid workers.
- 3.76 Perhaps the key one is Universal Credit. In principle (there are significant implementation issues) this brings together key in-and-out of work benefits to create a smoother system that aims for people to always be better off working more. Universal Credit also introduces the principle of in-work conditionality, requiring people in low-paid work to do more to boost their hours and earnings, rather than just those out of work.
- 3.77 Focusing solely on individuals and extending Jobcentre Plus job search support to those in work won't work. Reducing the number of low-paid jobs requires work with employers to boost productivity, as well as with individuals to improve job matching and skills. This brings the opportunity to work with employers to offer a positive service to low-paid employees.
- 3.78 The Skills Funding Agency (SFA) has commissioned support to help Work Programme participants in work. The focus is still on achieving sustained employment and qualifications, and the programme is just one-year long, but this offers providers the opportunity to trial something innovative that better integrates support from employment and skills programmes, Mid-Life Career Reviews.

Mid-Life Career Reviews

Plymouth City Deal

- 3.79 This is trialling an in-work progression service for young people who have found work, measured by increased earnings. Although small and with short-term funding this could provide interesting results.
- 3.80 The delivery model is based around a personal adviser, with a skills ladder approach and support for employers.

Manchester City Deal

- 3.81 This includes a commitment to measuring earnings outcomes for SFA funded provision, though it is not clear whether and when this data will be published.
- 3.82 These pilots build on previous ERAD pilots in the UK and US that aimed to boost earnings for low-paid workers. In the UK, ERAD focused on lone parents (both those out of work and those in low pay) and unemployed people aged over 25. It supported 8,000 people, offering personal adviser support, training and financial

support. There was a short-term boost in earnings for lone parents and long-term earnings boost for unemployed people, this group earned 12% more than the control group.

- 3.83** In the US, a study of 12 trials supporting 45,000 people (which took a similar approach to the UK), found that three trials delivered a statistically significant boost to earnings of \$600 to \$1000 per year.
- 3.84** Taken together, the UK and US ERAD trials show that it is possible to help people in low pay to boost their incomes through a combination of training, advice and financial support, but that the evidence is relatively limited in how to do this for all groups.
- 3.85** Overall, there are three key lessons from the existing evidence base:
- Engagement of individuals and employers is crucial and challenging.
 - People need to see a benefit from engaging in support to boost their skills and career. Too often people feel that the cost (in time and money) of training for a higher grade job outweighs the benefits (e.g., they feel that their employer will not value their skills or that they won't earn more). This can lead to many people not wanting to progress, feeling they will get additional stress but little additional pay or benefits.
 - A range of factors may underpin this, from labour market structure and personal circumstance to lack of information and support. Similarly, the support needs to help employers deliver their business strategies and adopt best practice, as well as helping individuals progress. Support for individuals and employers are inextricably linked. This makes it crucial to engage people around transition points in their life when they are considering change (such as NIACE's Mid-Life Career Review project) and to work closely with employers.
- 3.86** Support for advancement should be focused on employers as well as individuals, and integrated with other services. Simply equipping people with better skills and support will not change the type and pay levels of jobs on offer or support employers to grow. Instead an advancement service needs to be part of a wider package of labour market programmes designed to support employers to boost their productivity by adopting high-performance workplace approaches and increasing employee engagement, ultimately stimulating growth.
- 3.87** It is not enough to join up employment and skills services; they need to be integrated with business support as part of an industrial strategy. This makes it crucial that advancement support works with employers, as many US ERAD projects did, and that they are grounded in a local economic development strategy.

A firmer evidence base is needed

- 3.88** There have been programmes that have looked to help people advance, and there are some clear evaluation findings. However, particularly in the UK, the evidence base is not as robust as for other services (such as back-to-work services). This makes it crucial that innovation and robust testing are at the heart of new support.
- 3.89** The success of the National Advancement Service would be measured by outcomes, primarily whether low paid workers stayed in employment and earned more money, rather than outputs, such as the number of people that access the service. Measurement of these outcomes would be built in from the commissioning stage, and payment to providers partly contingent on these outcomes (a smaller proportion such as 20% at the start with a payment structure that avoids the incentive for providers to cherry pick participants and thus reduce the impact of the service by supporting mostly those who would have progressed anyway, rising over time as the evidence base builds). This mirrors the approach in employment programmes where, as what works becomes established the proportion of payment by results has risen.
- 3.90** In England, the Service would be managed by a prime provider in each Local Enterprise Partnership (LEP) or city region. They would be responsible for bringing together a wide partnership of providers, including community groups, housing associations, learning and skills providers, advice services. They would be paid, in part, on whether low-paid workers earned more money. To begin with, the proportion paid on results would be low, reflecting the limited evidence base.
- 3.91** The National Advancement Service would be funded from existing budgets. In England up to £50m of the National Careers Service (NCS) annual budget (currently around £100m) would be ring-fenced. Currently this is focused primarily on those out of work and most disadvantaged, who would continue to receive support from Jobcentre Plus and employment programmes as well as the NCS. Up to £50m per year would also be top sliced from the Adult Skills Budget by 2020.
- 3.92** Over time, as the evidence base built, part of the Service could be funded through the increased tax revenues and reduced benefit spending resulting from people earning more.
- 3.93** The National Advancement Service would be focused on those already in low-paid work. However, a focus on advancement and promoting take-up of high-performance organisation practices should be built into other programmes too. For example, Jobcentre Plus and future into work services (such as the successor to Work Programme) should measure and be funded partly on wage outcomes for customers, not just benefit off-flows or moves into low-paid work. Providers could sub-contract this element of their service to the Service if they wished.

UKCES Futures Programme

- 3.94** The Futures Programme is not a report, but a series of competitions for funding being run by UKCES covering specific workforce development problems. One of the problems identified was how to increase earnings for low-income workers while addressing costly retention, recruitment and skills gaps faced by businesses in the retail and hospitality sectors. This formed UKCES' Third competition¹⁸, and the successful projects launched in June 2015.
- 3.95** The Fifth competition is for employers and partners to trial innovations in good job design for low-paid women workers. These are women earning around £10 per hour (equivalent to £1,625 per month or £19,500 per annum full-time) or less in the cleaning, commercial catering, and adult social care industries. This competition closed on 13 July 2015, and proposals are currently being considered.
- 3.96** UKCES states, "The evidence suggests that businesses have real gains to make through good job design that values and supports frontline workers better. It helps reduce staff turnover and cut costs. It improves staff morale and well-being with knock-on effects on reduced absenteeism and greater commitment. It enables a focus on productivity, a quality service offer and reputational gains in competitive markets¹⁹."
- 3.97** The UKCES Futures Programme is clearly focused on job design and the management skills needed to fulfil these objectives, rather than focusing on individual workers.

Conclusion

- 3.98** The interest in progression by a range of policy think tanks and other bodies has led to a range of proposals being put forward. While these are variously focused on work with employers and on individual career development, few of the proposals are obviously contradictory to one another, and some may be mutually reinforcing. There are some proposals that could be progressed at city region level within the range.

¹⁸ UKCES Futures Programme: progression pathways in retail and hospitality competition brief: <https://www.gov.uk/government/publications/ukces-futures-programme-progression-pathways-in-hospitality-and-retail-competition-brief>

¹⁹ UKCES Futures Programme: workplace solutions to the gender pay and opportunity gap competition brief: Downloaded from: <https://www.gov.uk/government/publications/ukces-futures-programme-workplace-solutions-to-the-gender-pay-and-opportunity-gap-competition-brief>

4 The dynamics of low pay in Greater Manchester

- 4.1 We have analysed those who are stuck in low pay, and those who move in and out, both into higher-paid work and into unemployment. In later analysis we concentrate mainly on the movers within employment, but in this section we include those who move in and out of the job market.
- 4.2 In this chapter we examine people who are in low pay the first time we observe them, or the last time 15-months later. We explore the pattern of whether they are stuck in low pay, have fallen into it or managed to escape it. In Chapter 5 we look at the personal characteristics (or supply side factors) of those who are stuck in low pay, escape from low pay or decline into low pay. In Chapter 6 we examine demand side factors such as the nature of the jobs that are done by people in the three low-pay sectoral groups. In this chapter we report on those who leave the labour market from low pay and those who enter into low pay. As they are not in work in both periods we cannot define their progression, and so they are not covered in later chapters. We used the Labour Force Survey because it enables a variety of analyses covering both supply side and demand side factors.
- 4.3 We have used Labour Force Survey datasets, which comprise of five quarterly interview responses per individual. At each interview people are asked about their job and training, etc. At the first and fifth interview they are also asked about pay. The five interviews cover a 15-month period. We have combined all the datasets from the start of 2011 (when there were significant changes to classifications). This gives us the 'Unweighted N' numbers of responses in each category. The Office for National Statistics supplies weights so that the sample numbers can be grossed up to estimated totals. These are the totals presented.
- 4.4 Table 2 below groups people who were identified as being in low pay in their first interview by what they were doing 15 months later:
- 61% were still in low pay 15 months later.
 - One-third had moved out of low pay (escapers) and had wages above the low-pay threshold.
 - The remainder were workless, i.e. either unemployed or inactive. (However, this is on the margin of or perhaps below a usable estimate).

Table 2: Low paid when first observed, grouped by their subsequent patterns

| Low pay when first observed | Estimate | Proportion of low paid | Unweighted N |
|---|----------|------------------------|--------------|
| Stuck and below 2/3 Median wage | 99,000 | 61% | 145 |
| Escapers (In low pay W1, higher pay W5) | 53,000 | 33% | 80 |
| In Low Pay W1, workless W5 (exits) | 10,000 | 6% | 11 |
| Total | 162,000 | 100% | 236 |
| Source: Inclusion analysis of Labour Force Survey longitudinal datasets 2011-15 | | | |

- 4.26** Table 3 below groups respondents who were in low pay in their fifth interview by their economic status in their first Labour Force Survey interview. This shows a rather different picture. Entrants to the labour market are more likely to be going into low-paid jobs.
- 4.27** The total number of those in low pay in Greater Manchester is larger in the fifth Labour Force Survey. However, when we refer to 'entrants', we mean entrants to jobs. In the table below, 21,000 of the 34,000 entering low pay from worklessness were previously unemployed, so technically part of the labour force. We also make no analysis here of these entrants by age, gender or family status, all of which are likely to be relevant. However, drawing firm conclusions from 41 survey responses is more difficult than using the 145 we have for those stuck in low pay.
- 4.28** The small sample numbers, even when pooling more than four years of data, means that even if we had used versions of the datasets including Greater Manchester authority level information we would have been unable to report on local level differences.

Table 3: Low paid workers at fifth interview, by what they were doing when first interviewed

| Low pay at second observation | Estimate | Proportion of low paid | Unweighted N |
|---|----------|------------------------|--------------|
| Stuck and below 2/3 Median wage | 99,000 | 54% | 145 |
| Decliners (low pay in W5, higher pay in W1) | 51,000 | 28% | 77 |
| Workless W1, in low pay W5 (entrants) | 34,000 | 18% | 41 |
| Total | 184,000 | 100% | 263 |

- 4.49** The number of decliners who have moved down into low pay, is almost the same as the number of escapers who have moved out of low pay. In both cases, these numbers will include those who, in longer-term studies, move in and out of low pay but do not escape very far from it.
- 4.50** Therefore, when we analyse escapers and decliners in later sections, the crucial issue is whether or not decliners differ from escapers, or whether they are the same people observed at different points in a low-pay-not-quite-low-pay cycle.
- 4.51** The overall context of pay in Greater Manchester in the post-recession period, as in the rest of the country, is of historically very low rises in nominal pay, leading to real, inflation-adjusted pay sometimes reducing between years and sometimes increasing.
- 4.52** At the low-pay levels we are considering it is likely that individual or family incomes may be affected by changes to in-work and housing benefits as well as to pay levels. On the other hand, as in-work benefits are determined by family incomes, the different configurations of families may increase or lessen these impacts of low pay and progression on resulting net family incomes.

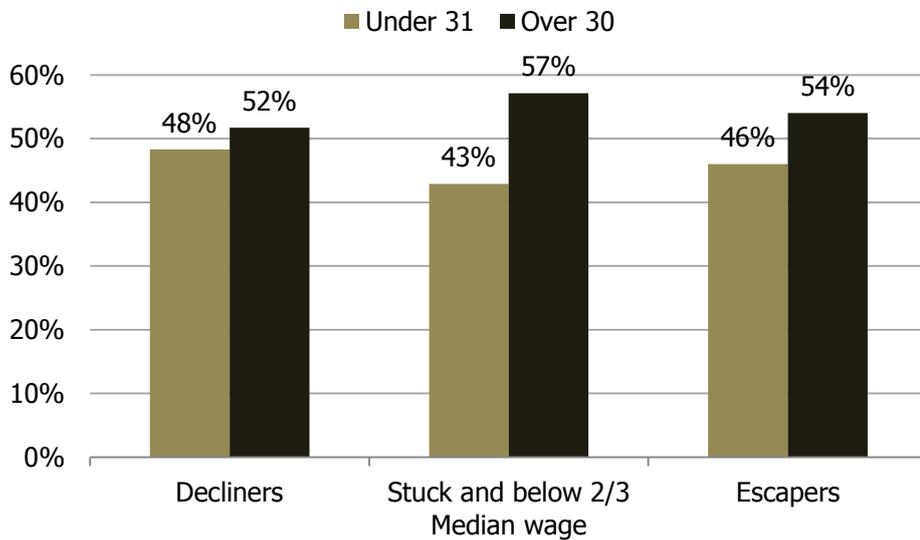
5 The personal characteristics of people who are stuck in low pay, escape or decline

- 5.1 In this section, we analyse those who are in work and are in low pay. We examine their patterns by age, gender, whether they have children, ethnicity, disability and qualification. However, given the relatively small number of Greater Manchester survey respondents in each category; our analysis is carried out at a relatively high level.

Low pay and age

- 5.2 It is widely assumed that low pay is an issue for young people. There are lower National Minimum Wages for young people under 18 and under 21, as well as lower Apprenticeship minimum wages. There is an argument that this reflects the lower productivity of new labour market entrants and/or additional supervision and training costs.
- 5.3 Many young people are low paid, but the majority of low-paid people in Greater Manchester are aged over 30.
- 5.4 The risk of low pay is greater for young people: 59% of under-25s who are employed in both waves were low paid, but the under-25s are only 24% of those who are low paid in Greater Manchester.
- 5.5 Of those paid below two-thirds of the median wage 56% are aged over 30 and nearly 40% are aged over 40.
- 5.6 Chart 1 shows the proportions of those in each of our low pay dynamic categories who are above or below 30.

Chart 1: Age and low pay dynamics in Greater Manchester

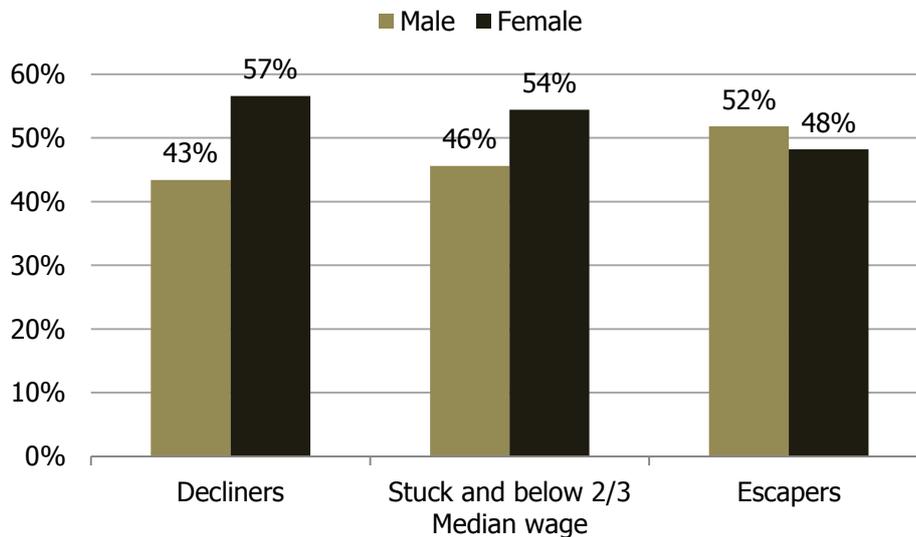


- 5.7 Young people are less likely to be stuck in low pay. Decliners into low pay have the closest balance between younger and older workers, while escapers are more likely to be younger than older. However, the differences between all three groups are not large.
- 5.8 The most important finding is that low-pay in Greater Manchester is not confined to the young. The majority of low-paid workers are aged 30 and over.

Low pay and gender

- 5.9 Women in Greater Manchester are more likely to be low paid than men.
- 5.10 Of those employed in Greater Manchester on low pay, 18% were men and 21% were women. Women were more likely than men to be stuck in low pay. Chart 2 shows that women are 56% of those stuck in low pay. Men are more likely to be escapers.
- 5.11 Chart 2 shows the proportions of those in the low-paid groups by gender

Chart 2: Gender and low pay dynamics in Greater Manchester

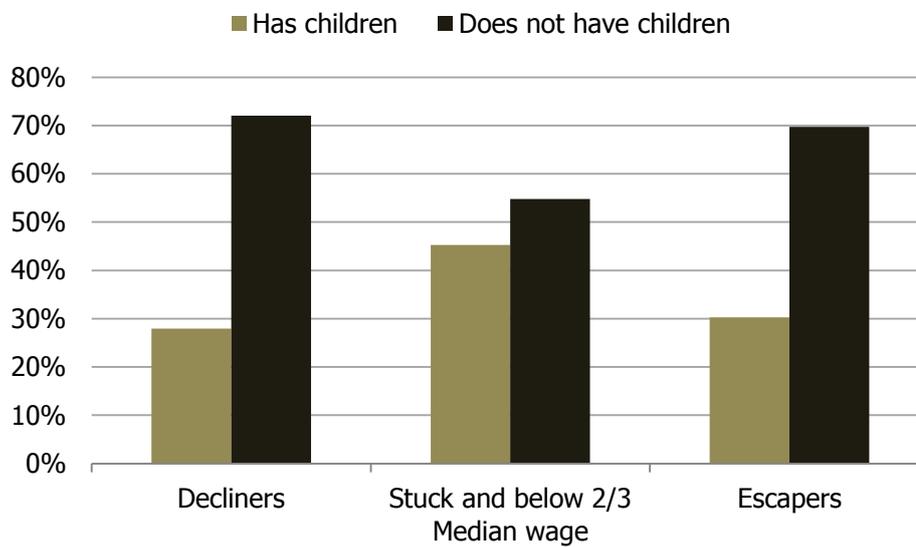


- 5.12 Compared to the national picture, Greater Manchester has a larger proportion of men in low pay. This applies to those stuck in low pay as well as to the other groups. Nationally, 36% of those stuck in low pay are men, compared to 44% in Greater Manchester.

Low pay and children

- 5.13 In our analysis, people with children are only marginally more likely to be low paid (20%) than those who do not have children (19%).
- 5.14 Low-paid people who have children are more likely to be stuck in low pay than either decliners or escapers. However, they are still a minority among the stuck in low pay group.
- 5.15 Nearly half (45%) of the stuck in low pay group, are in families with dependent children. This compares with 28% of decliners and 30% of escapers. These patterns are shown in Chart 3 below. However, only 37% of those in low pay in Greater Manchester have children. This is not substantially different from the pattern for those who are not low paid at all. In each of the groups of low-paid people, there are substantially more without children in the family than there are people with children.

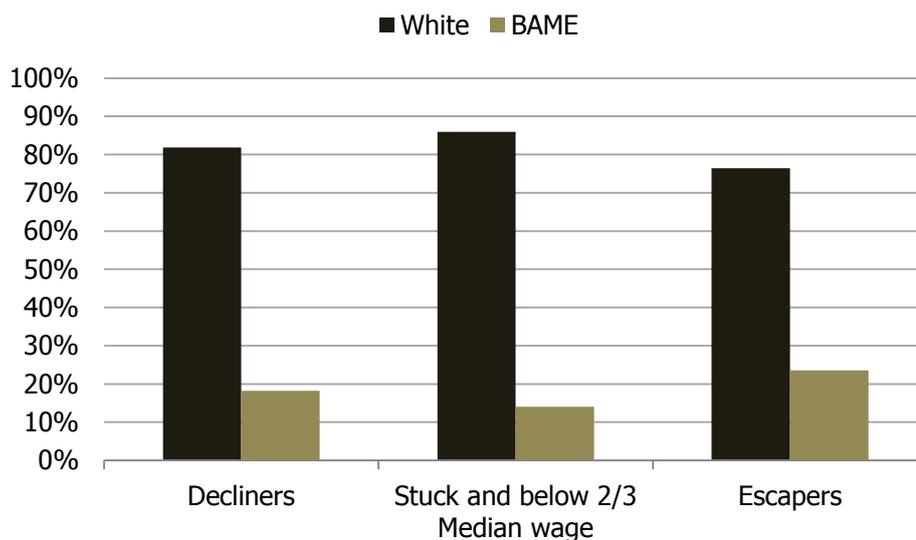
Chart 3: Family patterns and low pay dynamics in Greater Manchester



Low pay and ethnicity

- 5.16 We have analysed low pay and progression by the categories of white and BAME as this gives us sufficient sample numbers to report.
- 5.17 BAME employees in Greater Manchester are much more likely to be low paid than white employees. The research found 41% of BAME employees are low paid, compared to 20% of white employees. However, 82% of low-paid people in Greater Manchester were white, the remaining 18% therefore being BAME.
- 5.18 BAME low-paid people were less likely to be stuck in low pay than were white low-paid people. BAME people were both more likely to decline into low pay and to escape from low pay than be stuck in low pay. These patterns are shown in Chart 4.
- 5.19 This analysis is descriptive. A further area for investigation is whether the observed higher levels of low pay dynamism (moving in and out of low pay) among BAME people is related to age or other differences between the groups. Given the small sample numbers of BAME people in the three low pay groups, this analysis would need to be more comprehensive.

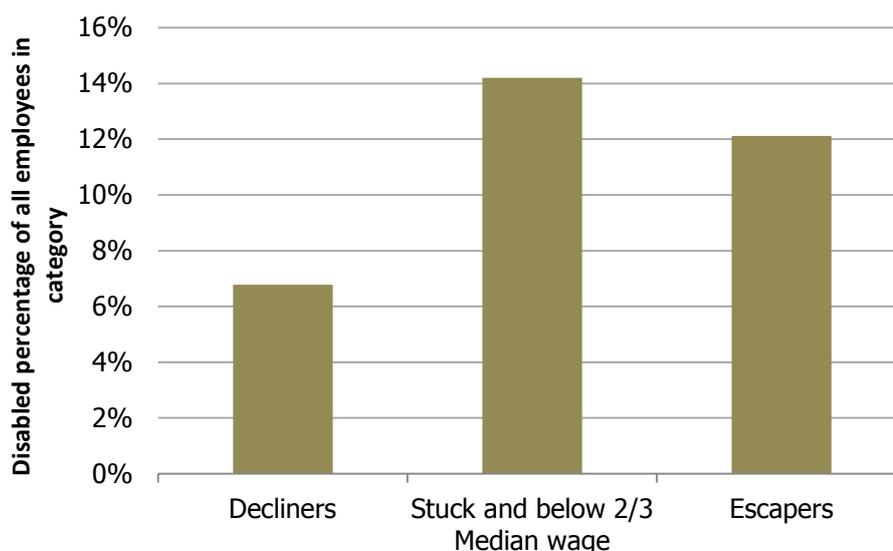
Chart 4: Ethnicity and low pay dynamics in Greater Manchester



Low pay and disability in Greater Manchester

- 5.20** People who are disabled according to the Equality Act definition are more likely to be low paid than people who are not disabled. Among Greater Manchester employees 11% are disabled according to this definition. Overall, 24% of disabled people in work are low paid, compared to 19% of people who are not disabled.
- 5.21** Disabled people are more likely to be stuck in low pay than people without a disability. Disabled people are 14% of those stuck in low pay, 12% of those who move up out of low pay and 7% of those who decline into low pay. These patterns are shown in Chart 5.

Chart 5: Disability and low pay dynamics in Greater Manchester

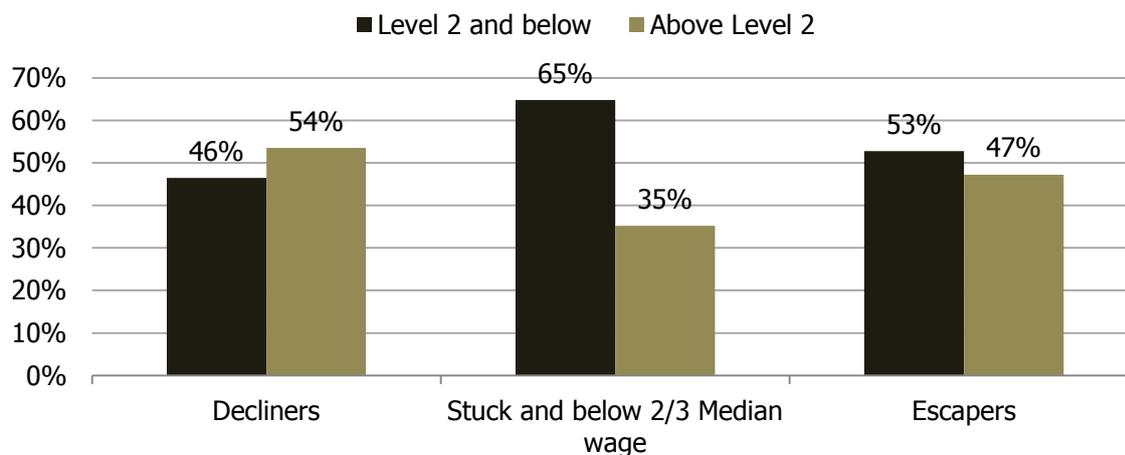


- 5.22** The position for disabled people is confused by changes to the definition of disability within the datasets that we have. Earlier datasets define disability in relation to the Disability Discrimination Act (DDA) definition. In later datasets the questions were changed to reflect the Equality Act definition, and there have been other changes that affected classification. In this analysis, we have categorised those responses classed as DDA disabled as also Equality Act disabled. This is not recommended by the Office for National Statistics, but in the circumstances seems to be a better option than failing to report on low pay and disability.

Low pay and qualification levels

- 5.23 People who are low qualified are more likely to be low-paid. The low-qualified form 61% of the low paid, compared to being 36% of the workforce. However, there are many who are low paid who are qualified at Level 3 and above. This includes those who are doing low-level jobs while studying for a higher qualification and those who have completed a higher-level qualification but not yet moved into a career job.
- 5.24 The majority (65%) of those who are stuck in low pay had Level 2 qualifications or below. Those declining into low pay were closer to being evenly balanced between higher and lower qualified people, as were the escapers. This is shown in Chart 6.
- 5.25 In this analysis, we have defined the respondents' qualification level as they had at the start of the 15-month period we observed.
- 5.26 Of those who had below Level 2 qualifications 14% reported achieving them by the end of the 15-month observation window.
- 5.27 Therefore, the pattern for the low-pay dynamics looks rather different if we are considering only those who were low-qualified at the end of the period.
- 5.28 Of those stuck in low pay at the end of the period, 54% had a Level 2 qualification. The people concerned are still classed as stuck in low pay in both analyses, but in the one counting qualification levels at the end of the observation period, they are better qualified.
- 5.29 There are a number of reasons that could account for this. Determining which of these is relevant would need further research. Both care work and retail have training programmes, some of which are apprenticeships, aimed at Level 2 qualifications for low-level workers. There are similar programmes in cleaning that are used by some employers such as health services. In these cases the low-paid people could acquire a Level 2 qualification that helped them to remain in work and increase their productivity, without necessarily increasing their pay.

Chart 6: Qualifications (when first observed) and low pay dynamics in Greater Manchester



5.30 In the next chapter, which examines the demand side of the labour market and the characteristics of jobs, we examine the impact of in-work training on labour market dynamics.

Summary

- 5.31** The characteristics of decliners and escapers are, in most cases, similar. This may indicate that their escape may not be permanent and they may cycle above and below the low-pay threshold.
- 5.32** Those stuck in low pay are more likely to be older, female, and/or having children, and/or disabled. However, in all cases there are significant numbers who do not fit into these categories.
- 5.33** BAME people in low pay seem to show a higher propensity to move out of and into low pay rather than being stuck. Why this might be the case would need further research.
- 5.34** Those stuck in low pay, even looking at pay over a short 15-month window; do not fit the stereotypical image of being young people who had just completed education. There are such people within the group, but they are a small proportion of the whole.

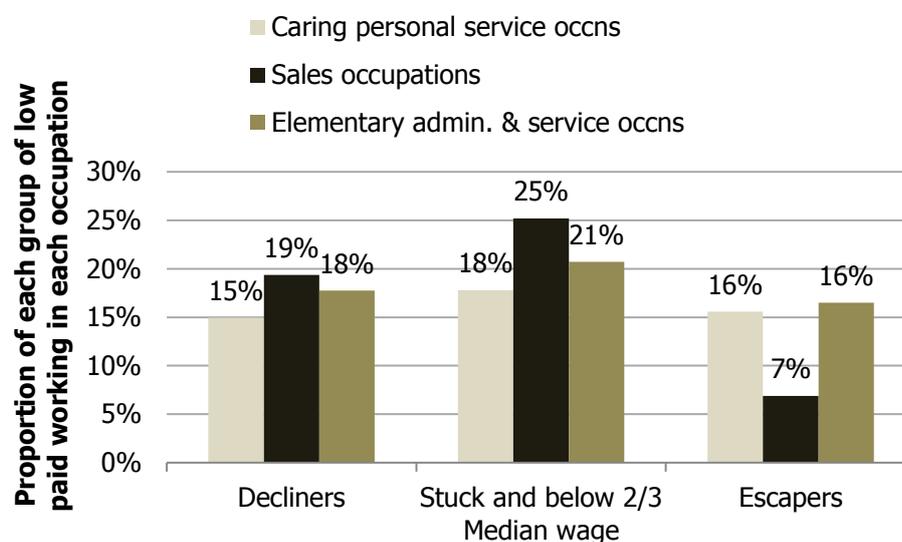
6 Low pay dynamics and the jobs low paid people are doing in Greater Manchester

- 6.1 This chapter examines the low-pay dynamics in Greater Manchester by the jobs or occupations that people do and the sectors in which they work. We analyse whether people are on permanent or temporary contracts, and the impact this has on whether or not people move into low pay, move out of low pay or remain stuck in low pay, and we examine the impact of workplace training. Lastly, we examine whether or not changing jobs makes a difference and whether or not exits or entries to low pay happen with changing jobs.

The jobs that low-paid people are doing

- 6.2 Of all the low-paid people in Greater Manchester 55% work in three occupational groups. 'Elementary administration and services' and 'sales', make up 19% of low-paid people. A further 17% work in 'caring personal services'. The remaining 45% of low-paid people work in a wide variety of jobs from administration to elementary trades. However, in each of these there are too few to report proportions.
- 6.3 'Elementary administration and services' include jobs such as bar staff and waiters, security guards, shelf fillers, cleaners and postal workers. 'Sales occupations' include a range of shop and related staff at levels above shelf-stackers. 'Caring personal services' include childcare workers as well as social care assistants and home care workers. With the exception of postal workers, these have been known to be low paid for some time, although in social and child care there have been regulatory pressures to increase qualification levels.
- 6.4 Of those stuck in low pay 64% were in one of these three occupation groups when first observed. However, only 39% of escapers work in the same three occupation groups. About as many escapers work in administration as work in caring personal services or elementary administration and services. Escapers, in particular, are less likely to work in sales occupations. These patterns are shown in Chart 7.

Chart 7: Occupation groups of decliners, stuck and escapers

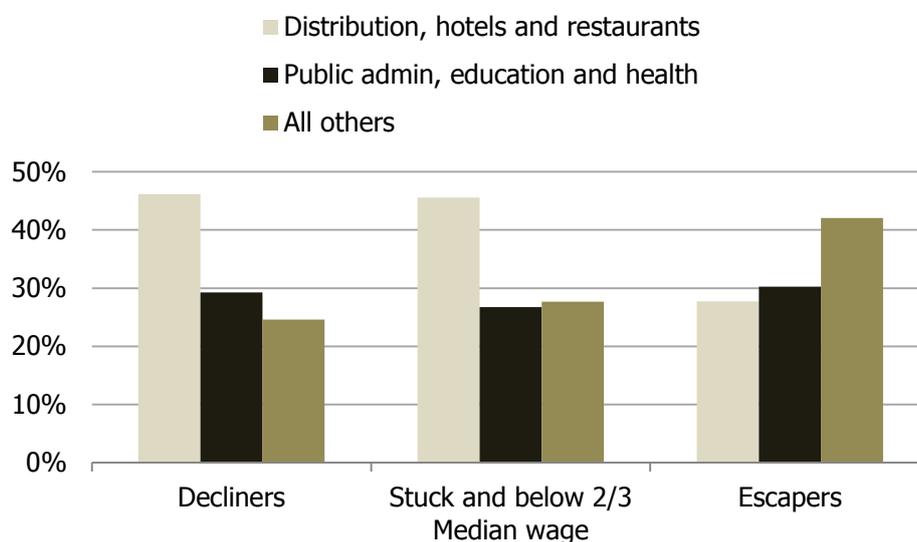


6.5 Those who are stuck in low pay are more concentrated within the three occupation groups than are those who either decline into low pay or escape from it. In particular, sales occupations, which do not include shelf-stacking, show a more stable low pay pattern than the other occupation groups.

Sectors and low pay in Greater Manchester

- 6.6 The occupational pattern of low pay and low-pay dynamics is repeated when the sectors of employers are considered. However, the sectoral classification may lead to confusion because 'social care and childcare' are counted as 'public administration, education and health' in the industrial classification. 'Sales occupations' and most of the 'elementary administration and services occupations' are grouped within 'distribution, hotels & restaurants'. Both, as in the nature of a sectoral classification, include more highly qualified staff.
- 6.7 In the dynamic analysis, those working in 'distribution, hotels & restaurants' are more likely to be either stuck in low pay or declining into low pay than those working in 'public administration, education & health' and those working in 'all other sectors'. Those in 'all other sectors' are the most likely to be escapers from low pay.
- 6.8 In both this analysis and in the occupational analysis, we are identifying people by their occupation or industry when first observed. They may change occupation or sector during the observation window.

Chart 8: Proportions of each dynamic group within each sector



Low pay and temporary contracts in Greater Manchester

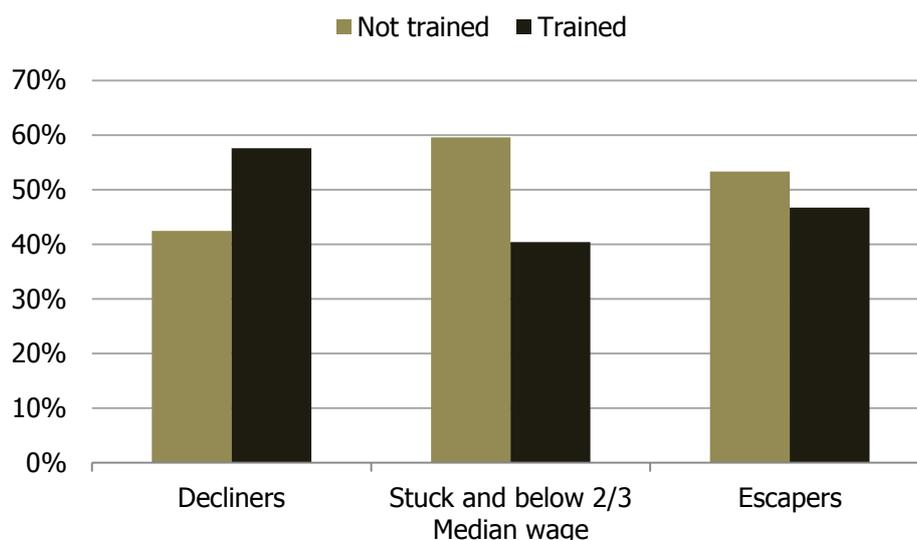
- 6.9 The research revealed 91% of people in low pay in Greater Manchester were on permanent contracts. However, people on temporary contracts are much more likely to be low paid on an individual basis (41%). Temporary contracts are a small but significant part (5%) of the Greater Manchester labour market.
- 6.10 Of those on temporary contracts in Greater Manchester 62% were stuck in low pay. However, this is marginally lower than those on permanent contracts (65%) who were stuck in low pay.
- 6.11 The survey sample numbers of people in temporary contracts and low pay are so small that it would be unsafe to draw conclusions about the low pay dynamics of temporary contracts at a Greater Manchester level.

Low pay and in-work training in Greater Manchester

- 6.12 A majority (56%) of workers in Greater Manchester reported receiving some form of in-work training over the 15-months covered by the Labour Force Survey. This is lower for low-paid employees with only 43% reporting some training over this period.
- 6.13 Training was lowest for those stuck in low pay, with 40% reporting receiving some training within the 15-month window.

6.14 Perhaps surprisingly, 58% of decliners into low pay reported in-work training, higher than the median Greater Manchester workforce. This needs further research to validate this result.

Chart 9: Proportions of each dynamic group receiving training in Greater Manchester



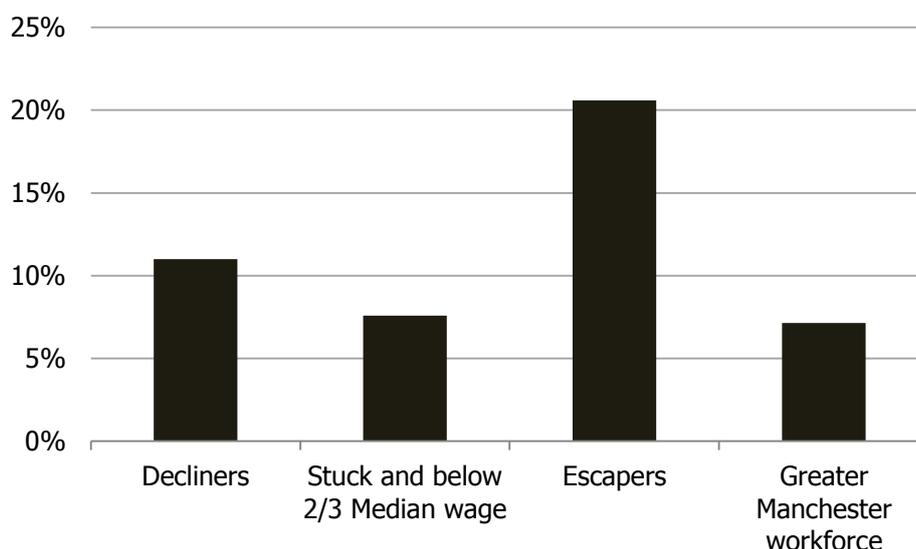
6.15 The number of escapers who had received training was smaller than that of either those stuck in low pay or the decliners. As training would be expected to help people escape low pay, this is potentially problematic. In order to discover whether in-work training promotes escape from low pay, we would need a dataset that could identify longer-term impacts on the Greater Manchester scale. It is possible that we are seeing some effect from the proportion of early career students and ex-students in Greater Manchester, who may exit low pay for other reasons and may have a different pattern of workplace training.

Low pay exits and changing job in Greater Manchester

6.16 Of the overall Greater Manchester workforce 7% had changed jobs within the 15-month window analysed in this report. A higher proportion of the low-paid (12%) had changed jobs. Many of the jobs done by low-paid people (in Greater Manchester as elsewhere) are known to be high-turnover jobs. These include those in the hospitality sector in particular; but this pattern of higher turnover than better paid jobs is general. Therefore, we should not be surprised that low-paid people change jobs more often than higher paid people.

- 6.17 We identified people who had changed jobs as the Labour Force Survey asks people whether their job has started within the last three months, six months, 12 months or longer intervals in each quarterly interview. We can therefore identify those whose job in the fifth interview has lasted less than 12 months as ‘job changers’. They may have changed jobs more than once within the period, but we can count all such people as ‘job changers’.
- 6.18 Those stuck in low pay changed jobs only very slightly more (8%) than the overall Greater Manchester workforce.
- 6.19 Unsurprisingly escapers were the most likely (21%) group to have changed job. Decliners were also more likely than average (11%) to have changed job.

Chart 9: Proportions of each dynamic group receiving training in Greater Manchester



- 6.20 This analysis enables a stronger conclusion than many of the analyses we have conducted in this report. Changing jobs is associated with exiting low pay, but also with moving down into low pay.

Summary

- 6.21 Low-paid work is concentrated in a few occupational groups, and in the sectors in which those occupational groups are found. ‘Sales occupations’, ‘caring personal services’ and ‘elementary administration and services occupations’ regularly appear in the list of low-paid occupations. However, people in ‘sales occupations’ are more likely to be stuck in low pay than the others, and this may need further

research. This could be because they have lower staff turnover than the other groups analysed.

- 6.22** The fact that 'caring personal services' staff appears in the 'public administration, education and health' sector in some research means this sector appears to have a higher proportion of low-paid workers than would be expected. Virtually all of these would be employed in the private sector, although in social and domiciliary care they could be publicly funded. The childcare workers who also form part of this group may in part be indirectly publicly funded through the childcare element of Tax Credits and tax allowances to higher paid workers, but in this case there is less leverage over pay held by the public sector.
- 6.23** The impact of changing jobs on both exit from and entry to low pay (the biggest effect) seems clear. However, the impact of workplace training is less obvious. When we looked at training over the 15-month survey period, very large proportions report receiving some training (including health and safety and other regulatory training), but this is not clearly connected to exit from low pay.

7 What do local employers think about progression and low pay?

- 7.1 Both the previous literature and our own data analysis highlight the key role of employers in helping employees progress. We have therefore consulted Greater Manchester employers and conducted qualitative interviews. They are not a representative sample but cover the main issues.
- 7.2 One organisation referred to a, “Combination of people having the right skills and qualifications” to progress out of low pay “but also the organisations having the opportunity and the hierarchy and career paths for people to move out”. Smaller employers may not have such career paths, and in these cases progression would often be by moving jobs.
- 7.3 A level of staff turnover could be healthy for an employer. Businesses with zero staff turnover can struggle as they are unable to bring in new blood or get new ideas.
- 7.4 Employers did not think there was a big problem with internal promotion as jobs were often advertised internally first. If there were obstacles it would be within smaller organisations unaware around pay rates, job descriptions etc.
- 7.5 For some employers, they identified low pay with young people including recent graduates fresh out of university doing low-paid part-time bar or retail work.

Barriers

- 7.6 Employers identified barriers to people getting better paid jobs.
- 7.7 “Some people might have the harder skills, they might know how to do everything but they don’t have the softer skills and I think that tends to be one of the biggest barriers, communicating with people and selling themselves.”
- 7.8 There are issues in Greater Manchester around people being unwilling to travel for work. An interviewee thought that subsidies should be introduced to help cover or reduce the cost of transport for low-paid individuals who live on the outskirts of the city and are reluctant to get jobs in the city centre. Currently such schemes are just focused on young people.
- 7.9 Confidence was highlighted as a key barrier, especially for people who had been with a company for a long time and were confident in their current role, but lacked the confidence to go for a promotion.
- 7.10 Sometimes, in smaller companies, there was little opportunity to progress within the company.

Whose role?

- 7.11 The businesses we interviewed felt that progression was the employer's responsibility rather than the government's.
- 7.12 They saw the role of government as to provide funding for employer-led skills support rather than supporting employees' progression if they couldn't get a pay rise in their company.
- 7.13 They thought this government support should develop productivity within the company rather than encourage people to move on. Businesses have sometimes felt that government funding has come with strings that encouraged employees to move on rather than supporting their current employer's growth.
- 7.14 One employer added that to promote progression businesses should make clear their direction and purpose and get staff to buy into it, and map out progression routes within the organisation. Also, the business should be clear about when progression ends, because it's normal for people to move on.
- 7.15 Some effective ways of helping staff to progress include coaching. One interviewee provided both internal and external coaching.

Summary

- 7.16 The employers we interviewed were cautious about a role for government, whether central or local, in progression. They saw this as a role for the employer and employee. They saw government's role as supporting skills development, although the precise programmes mentioned positively were those that were particularly employer-led.

8 Ways forward to tackle low pay for those stuck in low pay in Greater Manchester

- 8.1** The data analysis in Chapters 4 to 6 makes clear there are substantial numbers of Greater Manchester workers who are stuck in low pay. There are also people going through a low-pay, no-pay cycle and through a low-pay, not-so-low pay cycle. We can see this from the evidence that escapers and decliners look much the same on most measures.
- 8.2** Our employer interviews, and previous employer research, revealed that many saw low pay as existing at the start of peoples' careers. The issue then is of enabling people to start career progression from a temporary phase of doing something else to tide them over. The stereotypical image is of recent graduates working in shops, restaurants or bars as perhaps they did while they were studying, and finding it difficult to move into careers with progression possibilities.
- 8.3** However, the data analysis suggests that this group is not the majority of people stuck in low pay. In fact they tend to be over 30 and are more likely to be in 'elementary administration and services' occupations rather than retail. They also work in social care. The 'elementary administration and services occupations' include shelf-stacking in retail, and bar work, but also cleaning jobs and security.
- 8.4** The ways forward we are suggesting are aimed both at individuals and employers. Both are likely to be necessary, and cannot be neatly separated.

A role for skills interventions

- 8.5** The majority of people stuck in low pay are low qualified, but a significant proportion is not. People can be formally qualified but, due to a number of factors, still not progress.
- 8.6** A considerable proportion of people stuck in low pay have achieved a Level 2 qualification. While this has not helped them escape low pay it can contribute to increased job sustainability and productivity and the potential to escape low pay at a later date. Skills interventions could therefore help pay progression over a longer timescale than the one we observed.
- 8.7** Many of the jobs worked by people stuck in low pay do not fit the standard nine-to-five model. For example, cleaners often work early and late shifts. Bar and retail work can include standard hours, but often does not.

- 8.8 Skills interventions to help people move out of low pay and stay out of low pay need to take account of the hours that people may be able to learn, and whether this is in or out of work time. The provision of high quality careers education, information, advice and guidance will also be critical.

A role for Greater Manchester in the design of the successor to the Work Programme

- 8.9 As a result of Greater Manchester's devolution deal the Combined Authority will be heavily involved in commissioning the successor to the Work Programme. Greater Manchester already has experience of commissioning employment programmes such as Working Well, designed for Employment and Support Allowance claimants who have completed the Work Programme.
- 8.10 When the new programme becomes operational, a far larger number of Greater Manchester out-of-work benefit claimants will be in the Universal Credit system. This means that the Universal Credit calculation if they are in work depends on their earnings in the previous month. This information should be available to Greater Manchester in order to manage the programme. For those who earn enough to be over the threshold of Universal Credit eligibility, this information should also be available.
- 8.11 HM Treasury's main aim for the new programme will be to maximise savings in the welfare budget, including Universal Credit.
- 8.12 The design of the new programme could therefore incentivise pay improvement for people who entered work through the programme.
- 8.13 If the structure of the new payment system amends the current Work Programme model by relating job sustainment payments to the earnings level as calculated for Universal Credit, this would incentivise providers to attempt to get pay progression (or an initially higher paid job) as part of the service.
- 8.14 It is inconclusive whether the current structure of no payment until the claimant has been working for three or six months should continue, or whether a sustainment payments approach for the entire in work period (based on the pay in work) would be better.
- 8.15 It would be better to relate sustainment payments to earnings as recorded for Universal Credit than to the Universal Credit payment itself, as attempts to minimise Universal Credit housing elements or childcare elements might cause providers to 'park' those where moving into work would increase childcare needs, and/or might incentivise housing changes that were not necessarily helpful.
- 8.16 When people progress into higher paying work HM Treasury benefits in ways other than reductions in benefit spending. HM Treasury also receives National Insurance

and, despite the rises in the personal allowance, Income Tax. In both of these cases, income progression produces a return that could be used to help reward a successful programme.

- 8.17 The simplest way to relate sustainment payments to earnings is on a scale that increases linearly with earnings.
- 8.18 It would be possible to accelerate the incentive by providing an above-linear response of payments to earnings. However, this may have implications for the design of the system that handles payments. When the Work Programme was under consideration there were proposals of accelerator payments where the payment received for an outcome would vary with how many other outcomes had been achieved for each group of starters. This proved to be administratively unfeasible given the systems that fixed payments per individual at the time of referral.
- 8.19 The proposals for linking sustainment payments to earnings means that HM Treasury would not receive the full value of the benefit reduction and increase in Income Tax and National Insurance, as some of it would go to the Greater Manchester provider. If the participants remain in work and continue to progress then the HM Treasury investment in this process would be rewarded later on.

Impacts from further welfare reform

- 8.20 Universal Credit is in operation across Greater Manchester, but has not extended to families receiving Tax Credits unless they have entered work from being an unemployed Universal Credit claimant.
- 8.21 Universal Credit provides incentives to earn more as well as having in-work conditionality if people do not earn enough. The in-work conditionality applies to people who are not earning the equivalent of 35 hours at the NMW. Therefore, the DWP pilots are looking at either how to get people to increase their hours or their pay within those hours.
- 8.22 Much of the discussion around the in-work conditionality is about getting low-wage people to work more hours, assisted by increases in childcare support, rather than working more productively at higher pay. Both ways of meeting the earnings threshold would meet Universal Credit criteria for escaping in-work conditionality. DWP are piloting different ways of improving incomes in Universal Credit, at least one of which is aimed at helping people progress to higher pay. However, the evaluations of these pilots have not yet reported. Given the small number and scale of the existing in-work pilots, further experimentation is needed so that a range of good practice can be developed.

- 8.23 Universal Credit in-work conditionality may affect some of those who are stuck in low pay, although many of those stuck in low pay may be in families where there is sufficient income to be above the Universal Credit thresholds.
- 8.24 However, for Universal Credit families above the conditionality level there will still be a benefit saving from increasing wage income, and therefore a possible route for a programme to engage with people in work to assist with progression. The design of Universal Credit means that the benefit savings from each £10 a week of pay increase are much the same across the pay distribution until Universal Credit eligibility no longer applies.
- 8.25 Therefore, a programme to assist pay progression for low-income working families is potentially fundable from Universal Credit savings.
- 8.26 One of the possible ways to assist pay progression through in-work support to Universal Credit claimants or the successor to the Work Programme is to assist people to move to higher paid jobs. This is potentially problematic for employers. However, if providers have an incentive based on earnings (or Universal Credit savings) then they would be expected to seek both initial jobs that were better paid and to assist participants to move to better paid jobs.

A role for supply chain contract management

- 8.27 The experience of the Living Wage, initially in London and now nationally, has shown that public and private sector organisations at the top of supply chains can have a powerful effect on low pay by ensuring that their entire supply chains pays the Living Wage or above.
- 8.28 The experience of the Living Wage has not been analysed in terms of progression. However, some may feel that including progression towards the Living Wage in supply chain management would dilute a commitment to the Living Wage as it would necessarily include recruitment below the Living Wage. However, progression towards being better qualified while being paid at the Living Wage would be in line with the Living Wage concept.
- 8.29 In London and elsewhere, local authorities with social care responsibilities have been reluctant adopters of the Living Wage, which has contributed to the prevalence of zero-hour contracts in the sector.
- 8.30 Social care workers are one of the groups we have identified as being stuck in low pay, so some experimentation to enable progression while delivering social care is appropriate. Local authorities as holders of social care budgets, and NHS bodies will be key to the design of such experiments.

A role for job design interventions

- 8.31 UKCES is commissioning a range of employer-led projects in the retail and hospitality sectors that are trying a number of innovative options. These include:
- Jamie Oliver's Fifteen Cornwall working with a range of organisations to 'build on high quality working practices that encourage staff to work and develop across different roles and skillsets to improve business performance'. The end result will be a toolkit to enable other businesses to follow these examples.
 - The Living Wage Foundation together with a range of leading retailers is developing a Good Jobs toolkit. The toolkit will draw on research to 'make connections between operational practices, employee engagement, and company performance'.
 - There are five other projects, some of which are more innovative than others. Many include job design initiatives, for example, to enable people to progress to higher level jobs while retaining their flexible working patterns (Timewise) or adopting the 'service-profit' chain principle that says that high-quality customer service that arises from better workplace practices leads to improved business performance and higher pay (National Coastal Tourism Academy).
- 8.32 To have much of an impact on those stuck in low pay this sort of initiative will need to develop beyond the production of a toolkit.
- 8.33 Job design will need to be embedded within business support. These job design practices are based around producing a higher productivity, more profitable and higher waged set of businesses, so are beneficial to employer and employee.
- 8.34 These UKCES progression pilots do not cover contract cleaning or the security sectors. The UKCES has a separate competition for solutions to the gender pay and opportunity gap that is aimed to support changes in job design in social care, cleaning and commercial catering sectors. There is experience from the implementation of the London Living Wage through supply chains in these sectors that job design and management practices can be organised to ensure profitable operation. While the management and job changes in these cases have been in response to supply chain management to meet contract terms, there is no reason why employers in these sectors cannot employ higher pay, higher productivity strategies independently.
- 8.35 Such management and job design changes may produce earnings progression, but equally may produce pay above the low-pay threshold and result in reduced job turnover as a key feature reducing employer costs and increasing staff skills. "KPMG has also found that the Living Wage simply makes good business sense. Since introducing the Living Wage for its staff in 2006, KPMG has found that the extra wage costs are more than met by lowered recruitment churn and absenteeism, greater loyalty, and higher morale leading to better performance.

Turnover amongst KPMG's contracted cleaning staff has more than halved since paying the Living Wage."²⁰

²⁰ KPMG: sourced from KPMG website
<http://www.kpmg.com/uk/en/issuesandinsights/articlespublications/pages/living-wage.aspx>
downloaded