

# Slow Progress



Improving progression in the  
UK labour market

Paul Garaud  
Matthew Oakley



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# About the Authors

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Prior to joining Policy Exchange, Paul read Political Science at New York University and completed an MSc Economics at the London School of Economics with a focus on labour economics.

**Matthew Oakley** is Head of Economics and Social Policy at Policy Exchange. His team focuses on welfare reform, growth and the UK economy, public sector reform and financial policy. As well as reports on the public sector pay premium he has recently published on: the next steps for tackling unemployment and benefit dependency; and areas where government must focus to boost growth in the long-term.

Prior to joining Policy Exchange he was an Economic Advisor at the Treasury. His roles at the Treasury included working on property tax strategy, microeconomic analysis of the labour market and welfare reform and on medium-term tax strategy. He has an MSc in Economics from University College London, where he specialised in labour economics and econometrics.

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## Call for evidence

As part of this research we launched a public call for evidence to inform our thinking and seek further evidence on what might help people to progress in work. We received a total of 45 responses from a range of charities, service providers, industry groups, service users and members of the public. Quotations and input from these responses has been kept anonymous.

## Data used in this report

This report relies heavily on the following data sources:

- Office for National Statistics. Social Survey Division and Northern Ireland Statistics and Research Agency. Central Survey Unit, *Quarterly Labour Force Survey, October–December, 2012: Special Licence Access* [computer file]. Colchester, Essex: UK Data Archive [distributor], February 2013. SN: 7221.
- Office for National Statistics. Social Survey Division and Northern Ireland Statistics and Research Agency. Central Survey Unit, *Labour Force Survey Five-Quarter Longitudinal Datasets: October 2010 – December 2011 through October 2011–December 2012* [computer files]. 2nd Edition. Colchester, Essex: UK Data Archive [distributor]. SN: 7019; 7035; 7157; 7177; 7235.

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# Executive Summary

## The challenge of progression

Since coming to power, the Coalition government has embarked on a radical programme of welfare reform. Its flagship Work Programme scheme is now in place and providing support to the long-term unemployed and disadvantaged to help them to enter and stay in work. In a few weeks, Universal Credit, the benefit that will replace a series of income-replacement benefits and tax credits, will begin its staged roll out. These are positive steps and the extent to which they represent a step change in our approach to welfare policy should not be underestimated.

In particular, helping claimants of in-work benefits to sustain their jobs for longer and increase their earnings (to “progress”) are now key goals of government welfare policy. This approach will significantly increase the number of people able to take on support and also subject to more intensive conditions in return for benefit. In particular, once rolled out, current claimants of tax credits who are working relatively few hours are likely to be subject to increased requirements. If successful in increasing earnings, this approach would increase living standards of families and reduce the benefit bill. However, there are significant challenges to achieving this goal.

Existing evidence tells us that staying in work and increasing earnings can be extremely difficult for individuals with relatively low levels of qualifications and for employees in low-income jobs. At the most basic level, the median length of continuous employment for those employed in the bottom decile of the earnings distribution is just over two years. For those in the top decile the equivalent figure is around eight years. Some 14% of employees in the bottom decile of the earnings distribution are in temporary employment. Only 2% of those in the top decile of the earnings distribution are in this position.

The recession clearly has an impact on the ability of some employees to increase their earnings. One respondent to our call for evidence summarised:

*“How can you just ‘magic up’ extra hours if you only work part-time? Most companies can’t just give you more hours.”*

However, a lack of progression is not just a result of the recession. Even during past periods of relatively strong growth we could see that the labour market in the UK was changing: jobs have become more flexible and potentially more insecure; the “job for life” is no longer a standard form of employment; and due to technological changes, many of the jobs which were relied upon for employees to progress over their working lives no longer exist. Reports over the last decade have continually highlighted that a low-pay, no-pay cycle exists in the UK and that policy interventions are not helping to tackle it.

In particular, while around 70% of JSA claimants move off benefit within six months of initiating a JSA claim, success in terms of finding claimants sustainable work is far less convincing. As documented in our earlier report, *Welfare 2.0*:

- Only 68% of those leaving JSA actually enter employment;
- Around a third (30%) of those leaving JSA are claiming benefits again within eight months; and
- Of those who started work nearly one in ten (8%) were employed for fewer than 16 hours a week.

Overall, this means that just 36% of claimants will find a job within six months of receiving JSA and still be in work seven or eight months later. Other research from DWP shows the depth of movements between fragile employment and benefits. After following a group of 22–24 year olds and 32–34 year olds, it found that over one in ten of those in these groups making a new claim for JSA in 2010/11 had spent at least half of the previous four years on benefit.

Combined with a lack of evidence around policy interventions that are effective in helping people to increase their earnings, these challenges mean that the government is faced with a difficult task in designing an effective and efficient system of support and requirements. This lack of evidence makes it essential that the government is fully committed to piloting and fully evaluating potential policy interventions to help people to increase their earnings. For this reason it is encouraging that the government has issued a call for ideas in this area and looks set to implement a number of pilots.

### A breakdown of in-work claimants

This commitment to piloting is even more important because our analysis suggests that a large variety of individuals and families may come under a new programme of support and requirements for in-work benefits claimants.

Overall, analysis in this report suggests that around 1.3 million people will be subject to some form of in-work requirements and support. Of these, Chapter 1 demonstrates that:

- Around two thirds of the group do not have dependent children. However, alongside these families without dependent children, there are also a significant minority of the group who are lone-parents with dependent children aged between 5 and 17;
- Almost two thirds of the group are female;
- The group has a broad mixture of individuals of different ages. However, just over half are over 45 years old;
- Nearly 45% of the group has relatively low qualifications or no formal qualifications at all;
- Many of the group are currently in stable employment, with over half having been with their current employer for over two years. However, working hours are relatively low for the majority of the group (typically between 15 and 24 hours a week); and
- A large majority of the group are not currently looking for additional employment.

Such a diversity of individuals and families in this group will present DWP with challenges in terms of targeting effective personalised support in order to help claimants to increase their earnings. A particular challenge will be the fact that our research suggests that a large majority of the group do not seem to be motivated to increase their earnings. This point is also supported by recent reports from DWP. For instance, one report suggests that among part-time workers on Working Tax Credit, only around one fifth were seeking additional hours.<sup>1</sup> The DWP report also looks at reasons for not wanting more work. It shows that, of part-time recipients of working age benefits or tax credits, 43% agreed that ‘I don’t need more hours because I get by okay on what I currently earn’.

Evidence on the diversity of this group also echoes the concerns of a number of respondents to our call for evidence. In particular, because of caring responsibilities, ill health or a disability some families and individuals might have limited scope for increasing their earnings. As we outlined in *Personalised Welfare*, it is essential to approach these issues in a way that does not simply consider benefit type and length of claim, but instead to effectively target personalised support.

Combined with existing evidence of the chances of progression and the impact of policy, this leaves the government facing significant challenges:

- A large proportion of individuals in low-paid or low-hours work do not regard progression as a priority.
- Current policy interventions (e.g. JCP) can be counter-productive to the goal of progression.
- Temporary jobs, part-time work, and mini-jobs do not, on average, appear to help individuals progress.
- Training does not, on average, appear to lead to progression, though implementation and differential impact across groups may cloud results.
- Financial incentives for employment retention may work for some groups.
- Employment retention appears to be encouraged by job-seeking while in work.

All of these factors present government with a significant challenge in helping individuals and families to increase their earnings. The groups that it wants to support and encourage to increase their earnings are the same groups that currently seem to find it hardest to achieve significant earnings progression and who may not want to progress anyway. This means that if it is to design policy interventions to support and encourage Universal Credit claimants to progress in work and move towards self sufficiency, new policy solutions and a significant level of testing will be needed. If implemented effectively and comprehensively evaluated, the policy pilots that DWP are likely to announce will provide a valuable evidence base to inform future policy decisions.

## Making progress

Based on the limited existing evidence and our own analysis, this report outlines areas where we believe that the government should focus its pilots. However, we

“It is essential that freedom is given to Jobcentres and power devolved through the City Deals process in order to leverage a far greater range of piloting and policy innovation”

<sup>1</sup> Tu, T and Ginnis, S. 2012.

“Work and the welfare system: a survey of benefits and tax credit recipients.” DWP.



are also clear that these pilots alone will not be enough. It is essential that freedom is given to Jobcentres and power devolved through the City Deals process in order to leverage a far greater range of piloting and policy innovation. By doing so, we will begin to get a better picture of policy interventions that are effective in supporting and encouraging in-work claimants to increase their earnings.

We also outline reforms that are essential to roll out now, before piloting begins. These include fundamental changes in the way in which Jobcentre performance is measured and in how Work Programme providers are rewarded for helping the claimants placed with them. Alongside these measures it will also be essential to put in place a baseline conditionality regime right from day one of Universal Credit being rolled out. Without this, the moment of change will be missed and an important opportunity to influence the attitudes and behaviour of benefit claimants lost.

Together our proposals outline the basis for a strong system of support and conditionality for in-work claimants. Once pilots have been evaluated and lessons learned, this system can be built up in order to put in place a comprehensive programme of personalised and targeted support and requirements for claimants in order to improve earnings, boost living standards and help more families move towards independence.

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# Summary of Recommendations

## A baseline conditionality regime

In order to make an impact from the start of the roll out of Universal Credit, a basic level of conditionality for in-work claimants should be applied immediately.

**Recommendation:** all new in-work claimants of Universal Credit (including those who, because they are already claiming above the earnings conditionality threshold, will not be subject to an on-going conditionality regime) should be required to attend an initial claim interview at a Jobcentre in order for their responsibilities and the support available through JCP to be explained to them.

**Recommendation:** following the initial claim interview, a baseline level of conditionality should be applied to in-work Universal Credit claimants whose household earnings are below the household conditionality earnings threshold and whose individual earnings are also below their individual conditionality earnings threshold. This should be introduced as soon as Universal Credit is rolled out.

We believe that this should be structured as follows:

**Recommendation:** following the initial claim interview at JCP, in-work claimants subject to the baseline conditionality regime should be required to sign on at a Jobcentre Plus at a quarterly interval. This sign-on should be used to remind claimants of the expectations that they should be looking to increase their earnings and give advice and signposting to support.

**Recommendation:** in-work claimants failing to attend a quarterly sign-on should be subject to the sanctions regime.

In practice, all this baseline regime would mean is that in-work Universal Credit claimants earnings less than their conditionality earnings threshold would be required to attend a Jobcentre once a quarter. This session could be used to remind them of their responsibilities and to signpost support and other programmes that might help them progress.

For in-work claimants with relatively stable earnings or predictably variable earnings, application of the conditionality regime should be relatively straight forward. However, for claimants with very variable earnings, a different approach might be needed.

**Recommendation:** for in-work claimants of Universal Credit with irregular hours or earnings, application of the baseline conditionality regime should be based on an assessment of their previous three months of earnings. If earnings fell

below the threshold, the baseline regime would be applied for the following three months or until their claim for Universal Credit ended. This would then apply on a rolling three-month basis.

Based on standard costs of Fortnightly Job Reviews, requiring the estimated 1.3 million in-work claimants to sign on quarterly would cost around £14 million a year. However, with increased footfall across the JCP network of at least 100,000 a week, some offices might suffer capacity constraints. To deal with this:

**Recommendation:** Jobcentre Plus offices should be given flexibility in how they deal with this increased flow of claimants. For instance, they should be given support to trial greater use of group signing or digital signing at JCP for in-work claimants or those judged to need little intervention. These trials should be separate to DWP's formal pilots for the in-work group and should be used to share best practice between JCP offices and districts.

### Measuring outcomes effectively

Moving to a welfare system that is based on helping claimants enter, stay and progress in work will require significant changes in the existing measures of performance for the organisations tasked with helping benefit claimants. This is true both of JCP, where current measures focus on benefit off-flow, and of Work Programme providers where current measures target sustainable employment but not increased earnings.

#### Jobcentre Plus

Two new groups of measures will be needed for JCP: one for jobseekers who currently come into their offices, but will now be expected to increase their earnings if they find low-paid work; and another for the group of tax credits claimants who would not have otherwise been in contact with JCP.

For jobseekers:

**Recommendation:** to ensure that JCP staff are incentivised to help jobseekers into more sustainable work and to help them progress when they find work, the performance of JCP should not be measured by benefit off-flows. To replace existing benefit off-flow measures, three key measures should be introduced:

- The proportion of jobseekers achieving a sustainable job outcome within given time periods (e.g. three, six and nine months from the start of a claim). This should match definitions in Work Programme contracts in order to allow comparison;
- The proportion of jobseekers finding work, within given time periods from the start of their claim, which moves them above their conditionality earnings threshold; and
- The mean and median earnings per year of all jobseekers starting claims at a Jobcentre.

For claimants of Universal Credit who would not otherwise have attended JCP (i.e. current Working Tax Credit claimants):

**Recommendation:** to ensure that JCP is incentivised to help in-work claimants not previously in touch with them (e.g. current tax credit claimants) to progress to higher earnings, a measure should also be introduced that assesses the proportion of in-work claimants they have helped to progress in work. For instance, they could report the median earnings gain for their in-work claimants or the proportion of claimants who have increased their earnings by up to £500; up to £1,000; up to £2,000 and over £2,000 in each year.

**Recommendation:** to facilitate these new measures of JCP performance, DWP must take advantage of the opportunities provided by real time reporting of earnings data under Universal Credit. To allow measurement of the success that JCP has in increasing both time in employment and earnings, this data should be both linked to benefit records and accessible by JCP.

### The Work Programme

Work Programme contracts will also need to be changed to reflect the desire to help Universal Credit claimants progress in work. However, it is unlikely that this will be feasible on a large scale until contracts are re-tendered. With this in mind:

**Recommendation:** the government should launch a public consultation seeking input and views on how progression incentives might be built into the next round of Work Programme contracts. This should be launched as soon as possible in order to give government time to build up a workable and commercially viable model before contracting begins.

As well as this, we believe that some amount of flexibility around contracts might be available in the shorter-term and could be used to pilot a new approach with providers who were willing to engage. In these pilots, we believe that a relatively straight forward measure of performance and payment should be tested in order to inform the re-tendered contracts.

**Recommendation:** when Work Programme contracts are re-tendered, payments should be based on the total earnings a claimant earns over the contract period. For instance, providers might receive a fixed proportion of a claimant's total earnings, which reflects the benefit savings that they are delivering. This proportion could vary by contract group such that providers receive higher rewards for those least likely to find and progress in sustainable employment. A future report will consider this proposal in more detail, but this approach should be piloted now in order to inform future decisions.

Under any system where providers are expected to help claimants to progress, it is essential for them to be able to judge their success without having to constantly verify earnings with employers. This would be overly bureaucratic and might deter employers from engaging with providers. To tackle this:

**Recommendation:** the government should explore whether some elements of RTI data might be shared with Work Programme providers. This should give providers access to data relating to the monthly earnings of claimants placed with them.

## Progression pilots

The recommendations above set out an essential baseline for policy reforms. However, more reforms will be needed in order to fulfil the ambition of helping more claimants towards, and into, self-sufficiency. We believe there are four areas where DWP should undertake pilots to inform their future policy decisions:

### Conditionality

**PILOT Recommendation 1:** the DWP's pilots should include a significant strand that tests variations in the signing-on regime. This should flex signing-on requirements above the quarterly baseline set out in earlier recommendations and assess how frequency of signing impacts on the likelihood of a claimant progressing. The approach should be varied so that differential impacts on specific groups of claimants can be assessed.

**PILOT Recommendation 2:** a stronger conditionality regime should be tested for in-work claimants earning below their earnings conditionality threshold and who have no caring responsibilities, health problems or work limiting disabilities. This should require them to engage in activity on top of part-time work that tops up their weekly hours of activity to 35. Activities might include:

- More regular signing-on and participation in jobsearch and support programmes at Jobcentres or with Work Programme providers at times when they are not working;
- Community work placements and volunteering;
- Work experience; and/or
- Work shadowing.

This regime could be delivered by JCP or tendered to independent providers. Claimants failing to comply with the conditions outlined above should be subject to the sanctions regime.

### Financial incentives for in-work claimants

Where policy interventions help claimants to increase their earnings where they would not have previously, significant benefit savings could be realised. This provides an opportunity to use these savings to fund incentives for both claimants themselves and providers of employment services.

**PILOT Recommendation 3:** on a pilot basis, in-work claimants should be given a progression bonus based on the benefit savings that their progression has led to. For instance, claimants could be given a 10% share in any benefit savings from their progression. Set at 10% would be equivalent to paying claimants a 6.5% bonus on any increase in earnings they see from one tax year to the next. This should be given in a lump sum at the end of the year to maximise the opportunity for positive communications and behaviour change.

### Financial incentives for Jobcentre advisors

**PILOT Recommendation 4:** Jobcentre advisors should receive bonus payments based on their performance in helping in-work claimants progress in work. This

approach should be introduced on a pilot basis in a number of Jobcentres and go hand in hand with new measures of JCP performance. Bonuses should be paid for out of benefit savings resulting from claimants progressing to higher earnings. Total savings should be assessed by comparing progression of claimants in pilot JCPs against close comparators to ensure that the department is not paying for outcomes that would have occurred without intervention (deadweight).

## Evaluation and personalisation

**Recommendation:** each of the pilots we have outlined must have a full evaluation plan that is completed and published before decisions around subsequent roll out have been taken. The piloting methodology and evaluation structure should be set such that impacts can be assessed:

- On average for all claimants taking part;
- For particular groups of claimants (for example those with and without children); and
- For claimants at different distances from their earnings conditionality threshold.

## Devolution: the route to successful innovation

As well as the formal pilots outlined above, we believe that a greater degree of devolution could provide a vital opportunity for policy variations and innovations that, if successful, could inform best practice more broadly across the country.

**Recommendation:** in order to boost innovation and the range of pilots being tested, the City Deals process should be used to provide successful cities with flexibility around some elements of welfare policy and employment support provision.

**Recommendation:** the DWP should work with the Cities Policy Unit to outline areas where cities are able to flex national welfare policy. These should include:

- **The ability to flex the conditionality regime for in-work claimants** above (but not below) that set by the baseline level outlined above. For instance, a city may require some in-work claimants to sign-on monthly rather than quarterly;
- **The ability to supplement Work Programme contract payments** with rewards for providers who are successful in helping jobseekers progress in work once they have found employment; and
- **The ability to take on any of the mainstream DWP pilots outlined above and to flex key elements** in order to provide greater granularity in pilot results, particularly around specific groups where more personalised approaches might be taken.

A condition for cities taking on these flexibilities should be that they put in place robust evaluation plans.

**Recommendation:** costs of small-scale policy variations by successful cities should be funded out of existing budgets. However, in order to leverage larger policy variations, the government should consider which parts of the welfare

budget might be devolved to give cities a greater number of options. An obvious starting point would be the Flexible Support Fund. There may also be opportunities for funding through the European Social Fund.

**Recommendation:** in the longer-term, Cities should be encouraged to work with DWP to identify groups of claimants where expected benefit payments over a set period could be transferred to the city. The city would then have responsibility both for paying benefits and commissioning support services to help claimants enter and progress in work.

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# 1

## The Scale of the Challenge

### A step change in our approach to welfare policy

Since coming to power, the Coalition government has embarked on a radical programme of welfare reform. Its flagship Work Programme scheme is now in place and providing support to the long-term unemployed and disadvantaged to help them to enter and stay in work. In a few weeks, Universal Credit, the benefit that will replace a series of income-replacement benefits and tax credits, will begin its slow roll out.

These are positive steps and the extent to which they represent a step change in our approach to welfare policy should not be underestimated. As Policy Exchange's report, *Welfare Reform 2.0*, outlined, these reforms change the shape and nature of the welfare system in two key ways.

- **Retention, not off-flow:** for several decades the success of support for the unemployed has been judged on whether it has moved claimants off benefit. There has been little regard to whether this outcome is sustainable or whether claimants might swiftly move back onto benefit. In contrast, Work Programme providers will soon only be paid if they keep claimants in work over a sustained period. For instance, for long-term Jobseekers Allowance (JSA) claimants aged over 25, providers will only be paid once the claimant has been in work for six months and over.
- **Progression, not dependency:** under the JSA regime, once a claimant works more than 16 hours and has moved off JSA, no requirements are placed on the claimant. This is true even though the claimant and their family may still be receiving a wide range of benefits and tax credits.<sup>2</sup> In contrast, under Universal Credit, a much broader range of claimants in receipt of benefit will be expected to be attempting to increase their earnings (to "progress") in order to move closer to self-sufficiency and be given support to do so. For instance, if a childless adult were in receipt of Universal Credit, they would be expected to have earnings equal to the equivalent of 35 hours on the National Minimum Wage (NMW) before they were not required to be attempting to seek higher levels of earnings. These expectations are varied according to caring responsibilities and other factors that might impact on a claimants earning potential.<sup>3</sup>

These goals of retention and progression are essential in delivering both independence and increased living standards for families and savings to the welfare budget. Ultimately, the longer someone is off benefit and the higher their earnings, the greater the savings that the Treasury will see.

<sup>2</sup> For instance, the family may still claim: Housing Benefit, Council Tax Benefit, Child Tax Credit and Working Tax Credit.

<sup>3</sup> <http://www.legislation.gov.uk/ukdsi/2013/9780111531938/regulation/90>



However, while a large body of policy practice and evidence exists that outlines interventions that can be effective in moving claimants off benefit, the same is not true for retention and progression. This lack of evidence has prompted the Department for Work and Pensions (DWP) to issue a call for evidence asking for ideas for how it might effectively extend labour market interventions to in-work claimants.<sup>4</sup> The key aim of this call for ideas is to assess how DWP might:

“support people in work and in receipt of Universal Credit to help them:

- Increase their earnings
- Develop their skills and qualifications
- Achieve financial independence.”<sup>5</sup>

This report responds to that call for evidence and, as such, while it considers both retention and progression, the strongest focus is on the question of progression.

This chapter outlines the groups for whom this new approach to welfare will mean both that we expect them to be trying to increase their earnings and that DWP will need to provide support to help them do so. The following chapters assess what we know about interventions to promote progression and the challenges that workers in the UK face in this respect under the current welfare system. The final two chapters make recommendations for policy reforms.

### Policy detail

As outlined above, the introduction of Universal Credit will increase expectations placed on individuals and households. The intention is to move more claimants of state support further towards self-sufficiency, both to increase their independence and living standards and to reduce benefit costs.

In order to reflect the limited ability to work or caring responsibilities that some individuals might have, different individuals and families will have different levels of expectations placed on them. Regulation 90 of the draft Universal Credit Regulations 2013 outlines these requirements.<sup>6</sup> In practice, once Universal Credit has been fully rolled out, it means that DWP will have the ability to target both support and associated conditions at claimants in receipt of Universal Credit and earning below a specified *conditionality earnings threshold*. An overview of these requirements is that:

- Single people with no children may face increased requirements up to an earnings threshold of 35 hours multiplied by the appropriate NMW;<sup>7</sup>
- Single people with youngest child under five will not face increased requirements; and
- Single people with youngest child over five will face increased requirements that are likely to be flexed to accommodate their childcare arrangements.

For couples, a joint requirement will be set which reflects a combination of their individual requirements. For instance, a couple with a child over 5 but below 12 could have a conditionality earnings threshold equal to 55 hours times NMW (a combination of 20 hours for the main carer and 35 hours for the main earner).<sup>8</sup>

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4 <http://www.dwp.gov.uk/consultations/2013/labour-market-interventions.shtml>

5 Ibid

6 <http://www.legislation.gov.uk/ukdsi/2013/9780111531938/regulation/90>

7 National Minimum Wage rates vary by age and by whether individuals are undertaking an apprenticeship. Full details can be found at [www.lowpay.gov.uk](http://www.lowpay.gov.uk)

8 The couple is assumed to be able to work as many hours combined as a single adult with child over 5 but under 12 and a single adult without a child.

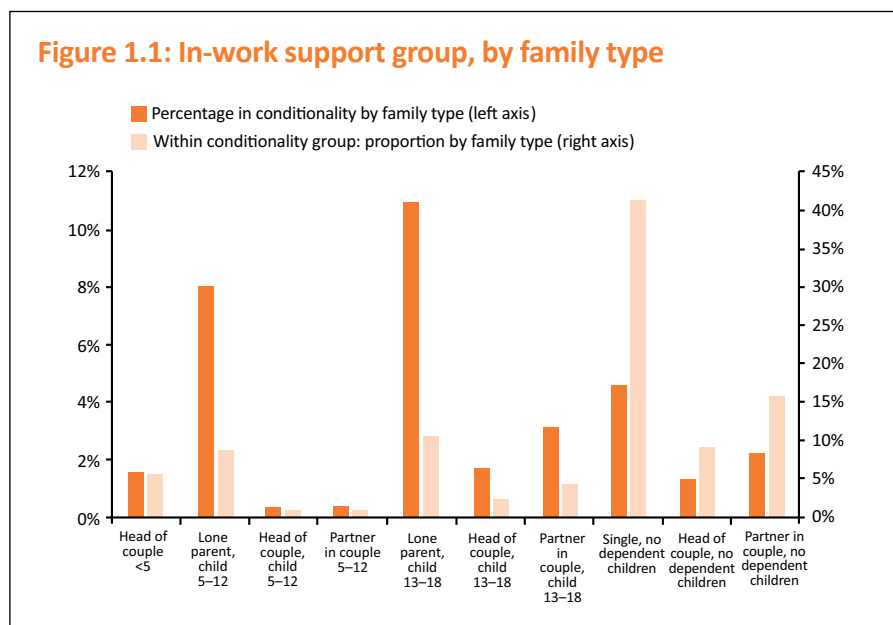
In addition to these broad characteristics, similar reductions in expectations will be made for those with a health problem, illness or disability that limits the amount of work that they can undertake.<sup>9</sup> Allowances are also made for individuals undertaking apprenticeships.

## What does the group look like?

Extending support and requirements to a new group comes with the immediate problem of assessing the nature of the group in terms of characteristics. They are likely to have a wide range of characteristics and needs, so it is essential that policy and government interventions are designed with this knowledge in hand. To do this we applied the rules outlined above to the Quarterly Labour Force Survey (Q4 2012) and have broken down the composition of the group below.

It is difficult to estimate these sorts of things with survey data. This means that there is a degree of uncertainty surrounding the exact number, however our analysis suggests that the in-work support group will have around 1.3 million individuals within it, according to current work patterns.<sup>10</sup> It is reassuring that this number is similar to other estimates that already exist.

A key thing to note is that the group is quite diverse. In terms of family type, Figure 1.1 demonstrates that, while around 10% of all lone parents with youngest child aged over five are likely to fall within the in-work support group, it is childless adults who form the largest share of the group overall. Over two thirds of the group have no dependent children living at home and over 10% are single, childless adults. The gender split of the group is very uneven, with nearly two thirds (63%) of the group being female.



This over-representation of families without dependent children living at home is also reflected in the age profile of the group, shown in Figure 1.2. It demonstrates that over half the group are over 45 years old. Nearly one in four is over 55 years old. Combined with the fact that almost one in five is under 25 years old, this leaves less than a third of the group between the ages of 25 and 45.

<sup>9</sup> As defined by the Work Capability Assessment.

<sup>10</sup> An additional 460,000 individuals are working-age dependents and non-dependents who may be considered separate benefit units. This suggests an upper bound on the in-work conditionality group of approximately 1.7m individuals.

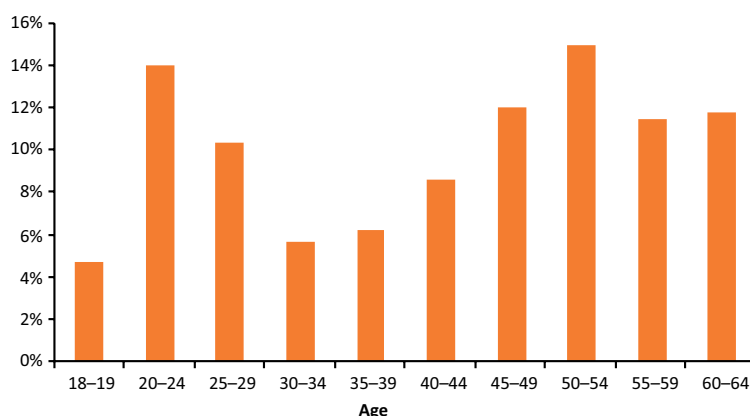
**Figure 1.2: In-work support group, by age**

Figure 1.3 goes on to demonstrate the range of qualifications held by the in-work support group. It shows that 44% have low (less than five A\*–C GCSEs) or no qualifications.

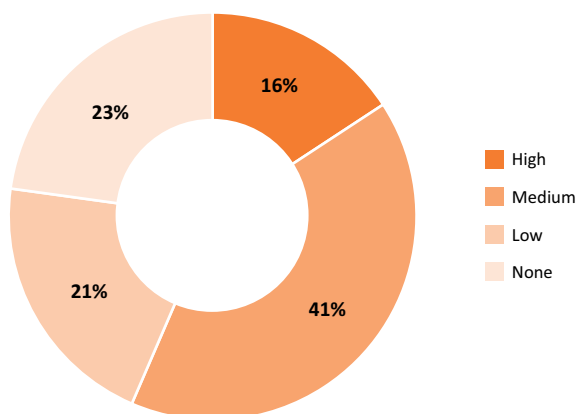
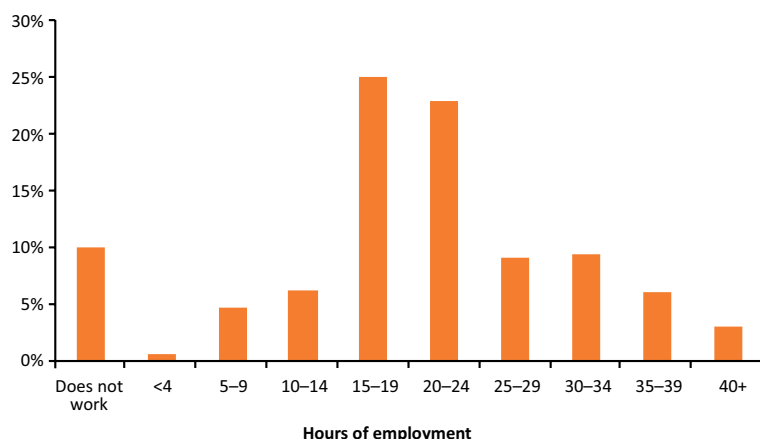
**Figure 1.3: In-work support group, by highest qualification held**

Figure 1.4 shows the current working arrangements of the in-work support group. It demonstrates that nearly half of the total group are accounted for by individuals working between 15 and 24 hours a week. As expected, in-work conditionality will principally apply to part-time workers, though around 10% of the group consists of individuals not presently working.

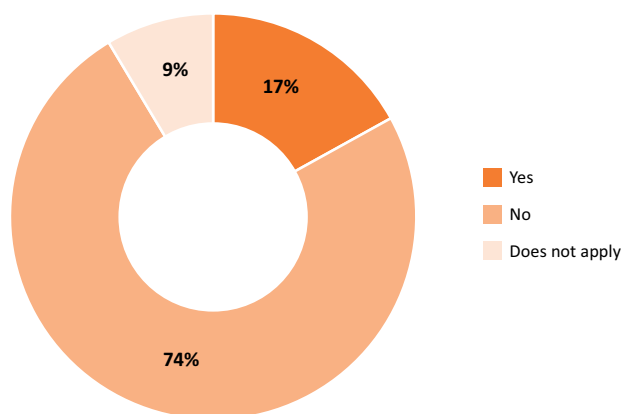
Moving beyond current employment, we can also assess whether those in the in-work support group are currently seeking additional employment. This might give us a feel for how likely the application of extra support and conditionality from the state might be in helping them increase their earnings. However, figure 5 shows us that three out of four people in the in-work conditionality group

are not actively seeking additional employment. In contrast, only 17% of this group are actively seeking additional employment. Job seeking activity does not appear to be a priority for this group.

**Figure 1.4: In-work support group by number of hours currently worked**



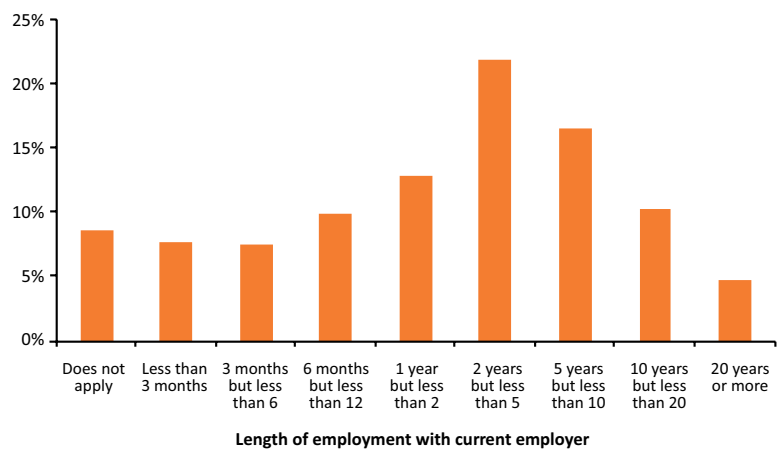
**Figure 1.5: In-work support group by whether they are currently seeking additional employment**



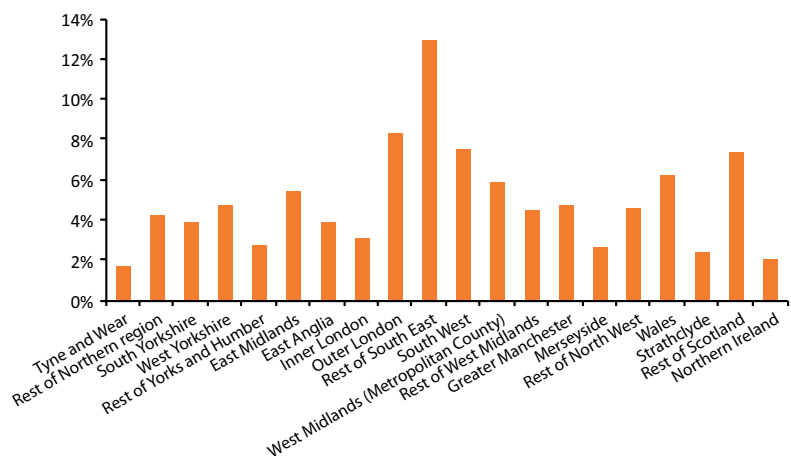
The group also seems to be relatively settled in their employment. Figure 1.6 demonstrates that just one in four have been with their employer for less than a year, whereas over half have been with their employer for more than two years. Nearly one in three (31%) have been with their employer for over five years. Combined with the evidence above that shows the group does not tend to be seeking additional work, this gives the impression of a group who are relatively settled in their employment, meaning that incentivising behaviour change may be difficult.

Finally, Figure 1.7 shows that significant numbers of individuals in the in-work support group can be expected in all regions of the UK.

**Figure 1.6: In-work support group, by length of employment with current employer**



**Figure 1.7: In work support group, by region**



## New policy, new interventions

From these results it is clear that, as well as significantly increasing the number of individuals and families that the state is extending requirements to, there is significant diversity in this group. The group is characterised by:

- The majority not having dependent children, but a large minority of lone-parents with dependent children aged between 5 and 17;
- A mixture of individuals of different ages, but a clustering around those aged below 25 and those aged above 45;
- A large predominance of those with relatively low qualifications or no formal qualifications at all;
- Mainly individuals who have been with their current employer for over two years, but who are currently working relatively few hours (typically between 15 and 24 hours a week); and
- A general lack of desire to seek additional employment.

This diversity of individuals and families and lack of desire to find additional employment will present real challenges for DWP as they look to provide support to increase earnings. For some of these groups, the increased support and requirements will be an extension of what they have previously experienced. In particular, unemployed claimants of Universal Credit who have found work will have already been in regular contact with JCP and, potentially, a Work Programme provider. This may present opportunities in terms of continuity of support and the ability to continue to work with these claimants through contacts with advisors that already exist.

However, there will also be a group of individuals and families who are currently claiming tax credits and have not previously been in contact with JCP. For this group, there are real questions over the delivery mechanism for support and requirements, as well as the evidence base upon which these interventions might be based.

To inform these decisions, the next chapter assesses what we currently know about retention and progression in the UK labour market and how effective previous policies in this area have been.

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## 2

# Challenges for Progression

### The labour market is changing

#### Short-term demand

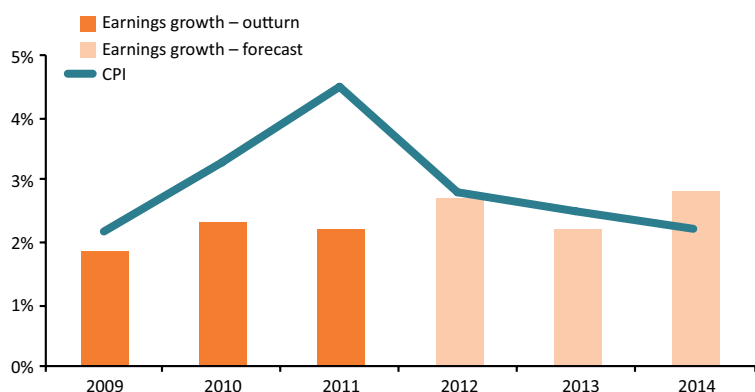
The first challenge with promoting retention and progression is the nature of the UK labour market itself. An obvious point is that, in the current climate of low growth, although the labour market has held up relatively well since the financial crisis, the capacity for employers to increase demand for hours or extra workers or to significantly raise pay, is likely to remain constrained for some time. This was a point made in many of the responses to the call for evidence that Policy Exchange received. One respondent argued:

“How can you just ‘magic up’ extra hours if you only work part-time? Most companies can’t just give you more hours.”

Other respondents expressed similar views, arguing that they had already been attempting to increase their hours and earnings, but had struggled to find extra work. Another organisation summarised that:

“...the current difficult economic circumstances have...meant that opportunities for over-time, wage increases, promotion and the ability to increase earnings have been much reduced.”

**Figure 2.1: Earnings growth and Consumer Price Inflation, 2005–2014**



Sources: OBR Economic and fiscal outlook, December 2012, ONS CPI Indices 1988–2013.

We can see the impact on earnings progression at a macro level by looking at how earnings growth and inflation have moved over the last few years. Figure 2.1 demonstrates that wage growth has consistently lagged inflation and prospects of rapid growth in the near future are also constrained.

These short-term demand constraints are an obvious concern. However, with the roll-out of Universal Credit being staged over a number of years, it is unlikely that many in-work claimants will be in the system for at least a year or two. We also want to focus on creating policy solutions that will work in the longer-term. For these reasons, we focus on how, in a labour market with stronger demand, more employees might be encouraged and supported to increase their earnings.

### Structural changes in the labour market

However, even if we put short-term cyclical issues to one side, we can also see that there are longer-term structural trends that have reshaped the face of the labour market and which are relevant to the chances of employees finding sustainable jobs with real chances of progression.

A large body of evidence suggests, both in the UK and in other Western countries, that jobs have become polarised between high-skill, high-pay jobs and low-skill, low-pay jobs.<sup>11</sup> The reasons for this are widespread. Many researchers suggest that the broad trends align with technological changes that have favoured high-skilled workers. In particular they suggest that the wholesale adoption of computers for use in routine tasks has eliminated jobs typically falling in the middle of the income and skill distributions.<sup>12</sup> In the UK, this may have resulted in a labour market characterised by a large number of service sector and primary occupation jobs that require non-routine manual skills on the one hand, and growing numbers of high-paying jobs needing non-routine cognitive skills on the other.<sup>13</sup> In this sense, the UK labour market has been characterised as having been hollowed out, with the implication being that the middle rungs of potential career ladders have been removed and low-skill workers could subsequently be trapped at the bottom.

The flipside of the issue revolves around education and skills. Despite some improvements over the past decade, only 40% of the UK population has been educated to GCE or A-level equivalent or above, just under 60% of young adults still leave formal education without obtaining five A\*–C GCSE's including English and Mathematics and 7.5% have no qualifications at all.<sup>14, 15</sup>

With a large supply of low-skilled workers, it is unsurprising that a body of evidence has been built that suggests that real terms wage growth in the bottom 50% of the income distribution has been meagre and fallen short of productivity rises over the last two decades.<sup>16</sup>

These macroeconomic trends may also have been exacerbated by changes in employment practices. In particular, increased flexibility in some parts of the labour market can be characterised by a growth in zero-hour and temporary contracts.<sup>17</sup> The evidence suggests that these types of jobs are especially strongly concentrated in the highly cyclical hotels and restaurants sector, which could see strong job growth at the bottom of the pay distribution over the next few years.<sup>18,19</sup> While this flexibility has likely been a key factor in the relatively muted impacts of the recession on employment levels in the UK, we present data later in this report that shows that the chances of job progression and retention are lower for employment that is temporary rather than permanent.

11 Goos, M., and Manning, A. (2003). Lousy and lovely jobs: the rising polarization of work in Britain. Centre for Economic Performance, London School of Economics and Political Science.

12 Autor, Levy and Murnane (2003)

13 Goos and Manning (2003)

14 Author's own calculations using the Quarterly Labour Force Survey, June–September 2012.

15 DfE: GCSE and Equivalent Results in England, 2011/12

16 Plunkett, J. 2012. Gaining from Growth: The final report of the Commission on Living Standards. Resolution Foundation.

17 [www.independent.co.uk/news/uk/home-news/health-warning-over-army-of-nhs-tempers-8101469.html](http://www.independent.co.uk/news/uk/home-news/health-warning-over-army-of-nhs-tempers-8101469.html)

18 [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/73267/13-535-2011-workplace-employment-relations-study-standard-comparison-tables.xls](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/73267/13-535-2011-workplace-employment-relations-study-standard-comparison-tables.xls)

19 UKCES: Working Futures 2010–2020, Evidence Report 41, Revised August 2012



## Staying in work is difficult

Alongside this broader labour market narrative, we can also look more specifically at the extent to which employees retain their employment when they find work. At the most basic level, we see that job stability varies widely between those at the top and the bottom of the income distribution. Table 2.1 shows the average (median) number of months that employees in different parts of the earnings distribution have spent in continuous employment.

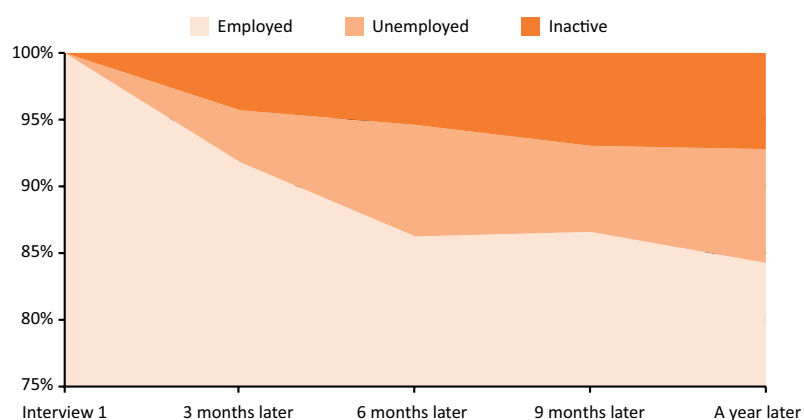
**Table 2.1: Median number of months in continuous employment, by earnings decile**

Earnings decile	Median months of continuous employment
1	24
2	44
3	51
4	52
5	63
6	74
7	80
8	88
9	96
10	93

Source: Labour Force Survey, Q4 2012, author's own calculations.

The table shows that employees at the bottom (decile 1) of the earnings distribution have spent, on average, two years in continuous employment. Employees towards the top of the earnings distribution (decile 10) have spent almost four times that long in continuous employment on average, with median length of continuous employment of eight years.

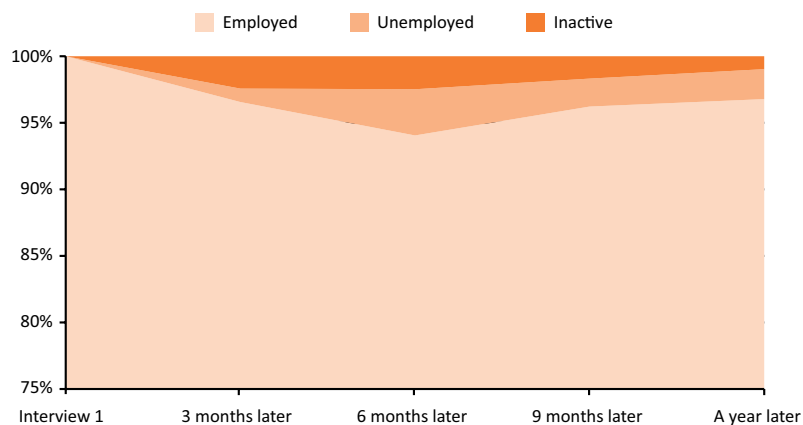
**Figure 2.2: Movements out of employment over a year (bottom half of earnings distribution)**



Source: Labour Force Survey, 5 quarter longitudinal, pooled January 2011–December 2012, author's own calculations.

Using the five-quarter longitudinal Labour Force Survey, we can also see this greater instability for low-earners by following specific individuals over time. Figures 2.2 and 2.3 demonstrate the proportions of all individuals who had been employed for less than six months when they were first surveyed and shows how many of them are in employment up to a year later. Figure 2.2 shows the situation for those in the bottom half of the earnings distribution and Figure 2.3 shows the situation for those in the top half of the earnings distribution.

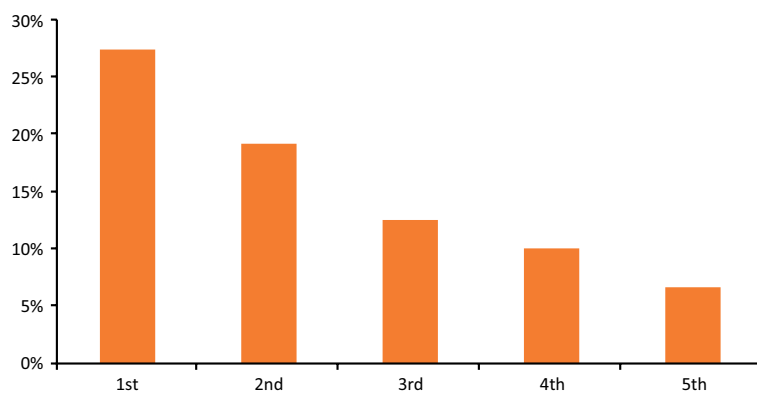
**Figure 2.3: Movements out of employment over a year (top half of earnings distribution)**



Source: Labour Force Survey, 5 quarter longitudinal, pooled January 2011–December 2012, author's own calculations.

The figures show that although over 96% of those in the top half of the earnings distribution are still in employment a year after they were first surveyed, the equivalent figure for those in the bottom half of the earnings distribution stands at below 85%.

**Figure 2.4: Proportion of employees having spent less than a year with their current employer, by earnings quintile**



Source: Labour Force Survey, author's own calculations.

Movements between jobs are also far more common at the bottom of the earnings distribution. As Figure 2.4 demonstrates, our analysis shows that over one in four workers in the bottom fifth of the income distribution have been with their current employer for under a year. Just under 7% of workers in the top fifth are in this situation.<sup>20</sup>

We can also see that far more employees at the bottom of the earnings distribution are in temporary work. Table 2.2 shows that some 14% of employees in the bottom decile of the earnings distribution are in temporary employment. Just 2% of those in the top decile of the earnings distribution are in this position.

**Table 2.2: Proportion of employees in temporary jobs, by earnings decile**

Earnings decile	Proportion of employees in temporary jobs (%)
1	14
2	10
3	11
4	8
5	4
6	4
7	5
8	2
9	2
10	2

These figures all show how unstable employment can be in the UK labour market. A key feature is that this instability is dramatically higher for low income employees. In this respect, numerous reports have previously outlined the existence of a low-pay no-pay cycle and the difficulties that exist in breaking out of the cycle of insecure jobs and unemployment.<sup>21</sup> This research has shown that, over the past few decades, there have been an increasing number of low-skill workers cycling between low-paid work and unemployment at a massive cost.<sup>22,23</sup> The recurring bouts of unemployment and low-paid employment increase the probability of future unemployment and the likelihood of poverty, and raise the risk of the negative knock-on effects associated with each of these. From the perspective of the state, the low-pay no-pay cycle means less tax received and greater outlay on benefits and social services. Finding a solution to this cycle remains one of the most important social policy questions facing the UK today.

### The impact of Jobcentre Plus

For these reasons it is encouraging that the principles of retention and progression underpin the Coalition's reforms. However, as *Welfare Reform 2.0* outlined, in parts of the welfare system less affected by recent reforms, these principles are less apparent.

This is particularly clear in the measure of success used in judging the performance of JCP. This focuses on benefit off-flows, meaning that neither

20 Author's own calculations using the Quarterly Labour Force Survey, June-September 2012.

21 Mulheirn, I, Foley, B, Menne, V, and Prendergrast, J. 2009. "Vicious Cycles." Social Market Foundation.

22 Ellwood, D. T. 2004. "Whither poverty in Great Britain and the United States? The determinants of changing poverty and whether work will work." In *Seeking a Premier Economy: The Economic Effects of British Economic Reforms, 1980-2000* (pp. 313-370). University of Chicago Press.

23 Grimshaw, D. 2011. "What Do We Know about Low Wage Work and Low Wage Workers? Analysing the Definitions, Patterns, Causes and Consequences in International Perspective." ILO.

destinations (whether the claimant moves into work or just moves to another benefit or ceases claiming) nor sustainable employment are considered. This means that although around 70% of claimants move off benefit within six months of initiating a JSA claim, success in terms of finding claimants sustainability is far less convincing.

In fact, as documented in *Welfare 2.0*:

- Only 68% of those leaving JSA actually enter employment;
- Around a third (30%) of those leaving JSA are claiming benefits again within eight months; and
- Of those who started work nearly one in ten (8%) were employed for fewer than 16 hours a week.

Overall, as Figure 2.5 demonstrates, this means that just 36% of claimants will find a job within six months of receiving JSA and still be in work seven or eight months later. This figure indicates substantial ‘churning’ between short-term, low-paid employment and benefits, underscoring the difficulty that many workers face staying in work.<sup>24</sup>

**Figure 2.5: Proportion of JSA claimants leaving benefits and entering sustained employment**



Recently published DWP data also supports this earlier work. It shows that in 2010/11:

- For individuals aged 22–24 who made a new claim for JSA during the year, the average number of claims was 2.6. Some 40% of this group had claimed JSA at least once in the past.
- For individuals aged 32–34 who made a new claim for JSA during the year, the average number of claims was 1.6.

This shows significant flows between benefit claims and short-term employment for these groups. A small minority of the groups also have significant benefit histories. More than one in ten of both the 22–24 age group (12%) and 32–34 age group (11%) who made a new claim for JSA in 2010/11 had spent at least half of the previous four years on benefit.

<sup>24</sup> Adams, L., Oldfield, K., Riley, C., and Skone James, A., (2012). ‘Destinations of Jobseeker’s Allowance, Income Support and Employment and Support Allowance Leavers 2011.’ Department for Work and Pensions Research Report No.791.

Overall it is clear that JCP has not been effective at addressing the low-pay no-pay cycle. In fact, the emphasis since the 1990s on moving claimants off benefit without any regard to the longer-term sustainability might even have contributed to the problems now seen in the UK labour market. This means that, if JCP are going to play an active role in promoting and helping claimants stay in and progress in work, significant changes are going to be needed.

## Progressing in work is even harder

### Progression in the UK today

If low paid employees and those just leaving JCP find it hard just to stay in work, this implies that progression for these groups could be even more challenging. Unfortunately, evidence on employment progression in the UK is relatively thin. Previous research suggests that gender, education, geography, occupation, and previous unemployment all play a role in the likelihood of progression.<sup>25</sup> Over the two decades from 1990, women were less likely to progress in employment, as was the case for individuals with lower levels of education and those working part-time. Moreover, certain industries, such as hair and beauty and hospitality, leisure, travel and tourism, have fewer jobs per skills achievement and may have fewer opportunities for workers in these industries to progress.<sup>26</sup>

Building on this work, we have used the Labour Force Survey 5 Quarter Longitudinal datasets to investigate which personal characteristics are associated with greater earnings progression over a year of employment.<sup>27</sup> The datasets include earnings data for the first quarter and fifth quarter, allowing us to measure individual changes in earnings relative to the median change in earnings within each earnings decile.<sup>28</sup> So in effect, we are asking which characteristics are associated with changes in earnings that are different to the average for other employees earning around the same level.

The coefficients in Table 2.3 signify the approximate percentage difference in earnings growth compared to the median. For instance, having a child under the age of five is associated with roughly 2% additional earnings growth over the median for your earnings decile and, compared to having obtained GCSE's, having no qualifications is associated with around 8% lower earnings growth compared to the median in your earnings decile.

Many of the impacts demonstrated in Table 2.3 are unsurprising. Temporary work and disability are associated with reduced increases in earnings over a year in employment, while marriage and higher levels of education are positively related to progression. While being in part-time work has a negative impact on earnings progression (most likely reflecting the instability associated with many part-time jobs), after accounting for this, progression is negatively related to hours worked per week and hourly pay. This means that those with fewer hours (after accounting for part-time) and lower earnings tend to progress more, most likely reflecting the fact that starting with fewer hours or lower pay allows greater scope for growth in wages or hours. The same logic could apply to the positive correlation between having a child under the age of five and earnings progression. Surprisingly, changing industries is associated with lower progression, though the explanation could be that less experience and seniority in the new industry results in lower pay or that job moves are a result of a redundancy meaning that industry specific human capital has been lost.

25 Savage, L. 2011. "Snakes and Ladders: who climbs the rungs of the earnings ladder." Resolution Foundation.

26 Gardiner, L, and Wilson, T. 2012. "Hidden Talents: Skills mismatch analysis." Centre for economic and social inclusion.

27 Q4 2010, Q1 2011, Q2 2011, Q3 2011, and Q4 2011 datasets were used.

28 Earnings deciles are defined based on earnings in the first quarter. The sample is restricted to individuals employed in both the first and fifth quarters to investigate progression in work.

**Table 2.3: Proportion of employees in temporary jobs, by earnings decile**

Characteristic	% increase in earnings compared to decile median	p
Undertakes job search	2.20%	0.171
Employment length	0.01%	0.006
Married	2.62%	0.003
Has child under 5	2.15%	0.078
Has degree	12.58%	0
Has A level	3.26%	0.006
Has other qualifications	-1.67%	0.287
Has no qualifications	-8.05%	0
Works part-time	-4.68%	0.001
Hours worked	-0.14%	0.007
Hourly pay	-23.55%	0
Has changed industry this year	-4.39%	0.002
Is in temporary work	-3.23%	0.038
Has work limiting disability	-3.22%	0.002
<b>Controls</b>		
Age	yes	
Owner/renter	yes	
Region	yes	
Industry	yes	
Constant	yes	

The results also provide weak support for the idea that continuing to search for work while in employment may improve advancement. While in terms of economic significance, searching for another job leads to a 2% greater progression compared to the median, this variable is not statistically significant at standard levels. This could be due to the small number of people who were searching for work while in a job. Lack of statistical significance may also be the result of two competing effects of in-work job search pushing in opposite directions. On the one hand, there is the direct effect of job search on progression, which may reasonably be expected to be positive. On the other hand, there is a likely selection effect whereby individuals who engage in job search while employed have, for instance, accepted a 'worse' job than individuals who are not searching.<sup>29</sup> Unfortunately, we cannot disentangle these two effects with this data and the resulting coefficient does not have statistical significance.

### Do people want to progress

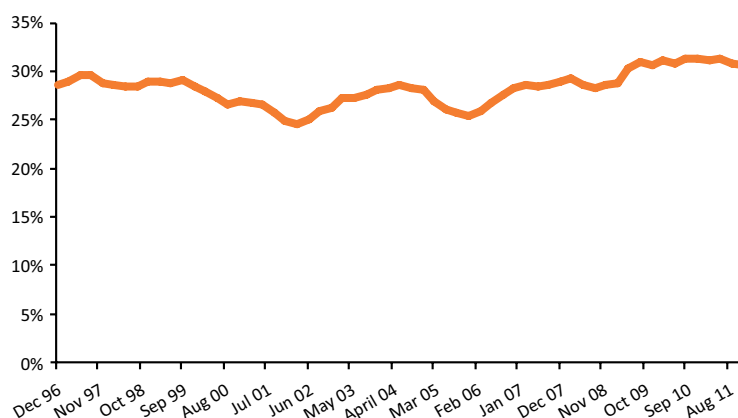
More work will be needed to assess the impact of continued jobsearch on earnings progression, but these early findings do suggest that a key factor in helping people to increase their earnings is their own desire to do so. This may sound an obvious point, but in terms of government policy, it will be much harder to help Universal Credit claimants to increase their earnings if they are not motivated to do so.

<sup>29</sup> This is consistent with recent evidence. See: Longhi, S., and Taylor, M. P. 2013. *Employed and unemployed job seekers and the business cycle* (No. 2013-02). Institute for Social and Economic Research.

At the most basic level, it does seem that people want to work more.<sup>30</sup> The number of part-time employees seeking full-time work climbed to over 1.4 million in 2012, more than doubling the number at the start of 2008.<sup>31</sup> This suggests that most people in part-time employment not only have positive attitudes toward work but are ready and willing to work more.

Yet the desire to work more may not be sufficient to generate action leading to progression. Figure 2.6 shows that only 30% of those in part-time work who express a desire for full-time work are in fact actively searching for full-time work.<sup>32</sup>

**Figure 2.6: Proportion of part-time employees that want a full-time job who are seeking one**



Source: Labour Force Survey – author's own calculations (note: four quarter moving average).

This suggests that attitudes towards work are not as straightforward as the 1.4 million figure above might suggest. This point chimes with the analysis in Chapter 1 that showed that the vast majority of the potential in-work support group are not looking for additional work. This is also supported by recent research published by DWP which suggests that among part-time workers on Working Tax Credit, only around one fifth were seeking additional hours.<sup>33</sup> There were also substantial differences between genders. Around one third of male part-time workers wanted additional hours in stark contrast to only one sixth of part-time women. A similar pattern emerged across age groups, where a minority of part-time workers is looking to increase hours.

The DWP report also looks at reasons for not wanting more work. It shows that, of part-time recipients of working age benefits or tax credits, 43% agreed that 'I don't need more hours because I get by okay on what I currently earn' compared to 46% who disagreed.<sup>34</sup> More worryingly, only one in four in part-time work had made a commitment to themselves to find full-time work by a certain date. Again, this chimes with the analysis in Chapter 1 that suggested a group of relatively settled individuals might find themselves in the in-work support group.

There remains a clear discrepancy between the desire to work more and the action needed to follow-through. If policy-makers rise to the challenge, this disconnect presents a valuable opportunity for well-designed policy to link intention to action and generate real employment progression.

<sup>30</sup> [www.bbc.co.uk/news/business-20509189](http://www.bbc.co.uk/news/business-20509189)

<sup>31</sup> [www.bbc.co.uk/news/business-18091667](http://www.bbc.co.uk/news/business-18091667)

<sup>32</sup> Oakley, M. 2012. "Welfare Reform 2.0: Long-term solution, not short-term savings." Policy Exchange.

<sup>33</sup> Tu, T and Ginnis, S. 2012. "Work and the welfare system: a survey of benefits and tax credit recipients." DWP.

<sup>34</sup> Ibid.

## Can policy interventions help

This chapter has so far demonstrated that those looking to progress in work in order to boost their earnings can face significant challenges. The evidence suggests that low-pay no-pay cycles may be hard to break out of, meaning that just staying in work can be a challenge for many individuals; that progression from low-paid to higher-paid work can be difficult in some sectors and for some groups of individuals; that wider structural changes in the UK labour market could mean that these challenges become greater over time; and that many benefit claimants working in part-time or low paid employment do not see progression as a priority anyway.

This paints a bleak picture for government attempts to target policy interventions at encouraging and supporting progression. The following section assesses what we might learn from previous policy experience in order to inform future government policy.

### UK Employment Retention and Advancement demonstration

Evidence on policy interventions to help progression for in-work individuals is thin and, where research exists, we know more about what does not work than what does. One of the largest and most robust UK studies on the topic, the UK Employment Retention and Advancement (ERA) programme, investigated the impact of various DWP services on the subsequent earnings of three different groups of claimants.<sup>35</sup> Running from 2003–2005, the participants who volunteered for the programme were randomly assigned to either the experimental or control group. Participant groups included: lone parents starting the New Deal for Lone Parents (NDLP); long-term unemployed over the age of 25 beginning the New Deal 25 Plus (ND25+); and a single in-work group of lone parents working 16–30 hours per week claiming working tax credit (WTC).

Three interventions were tested against existing DWP services. Personalised post-employment advisory support was provided to raise awareness of support services and training opportunities. Financial support of training fees and bonuses for training completion were provided to further encourage take up of training. Finally, a retention bonus of £400 was paid for each period a treatment group member worked over 30 hours per week for 13 out of a 17 week period. Over the study period, up to six such bonuses could be earned.

The impact assessment found several changes relative to the control group, though many of these effects had faded by the end of the programme. Short-term earnings rose for all groups, which was primarily driven by longer weekly hours worked in the NDLP and WTC groups. However, only the NDLP participants who had completed more education by the start of the programme and ND25+ participants saw longer-term gains in earnings. While training among the WTC and NDLP members rose relative to controls among participants with children over five years of age, this did not translate into earnings gains or into large reductions in level of benefit entitlement overall. This might be related to the low proportion of qualifications-oriented training undertaken by the WTC and NDLP

“The evidence suggests that low-pay no-pay cycles may be hard to break out of, meaning that just staying in work can be a challenge for many individuals”

35 Hendra R, Riccio J et al, “Breaking the low-pay, no-pay cycle: Final evidence from the UK Employment Retention and Advancement (ERA) demonstration”, DWP (2011)



groups. Results for the ND25+ group were much more encouraging. Despite the absence of a significant effect on training take-up, long-term earnings and employment rose. This group also experienced a decrease in benefits receipt. These effects are summarised below in Table 2.4.

**Table 2.4: UK ERA effects by group**

Target group	Number of years into programme	Outcome measure			
		Participation in training	Earnings change	Benefits receipt change	Employment rate
<b>NDLP group</b>	2 years	Increase	Increase*	Small decrease	Increase
	5 years	Increase	No difference (group average) Increase (those with higher qualifications)	Small decrease	No difference
<b>WTC group</b>	2 years	Increase	Increase*	No difference	No difference
	5 years	Increase	No difference	No difference	No difference
<b>ND25+ group</b>	2 years	No difference	Increase	Decrease	Increase
	5 years	No difference	Increase	Decrease	Increase

\* Working more hours, rather than higher wage rate.

A cost-benefit comparison of the three groups showed the intervention on the ND25+ group yielded a positive net economic effect, while the WTC group was the most expensive. The implications for employment progression are twofold. First, it appears that training is an expensive intervention with limited longer-term benefits and that must be targeted at groups most likely to benefit from it. Second, while a promising policy lever for the long-term unemployed, the retention bonus appears less appropriate for encouraging progression in the longer-term.

## US ERA

In many respects the design and implementation of the financial incentives in the UK ERA demonstration reflected the findings of an earlier US ERA project.<sup>36</sup> In this study, ten different ideas to encourage retention were evaluated across twelve different jurisdictions targeting either in-work or unemployed Temporary Assistance for Needy Families (TANF) recipients, recent TANF recipients, low-paid workers, or employed lone parent benefit recipients. Broadly, the ideas to improve progression attempted to achieve one of the following outcomes: increased job stability, employment stability, higher participation in education or training, or greater personalisation for referrals to social services or counselling.

Only three strategies were found to have a statistically significant effect on outcomes: financial incentives (Texas), for-profit providers assisting with job-to-job transitions (Chicago, Illinois), and use of community-based organisations to provide advancement services (Riverside, California). Despite these apparent successes, the vast majority of sample participants remained in poverty.

36 Hamilton G and Scrivener S, "Increasing Employment Stability and Earnings for Low-Wage Workers", MDRC (2012)

The Texas programme operated across three cities (Corpus Christi, Fort Worth, and Houston) and sought to increase employment stability of unemployed TANF recipients using financial incentives as well as pre- and post-employment support. The trial ran for four years and participation was mandatory. To receive the monthly \$200 employment retention stipend, treatment group members had to have exhausted their TANF earnings disregard, worked at least 30 hours per week, and attended an employment-related activity each month. For participants in Corpus Christi and Fort Worth, earnings and employment retention increased. Houston did not see a positive impact, though employer linkages were weakest in this location.

The programme in Chicago ran for two years and was designed to spur progression among TANF recipients working at least 30 hours per week for six consecutive months or longer by increasing employment stability. Participation for the treatment group was mandatory. A for-profit company with strong ties to local employers provided intense monitoring and follow-up with claimants, though job preparation and placement services, retention services, and advancement services were also provided. The treatment group saw a modest increase in employment and earnings relative to the control group.

Of the three interventions based in Riverside, the Post-Assistance Self-Sufficiency (PASS) programme sought to boost job retention and advancement among recent TANF leavers. Participation was voluntary and the programme ran for a year. Clients were assigned to either one of three community-based organisations, a community college, or a small Department of Public Social Services office, which provided tailored services focusing on rapid reemployment, assistance payments, and social service referrals as needed. The programme resulted in increased employment and earnings over the four year follow-up period.

The results of the US ERA project also give us some broader lessons on progression. Descriptive analysis of lone parents in the control group, though the results hold more broadly even when the treatment group is included, indicates that lone parents who changed employers experienced significantly larger earnings gains relative to lone parents who stayed with the same employer.<sup>37</sup> We also see that lone parents who experienced advancement were systematically different from those who didn't advance and tended to have higher earnings and more education at study entry. Whereas lone parents who advanced tended to have lowest separation rates (i.e. percentage working this quarter out of work next quarter) and the highest finding rates (i.e. percentage not working this quarter working next quarter), the lone parents unemployed in year three had significantly higher separation rates and lower finding rates than even the non-progressing group.

This is clearly depicted in Table 2.5 below. It is also worth noting that although by month 42 of the follow-up period, the rates of completion of training were similar across groups, lone parents experiencing advancement were more likely to have received a certificate in nursing and least likely to have received a certificate in cosmetic occupations.

37 Miller C, Deitch V et al, "Can Low-Income Single Parents Move Up in the Labor Market?", MDRC (2011)

**Table 2.5: Differences among lone parent cohorts<sup>38</sup>**

Outcome	Advanced	Worked, but did not advance	Did not work in year 3
Worked in year prior to 42-month survey (%)	94.7	85.7	56.3
<b>Among those who worked</b>			
Worked full time (35+ hours) (%)	79.2	62.5	59.4
Hourly wage (\$)	11.12	9.78	9.25
Offered paid sick days (%)	52.4	40.6	23.7
Offered medical plan (%)	59.8	46.6	28.4
Member of labour union (%)	23.1	17.7	10.3
Service occupation (%)	35.0	41.2	46.4
Self-employed (%)	1.5	1.6	13.0
<b>Firm size (%)</b>			
Less than 50 employees	42.6	51.3	71.0
50 to 499 employees	32.4	32.6	18.9
500 or more employees	24.9	16.2	10.1
<b>How was job found (%)</b>			
Friend or relative	35.2	36.9	43.2
Newspaper ad or internet	18.0	16.0	10.9

### Mini-jobs are not currently the answer

One particular feature of Universal Credit is that, compared to the existing benefits system, it will provide significantly greater incentives for out of work claimants to enter jobs with very short hours.<sup>39</sup> This makes it important to assess the role this might play in progression. Research has investigated to what extent these jobs of under 16 hours, also known as mini-jobs, may lead to greater attachment to the labour force and serve as stepping stones toward longer hours and higher earnings.

Investigating the effect of mini-jobs on employment in Germany after the 2003 Mini-Job reform, Bargain et al. (2005) test a behavioural tax benefit micro-simulation model and find that mini-jobs may increase the number of people in employment.<sup>40</sup> However, this positive effect is more than offset by a broader reduction in hours among those already in work. The authors conclude that their study confirms earlier findings that subsidising mini-jobs is not an effective policy for increasing employment or encouraging progression.

More recent evidence concerning the German Mini-Job reform suggests the apparent increase in the number of mini-jobs after reform may have arisen from a combination of seasonal effects, increased second-job holding by single men, and substantial redefinition of jobs from falsely claimed self-employment to mini-jobs.<sup>41</sup>

Additional evidence from the UK supports the view that mini-jobs are not clearly linked to advancement. One DWP study found that lone parents are less likely to work in mini-jobs than couple mothers, though this may be in part the

<sup>38</sup> Ibid.

<sup>39</sup> Benefit withdrawal in the current system means that, as a general rule, entering work of less than 16 hours will lead to no increase in net take-home income. Universal Credit will introduce an earnings disregard and benefit taper that will lead to significant financial gains from entering low-hours employment.

<sup>40</sup> Bargain, O, Caliendo, M, Haan, P, and Orsini, K. 2005. "Making Work Pay in a Rationed Labour Market: The Mini-Job Reform in Germany," DIW, working discussion paper, No. 536.

<sup>41</sup> Caliendo, M, and Wrohlich, K. 2010. "Evaluating the German "Mini-Job" Reform Using a Natural Experiment," Applied Economics, 42, 19, pp 2475–2490.

consequence of the incentives created by the benefit system.<sup>42</sup> Additional work has demonstrated that very few lone parents progress from unemployment to longer hours through the use of mini-jobs, though interestingly lone parents working in mini-jobs are less likely to change employers than other lone parents.<sup>43</sup>

If most mini-jobs are low-paid or temporary positions, then it is possible that mini-jobs do in fact provide a pathway to employment, but that this positive effect is masked by the negative impact of low-paid or temporary employment on future employment. Stewart (2007) finds that being in low-wage employment has almost as large a negative effect on future likelihood of unemployment as being unemployed.<sup>44</sup> Obtaining a higher wage job, on the other hand, reduces the risk of future unemployment. Similarly, recent research has found that temporary jobs increase the probability of future unemployment for years to come and does not find support for the stepping-stone hypothesis.<sup>45</sup>

### Additional evidence

Despite the sobering results of the ERA demonstration for training programmes, other studies are more sanguine about its effects. According to Blasco et al (2012), both on-the-job and out-of-employment training improve labour market attachment.<sup>46</sup> Many evaluations of training programmes have not allowed for differential effects of training by age group, even though we would not necessarily expect training to have the same impact for a 20-year-old and a 60-year-old. Lang (2012) addresses this issue in an investigation of the effects of training in Germany.<sup>47</sup> Younger workers tend to see wage gains resulting from training, while older workers do not. However, survey evidence suggests that older workers have reduced anxiety about their job security following participation in training, which may indicate that the gains from training are monetary for younger workers and non-monetary for older workers.

Investigating the employment states of lone mothers in Germany, Hartmann and Hancioglu (2012) show that lone mothers appear to recover from the initial negative effect of lone motherhood on their employment over time and that part-time work seems to allow for labour market re-entry.<sup>48</sup> They also find that movement from part-time to non-employment is due in large part to education and family status.

Research by Devereaux et al. (2013) distinguishes between employer spells and job spells to show that most of the wage gains from tenure with an employer accrue via job changes within the current firm rather than length of time in a job.<sup>49</sup> Using data from the UK, the authors argue that intra-firm job shopping may lead up to a 33% larger wage gain than staying at the same job. This suggests that job changes are the major source of earnings growth and that employment stability should be thought of as remaining in employment rather than simply remaining at a job or employer.

## Conclusion

The labour market has undergone tremendous change and low-skill individuals are at greater risk of finding themselves cycling between low-pay work and unemployment. Shorter average length of tenure at an employer and lower pay mean that if the government seeks to reduce repeat unemployment in the long

42 Hales, J, Tipping, S, and Lyon, N. 2007. "Mothers' participation in paid work: the role of 'mini-jobs'," DWP, Research report No 467.

43 Bell, K, Brewer, M, and Phillips, D. 2007. "Lone parents and 'mini-jobs'," Joseph Rowntree Foundation.

44 Stewart, M. 2007. "The interrelated dynamics of unemployment and low-wage employment," *Journal of Applied Econometrics*, 22: 511–531.

45 Hveem, J. 2012. "Are temporary work agencies stepping-stones into regular employment?" Working paper.

46 Blasco, S, Crépon, B, and Kamionka, T. 2012. "The Effects of On-the-job and Out-of-Employment Training Programmes on Labor Market Histories," CEPREMAP working paper.

47 Lang, J. 2012 "The aims of lifelong learning: Age-related effects of training on wages and job security," *Beiträge zur Jahrestagung des Vereins für Socialpolitik 2012: Neue Wege und Herausforderungen für den Arbeitsmarkt des 21. Jahrhunderts – Session: Ageing and Labor Market*, No. A10-V3.

48 Hartmann, B, and Hancioglu, M. 2012. "What makes Single Mothers expand or reduce employment?" *Beiträge zur Jahrestagung des Vereins für Socialpolitik 2012: Neue Wege und Herausforderungen für den Arbeitsmarkt des 21. Jahrhunderts – Session: Households*, No. E02-V2.

49 Devereux, P, Hart, R, and Roberts, J E. 2013. "Job spells, employer spells, and wage returns to tenure," *Stirling Economics Discussion Paper 2013–01*.

term, it must find a way to help workers progress in employment. The major themes from academic literature and evidence base are that:

- A large proportion of individuals in low-paid or low-hours work do not regard progression as a priority. Chapter 1 also showed that this was likely to be true of the potential in-work support group;
- Current policy interventions (e.g. JCP) can be counter-productive to the goal of progression;
- Temporary jobs, part-time work, and mini-jobs do not, on average, appear to help individuals progress. The majority of the potential in-work support group work in part-time or mini-jobs;
- Training does not, on average, appear to lead to progression, though implementation and differential impact across groups may cloud results;
- Financial incentives for employment retention may work for some groups; and
- Employment retention appears to be encouraged by job-seeking while in work.

All of these factors make the challenge facing government extremely difficult. The groups that it wants to support and encourage to increase their earnings are the same groups that currently seem to find it hardest to achieve significant earnings progression and who may not want to progress anyway. This means that if it is to design policy interventions to support and encourage Universal Credit claimants to progress in work and move towards self sufficiency, new policy solutions and a significant level of testing will be needed.

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# 3

## A Baseline Conditionality and Support System

The first chapters of this report have outlined the significant challenges that government might face in helping in-work benefit claimants with relatively low earnings to progress in work and earn more. There is also a lack of robust evidence over the effectiveness of a wide range of potential policy options.

For this reason, it is right that the government has launched a call for ideas to inform their thinking. It is also right that the government has chosen to pilot these ideas before full roll-out. If fully implemented, with comprehensive and robust evaluation strategies, these pilots will be essential in assessing the cost effectiveness of potential interventions in supporting progression. Chapter 4 outlines our views on areas where the pilots should focus and suggests specific policies that should be included.

However, before turning to areas that might warrant inclusion in pilots, we consider policy recommendations that should be rolled out now, rather than being piloted.

### Recommendations for immediate policy reforms

#### Baseline conditionality for in-work claimants

The introduction of Universal Credit represents a major opportunity to change both attitudes towards the welfare state and claimants understanding of the expectations placed on them. This is particularly true of families currently claiming tax credits but not in contact with either JCP or providers in the Work Programme. Chapter 2 showed that just one in five part-time workers on Working Tax Credit (WTC) were looking to increase their hours and that nearly half of the same group agreed that 'I don't need more hours because I get by okay on what I currently earn'.<sup>50</sup>

This presents a major challenge if government is to encourage this group to look for and achieve significant levels earnings progression. One clear route for government action is that, for these groups, state support, in the form of WTC, currently comes with no strings attached. Under Universal Credit this will change. For the first time they will be expected to attempt to increase their earnings to move towards self sufficiency and could face sanctions if they do not make these attempts.

While it is important that this newly applied conditionality does not undermine existing employment or rights (for instance by requiring claimants to move from stable to short-term jobs) we believe that, combined with effective support, these increased conditions are a positive step in attempting to support progression for

50 op. cit. Devereux, P, Hart, R, and Roberts, J E. 2013

in-work claimants. If successful, the changes should lead to more claimants of state support regarding it as a springboard or temporary support, rather than a long-term solution.

However, it is disappointing to see that when Universal Credit is rolled out, these conditions may not apply to the majority of in-work claimants. The explanatory memorandum to the Universal Credit Regulations states that:

“...it is not intended that those with earnings above a certain administrative threshold will be subject to an intensive conditionality regime.”<sup>51</sup>

This means that the majority of claimants employed for over 16 hours may not see a change in the requirements placed upon them. This misses the opportunity to change attitudes and behaviour from the outset.

Evidence from other fields suggests that deploying both commitment contracts and conditionality at the roll-out of policy changes is essential in order to take advantage of the ‘moment of change’ that can catalyse behavioural change.<sup>52</sup> In the same way, enforcing contracts and applying conditionality from the start of Universal Credit will reframe attitudes and should drive behaviour change. Delaying roll out of these policies risks a belief developing that Universal Credit is the same as tax credits, but with a different name. Once these attitudes have been built, they are likely to be difficult to break down.

This is not an argument for simply applying the same conditionality regime to in-work claimants that currently applies to jobseekers. In fact, we believe that this would be both inappropriate and prohibitively costly and we agree with responses to our call for evidence that suggest that conditions will need to be varied significantly to reflect the circumstances of specific individuals and families. Box 3.1 outlines why such an approach would be a mistake.

### Box 3.1: reasons not to extend JSA-style conditionality regime to all in-work claimants

There are a number of reasons why all in-work claimants should not be subject to a JSA-style fortnightly signing-on regime. These include:

**Discouraging work:** by not varying conditionality between jobseekers and those in work, potential moves into work become less attractive. This might inadvertently increase unemployment.

**Proportionality and flexible working:** in-work claimants working below, but close to, their conditionality threshold may find it difficult to come into JCP fortnightly. For instance, this seems unreasonable if the claimant is working for 30 hours a week. Shift workers would also struggle under the current JSA conditionality regime as they would need to come into JCP at specified times, which may clash with their shifts.

**Cost:** extending JSA-style conditionality to all 1.3 million potential in-work claimants would mean increasing footfall across the JCP estate by around 650,000 a week. This would almost double JCP’s existing weekly footfall and the costs of fortnightly interviews alone (excluding estate costs) would be in the region of £90 million a year.

51 [http://www.legislation.gov.uk/ukdsi/2013/9780111531938/pdfs/ukdsiem\\_9780111531938\\_en.pdf](http://www.legislation.gov.uk/ukdsi/2013/9780111531938/pdfs/ukdsiem_9780111531938_en.pdf)

52 For instance see: Thompson, S., Michaelson, J., Abdallah, S., Johnson, V., Morris, D., Riley, K., and Simms, A. 2011. “Moments of change as opportunities for influencing behaviour: A report to the Department for Environment, Food and Rural Affairs.” nef (the new economics foundation). Defra, London and Pereles, L., Lockyer, J., Hogan, D., Gondocz, T., and Parboosingh, J. 2007. “Effectiveness of commitment contracts in facilitating change in continuing medical education intervention.” *Journal of Continuing Education in the Health Professions*, 17(1), 27–31.

**Lack of evidence:** perhaps most importantly, we have little evidence to suggest that this would be effective in helping in-work claimants to increase their earnings. Existing evidence from the JSA regime shows the fortnightly signing leads to increased flows off benefit, but says very little about sustainable employment, earnings or broader labour market attachment.

These concerns outline the fact that it is essential to properly test and evaluate the requirements placed on in-work claimants in order to maximise the impact that policy can make.

Box 3.1 outlines the real importance of fully testing and evaluating a new regime of requirements for in-work claimants. However, we do believe that it is appropriate to apply a basic level of conditionality to in-work claimants of Universal Credit from the start of the roll out. This would ensure both that the advantages and requirements of the new benefits system can be fully explained to claimants and that potential support programmes can be signposted.

**Recommendation:** all new in-work claimants of Universal Credit (including those who, because they are already claiming above the earnings conditionality threshold, will not be subject to an on-going conditionality regime) should be required to attend an initial claim interview at a Jobcentre in order for their responsibilities and the support available through JCP to be explained to them.

The requirement for all new in-work claimants to attend Jobcentre will be essential in signalling the change in benefit and the change in requirements placed on individuals. That way, if a claimant whose earnings were initially higher than the earnings conditionality threshold experienced a fall in earnings that made them subject to the conditionality regime, they would be aware of their responsibilities under Universal Credit.

**Recommendation:** following the initial claim interview, a baseline level of conditionality should be applied to in-work Universal Credit claimants whose household earnings are below the household conditionality earnings threshold and whose individual earnings are also below their individual conditionality earnings threshold. This should be introduced as soon as Universal Credit is rolled out.

We believe that this should be structured as follows:

**Recommendation:** following the initial claim interview at JCP, in-work claimants subject to the baseline conditionality regime should be required to sign on at a Jobcentre Plus at a quarterly interval. This sign-on should be used to remind claimants of the expectations that they should be looking to increase their earnings and give advice and signposting to support.

**Recommendation:** in-work claimants failing to attend a quarterly sign-on should be subject to the sanctions regime.



In practice, all this baseline regime would mean is that in-work Universal Credit claimants earnings less than their conditionality earnings threshold would be required to attend a Jobcentre once a quarter. This session could be used to remind them of their responsibilities and to signpost support and other programmes that might help them progress.

An important feature of the analysis in Chapter 1 was that the group of claimants that we expect to be subject to this conditionality regime is extremely diverse. This diversity will include a range of different caring responsibilities, ages and ethnicities as well as broader characteristics. Responses to our call for evidence also highlighted that some claimants would be more able to progress than others. A key issue raised by respondents was the difficulty that many might experience if they were expected to increase their hours while at the same time continue providing care for children or family members with disabilities. A prime example of this view was a respondent who stated that:

*“I have always worked but I am constrained by the work I can do as one of my children is severely disabled and needs 24 hour support.”*

A number of respondents also raised concerns around the availability of childcare with enough flexibility to allow them to take on more work and other respondents commented on the limitations in increasing hours that some might face because of their own health problems.

It is vital that these legitimate concerns are addressed within any system that provides support and makes requirements of in-work benefit claimants. To some extent, we know that this is already being considered: whether or not claimants are subject to the in-work conditionality regime will already be flexible dependent on some of these factors (as laid out in Chapter 1). However, as our *Personalised Welfare* report outlined it is also important to recognise and reflect the heterogeneous nature of what might appear to be similar groups of claimants.

This means that, in the longer-term we believe that these requirements should be flexed considerably depending both on the characteristics of claimants and the distance that claimants are from the threshold. We also believe that a strong degree of advisor flexibility will be needed. However, these flexibilities will need to be piloted to assess what is effective. Ideas for the areas to pilot are outlined below.

#### *Conditionality when hours and earnings vary*

For Universal Credit claimants with a combination of hours and earnings which fall below the threshold and whose working patterns are relatively stable, it will be simple to assess whether they would be subject to this conditionality regime.

However, as Chapter 2 outlined, by their nature, many lower-income jobs are particularly unstable. Temporary employment, short-hours contracts and movements in and out of work are all prevalent. This means that a claimant might exceed their conditionality threshold in one week or month, but then be well below the threshold in the following time period. This makes it difficult, particularly in the context of quarterly signing, to assess whether conditionality should apply to a particular individual as that situation might be constantly changing. To tackle this, we believe that the baseline conditionality regime should

be triggered based on the previous three months earnings. If earnings fall below the threshold in the previous three months, the claimant would be subject to the regime in the following three months or until their claim for Universal Credit ended.

**Recommendation:** for in-work claimants of Universal Credit working irregular hours, application of the baseline conditionality regime should be based on an assessment of their previous three months of earnings. If earnings fell below the threshold, the baseline regime would be applied for the following three months or until their claim for Universal Credit ended. This would then apply on a rolling three-month basis.

#### *Costs of baseline conditionality*

Extending a conditionality regime to 1.3 million more Universal Credit claimants will increase costs to DWP. However, as outlined above, we believe that this baseline level is essential in order to seize the moment of change and drive changes in attitudes and behaviour which will ultimately increase earnings, improving living standards and reduce costs to the state.

In terms of JCP footfall, it would increase the number of claimants signing on by around 100,000 each week. As part of this research DWP supplied us with an estimate of the standard unit costs of the fortnightly job reviews that jobseekers currently have to attend. The average length of time for these reviews is just over eight minutes and the associated cost is £2.66.

Based on this information, applying the quarterly signing regime to the full in-work conditionality group would cost in the order of £14 million a year. However, given the size of the group, it is likely that this could present capacity issues for certain JCP offices and may require larger offices if approached in a standard fashion. For this reason, in order to minimise costs:

**Recommendation:** Jobcentre Plus offices should be given flexibility in how they deal with this increased flow of claimants. For instance, they should be given support to trial greater use of group signing or digital signing at JCP for in-work claimants or those judged to need little intervention. These trials should be separate to DWP's formal pilots for the in-work group and should be used to share best practice between JCP offices and districts.

#### **Changing how Jobcentre Plus performance is measured**

Chapter 2 and our previous report *Welfare Reform 2.0* outlined that JCP performance is measured simply on benefit off-flows. This is inappropriate in a welfare system where progression and sustainability are the key outcomes. At best, it does not incentivise advisors or managers of offices to focus on driving the desired outcomes and, at worst it makes the low-pay, no-pay cycle worse.

The current measure of success for JCP is also inappropriate for in-work claimants who had not previously been in contact with JCP. For this reason, JCP will need new outcome measures to assess their success in: moving out-of-work claimants into work and then helping them to stay in work and progress; and helping in-work claimants not previously in touch with JCP to progress to higher levels of earnings.

**Recommendation:** to ensure that JCP staff are incentivised to help jobseekers into more sustainable work and to help them progress when they find work, the performance of JCP should not be measured on benefit off-flows. To replace existing benefit off-flow measures, three key measures should be introduced:

- The proportion of jobseekers achieving a sustainable job outcome within given time periods (e.g. three, six and nine months from the start of a claim). This should match definitions in Work Programme contracts in order to allow comparison;
- The proportion of jobseekers finding work, within given time periods from the start of their claim, which moves them above their conditionality earnings threshold; and
- The mean and median earnings per year of all jobseekers starting claims at a Jobcentre.

**Recommendation:** to ensure that JCP staff are incentivised to help in-work claimants not previously in touch with JCP (e.g. current tax credit claimants) to progress to higher earnings, JCP should also introduce a measure of the proportion of in-work claimants they have helped to progress in work. For instance, they could report the median earnings gain for their in-work claimants or the proportion of claimants who have increased their earnings by up to £500; up to £1,000; up to 2,000 and over £2,000 in each year.

Each of these measures will require significantly better tracking and reporting of individual employment, benefit and earnings histories than is currently the case within JCP. The roll out of real time reporting of PAYE (RTI)

“It would be sensible to reform Work Programme contracts to incentivise providers to encourage and support progression in work”

that Her Majesty’s Revenue and Customs (HMRC) is currently undertaking in order to link earnings data to benefit eligibility calculations provides an opportunity to do this.<sup>53</sup>

**Recommendation:** to facilitate these new measures of JCP performance, DWP must take advantage of the opportunities provided by real time reporting of earnings data under Universal Credit. To allow measurement of success that JCP has in increasing both time in employment and earnings, this data should be both linked to benefit records and accessible by JCP.

#### Work Programme contract reform

Changing how the performance of JCP is measured should be a large step towards providing Jobcentre advisors and managers the right incentives to help claimants enter into, stay and progress in work. However, claimants that JCP fails to help into work will be moved onto the Work Programme. This means that similar incentives will need to exist for Work Programme providers and their staff.

Current contracts for the Work Programme incentivise providers to help claimants enter and stay in work. Payments are provided once a “job outcome” has been registered. What this means in practice varies by the type of claimant. For instance for those aged over 25 and claiming JSA this would mean the claimant

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<sup>53</sup> <http://www.hmrc.gov.uk/payerti/getting-started/index.htm>

staying in work for six months. Additional payments (sustainability payments) are then paid for each additional month that the claimant remains in work.

The problem is that, beyond ensuring that a claimant is off benefit (which as a rule of thumb might mean being in work for 16 hours), a “job outcome” does not require providers to take account of the level of earnings which the individual has. Under Universal Credit, job outcome measures are likely to change. However, it is likely that they will simply be replaced with a measure that assesses whether earnings are more than 16 hours multiplied by the NMW. This means that, even when Universal Credit is rolled out, providers will not explicitly be rewarded for getting claimants into jobs with longer hours or for working with them to increase their earnings.

Given the potential advantages to individuals and families and the benefit savings associated with such progression, it would be sensible to reform Work Programme contracts to incentivise providers to encourage and support progression in work. Contractual obligations make it unlikely that this approach could be implemented wholesale before the next round of contracts is tendered. However, it is essential that DWP and the Treasury start assessing how future contracts might incorporate incentives for progression.

**Recommendation:** the government should launch a public consultation seeking input and views on how progression incentives might be built into the next round of Work Programme contracts. This should be launched as soon as possible in order to give government time to build up a workable and commercially viable model before contracting begins.

We also believe that existing contractual flexibilities could be used to pilot a new approach with providers who were willing to engage. Such a pilot is important given the obvious complexities around creating new incentive structures to financially reward Work Programme providers for progressing claimants from smaller jobs to ones with greater earnings. In particular, it will be important to ensure that gaming does not take place (for example, placing a claimant in a job with a lower salary, then claiming a reward for progressing them to a position with a higher salary). Rewards for getting claimants into lower paid, or short hours, jobs which they would have got anyway, or may have got higher paying ones under the right circumstances, are clearly undesirable.

To tackle these issues we believe that a relatively simple payment structure might be adopted and tested in pilots to inform decisions on re-contracting. This would reward providers based on the total earnings a claimant earned during the time which they were with the provider.

**Recommendation:** when Work Programme contracts are re-tendered, payments should be based on the total earnings a claimant earns over the contract period. For instance, providers might receive a fixed proportion of a claimant’s total earnings, which reflects the benefit savings which they are delivering. This proportion could vary by contract group such that providers receive higher rewards for those least likely to find and progress in sustainable employment. A future report will consider this proposal in more detail, but this approach should be piloted now in order to inform future decisions.

This approach would avoid many of the problems with gaming outlined above and should also provide transparency and clarity over the goals of the programme. In terms of incentives, it would pay providers more: the quicker they got a claimant into work: the longer they helped them stay there; and the higher their earnings were.

The payment schedule could also be designed such that net costs were no greater than the existing programme costs. In the short-term, this might require a 'cap' on payouts to limit government liabilities. This might be set at the Universal Credit conditionality threshold (e.g. 35 times NMW). However, in the longer-term, the consultation should also consider whether and how incentives might be given for progressing claimants further up the income distribution until they are moved completely off benefits.

In order to allow transparency and to improve operational delivery for Work Programme providers, it is essential that they have a better understanding of the work experiences of their clients without having to constantly check with employers.

**Recommendation:** the government should explore whether some elements of RTI data might be shared with Work Programme providers. This should give providers access to data relating to the monthly earnings of claimants placed with them.

While such an approach would, no doubt, come with data protection and confidentiality issues that would need to be navigated, it would give Work Programme providers vital insights into how effective their interventions are and allow them to innovate and learn what works best in helping their clients.

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# 4

## Progression Pilots

The previous chapter outlined reforms that are essential to the functioning of the welfare system when Universal Credit is rolled out. They would provide a baseline level of conditionality and support for in-work Universal Credit claimants and give JCP and Work Programme providers incentives to help and support claimants to progress.

While essential, these reforms should only be regarded as the baseline. It is likely that more reforms will be needed in order to fulfil the ambition of helping more claimants towards, and into, self-sufficiency. However, as Chapter 2 outlined, we currently know very little about policy interventions that might be successful in doing this and the existing evidence over the extent of progression in the UK labour market shows that this might be a very difficult task.

With this in mind, it will be essential to implement a robust and wide-ranging programme of piloting of potential types of policy interventions for in-work claimants. This section outlines options for the formal pilots that DWP are consulting on. As well as this, it argues that a greater degree of devolution could provide a vital opportunity for policy variations and innovations that, if successful, could inform best practice more broadly across the country.

### Conditionality

We outlined above that many employees working relatively short hours, who will be subject to the in-work conditionality regime, do not currently want to increase their earnings. This suggests that if government is going to be successful in encouraging progression it will have to influence these attitudes and consider levels of requirements that are greater than the baseline outlined above.

However, as we have already argued, we should not be looking to simply apply the same conditionality regime for in-work claimants as currently exists for jobseekers. Doing so would be costly and overly burdensome on claimants already in work. For instance, we believe that it would be inappropriate for a claimant expected to earn 35 hours multiplied by the NMW to attend a Jobcentre fortnightly if they were already working at 30 hours multiplied by the NMW. Such an approach could also have perverse effects: not differentiating between in-work and jobseeking conditionality might make movements into work less attractive for jobseekers and therefore increase unemployment.

However, that does not mean that requirements for in-work claimants cannot play an important role in supporting and encouraging claimants to seek longer hours, higher earnings or additional jobs. We believe that testing flexibilities in conditionality requirements should form a key strand of DWPs pilots. This is

particularly important because of the need to target interventions in a way that maximises behaviour change.

Both responses from our call for evidence and analysis in Chapter 1 outlined the wide range of characteristics and circumstances of in-work claimants. As we have already argued, this will mean that personalisation of both support and requirements will be essential in this policy area. For instance, the conditionality regime should take account of caring responsibilities that claimants have and the distance claimants are from their earnings conditionality threshold. A key example is that those furthest away from their threshold might be expected to attend Jobcentres more regularly or engage in extra activities that could help them progress.

**PILOT Recommendation 1:** the DWP's pilots should include a significant strand which tests variations in the signing-on regime. This should flex signing-on requirements above the baseline set out in earlier recommendations and assess how frequency of signing impacts on the likelihood of a claimant progressing. The approach should be varied so that differential impacts on specific groups of claimants can be assessed.

We also believe that a more intensive conditionality regime, which goes beyond signing-on frequency, should be tested for some claimants. As we laid out in *Something for Nothing*, the long-term intention should be that all claimants of Universal Credit spend at least the amount of hours set out as part of their earnings conditionality threshold engaged either in work or in activities that will help them to find more hours or additional jobs.<sup>54</sup> In practice, this would mean that if a claimant were expected to work for 35 hours a week but they were currently working for 16, they would be expected to undertake activities linked to jobsearch and progression for the remaining 19 hours. Because of the potential costs involved, this approach should be tested first on a relatively small group of claimants who do not face significant barriers to working full-time but who are currently not.

**PILOT Recommendation 2:** a stronger conditionality regime should be tested for in-work claimants earning below their earnings conditionality threshold and who have no caring responsibilities, health problems or work limiting disabilities. This should require them to engage in activity on top of part-time work that tops up their weekly hours of activity to 35. Activities might include:

- More regular signing-on and participation in jobsearch and support programmes at Jobcentres or with Work Programme providers at times when they are not working;
- Community work placements and volunteering;
- Work experience; and/or
- Work shadowing.

This regime could be delivered by JCP or tendered to independent providers.

Claimants failing to comply with the conditions outlined above should be subject to the sanctions regime.

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<sup>54</sup> Doctor, G., and Oakley, M., (2011). *Something for Nothing: reinstating conditionality for jobseekers*. Policy Exchange, London.

## Financial incentives for in-work claimants

As well as encouraging behaviour change through greater levels of requirements, government might also attempt to encourage progression by increasing the rewards that individuals receive when they increase their earnings. Previous evidence has shown that financial incentives can have some impact on behaviour for claimants. The evidence from ERA shows that these impacts were limited to a relatively small group of claimants, however, we know less about incentives that are targeted directly on progression.

A key problem with this approach is that it could be relatively costly. However, it is also clear that policies successful in helping claimants to progress in work could lead to significant benefit savings if they lead to progression that would not have otherwise happened. For instance, if an in-work claimant increases their net earnings by £1,000 above what would have otherwise happened, their Universal Credit award will be reduced by 65% of their net earnings increase, leading to a £650 benefit saving.

For this reason, we believe that, on a pilot basis, potential benefit savings from progression could be shared with the claimant themselves. If successful, this could change attitudes towards progression and lead to significant benefit savings.

Of course, a key consideration is how to protect against deadweight. For instance, a poorly designed system might incentivise claimants to take low hours or low paid work for a year, in order to be eligible for a large progression bonus by increasing their earnings the following year. However, it is possible to design schemes that avoid these problems. In theoretical terms this would require that the bonus calculation is set such that a claimant choosing to work for lower earnings and then increasing their earnings would take home less in total pay, benefits and the bonus than if they had worked for two years at the higher earnings level. To assess how this might be decided, Box 4.1 outlines an illustrative example.

### Box 4.1: Designing financial incentives to avoid deadweight

The following assumes that a claimant chooses to take a job with net earnings £1,000 less than they are capable of in year one. They then progress by increasing their net earnings by £1,000 in the second year in order to be eligible for the bonus. The calculations below compare take home, net income, to the situation where they worked the higher amount in both years.

#### Year 1

- Take home, net income is £350 less (since increased benefits compensate by £650) in year 1.

#### Year 2 (after “progression” of £1,000)

- Take home, net income is the same as under baseline.
- Bonus payment is assessed as a percentage of “benefit savings” of £650.

#### Calculation

If the bonus were greater than or equal to £350, the claimant would be better off choosing the low hours/earnings option in year one and then progressing to receive the bonus (since net earnings loss in year is only £350 after benefits taken into account).

Considering the extra effort involved in earning an extra £1,000 in the first year, it is likely that the bonus would need to be some way below £350 in order for someone not to choose that option.



In practical terms, this requires that the claimant should receive a relatively low share of benefit savings. A potential level could be 10% of benefit savings and setting this level should be part of the flexibilities available in the pilots. Set at 10%, this would mean giving claimants who progress a 6.5% (10% of the 65% benefit saving) bonus on any increase in earnings they receive.

To make the most impact, we believe that this payment should be given in a lump sum after a year of progress. A claimant moving from 16 hours on NMW to 35 hours on NMW for a full year would be paid an additional £397 at the end of the year as a bonus.

**PILOT Recommendation 3:** on a pilot basis, in-work claimants should be given a progression bonus based on the benefit savings that their progression has led to. For instance, claimants could be given a 10% share in any benefit savings from their progression. Set at 10% would be equivalent to paying claimants a 6.5% bonus on any increase in earnings they see from one tax year to the next. This should be given in a lump sum at the end of the year to maximise the opportunity for positive communications.

### Financial incentives for Jobcentre advisors

Similar arguments around sharing the benefits of progression can be made for Jobcentre advisors who successfully help claimants to progress. Previous evidence has also shown that giving Jobcentre advisors performance related bonuses can increase the performance of staff. For instance, a recent report shows that giving small team bonuses in Jobcentres increased performance by up to 10%.<sup>55</sup>

**PILOT Recommendation 4:** Jobcentre advisors should receive bonus payments based on their performance in helping in-work claimants progress in work. This approach should be introduced on a pilot basis in a number of Jobcentres and go hand in hand with new measures of JCP performance. Bonuses should be paid for out of the benefit savings resulting from claimants progressing to higher earnings. Total savings should be assessed by comparing progression of claimants in pilot JCPs against close comparators to ensure that the department is not paying for outcomes that would have occurred without intervention (deadweight).

### Training

A number of respondents to our call for evidence suggested that the provision of additional training might be a good option for helping claimants to increase their earnings. In particular, one organisation suggested that:

“...low levels of education and training in the UK workforce...are a very frequent barrier to obtaining work or better-paid work”

Other respondents argued that training vouchers should be given or that Jobcentres should place more claimants on courses.

While we believe that skills, training and continuous development are likely to be key in helping individuals see progression in the labour market, there is a currently a significant lack of information around policies that might be effective. Chapter 2 outlined some of the evidence that suggests that the provision

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<sup>55</sup> Burgess S et al (2011), 'Incentives in the Public Sector: evidence from a government agency', *Working paper 04/103*, Centre for Market and Public Organisation

of training is ineffective at helping the majority of claimants to increase their earnings. Broader evidence suggests that training courses can be a distraction from jobseeking which leads to claimants spending longer on benefits.<sup>56</sup>

This lack of evidence over what an effective skills-for-progression policy might look like and the importance of this area for boosting both individual's earnings and the UK's faltering productivity, suggests that attention should be focussed on these issues. However, it is likely that this will be beyond the scope of the pilots outlined here. Another respondent outlined the scale of the challenge:

*"If we are to build sustainable talent pipelines, radical action is needed to overhaul careers guidance and skills policy in the UK."*

With this in mind, we believe that developing a better integrated policy on welfare and skills policy should be a priority for the government. This should consider how continuous development and skills policy might be coordinated between Work Programme providers, Jobcentre Plus, skills and training providers, local government and business. This area will also form part of future work on Policy Exchange's *Joined up Welfare programme*.

## Evaluation and personalisation

An essential part of undertaking the pilots outlined above is that they are properly evaluated and can be used to inform the detailed design of future policy. This means that a full evaluation plan must be in place (and carried out) and that the pilots are designed so that the differential impacts on specific groups can be identified.

**Recommendation:** each of the pilots we have outlined must have a full evaluation plan that is completed and published before decisions around subsequent roll out have been taken. The piloting methodology and evaluation structure should be set such that impacts can be assessed:

- On average for all claimants taking part;
- For particular groups of claimants (for example those with and without children); and
- For claimants at different distances from their earnings conditionality threshold.

## Devolution: the route to successful innovation

### Using the City Deals

The pilots outlined above should provide DWP with valuable insights into how effective a relatively small range of policy options might be in helping benefit claimants to progress in work. However, given the limited budget, it will only be possible to test a few options on a relatively small number of in-work claimants. Given the range of possible options available and the current lack of evidence around what might help benefits and tax credits claimants progress in work, this is problematic. There is no guarantee that the right options will be tested and there will be little scope to test variants of the options chosen.

<sup>56</sup> Martin, J.P., and D. Grubb. "What Works and for Whom: A Review of OECD Countries' Experiences with Active Labour Market Policies." Swedish Economic Policy Review 8, no. 2 (2001): 9–56.

For these reasons, we believe that it is essential that a greater range of options and ideas are tested and evaluated. These options will not, and should not, be designed centrally by DWP. Cost is an obvious barrier, but a wider concern is that centrally designed pilots might not deliver real innovation and the variation in approaches needed to test a full range of possible ideas. Instead, we believe that the flexibilities being delivered through City Deals might provide an opportunity for local areas to innovate and put in place policy variations to suit their local conditions.<sup>57</sup> This approach would build on successful policy innovations in the United States where relatively small areas were given flexibility to vary aspects of welfare policy. This led to significant policy variations which were subsequently evaluated and allowed effective ideas to be rolled out both in the USA and abroad.

**Recommendation:** in order to boost innovation and the range of pilots being tested, the City Deals process should be used to provide successful cities with flexibility around some elements of welfare policy and employment support provision.

A large range of potential flexibilities are obviously possible. However, any changes will need to be broadly consistent with the national approach (in terms of goals and perspectives of welfare reform) and would need to be possible within the existing legislation.

**Recommendation:** the DWP should work with the Cities Policy Unit to outline areas where cities are able to flex national welfare policy. These should include:

- **The ability to flex the conditionality regime for in-work claimants** above (but not below) that set by the baseline level outlined above. For instance, a city may require some in-work claimants to sign-on monthly rather than quarterly.
- **The ability to supplement Work Programme contract payments** with rewards for providers who are successful in helping jobseekers progress in work once they have found employment.
- **The ability to take on any of the mainstream DWP pilots outlined above and to flex key elements** in order to provide greater granularity in pilot results, particularly around specific groups where more personalised approaches might be taken.

A condition for cities taking on these flexibilities should be that they put in place robust evaluation plans.

Some of these options will come with associated costs. We would expect the cities involved to meet these costs. In the short-term, many policy variations may come with relatively low costs. For instance, varying signing-on requirements for in-work claimants is likely to be a low cost option. These costs might be met through re-allocation of funding of existing employment service provision that local authorities and cities provide. This approach might be attractive to cities as, rather than having to set up, commission and run their own employment services, they could have greater control over policy within the network of Jobcentres. There might also be an argument for devolving part of the Flexible Support Fund and giving cities autonomy to set priorities for the use of this money.

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<sup>57</sup> <http://www.dpm.cabinetoffice.gov.uk/content/city-deals>

**Recommendation:** costs of small-scale policy variations by successful cities should be funded out of existing budgets. However, in order to leverage larger policy variations, the government should consider which parts of the welfare budget might be devolved to give cities a greater number of options. An obvious starting point would be the Flexible Support Fund. There may also be opportunities through the European Social Fund.

However, in the longer-term, some costs might be too large to be covered by this approach, particularly if they are rolled out more generally across a city area. For instance, rewarding Work Programme providers for helping claimants progress could be expensive if they are very successful. This suggests that alternative funding arrangements should be considered. A potential approach is to use so-called “AME-DEL” switches to allow programmes to be funded and cities rewarded out of benefit savings.

**Recommendation:** in the longer-term, Cities should be encouraged to work with DWP to identify groups of claimants where expected benefit payments over a set period could be transferred to the city. The city would then have responsibility both for paying benefits and commissioning support services to help claimants enter and progress in work.

Testing this approach could provide real insights into how effective greater devolution of welfare policy might be. It could also allow local areas to better coordinate the range of welfare services and funding that are available from a range of central government departments for disadvantaged individuals and families.

## Conclusion

The government will face significant challenges in designing a system of requirements and support to help in-work claimants of Universal Credit to increase their earnings. It is essential that a full range of policy options are tested and evaluated and that these tests properly assess the diverse needs and circumstances of the group in question.

This report has outlined areas where the government must take action now in order to ensure that Universal Credit is effective as soon as it is rolled out. We have also outlined four areas where it is essential for pilots to be focused. As well as this we have argued that a greater degree of devolution to Jobcentre offices and the City Deal process would allow for a significantly larger number, and potentially more innovative range, of pilots. If implemented, the recommendations made here will improve the welfare system now and add to the evidence base of what helps benefit claimants both increase their earnings and living standards and move toward financial independence.

This report responds to the government's call for ideas on how it might help claimants of in-work benefits to increase their earnings. Doing so would increase family living standards, help move more people towards financial independence and deliver significant savings to the welfare budget. However, evidence of what works in this area is scant and the estimated 1.3 million benefit claimants who might face new, firmer conditions are extremely diverse in terms of their characteristics and needs.

To tackle this, we recommend that a baseline level of conditions should be applied to all claimants of in-work benefits and that this vary by claimant characteristics. To back this up, significant reforms of how we measure the performance of Jobcentre Plus and reward Work Programme providers will be needed to ensure that, alongside increased requirements, claimants get the support they need to increase their earnings.

On top of this we make recommendations for a significant number of pilots. Some of these should be delivered centrally by the Department for Work and Pensions to test what works in terms of the level of conditions and financial incentives placed on claimants and the rewards for success that Jobcentre advisors receive. However, on their own, these pilots will not be enough to create a sufficient evidence base to inform future policy decisions. For this reason we recommend that significant powers are devolved through the City Deals process and to individual Jobcentres so that they are able to flex policy and test what works at a local level.

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