



Britain Works

A discussion paper

Foreword by Child Poverty Action Group and Working Families

Articles, books and commissions on the future of work abound. The broad argument is that not since the Industrial Revolution have there been so many changes in such a short timeframe. Some researchers and commentators assert that the speed of change is likely to increase as technology and data become ever more embedded, others that the rise of the robots has been overstated. These visions of the future sit alongside analysis of changes in the current labour market – changes that have seen greater use of temporary contracts, agency workers and self-employment; and a rise in in-work poverty resulting in a shift in the prevalence of child poverty in working households.

Two thirds of children growing up in poverty in the UK live in a family where at least one person works. Working families' most important resources - time and money - are in short supply. Indeed, only one in five working families feel they have the right time and money balance for their families to thrive.¹ Parents need decent pay *and* job security *and* respect for their caring responsibilities. Employers who can offer this are rewarded with loyalty, reduced costs, better customer and client service, and an improved corporate reputation. This will also contribute to a better society.

These employment challenges are attracting a lot of attention in policy circles. The government has invited Matthew Taylor, Chief Executive of the RSA, to conduct an independent review of employment practices in the modern economy. The Labour Party is setting up a policy-based review of modern work. Select Committees for the Department of Work and Pensions (DWP) and Department for Business, Energy & Industrial Strategy (BEIS) are exploring the gig economy and rising self-employment. The TUC is currently looking at improving security at work, and a funder in East London is looking to financially support 'pro-worker innovation start ups'.

Child Poverty Action Group (CPAG) and Working Families work with low-income families who are facing their living standards falling even further over the next five years. (Resolution Foundation research shows the entire bottom third of the income distribution will see their

¹ J Swan, 'Modern Families Index 2016', *Working Families*, 2016

real incomes fall in the years ahead.²⁾ Both organisations have come together under the umbrella of *Britain Works* to identify how the labour market and its support systems such as social security, childcare and adult skills can work better for families short of money and time.

Over the next year, in the search for effective, sustainable solutions, *Britain Works* will outline why a new approach to work and support systems is needed for families. It will facilitate and promote a wide and open discussion about how to improve the experience of work for low-income families in the UK, and the employers they work for. *Britain Works* is an open invitation to employers, workers, and researchers to engage with us in rethinking the model.

INTRODUCTION

Work has been the biggest anti-poverty policy of recent decades, with support delivered under banners of 'making work pay', and calls to 'work your way out of poverty'. However, people living in poverty are increasingly likely to be working. In the UK, 3.8 million workers are living in poverty.³ Experts are predicting that both real wages and living standards will fall over the next 12 months as prices rise and employers are unable or unwilling to offer higher pay.⁴ Since the 2008 financial crisis the wage fall in the UK has been unmatched by any other large economy.⁵

Low pay will be exacerbated by real terms cuts to working benefits, especially to the flagship universal credit, which now leaves people worse off than they would be under tax credits. The most high profile cut has been to the work allowances of universal credit.⁶ Changes in the 2016 Autumn Statement have modified this cut, but only slightly. For example, a lone parent earning £15,000 a year with no housing costs will now be 'only' £3,000 worse off, rather than £3,170 worse off.

The experience of working, searching for work and learning new skills, along with aspirations for future work play a critical part in each individual's life and identity. The last decade has seen significant changes both in the ways that people work, and in the systems set up to provide support, through social security, access to skills training, childcare and unions. Employers are facing a number of competing demands from consumers, their employees, government and the wider economic impacts of policy, particularly concerning Brexit. Some sectors are under significant pressure from new competitors with different ways of working.

² A'Corlett, D Finch, M Whittaker, 'Living Standards 2016', *Resolution Foundation*, 2016

³ A Tinson, C Ayrton, K Barker, T Barry Born, H Aldridge, P Kenway, 'Monitoring Poverty and Social Exclusion 2016', *Joseph Rowntree Foundation*, 2016

⁴ See, for example, CIPD's 2017 Outlook and/or The Resolution Foundation, <http://www.resolutionfoundation.org/media/blog/2016-deserves-a-better-press-on-living-standards-well-miss-it-when-its-gone/>

⁵ R Avent, *The Wealth of Humans*, Allen Lane, 2016

⁶ The work allowance is the amount of money that individuals are allowed to earn before their universal credit award starts to be reduced. The work allowance is based on needs, and whether the universal credit award contains a housing costs element.

Changes in support systems often appear to have been conceived in a vacuum and, seemingly, have not understood or engaged with changes in the labour market. January's green paper on industrial strategy failed to grasp the opportunity to make the case for high quality support for those moving in and out of low-paid, insecure work. As the gap between support systems and the labour market grows, so the lives of many people with a foot on both sides of this chasm become increasingly precarious.

METHODOLOGY

This report combines a literature review, analysis of Office for National Statistics (ONS) data and expert interviews to explore some of the key issues. The latter comprised a series of in-depth, semi-structured, qualitative interviews with employers in which they were asked about staff earning £20,000 or less a year. Topics covered were flexibility, recruitment, retention, structures for progression and use of zero and/or minimum hour contracts for these workers, as well as concerns about the future. Employers were also asked about sub-contracting and supply chains, and the processes that drove these decisions. It was much harder to engage small businesses in the interview process, and a focus on the specific issues they face could be a part of the ongoing *Britain Works* project.

Thank you to all those employers who were interviewed for this paper, they were very generous with their time and expertise.⁷ Thanks are also due to the Webb Memorial Trust for its support for this report and the early stages of this project.

PAPER STRUCTURE

This report is divided into five sections. Each identifies important and interesting findings from the research, and raises questions that will shape the structure of *Britain Works* in the future. The five sections are:

- 1) KEY ISSUES
- 2) RISK
- 3) FLEXIBILITY AND INSECURITY
- 4) SUPPLY CHAINS
- 5) THE IMPACT OF THE CUSTOMER

These sections provide the framework and context in which this partnership project will sit. They raise questions that will be addressed as the project progresses. They identify the need to capture the voices of those affected by changes. The qualitative interviews undertaken with employers, literature review, and data analysis, have helped shape the questions emerging at this stage, and listed throughout the paper. Later stages of *Britain Works* will see employers and families engaged in designing solutions.

⁷ All employer interviews were anonymised

1. KEY ISSUES

Rising levels of in-work poverty and concern about security – of employment and income – mean that work isn't a positive experience for many. Despite being much lauded, 'hard-working families' often find themselves short of time and short of money. The social security system should lessen the impact of falling living standards, and changes in the labour market. Indeed, the tax and benefit system has prevented a huge rise in inequality in working households over the last 20 years even while wage inequality has grown.⁸ The provision of in-work support and the presence of a reliable safety net provides people with the confidence to change jobs. However, millions of working families are living in poverty, the universal credit work allowance is being cut, and the conditions required for claiming jobseeker's allowance are increasingly at odds with the reality of low-paid jobs. This is likely to be exacerbated as in-work conditionality rolls out.⁹

GAP BETWEEN SUPPORT AND LABOUR MARKET CHANGES

Whether the focus is on stagnant or falling wages, rising prices, use of zero, short-term or temporary contracts, self-employment, the impact of automation, retailers' warehouses, tax credit cuts or universal credit work incentives, work has barely been out of the news in recent years. Political parties have sought to define and appeal to those at the sharp end of changes in the labour market – from 'alarm-clock Britain' to the 'squeezed middle' to the current 'Just About Managing' (JAMs).¹⁰ Yet, despite this, sustainable solutions to an increasing sense of insecurity have remained out of focus. Indeed, the chasm between the systems set up to support work and the changing labour market seems to grow ever wider with each policy iteration.

For many low-income families, changes to the benefits system have more impact than wages on whether work makes them better off. Cutting universal credit work allowances will therefore have a significant effect on the decisions families make – particularly on whether it makes sense for second earners to work, or whether it is worth seeking to increase hours or pay. The benefit system, along with housing and childcare costs, is what, for many people, determines whether work 'pays'. Overcoming disincentives to move into work, to work more or earn more in the social security system is one of the original objectives for the creation and (costly) introduction of universal credit. Social security that does not reward work is not compatible with an approach that places work at the centre of anti-poverty policy.

This situation is further exacerbated by falling investment in adult skills. Other support critical to work, such as childcare, is also out of step with requirements, making it harder for families. For childcare to support work it needs to take account of both parents' and employers' needs: childcare needs to be structured to enable work *and*, crucially, work needs to be structured to fit with childcare.

⁸ C Belfield, R Blundell, J Cribb, A Hood, R Joyce, A Norris Keiller, 'Two decades of income inequality in Britain: the role of wages, household earnings and redistribution', *Institute for Fiscal Studies*, 2017

⁹ Universal credit in-work conditionality will mean people who claim wage top ups, who may never have been unemployed, or engaged with a Jobcentre before, will have to demonstrate they are looking for more hours or higher pay as a condition of receiving universal credit and other benefits

¹⁰ This is not a clearly-defined group, but much analysis assumes an annual salary of £18-24k a year

WHAT IS DECENT WORK?

International comparison shows the UK has a lot of people in low-paid jobs.¹¹ There has been little change in the proportion of low-paid workers in the UK in the last 20 years. Just over 1 in 5 (21% or 5.7m) people are in low-paid work.¹² Women are more likely to be low paid than men – indeed, 58% of London's low-paid jobs are carried out by women.¹³ Other groups disproportionately represented in the ranks of the low paid are young people, part-time workers, temps, those in low-skilled work, and people in the retail, hospitality and care sectors.¹⁴ Women on average earn 18% less an hour than men. This gap widens during the 12 years following the birth of female employees' first children – to 33%. This penalty is due to the increased likelihood of women working part-time and taking career breaks. Indeed, women's wages are 2% lower for each year taken out of the workforce.¹⁵ The gender pay gap is compounded by business practice that sees men more likely to be promoted.

The types of jobs and the wages paid to people moving into work from unemployment are important. In the US, the Workforce Innovation and Opportunity Act (2014) has shown that only measuring job outcomes above a certain pay threshold is possible and does have an impact on programme design. In the UK there is no such mechanism to measure job quality (in terms of pay or permanence). This is despite significant evidence of the value of work for both physical and mental wellbeing, and the quality of that work is central to broader positive outcomes. Australian research has shown the importance of good quality work:

*"Getting a high quality job after being unemployed improved mental health by an average of 3 points, but getting a poor quality job was more detrimental to mental health than remaining unemployed, showing up as a loss of 5.6 points."*¹⁶

Poor health has a high cost to individuals and to their families. Millions have been spent on active labour market programmes and there is a large international evidence base on their effects. However, the analysis has focused on the short-term outcomes of people moving into jobs, rather than examining the types of jobs people take, and their impact on poverty.¹⁷

'Decent work for all' is one of the United Nations' sustainable development goals. The International Labour Organization (ILO) has a Decent Work Agenda, which is underpinned by a series of quantitative measures. These include employment protection; adequate earnings and productive work, work/family/life balance, social security, and the economic and social context for decent work. In the UK, references to decent work often refer to pay, flexibility, skill level, progression opportunities, job content, individual experience or a combination of these and more. Oxfam commissioned participatory research in Scotland in 2015-2016 in

¹¹ It is listed 15/22 for low pay, measured as % of full-time employees in low pay

¹² S Clarke, C D'Arcy, 'Low Pay Britain 2016', *The Resolution Foundation*, 2016

¹³ 'Low pay by gender', <http://www.londonpovertyprofile.org.uk/indicators/topics/low-pay/change-in-low-paid-jobs-by-gender/>

¹⁴ S Clarke, C D'Arcy, 'Low Pay Britain 2016', *The Resolution Foundation*, 2016

¹⁵ W Elming, R Joyce, M Costa Dias, 'The Gender Wage Gap', *Institute for Fiscal Studies*, 2016

¹⁶ P Butterworth, LS Leach, L Strazdins, SC Olesen, B Rodgers, DH Broom, 'The psychosocial quality of work determines whether employment has benefits for mental health: results from a longitudinal national household panel survey', *Occupational and Environmental Medicine*, 2011

¹⁷ K Ray, P Sissons, K Jones, S Vegeris, 'Employment, Pay and Poverty: Evidence and Policy Review', *Joseph Rowntree Foundation*, 2014

which 1500 low-paid workers were consulted about what decent work meant to them. They report a high degree of commonality in response, with five elements repeatedly identified. These were: sufficient pay, job security, paid holidays/sick leave, a safe working environment, and supportive line management.¹⁸

Clearly some of these are easier to define – and then address – than others. Job security and supportive line management are far less tangible and subjective than wage levels or health and safety regulations for example. The Living Wage Foundation has been a very effective advocate for fair pay. The clarity and specificity of the message and business case have brought employers and workers together. The objective is clear and impact measurable. Job security, in contrast, is harder to define and distil into a single priority.

Insecurity, in terms of temporary jobs, is significant in the UK – 1.2 million workers in the UK are on a temporary contract via an employment agency.¹⁹ The rise in zero-hours contracts has had considerable media coverage – there are 750,000 more people on zero-hours contracts than in 2006. Perhaps one of the most concerning changes is in the number of workers who could lose jobs at short notice. This has grown by almost two million in the past decade, from 5.3 million workers in 2006 to 7.1 million in 2016.²⁰

EMPLOYERS AND PRODUCTIVITY

Competing demands from Brexit, consumers, employees and government are facing employers. Some sectors are under significant pressure from new competitors with different approaches to working and hiring. The latter means that the great majority of law-abiding employers face being unfairly undercut by less scrupulous competitors:

“Work without security around terms, hours, duration or working pattern... presents unscrupulous employers with additional avenues to avoid employment rights or pressure employees into forgoing them. The ability of employers to reduce hours, change favourable shift patterns or end a temporary contract can create significant pressure on workers, which stops them defending their rights. For many, these pressures can render their rights useless.”²¹

In interview, employers were split over whether they found more value in emphasising the rationale of corporate decisions as the “right thing to do” over economic benefits, or vice versa. For smaller employers who were not able to compete on pay, or multi-nationals working in competitive environments, non-financial benefits offered a good way of improving their desirability as a workplace. One employer noted that while staff welfare was a real concern, there was a limit to how much could be spent, and that when cutting costs staff benefits would be first to go. This interview also outlined a tension between HR and finance departments who may have competing objectives. The extent to which any long-term cost

¹⁸ F Stuart, H Pantz, S Crimin, S Wright, ‘What Makes For Decent Work? A Study with Low Paid Workers in Scotland’, *Oxfam*, 2016

¹⁹ P Kirby, ‘What Do We Need Trade Unions For?’, in N Tyrone (ed), *What is the Future of Trade Unionism in Britain*, Radix, 2016

²⁰ J Philpott, investigation and analysis for The Guardian, <https://www.theguardian.com/uk-news/2016/nov/15/more-than-7m-britons-in-precarious-employment>

²¹ K Hignell, ‘Second choice jobs: the real life impact of the changing world of work’, *Citizens Advice*, 2015

was accrued as a result of savings made by reducing staff benefits was unclear from the interviews.

The UK's poor productivity has been a cause of concern for some time. A number of arguments have been put forward to explain this, ranging from an abundance of labour and resulting low wages preventing employers investing in productivity-boosting machinery²², to increased flexibility at work stiling productivity.²³ Some US analysts have posited that increased productivity threatens, in particular, manufacturing jobs as the number of people hours required for each \$m of output decreases. In common with the UK, manufacturing does not represent a significant proportion of US jobs, but they are very geographically concentrated so the (political) impact of job losses is keenly felt.²⁴ Similar arguments can also be made for the UK. Productivity is harder to define in service industries – serving more customers in retail or hospitality, or seeing more patients an hour, may look more productive on paper, but the experience of the shopper, guest or patient may be worse as a result.

Research commissioned by the Joseph Rowntree Foundation looked at some of the interactions between flexibility, productivity and low incomes. The paper suggests that a) raising wages means that people work harder and employers are more creative; b) increasing flexibility enables part-time staff to get promoted and prevents attrition of quality, experienced workers; and c) engagement of employees in process decisions leads to positive impacts. The latter, the paper argues, occurs habitually in manufacturing under the guise of continual improvement.²⁵

EMPLOYEE ENGAGEMENT

There is considerable research showing the value of employee engagement, both for developing loyalty and improving performance. However, research also shows a gap between the proportion of workers who can see ways to improve the business they work for, and those who feel their ideas are taken seriously.²⁶ One of the reasons for this may be a lack of ability at line management level. Indeed, a number of employers interviewed identified that there were gaps between strategic delivery aspiration and reality on the frontline. In the 2016 Autumn Statement, the Chancellor promised £13m to support improving UK management skills. However, the commitment to workers on Boards made by the Prime Minister in her Conference speech in autumn 2016 appears to be in the process of dilution.

There can also be resistance among policy makers and shapers to listening to those on the frontline, and involving them in designing solutions. The current labour market structure is weighted towards insecurity and low living standards for those in poorly-paid jobs. Employers have an important role to play in creating a working environment which functions for

²² R Avent, *The Wealth of Humans*, Allen Lane, 2016

²³ N Pickavance, 'The Nature of Work', in Y Cooper (ed), *Changing Work: Progressive ideas for the modern world of work*, Fabian Society, 2016

²⁴ See, for example: 'Manufacturing Jobs Aren't Coming Back', <https://www.technologyreview.com/s/602869/manufacturing-jobs-arent-coming-back/>

²⁵ K Ussher, 'Improving Pay, Progression and Productivity in the Retail Sector', *Joseph Rowntree Foundation*, 2016

²⁶ See, for example, 'Improving pay, progression and productivity in the retail sector', <https://www.jrf.org.uk/report/improving-pay-progression-and-productivity-retail-sector>, which notes 72% of workers can see ways to improve their businesses but only 44% say their ideas are taken seriously

workers at all levels. A central tenet of *Britain Works* is to ensure employer engagement from the outset.

TRADE UNIONS

Historically, trade unions have been the main mechanism driving worker/employer engagement, and there are, of course, examples of where this still happens effectively. The TUC is launching a piece of work on insecurity to run alongside the current Government review of employment practices led by Matthew Taylor. Many of the issues discussed in this paper should find a natural home in the union movement. The TUC is undertaking some cross-cutting pieces of work on insecurity, and on young workers, which will be published in 2017.

However, membership of unions is disproportionately public sector, older, and middle to high earners. Private sector membership sits at 14%, and only 10% in London. Vital in the context of work security and the balance of risk in work, is that less than 10% of the lowest paid are union members.²⁷ There is a clear role for organisations that have a different relationship with employers to work with both the employers and their workers to try to develop some broader solutions. *Britain Works* wants to engage in this area.

CHILDCARE

Childcare – its cost, quality and availability – is one of the biggest barriers for working parents, and this is exacerbated for those in low-paid, insecure, irregular or part-time work. The absence of quality childcare, and of discussion about expectations of care, parenting and work, and the balance between them, is a key contributor to insecurity. Parents want good quality, flexible childcare. An effective childcare strategy needs to encompass the needs of children of all ages, as well as changes in the labour market, which make it more difficult to commit to specific times. Employers have much to offer to this discussion, from creating childcare spaces to matching up employee demand for childcare with local supply.²⁸ It is beyond the scope of this paper to discuss issues specific to childcare in greater depth but more information and recommendations for developing better policies and systems can be found on both CPAG and Working Families websites.

2. RISK

Work is changing, and with it there is a shift that moves power even further from low-paid workers. Traditional support systems including social security, advice services, unions and adult skills have been cut or show falling membership. Effective, sustainable support for low-paid workers needs a broad focus – on pay, on benefits, on skills, on childcare and on shared spaces. The challenge is to build a coalition of workers, employers and policy-makers to design and deliver it.

²⁷ N Tyrone (ed), *What is the Future of Trade Unionism in Britain?*, Radix, 2016

²⁸ J Swan, 'Modern Families Index 2016', *Working Families*, 2016

SELF EMPLOYMENT AND 'WORKERS'

Support for first and second tier independent advice agencies, including Working Families' legal advice service – which supports parents in the workplace – and CPAG's expert helpline, is vital. As this section details, risk is being shifted from government and employers to individuals. It is the experience of Working Families and CPAG, that there is a lack of knowledge and understanding among the parents they speak to – not just those who are self-employed – about their employment status and rights. Parents often don't know their employment status and do not understand the benefits or disadvantages of different contracts. They are unsure whether they are being treated unfairly, or illegally, by their employer. Better understanding among and support for parents is crucial.²⁹ Without adequate information, the risk imbalance is exacerbated for individuals and their families.

The rise in self-employment has garnered considerable attention. There has been a large increase – from 3.9m people in 2010 to 4.8m in the November 2016 ONS release. While the numbers are still relatively small (15% of total jobs), self-employment accounts for 40% of the increase in work in the last year.³⁰ There are 2.5m more people working now than there were in 2010, and self-employment accounts for 36% of this increase.³¹ London has the highest rate of self-employment of all the UK regions – in London, the self-employed represent 18% of all workers.³²

There is an important division between those who enjoy contracting and those who are reluctantly self-employed. The Association of Independent Professionals and the Self-Employed (IPSE) describe the self-employed 'world' as divided between two million 'knowledge workers' and three million 'precariat'³³, both requiring different approaches. Certainly, any story about workers being exploited is accompanied by quotes from individuals who don't want their contracts to change. The IPSE distinction can be understood in terms of the amount of control people have over their working lives and how the risk of employment is shared. This gap is also evident among the employed population. The British Social Attitudes survey published in the summer of 2016 showed that, while levels of perceived autonomy at work have risen over the last decade for those in managerial jobs, those in semi-routine and routine occupations (and so more likely to be low paid) have experienced an increase in employer control.³⁴ The impacts of this are significant and can be felt by workers in terms of health, and employers in terms of productivity.

THE GIG ECONOMY

It is the rate of growth, particularly of sole-traders who do not employ others, that has sparked concerns about the veracity of the claim of self-employment. The determination of self-employment according to the law is based on the level of control an individual has over when and for whom they work. This is the basis of the successful claim by two drivers against Uber: they must accept the Uber platform, and cannot set their own prices. Interestingly,

²⁹ 'Three sides to every story: the impact of the Agency Worker Regulations' Acas, 2015

³⁰ All data from ONS Labour Market Statistics, calculations author's own

³¹ All data from ONS Labour Market Statistics, calculations author's own

³² N Broughton, B Richards, 'Tough Gig: Tackling Low-Paid Self-Employment in London and the UK', *Social Market Foundation*, 2016

³³ People whose income and employment is insecure

³⁴ British Social Attitudes survey, *NatCen*, 2016

Deliveroo, which in the UK has 8,000 self-employed workers, including the trainers who lead on staff selection, differs in the Netherlands and Germany where their 1,500 couriers are directly employed. The Deliveroo model then does not *require* self-employed workers, rather the UK regulatory framework facilitates this 'cheaper' model, where the costs to workers are absorbed by the workers themselves – and also by the state.

There is a significant financial incentive, delivered through the tax system (in the form of National Insurance contributions (NICs)) for employers to use self-employed contractors. This tax difference is predicated on the riskier nature of self-employment. The cost of this tax break is set to rise by nearly £2bn this year as the impact of changing working practices on revenues increases. The Treasury estimates the cost of reduced NICs for self-employment to have jumped by 59% from £3.2bn to £5.1bn for the year to April 2017.³⁵ The Social Market Foundation recommend a statutory employment status test for both tax and employment regulation purposes.³⁶

The calls taken by the legal advice team at Working Families suggest that employers and workers are unaware of a lot of the technicalities, issues and detail of employment rights for the self-employed. Calls taken vary from maternity allowance differentials based on NI Class 2 contributions, to proving the hours worked in order to claim working tax credits. The latter have become significantly tougher, in terms of accounting for hours worked, and there are considerable grey areas over the classification of promotional work that is not paid but which underpins opportunities for earning. This is another shift in risk towards the worker that is not recognised by higher pay.

Some self-employed workers may be particularly vulnerable because they earn little and are not protected by minimum wage laws, or other employment rights protection. Workers are not entitled to the same family-friendly rights 'employees' are – parental leave and time off for emergencies, for example.³⁷ Indeed some parents in insecure work believe they have no rights at all because of their employment status. In many instances parents are often afraid of asserting the rights they do have. The fact that some have a legal right to request a working pattern that matches their caring responsibilities, for example, is of little, if any, value when there is such an imbalance of power and risk. As previously discussed, union membership for this group of workers is low.

³⁵ 'Tax break for UK's self-employed rises in cost by nearly £2bn', *Financial Times*, 5 January 2017

³⁶ N Broughton, B Richards, 'Tough Gig: Tackling Low-Paid Self-Employment in London and the UK', *Social Market Foundation*, 2016

³⁷ **Workers** are entitled to be paid the National Minimum Wage; be protected against unlawful deductions from wages; have the statutory minimum levels of paid holiday and rest breaks; to not work more than 48 hours on average a week or to opt out of this right if they choose; to be protected against unlawful discrimination; to be protected for 'whistleblowing' (reporting wrongdoing in the workplace); and to not be treated less favourably if they work part-time. **Employees** receive all these rights plus Statutory Sick Pay and Redundancy Pay; maternity, paternity and adoption leave and pay; minimum notice periods if their employment will be ending; protection against unfair dismissal; the right to request flexible working; and time off for emergencies. Some of these may only apply after a period of continuous employment. Taken from V Alakeson, C D'Arcy, 'Zeroing In: Balancing protection and flexibility in the reform of zero-hours contract', *Resolution Foundation*, 2014

The median income for self-employed people is £209 a week, £175 less (or only 54%) of the median weekly wage of someone in employment. The Minimum Income Floor in universal credit is higher than £209 a week, meaning significant numbers of self-employed people will miss out on support as they are not deemed to be working full-time.³⁸ This is another risk shifter – and indicative of the chasm between social security policy and those it is intended to support into work.

Part of the difficulty in finding solutions is the lack of clarity in the data. Measures of earnings exclude the self-employed. Gavin Kelly of the Resolution Trust argues that this needs to change: *"In politics...it's what gets counted that matters. When it comes to work and its reward, it's time to count everyone."*³⁹

SMEs

SMEs also need support to stay in business, including help understanding the expectations and conditions the state places on their low-paid workers. The Federation of Small Businesses is confident that the majority of its members pay above the Living Wage, and employees benefit from a closer relationship with their employer. A later strand of *Britain Works* will engage with SMEs more deeply.

SOCIAL SECURITY

The composition of the UK's 'poor' has changed in recent times. Pensioners are now the least likely demographic group to be in poverty, numbers in work have risen and poverty is more likely to be found in working households.⁴⁰ This is an important shift.

CPAG research shows that two parents working full-time on the minimum wage are still 12% short of the cost of raising their family.⁴¹ This gap is exacerbated by the precariousness of jobs in low-paying sectors, and the financial uncertainty that comes from having to move in and out of work frequently. The inability to plan for and around work is a concern for parents. This may be as a result of zero or minimum hour contracts, or because of a mismatch between the availability of work and childcare. Lack of progression is a significant issue for adults in low-paid work.

There are concerns about the ability of Jobcentre Plus to deliver effective in-work progression support when it does not capture data on the quality of jobs people enter from unemployment and when such support is conceived, framed, and delivered as "in-work conditionality".

³⁸ Current rules exempt self-employed universal credit claimants from having to meet a Minimum Income Floor (equivalent to the National Living Wage) for one year. The RSA are calling for this exemption to be extended to two years.

³⁹ 'By omitting the earnings of one in seven workers from jobs data, our economic policymakers are operating in the dark', Gavin Kelly's Blog, September 2016, <https://gavinkellyblog.com/by-omitting-the-earnings-of-one-in-seven-workers-from-jobs-data-our-economic-policymakers-are-12958c170e9c#.t1azhxclb>

⁴⁰ C Belfield, J Cribb, A Hood, R Joyce, 'Living Standards, Poverty and Inequality in the UK: 2016', *Institute for Fiscal Studies*, 2016

⁴¹ D Hirsch, 'The Cost of a Child in 2016', *Child Poverty Action Group*, 2016

The focus to date also appears to be on increasing hours rather than supporting people to be in a position to earn more. The evidence shows that the most effective way to increase earnings is to move jobs. This requires confidence in the social security safety net at a time it is being weakened both conceptually as a universal right, and in reality as in-work benefits are cut and universal credit evaluations show people may be more likely to move into shorter-term, lower-paid work.⁴²

CPAG has analysed the likely impact of cuts and changes to universal credit on families and child poverty, and their report *Reforms to universal credit* details ways in which the work incentives in the benefit could be made stronger (specifically reducing the taper and introducing a second earner work allowance). Cuts to universal credit work allowances will make families worse off.

SKILLS

The UK labour market has been characterised as “lots of people working in disappointingly low-wage jobs”.^{43 44} There are clear links between higher skills and higher pay (particularly the graduate premium), but the links between skills acquisition and progression are less clear. In Washington State, the Workforce Board tracks results (numbers into work and earnings) and taxpayer return on investment for 12 programmes which, between them, account for over 98% of the federal and state dollars spent on workforce development.⁴⁵ This level of data is not available in the UK, so it is much more difficult to understand what works and how.

Lack of information for low-paid workers is compounded by a lack of access to training. The literature shows that employers are more likely to invest in training their higher-paid, and already highly-qualified, staff than those in entry-level roles. People in low-wage jobs, wanting to improve their skills in order to support progression, are now expected to take out advanced learner loans to fund their own training. This ‘risk swap’ combined with significant cuts to the further education budget (already a sector less well funded than either schools or universities), and poor information from learning institutions on the financial and labour market returns to the courses they offer, has seen a fall in the number of adults accessing education and training. Academic Alison Wolf notes that this has occurred at the same time as the “*evisceration of technical skills*”, as funding has prioritised apprenticeships and three-year degrees.⁴⁶

Some employers interviewed identified skills gaps, particularly in STEM (science, technology, engineering and maths) areas. Others noted that they wanted to improve the diversity of their higher-paid workforce, but found it harder to recruit young women than young men to technical positions with good career progression paths and earning potential. A number of

⁴² Department for Work and Pensions, *Estimating the Early Labour Market Impacts of Universal Credit*, 2015

⁴³ R Avent, RSA talk, October 2016

⁴⁴ In J Tucker (ed), *Improving Children’s Life Chances*, CPAG, 2016, Rys Farthing’s chapter notes that this is the most skilled generation of young people ever, but that there aren’t necessarily the skilled jobs for them to move into. This leads to high levels of competition for low-skilled jobs – many of which may now be taken by graduates – making the labour market frustrating for them and even harder for people with fewer skills.

⁴⁵ See ‘Workforce Training Results’, <http://www.wtb.wa.gov/WorkforceTrainingResults.asp>

⁴⁶ A Wolf, CPC talk, November 2016

employers interviewed were involved with schools in order to raise the profile of opportunities within their industry.

In-work skills acquisition opportunities tend to be more readily available for those in more senior roles. The employers interviewed for this paper used a combination of online and in-person training, almost all of it focused on skills for progression. It was, however, not available to those on temporary contracts, even 'temporary' contracts lasting two years.

Broughton and Richards discuss the role of skills acquisition as a way for self-employed people to escape low pay, as they can increase their prices by providing a higher-quality service. While they were not able to observe this relationship in the data, it was a theme that emerged from qualitative interviews. In sectors, such as construction, where there are recognised qualifications that customers understand, training enabled people to charge and earn more. This route was less apparent in other sectors.⁴⁷ As 'licensing' requirements have grown in some US states, there are concerns that contractors in some sectors are using qualifications as a barrier to entry, in order to create closed, less competitive markets.

3. FLEXIBILITY AND INSECURITY

There has been increasing focus on the demand for flexible work as the default.⁴⁸ Flexibility by default starts from the basis that jobs can be done flexibly (whether part-time, compressed hours, flexi-time, shared roles or remotely), and the business case should have to be made as to why flexibility cannot happen, rather than the other way round. There have been other campaigns highlighting the value, to both employer and employee, of flexible working from the point of hiring.⁴⁹ Many of these have focused on the value of retaining or re-engaging mothers in the labour market. Interestingly, the interviews undertaken for this paper highlighted a pressure from a much wider range of workers – parents and other carers, yes, but also employees looking for a different balance between work and other commitments. Three employers identified 'millennials' as a group with expectations about hours and place of work that were at odds with a traditional 9-5 set up. This is reflected in the findings from Working Families' Modern Families Index series.⁵⁰ The employers interviewed for this paper noted that more flexible environments are key to recruiting and retaining younger staff. Interestingly the Modern Families Index research shows millennial parents to be most resentful towards employers for their (lack of) opportunities for work-life balance.

⁴⁷ N Broughton, B Richards, 'Tough Gig: Tackling Low-Paid Self-Employment in London and the UK', *Social Market Foundation*, 2016

⁴⁸ The studies capture the experience of 1,000 working parents, understanding how they are managing the competing demands of work and family life

⁴⁹ See, for example, E Stewart, P Bivand, 'How Flexible Hiring Could Improve Business Performance and Living Standards', *Joseph Rowntree Foundation*, 2016

⁵⁰ J Swan, 'Modern Families Index 2016', *Working Families*, 2016

Flexibility may be offered in lieu of higher pay. The evidence suggests that for the majority of workers, irrespective of age, better pay trumps benefits.⁵¹ However, while this holds true for employees wanting to maintain their position, the fear of losing flexibility can hold lower-paid workers back from seeking progression opportunities. This fear is compounded by high marginal tax rates experienced as in-work benefits are withdrawn, meaning that a promotion may mean more stress and less flexibility, with very little immediate financial compensation. Much employment support tends to focus on 'now' jobs, so few workers benefit from advice or calculations that look at potential future financial benefits of using a promotion as a stepping-stone.

WORKING TO DEMAND

Flexibility and insecurity are becoming increasingly interwoven as employers such as Uber and Deliveroo defend their on-demand payment models as facilitating flexible working, raising the question of *who* the labour market is flexible for. Similar models used in sectors with contracted workers – notably driving and care – have seen the number of jobs or tasks to be accomplished in a day leading to a lack of breaks, below minimum wage earnings and, in some cases, to court. Despite the focus on the gig economy, the evidence shows that the number of people with multiple jobs is at record lows.⁵² This may simply be because the gig economy is small, although recent research surveying 8,000 respondents from six countries finds that existing statistics consistently and significantly underestimate the size of the gig economy.⁵³ It may also be indicative of the difficulty of managing multiple platforms in a reality that sees gig-ers working for one company, as if employed, but without any of the protections that would afford.

The experience of Working Families is that for many parents and carers on these type of contracts, flexibility is a façade – and working hours are being imposed on them by their employer. The Resolution Foundation has found that nearly a third of employers expect staff on zero-hours contracts to always or sometimes be available for work.⁵⁴ A refusal to work shorter, longer or simply different hours can easily lead to there being no work at all. Only a quarter of those on zero-hours contracts work a fixed pattern of hours each week.⁵⁵ In November 2015 there were about 1.7 million contracts in the UK that did not guarantee a minimum number of hours.⁵⁶

All the employers interviewed articulated that they wanted to do the best by their employees, but were equally clear that they also had financial targets to meet.

⁵¹ See, for example, JRF research on retail workers and progression, 'Autumn Statement: Retail sector too big to ignore in Government's quest to solve productivity puzzle', <https://www.irf.org.uk/press/autumn-statement-retail-sector-productivity>; and US research with millennials, 'Workers Still Prefer Traditional Employment, Competitive Pay', <https://www.worldatwork.org/adimLink?id=80993>. This was also reflected in some of employer interviews for the CPAG/Working Families research.

⁵² See 'Rise of multi-jobbers in UK's gig economy a myth, study finds', *Financial Times*, 8 November 2016

⁵³ J Bughin, J Mischke, 'Exploding Myths About the Gig Economy', *VOXEU*, 2016

⁵⁴ V Alakeson, C D'Arcy, 'Zeroing In: Balancing protection and flexibility in the reform of zero-hours contract', *Resolution Foundation*, 2014

⁵⁵ V Alakeson, C D'Arcy, 'Zeroing In: Balancing protection and flexibility in the reform of zero-hours contract', *Resolution Foundation*, 2014

⁵⁶ November 2015 survey of businesses, ONS

"I remember the first time I saw 'zero contract hours' written down – I asked what it meant, I was told it meant we didn't have to pay for down-time...Cancelling them now would cost a fortune and we would have to find the costs somewhere else".⁵⁷

Job security, or lack thereof, was a key theme in the interviews undertaken for this paper. Job security is much harder to distil into a clear requirement. The TUC suggests that a good start would be a presumption that all workers should be employees, unless a clear case is made for self-employed or contractor status, and that all workers should have the right to a written statement of terms and conditions.

TEMPORARY EMPLOYMENT

ONS data on part-time and temporary employment trends is interesting. There are 8.4 million part-time workers in the UK, an increase from 7.8m in 2010. However, the proportion of part-time workers who say that they cannot find full-time work has fallen to 13.6%, from 15% in 2010 (between 2011 and 2014 the proportion who were unable to find full-time work rose to 17-18%). The number of temporary workers has remained relatively stable over the last six years, at about 6%. In 2013, 40% of temporary workers were temps because they were unable to find a permanent job. This had dropped to 30% by 2016.⁵⁸

One e-commerce business spoke of the financial pressure created by the new 'norms' of internet shopping – expectations of free delivery, speedy delivery, free returns and immediate refunds. The logistics processes these entail have a significant cost (particularly free returns) which is swallowed by the employer and off-set by the use of temporary contracts and/or zero or minimum hour contracts in warehouses.

THE ROLE OF TECHNOLOGY

The ability afforded by technology to allow employees to work to set outcomes, and plan work accordingly, was described as beneficial to both the employers we spoke to and their workers. For some organisations, these opportunities tended to be restricted to higher-skilled roles. However, two-thirds of the employees at one employer we spoke to earned £20,000 a year or less, and half of these were remotely-managed meter technicians. These workers receive a list of jobs at the start of the week and are able to decide how to manage their time to complete them. This was in a sector with clear progression routes, an employer offering only permanent contracts and apprenticeship entry opportunities.

This is an excellent example of the importance of the broader context in which changes are made. The same model offers a very different experience depending on the working conditions, and level of employer commitment to the individual and/or position. While technology, and contracting out, is enabling more people to work remotely, this is also leading to more atomised and potentially isolated working lives. The traditional workplace with canteen or tea room does not exist for many low-paid workers, especially those delivering cleaning and care services to people in their homes, or in empty offices. This has an impact on social capital, on the ability to network – both for fun, and to progress/find out about new job opportunities. For workers in tech, solutions have opened up in the form of shared office and networking spaces. The scope to develop shared spaces for those

⁵⁷ Interview with senior executive of e-commerce organisation

⁵⁸ All data from ONS Labour Market Statistics

delivering care services, (for example childminding and adult social care) to meet, learn, work and network is reduced as Sure Start centres and libraries are closing.

AGENCY WORKERS

One UK supermarket uses 54 different agencies to provide their temporary warehouse workers. Temporary for some of the employers interviewed for this paper meant anything up to two years. After a 12-week qualifying period with the same employer, in the same role, agency workers are entitled to have the same basic terms and conditions of employment, including pay, as if they had been employed directly. However, our interviews showed that they often missed out on other opportunities, such as training. The Resolution Foundation has announced a new stream of work investigating the role agencies play in employment in the UK. They note that there are 865,000 agency workers, predominantly from groups that are more likely to be disadvantaged in the labour market including women and young people.⁵⁹

4. SUPPLY CHAINS

For many of the employers spoken to for this paper, those working within their organisations under the poorest terms and conditions did not work for them directly – but were part of an outsourced team (often connected to the building); working for an agency (for some employers it was the norm to use agency staff for all positions that were for less than two years – and indeed Resolution Foundation research shows the trend to be towards long-term agency work); or part of an acquired business with adopted contracts. All were unaware of the details of the employment of those working in their supply chains, although one noted they had been *“assured that the working practices were to look after their staff”*. Little strategic energy was spent on their lower-paid workforce, focusing much more on the higher-skilled and harder to recruit positions. Decisions to outsource parts of delivery, for example, were not always decisions at all, and were described in one interview as being down to not reviewing the ‘way things are done here’.

One employer, with a very low number of directly-employed, low-paid staff, had a co-funded nursery on-site for working parents. They intervened to move all nursery staff onto the London Living Wage, which represented a significant pay rise for those employees. The employer, working in a totally different (generally well-paid) industry, had been unaware and shocked to discover how little nursery staff earned.

Replicating good practice in the supply chains of organisations is critical to having an impact on the most precarious workers. When this is achieved the wins can be significant. This can be seen in the adoption of the Living Wage by Transport for London, and also by all its sub-contractors in London. Camden Council in London has also instituted a no-zero-hours policy for the borough.

⁵⁹ L Judge, D Tomlinson, ‘Secret Agents: Agency Workers in the New World of Work’, *The Resolution Foundation*, 2016

Gaps between groups of workers were apparent in the interviews carried out for this paper. Whether between office and warehouse staff, permanent and temporary, or consultant and contract, a lot of the variation in experience is a variation in the ability of workers to control how and when they work. Long supply chains can push the risk further from the employer and closer to the individual.

The public sector, like many of the private sector employers interviewed, are both employers and commissioners of outsourced services. As many low-paid, insecure jobs, from driving to care to cleaning to security and beyond are outsourced, effective strategies need to address employer behaviour as purchaser as well as hirer.

5. THE IMPACT OF THE CUSTOMER

The case for 'good work' has been made many times. Most attempts to involve employers in discussions about improving pay, conditions and progression opportunities have focused on the business case. This tends to balance increased investment in the workforce against improved productivity, staff motivation and lower recruitment costs. A wider argument is also made to capture benefits to corporate reputation and customer loyalty – and the implications of these in higher sales.

The customer figured prominently in interviews for this paper. The customer has an impact on employer decisions in two key (and potentially contradictory) ways:

- a) Impact on working conditions for customer-facing staff, and the resulting gap between them and non-customer facing staff
- and
- b) High customer expectations, particularly in e-commerce, driving down costs and having the biggest impact on low-paid staff

a) WORKING CONDITIONS

Customers are central to many business decisions. IKEA, Aldi and Lidl have all recently introduced the Living Wage, and IKEA describes the benefit in these terms: *"Happy coworkers lead to happy customers"*.⁶⁰

For other employers, the emphasis they placed on customer service dictated HR decisions. In practice, this meant that the roles valued by customers tended to be better remunerated (even within the band of low pay), with better conditions, flexibility options and progression paths than those that are 'unseen' (for example jobs in warehouses, facilities or cleaning). This was despite similar qualification levels required for entry. One of the employers interviewed spoke of the strategic importance of a decision made three years ago to prioritise focusing on customers to increase sales. This meant owning all their call centres in order to *"influence behaviour, language and interaction with customer from the beginning to*

⁶⁰ Gillian Drakeford, IKEA UK CEO, in interview with the Huffington Post, November 2016, http://www.huffingtonpost.co.uk/entry/ikea-living-wage_uk_583c2bdae4b0207d19189ed0

the end of the process". For this employer, potential cost savings that come from outsourcing were outweighed by better customer engagement.

This is important in the face of increasing outsourcing and automation, both of which are potential threats to jobs in the UK. Although automation was having a significant impact on the way businesses we interviewed were operating, many employers perceived little threat to overall job numbers in their organisations due to current customer preference to speak to people. One described the array of 'live' support they made available to customers completing online documents, and the staffing required to deliver this. Again, the real difference was in the use of technology in warehouses, where an increase in automation was perceived to be likely to lead to a reduction in jobs. Some academics argue that automation will not decrease jobs, but change them. This interpretation raises the question of which jobs and where.

b) EXPECTATION MANAGEMENT

Customers played an important part in the employer interviews, and five interviewees described how customer relationships drive decision-making that directly impacts on workers. For one e-commerce retailer, customer service expectations (described as "*now, now, now, and fast*") have meant that business costs are pushed down at every opportunity. Items that have become standard, such as free returns, are a significant expense, and only viable when sales are made at scale. The creation of such norms has formed a significant barrier to entry for those retailers without control of their logistics.

The e-commerce model has also created a geography that sees a city-based Head Office, with well-paid, highly-skilled staff, supported by warehouses and logistics businesses sometimes in very different parts of the country where land is cheaper – in essence a two (or multi) tiered labour market.⁶¹ This disconnect is deepened when warehouse and transport staff are not employed directly by the head company, but by agencies that offer very different terms and conditions. One large UK retailer has a staff of 6,000 working in its warehouses – 35-40% of these are agency workers.⁶²

Customers also have an important role in holding companies to account. It has long been the argument of some low-paying retailers that low pay is a necessity to ensure low prices (although the differentials between frontline and executive pay point to a certain hollowness in this framing). Nonetheless, the role of consumerism and expectations regarding prices, 'free returns' and immediate delivery are important drivers of retail. Similarly the increasing cost of social care, the importance of paying carers well and the implications for taxpayers are subjects that struggle to gain traction.

⁶¹ Employer interview

⁶² J Philpott, investigation and analysis for The Guardian, <https://www.theguardian.com/uk-news/2016/nov/15/more-than-7m-britons-in-precarious-employment>

BRITAIN WORKS: NEXT STEPS

There are many changes happening within the labour market and social security systems that are impacting employers and, particularly, low- paid workers. One of the factors exacerbating insecurity for low earners is the gap between the expectations of employers (often in response to changing labour market demands) and the conditions attached to social security, availability of childcare, and information about, and access to skills.

Britain Works will spend the next year seeking to better understand the needs of both employers and parents in order to develop collaborative solutions. We are particularly interested in how to better share risk; ensuring “flexibility” is not being used as a mask to hide increasing insecurity; engaging and understanding supply chains and two-tier labour markets; as well as how starting with the customer or service user can open up new ways of designing systems that work better for all.

