Work and Pensions Committee Inquiry: In-work progression in Universal Credit

Response from CPAG

January 2016
CPAG submission to the Work and Pensions Select Committee Inquiry into In-work progression in Universal Credit

Child Poverty Action Group (CPAG) has worked for 50 years to prevent and relieve poverty among children and families in the UK. We have a wide range of expertise and evidence from which we draw in this submission. We: author and publish *The Welfare Benefits and Tax Credits Handbook*, the authoritative guide to social security in the UK; provide specialist advice and training to first tier advisers; coordinate and collate evidence from the National Association of Welfare Rights Advisers; collect evidence and case studies of the impacts of welfare reform in Scotland through the Early Warning System; and are currently providing frontline welfare rights advice to food bank users in Tower Hamlets.

Executive Summary

- The focus on in-work progression under UC shows a welcome recognition of the difficulties many people experience in trying to move out of low pay.

- However, the labour market is currently unfavourable for progression, and a lack of affordable childcare keeps many mothers in low-paid, low-hours roles with little opportunity for progression.

- There is no evidence of people refusing to work longer without good reason when more hours are available.

- Therefore we believe that in-work conditionality is unwarranted, and evidence also indicates that it likely to be damaging. We strongly recommend that support for in-work progression be provided on a voluntary basis.

- We also present evidence on the characteristics of effective employment support. It centres on personalised support and a relationship of mutual trust between advisors and clients, which can be undermined by compulsion. Valuable lessons can be learned from successful voluntary programmes such as the New Deal for Lone Parents and the Scottish Working for Families Fund.

- Personalised support is resource-intensive and we are concerned that without significant further investment the quality of support may be inadequate. This is particularly worrying if participation is to be mandatory.

- If a mandatory regime is to be applied we make a number of recommendations for how this ought to function in order to be as effective and just as possible.

- Reductions in the value of in-work support and work incentives through cuts to UC work allowances, introduced by Statutory Instrument, run counter to the aim of encouraging in-work progression.
A. Context

Work and poverty
1. We welcome plans to expand support for progression for those on low pay. They reflect a recognition that increasing income from work is vital for improving living standards and tackling in-work poverty. Currently when one or both parents work part-time the child poverty rate (after housing costs) is 56%; when one parent works full-time and the other does not work it is 33%; when one parent works full-time and the other part-time it drops to 9%. This underlines the importance of second earners in lifting families out of poverty.

2. However we question whether in-work poverty is primarily due to individual-level factors such as choices to work limited hours or lack of skills for progression. Rather we argue that a range of structural factors are the principal causes.

A difficult labour market for progression
3. Plans for in-work progression assume that low-paid work is a stepping stone to something better. There is some truth in this; being connected to the labour market makes it likelier that a household will escape poverty. However a relatively small number of people in low-paid jobs move permanently into higher pay (recent evidence suggests a figure of 25% over ten years). The majority cycle between low pay and higher pay but many become stuck in a ‘low pay-no pay’ cycle. There is ample testimony showing how frustrating this can be for people and that it does not reflect a lack of aspiration.

4. There is a dearth of mid-level jobs in the economy to enable progression. Over recent years we have seen a hollowing out of the labour market with growth at the top and bottom, and reductions in the middle.

5. Certain sectors (e.g. care, hospitality, catering) are particularly associated with low pay, insecurity and limited progression. Positions a step up from entry-level roles may be within reach but often pay less than 50p an hour more, while requiring considerable additional responsibility or changes in working patterns, so are not always desirable. Low-paid employees want to increase their income but also want their work to be valued and fairly rewarded.

6. It is often difficult for people to increase their hours or earnings within existing roles, particularly low-skilled workers who are seen to be easily substitutable and lack bargaining power. CPAG research indicates that employers are often unable or unwilling to meet requests for more hours. Some employers take on additional part-time staff in preference to increasing staff hours, perhaps to make savings on National Insurance or pensions, or to retain a pool of staff willing to work more, or anti-social, hours. There is considerable underemployment in the economy (10% of those employed in the UK want to work more hours than they can).

Progression for parents
7. The labour market is thus in many ways not conducive to progression. This is particularly true for parents, especially lone parents and the main carers in couples.

8. The low-paid labour market typically provides a great deal of flexibility for employers (e.g. variable hours contracts) but little for employees. It is hard for low-paid workers to request particular shift patterns to accommodate family life, for example.

9. Lone parents and second earners in couples often (re-)enter the workplace part-time. However there are few high-quality, part-time jobs available. The majority of jobs compatible with school hours are low-skilled and low-paid with few progression opportunities. This combined with inability to access suitable and affordable childcare, not only for pre-school children but
before/after school and in school holidays, leaves many mothers stuck in such jobs for very long periods. There is a strong association between part-time work and failure to progress out of low pay, and three-quarters of people in part-time jobs are women.\textsuperscript{12} Thus the labour market can create severe ‘poverty traps’ for working families.

10. The government’s extended childcare offer for working parents of three and four year olds is very welcome but affordable childcare outside school hours and terms is also vital. We suggest that childcare such as extended schools be trialled alongside employment support provision.

11. UC will provide a greater subsidy for childcare from April 2016 but will not meet the cost of childcare in parts of the country. Childcare fees in the UK increased by between 59% and 69% from 2005 to 2015 (depending on the type of provision).\textsuperscript{13} The increase to an 85% subsidy under UC will increase the maximum actual amount parents can claim by 19% on 2005 levels. However, the childcare ceilings have not been adjusted since 2005.

12. Even with an 85% subsidy parents still have to pay the additional 15%, which alongside tapering of their UC award (and for some income tax and NI withdrawals) further reduces the financial benefits of work. In places such as London where childcare is particularly expensive, it can make the marginal net returns from work negative, as Table 1 shows. The Social Mobility and Child Poverty Commission has also highlighted that increases in pay have much smaller poverty reduction impacts that one might assume, for these reasons.\textsuperscript{14}

Table 1. The effect of one hour’s additional work on disposable income, after childcare\textsuperscript{15}

<table>
<thead>
<tr>
<th>Combined withdrawal rate (tax, national insurance, UC taper)</th>
<th>Retained earnings before childcare (per hour)</th>
<th>Cost of one hour of childcare</th>
<th>Childcare cost paid borne by household</th>
<th>Retained earnings after childcare (per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 20 to 21 hours a week (£7.20 per hour)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Midlands</td>
<td>65%</td>
<td>£2.52</td>
<td>£3.77</td>
<td>£0.57</td>
</tr>
<tr>
<td>London</td>
<td>65%</td>
<td>£2.52</td>
<td>£5.77</td>
<td>£0.87</td>
</tr>
<tr>
<td>From 32 to 33 hours a week (£7.20 per hour)</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Midlands</td>
<td>76%</td>
<td>£1.73</td>
<td>£3.77</td>
<td>£0.57</td>
</tr>
<tr>
<td>London</td>
<td>76%</td>
<td>£1.73</td>
<td>£5.77</td>
<td>£5.77*</td>
</tr>
</tbody>
</table>

* This household has to bear the full cost of an additional hour of childcare, because at London rates the limit for support has been exceeded.

13. It is clearly nonsensical to require parents to increase their hours if they will be made worse off. Where the gains are very marginal, parents may legitimately prefer to spend more time with their children than to work longer hours for such a poor reward. CPAG research has found that parents across the income spectrum mostly believe it is unfair to require low-income parents to make choices which higher-earning parents would baulk at.\textsuperscript{16}
B. What should in-work progression look like under UC?

Voluntary vs mandatory programmes

14. The terms of the inquiry equate ‘in-work progression’ with ‘in-work conditionality’ but this need not be a given. There is strong evidence for the effectiveness of voluntary employment support programmes, for example both the New Deal for Lone Parents (NDLP) (late 1990s - early 2000s), and the Scottish Working for Families (WFF) Fund (2004-2008) showed excellent results.

15. The NDLP doubled lone parents’ chances of getting a job. The national evaluation found that “impacts measured for the programme are very large and impressive” in terms of entry into employment, job satisfaction and job sustainability, and also that it was cost-effective and provided a net saving to the Exchequer.\(^\text{17}\) Many lessons could be learned from its design including:\(^\text{18}\)
- Supportive, informed, one-to-one relationships developed with advisers;
- Discretionary funds to support work and training;
- Work experience provided alongside training;
- Mentoring in work to assist retention and advancement;
- Family-friendly environment for training;
- Compulsory initial meetings with personal advisers for hard-to-reach groups, which led to greatly increased participation (subsequent participation was voluntary).

16. Independent evaluation of WFF also concluded that it achieved “a high rate of verified outcomes given the nature of the client groups (their qualification levels were generally much below the Scottish average)”. WFF targeted deprived areas and the majority of clients were either lone parents, parents on low incomes or parents with additional stresses in the household. 62% had a child under 5. Due to the low employability of many clients at the start, evaluators concluded that “it is unlikely that a large share of the positive outcomes is due to WFF simply attracting relatively high achievers”. Like the NDLP, the WFF provided a skilled designated keyworker for each client, and flexible, tailored support. Another key success factor was that as well as improving employability it helped clients to address childcare and other barriers, and was characterised by a high degree of joint working between agencies. The fund was delivered by local authorities who were well-placed to do this.\(^\text{19}\)

17. Evidence also shows that for most people compulsion is unwarranted, as people in low-paid work already want to increase their earnings.\(^\text{20}\) There is no evidence that people are limiting their work hours without good cause, such as more hours not being available or caring responsibilities. This was very much the view of participants in the DWP’s 2011 UC ‘Insight’ study – which sought to user-test new systems for UC – who were largely opposed to in-work conditionality, stating that they already either worked as many hours as childcare allowed or wanted more hours but were unable to secure them.\(^\text{21}\)

18. Support for in-work progression should not be reduced to requiring people to take up any possible short-term increases in pay/hours. People must be permitted to weigh up other legitimate concerns, e.g. caring responsibilities, travel times and costs, job security (e.g. redundancy protections, length of contract), predictability of hours and shifts, opportunities for development, and their longer term aspirations. It would be very difficult for a mandatory regime with conditionality attached to provide for this sort of flexibility - which is needed to ensure arrangements are workable.

19. Our belief, overwhelmingly shared by parents of all income levels, is that families must be able to put their children’s best interests at the heart of decisions about work. Any approach that does
not allow this cannot have the confidence of families, and would surely fail the Government’s Family Test.

20. There is a raft of evidence that, within welfare-to-work programmes, sanctions are ineffective as an incentive to participate and higher sanctioning rates do not necessarily increase participation.22 CPAG’s experience of sanctions of JSA and ESA claimants is that they act to degrade people’s human capital in ways which render them further from the labour market and less able to work – the precise opposite of intended results. This finding is strongly echoed by other frontline organisations.23 In-work claimants may be less vulnerable on average than those out of work, but it is very plausible that sanctions will have similarly perverse effects.

21. CPAG experience as well as wider evidence shows that adviser-client relationships based on mutual trust are pivotal for effective employment support,24 but that where programmes are mandatory with threat of sanctioning, such a positive relationship is far less likely. Clients have reported feeling that they are treated with little respect and that advisers assume that they are unmotivated or incompetent; they fear intrusive questioning from advisers who become monitors of their behaviour and may be afraid to be open about the challenges they face; while advisers have reported facing conflicts of interest between clients’ best interests and their own targets.

22. This quote from a jobcentre client who had recently lost her job illustrates the damage which this sort of regime can do to the motivation and engagement of claimants: “I’m an independent person. I don’t like relying on benefits. I just hate it. They turn into the FBI, questioning your every movement.... Just going to the jobcentre makes me depressed. I just detest it, I really do”.25 In CPAG’s experience this view is far from atypical, and there is no reason to think that in-work conditionality will offer a markedly different experience.

23. Sanctions can have a devastating impact, accounting for 20-30% of foodbank use.26 While in-work claimants might have more income to buffer the effect of a sanction than out-of-work claimants, this cannot be assumed as income from work may be irregular or paid in arrears.

24. Analysis of the CPAG caseload and lessons from our Early Warning System in Scotland show widespread and serious problems with administration of the current sanctions regime for jobseekers. Harsh and apparently irrational decision making, poor communication of decisions and opportunities to appeal, poor appreciation of clients’ individual circumstances, inflexible application of guidance, and error/maladministration by government departments and local authorities are all common.27 The government has been slow to implement the recommendations of the Oakley review and these problems have not been resolved in spite of some small administrative improvements.28 Proposals to extend a sanctioning regime which performs so dismally are alarming.

25. For all these reasons, we strongly support a voluntary approach to support for in-work progression, although a compulsory initial meeting to introduce the programme might be helpful.

Work incentives in the UC ‘package’

26. It is concerning that proposals to introduce conditionality for in-work progression are accompanied by cuts to UC work allowances which significantly reduce the financial rewards from work. These cuts make it less likely that work will offer a route out of poverty and undermine the aim of supporting in-work progression.

27. Gains from the ‘living wage’ premium to the minimum wage will accrue mainly to households in the middle of the income distribution, because many beneficiaries are second earners in higher-
earning households. The IFS robustly demonstrated that the increases in the minimum wage announced in the 2015 Summer Budget cannot compensate for proposed cuts to tax credits, which will affect people in similar circumstances to the UC cuts, for this reason.  

28. Resolution Foundation analysis has concluded that “In combination, the introduction of the NLW and changes to UC are set to increase the likelihood that low paid parents get stuck at low levels of earnings with little incentive to progress”.  

29. It is not yet clear whether in-work conditionality is designed to apply at an individual or household level. UC currently provides rather poor work incentives for second earners to enter work, which should be a high priority for poverty reduction.  

30. We recommend reversing the cuts to work allowances and/or looking at other ways to improve work incentives – e.g. reducing the UC taper from 65% to 55% as per its original design, or establishing guidance for the withdrawal thresholds and tapers in council tax support. We also recommend a separate work allowance for second earners.  

31. Eligibility arrangements for passported benefits under UC (yet to be determined) should not create perverse incentives.  

Conditionality and sanctions  
32. If a mandatory programme with associated conditionality is to be applied, we make the following points.  

33. Provision should retain a public service ethos, focused on the best interests of clients and assisting them to achieve their goals, rather than a target-driven approach with heavy emphasis on monitoring and ensuring compliance.  

34. Claimant commitments should be two-way, setting out support which will be provided as well as requirements on the claimant. Accountability mechanisms should be established for claimants who do not receive the promised support.  

35. Sanctions should be a last resort, reserved for those who deliberately and repeatedly flout the system, not for unintentional or minor breaches (such as lateness).  

36. Requirements need to be reasonable and should not require people to accept any possible increase in pay or hours regardless of other legitimate concerns, e.g. to:  
- Give up a course of part-time study to work more hours;  
- Leave a secure contract for a job offering more hours/better pay but less security;  
- Extend commuting time or costs significantly for a marginal increase in pay;  
- Give up predictable shifts that fit with family life for a better-paid but less predictable job;  
- Give up a job which is currently low-paid or low-hours but offers prospects of advancement, for one which pays more but lacks such prospects;  
- Accept new hours which would require use of childcare that parents find unsatisfactory;  
- Take on a second job which might put an existing job at risk.  

37. Flexibilities for claimants, e.g. around the needs of children, are needed and should have statutory footing. Advisers should be thoroughly trained in their application. Even when lone parent flexibilities were contained in Statutory Instruments, they were not always applied. Now they to be included in guidance instead. This is a worrying trend bringing a real risk of patchy decision-making and introducing a significant imbalance of power into the adviser-client
relationship. It is very difficult for clients to challenge discretionary decisions, leaving them with little recourse if guidance is poorly applied.

38. Under provisions in the Welfare Reform and Work Bill, from April 2016 primary carers of children claiming UC will be expected to be available for and actively seeking work when their youngest child is three (currently this requirement comes in at five). We find this compulsion worrying, especially as the government’s extended offer of 30 hours free childcare for three- and four-year-olds comes into effect only 17 months later. It is not yet clear how many hours parents of three- and four-year-olds will be expected to work, but we strongly recommend that they should not be subject to further requirements to increase their hours/pay if they start part-time work.

39. Sanctions should not be so heavy as to push anyone into destitution or render them unable to pay housing costs. Children’s and housing elements must be fully protected, but even then as LHAs are low there is a real risk that sanctions would affect claimant’s ability to pay housing costs if they are accustomed to paying more than the LHA in rent, or if they have to divert funds from rent payments to meet the immediate costs of food or emergency expenses. 89% of UC claimants are already in rent arrears. Such impacts would make it harder for claimants to stay in, and progress in, work.

40. Clear final warnings should be issued as the step before sanctioning: a ‘yellow card’ system, with sanctions only applied for a further breach after this warning.

41. When a sanction decision is made, the decision and an explanation must be clearly communicated to claimants. A two-week warning period in which claimants can provide good cause or challenge a decision before a sanction is imposed ought to be standard practice.

42. The following groups should be exempted from in-work conditionality altogether:
- Primary carers of children under five
- Claimants who are in part-time training or study (or at the very least, the requirements for work availability must be reduced to take account of the time spent in training and study, including private study time outside classes)
- People who have entered work within the last twelve months after a period of unemployment lasting twelve months or more, to allow a grace period for those who have newly entered the labour market.

Characteristics of good employment support

43. The government’s UC Insight study found that what clients most wanted and valued was personalised vocational support and tailored job searches that met their specific needs. More qualified claimants in particular may not benefit from generic programmes. Being required to take part in activities not relevant to their needs (e.g. training in areas where they are already proficient) is a significant source of frustration among current jobseekers and can lead to a lack of faith in advisers and the programme as a whole.

44. CPAG research has identified characteristics of good employment advice provision, summarised in Table 2.

45. Duration and frequency of contact should be adjusted to clients’ needs. Some will need long appointments to discuss complex situations, while others will already be in a strong position to progress and need minimal contact (e.g. some NDLP clients had an initial meeting and subsequent advice by telephone).
46. High quality employment support is resource-intensive. In-work progression support will add to the workload of providers who are already overstretched, especially as JSA claimants are also to be required to attend more frequently. Yet DWP and both public and voluntary sector advice providers face cutbacks.

47. We are concerned that this will result in a poor quality programme. Advisers have already told CPAG that cuts are leading to reductions in face-to-face time, and UC Insight pilots found that claimants already feel jobcentres do not invest enough time in providing tailored support and appointments feel rushed.

48. Advisers have also expressed concern that compulsion in welfare-to-work programmes risks poor quality training because clients have no choice about whether to attend, so customers are guaranteed for courses.

Table 2. Key attributes of effective employment support services

<table>
<thead>
<tr>
<th>Aspect of support</th>
<th>Key attributes</th>
<th>What does this mean in practice?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment of clients</td>
<td></td>
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<tr>
<td></td>
<td>Respectful</td>
<td>Treating people as competent</td>
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<td></td>
<td>Attentive</td>
<td>Taking time to understand people’s situations</td>
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<td></td>
<td>Understanding</td>
<td>Sympathetic to people’s challenges and needs</td>
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<td></td>
<td>Consistent</td>
<td>Consistent advice over time</td>
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<td></td>
<td>Personalised / holistic</td>
<td>Tailored support based on holistic understanding of their circumstances and aspirations</td>
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<td></td>
<td>Helpful</td>
<td>Focus on help, not enforcement</td>
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<tr>
<td></td>
<td>Trusted</td>
<td>Advisors trust that advisers are working in their best interests and will give accurate advice</td>
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<tr>
<td></td>
<td>Empowered</td>
<td>Advisors with the power to help clients overcome their barriers, not just implement a one-size-fits-all programme</td>
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<td></td>
<td>Accountable</td>
<td>Clear contacts and processes for people who receive poor-quality service</td>
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<tr>
<td>Assistance given</td>
<td>Meaningful</td>
<td>Activities and advice are relevant to needs</td>
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<tr>
<td></td>
<td>Flexible / responsive</td>
<td>Activities can be adjusted as needs evolve</td>
</tr>
<tr>
<td>Adviser</td>
<td>Consistent</td>
<td>Named regular adviser for each client</td>
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<td></td>
<td>Follow up</td>
<td>Advisers actively follow up with clients to see how situations have developed</td>
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<td></td>
<td>Competent</td>
<td>Advisers are skilled in supporting clients</td>
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<td></td>
<td>Advocacy role</td>
<td>Advisers advocate for clients who experience discrimination or poor treatment, e.g. by employers or government offices</td>
</tr>
<tr>
<td>Advice environment</td>
<td>Pleasant/welcoming</td>
<td>Clients are made to feel welcome</td>
</tr>
<tr>
<td></td>
<td>Calm</td>
<td>Quiet, clients do not feel intimidated or rushed</td>
</tr>
<tr>
<td></td>
<td>Comfortable</td>
<td>Seats, toilets, drinking water are provided</td>
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<tr>
<td></td>
<td>Family-friendly</td>
<td>Safe places for children to wait/play (unless childcare is provided)</td>
</tr>
<tr>
<td></td>
<td>Practical help</td>
<td>Computers, phones and photocopiers are available for clients’ use</td>
</tr>
<tr>
<td></td>
<td>Social contact</td>
<td>Opportunities for peer support e.g. informal groups for clients in similar circumstances</td>
</tr>
</tbody>
</table>

37
C. Recommendations

Recommendations for in-work pilots and their evaluation

49. Voluntary models of employment support should be trialled in place of, or at the very least alongside, any mandatory model.

50. Provision of childcare, whether through extended schools or other approaches, could be trialled alongside employment support, as in the successful WFF programme in Scotland.

51. CPAG believes that local authorities are best placed to deliver in-work progression services, because of their familiarity with local labour markets and links to employers (which can be used to arrange placements, discuss progression pathways, coordinate training and so on), childcare providers and colleges.

52. Flexibility will be needed around meeting times and consideration will have to be given to childcare needs. Parents who work are unlikely to have provision for childcare outside work hours.

53. Assessment of pilots should be based on a range of metrics including the quality of advice and support, the client experience and the impacts on poverty, not only numbers of clients increasing earnings or moving off the programme. For a conditional regime, the rate of sanctioning and the impact of sanctions should also be carefully examined.

54. Progression support for second earners should be considered.

55. Clarity will be needed on how self-employed people – whose income is assumed to reach the equivalent of full-time work on the minimum wage if it falls below the minimum income floor – will be treated. Will they be able to access support?

56. If a mandatory model is to be trialled, the significant problems in the current sanctioning regime must first be addressed.

Recommendations for employers

57. A comprehensive national strategy on low pay is urgently needed. A low pay strategy ought to encourage all employers who can afford to pay a true living wage to do so and to provide more effectively for progression.

58. Sectoral strategies might be required for sectors characterised by low pay and limited progression, e.g. care, hospitality/catering, and retail. In addition to looking at raising pay overall, many steps could be taken to improve conditions for low-paid workers (e.g. paid breaks, paid travel time for homecare workers, guaranteed shifts and hours, additional pay for unsocial hours or last-minute shifts, flexibilities for working parents, and protection for staff who take time off due to children’s illness or childcare failure). A review of pay at all levels would also help to make sure that any opportunities for promotion come with pay increases proportionate to additional responsibilities.

59. Employers are generally aware of the benefits of providing advancement opportunities for their low-paid staff. Many do have progression policies but they are often not well implemented. Training in particular often has limited success in translating into employee progression. The reasons for this need to be examined.
6 See 3,4
8 Hours report
10 See 7
12 See 3
16 See 7
18 See also Finn, D. and Gloster, R. (2010) Lone Parent Obligations: a review of recent evidence on the work-related requirements within the benefit system of different countries. Learning and Work Institute.
25 See 4


31 See 30


33 See 21

34 See 24

35 See 21

36 See 24

37 See 24

38 See 3, which also discusses the reasons in more depth.