



REPORT

More than a foot in the door

Job sustainability and advancement
in London and the UK

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Executive summary

The labour market has changed dramatically since the 1980s. A more flexible labour market, with high numbers of part-time and temporary jobs, has made entry into work easier. But is there a price for this flexibility? With the emergence of a large pool of skilled and disposable labour, incentives for employers to invest in staff training and retention have been reduced. Six million people, or one in four of the UK's working-age population, are in low-paid jobs, and policymakers have become increasingly concerned by the high proportion of people cycling between low-paid jobs and unemployment. These concerns add pressure to a government already focused on reducing unemployment and tackling the deficit.

The polarisation of the UK economy, which has seen the loss of thousands of skilled and semi-skilled jobs, has been most pronounced in London. The result is intense competition at the lower end of the labour market, as large numbers of people with low and intermediate skills compete for entry-level jobs. When competition is high, and recruitment is relatively easy, employers have few incentives to address turnover by improving wages or working conditions. The extremely high cost of housing, transport and childcare in London relative to earnings can make it more difficult for Londoners (particularly parents) to move off benefits, accept offers of part-time work or travel to take up better jobs. As a result, many people are simply shifting between different low-paid and insecure jobs, with some squeezed or priced out of the labour market altogether.

The impact of labour market reforms present real trade-offs, but increased job security need not be at the expense of flexibility. The government has policy choices, not just about whether and how to address job insecurity but also about how it supports people to cope when they lose a job and to find work. Yet the government's employment and skills programmes have had limited impact, inadequately supporting people at the bottom of the labour market to manage change. We argue that this is the result both of specific failures in delivery and implementation, and of a more fundamental failure to grapple with wider problems in the labour market.

Sustainability and advancement in policy and practice

Job sustainability and advancement have taken on greater prominence in policy debates, because payments linked to job sustainability are embedded in the government's flagship welfare-to-work programme. The principles of support – a 'work first' approach supported by intensive job search – remain the same as for previous welfare-to-work programmes. However, through the new pricing structure, which backloads payments based on long-term job outcomes, prime contractors are being encouraged to develop support that helps clients to sustain work and, moreover, to 'catch' those who drop out of work after a short time.

This pricing structure places significant financial risk on providers, who are being asked to deliver up to three years of support to help people stay in work, all within the context of an uncertain and insecure job market. Transferring responsibility from the Department of Work and Pensions (DWP) to a small group of prime providers risks creating an accountability deficit, with insufficient scrutiny to ensure that providers support all groups equitably. In addition, for those not eligible for support through the Work Programme, such as workers stuck in a 'low pay, no pay' cycle of work and unemployment, there will be little other support available.

The policy agenda gives little attention to the quality of jobs people move into or whether workers have opportunities to progress from entry-level jobs to jobs with more pay and better working conditions. The skills system is poorly coordinated with employment support, and there are no incentives built into the Work Programme to encourage providers to support people not only to stay in work but also to advance. In addition, the quality of training available is an issue. The UK spends relatively little on providing access to training and many vocational qualifications fail to offer employment or wage returns in the labour market. This is in contrast to many other OECD countries, where workers are better supported through opportunities to train or retrain.

In ippr's innovative 'Now it's personal' project, we argued for:

- A radically devolved, localised welfare-to-work system
- A closer alignment of welfare-to-work policies with the needs of employers, including a greater emphasis on enterprise through sector-focused skills training and 'supported' employment
- A more innovative and fluid sub-contracting market in the Work Programme.

In this paper, we extend these recommendations to consider job sustainability and advancement. We argue that the support offered by welfare-to-work providers to help people to stay in work and progress should be more innovative, including active engagement with employers to improve the quality of jobs available and the creation of specific training routes into jobs or sectors. We argue that providing support for people to move into jobs with higher pay and better working conditions, either at the same firm or a different one, will help to improve sustainability in work.

Based on the limitations of skills and employment policies identified, ippr recommends that a new programme, 'Advance', is established as part of the adult Information, Advice and Guidance (IAG) budget for Nextstep. This would be a voluntary programme, paid through a proportion of the £80 million Next Steps agenda, and employment and skills providers could draw on this funding to provide advancement support. Success could be measured by a wage increase and/or a move from insecure to secure employment (temporary to permanent, part-time to fulltime), or a move to a job with better terms and conditions.

Commissioners need to ensure the right incentives are in place to encourage back-to-work providers to better engage with the challenges in the labour market, and to provide strong support not only to help people sustain work but also to progress to jobs with higher pay and better working conditions. DWP as commissioners can do this by implementing a more active contract management system that monitors the quality of employment and skills provision and holds providers to account. Commissioners could also consider refocusing the Work Programme's post-one-year sustainability payments on advancement.

The limitations of employment and skills

It is just as important to recognise the limitations of services, no matter how good they are. Opportunities to find, hold and progress in work are constrained by the nature of the job market. A key challenge will be to ensure qualifications provide real wage returns for workers. Yet whether efforts to improve the nation's skills lead to more and better jobs will depend on improving how employers invest in and utilise the skills of the workforce. The wide range of approaches taken by different OECD governments demonstrates that the stark choice between job security and flexibility is a false one.

The government should aim to create industry-led training associations that coordinate, design and certify training and which generate collective commitment and funding from employers and government. International practice shows that these can help to stimulate investment and utilisation of skills among employers. The government can also drive this agenda further by setting professional standards and occupational licences to practice, which set a certain level of competence and can determine sector-based progression routes.

It is important to consider not only whether people are able to secure a job, but also the types of jobs they move into, whether they pay enough to live on, the stability of those jobs, and whether workers are able to progress to higher pay or better working conditions. The limitations of the employment and skills policy approach which has dominated the past few decades means that even in London, which hosts more and better jobs than any other UK region, many people were not able to share in the nation's economic success.

The financial crisis has exposed the need to strike a better balance between demand for flexible, part-time and entry-level jobs and the vulnerability of groups in low-paid and temporary jobs who struggle to find and stay in work. This, alongside the challenges of an ageing population and the needs of workers with caring responsibilities, means that the quality of flexible and part-time work must be part of a new discourse on flexibility in employment.

Introduction

The labour market has changed dramatically since the 1980s. Government reforms to encourage greater labour market flexibility have made entry into work easier for previously disadvantaged groups. But has flexibility come at a price? With the emergence of a large pool of skilled and disposable labour, incentives for employers to invest in staff training and retention have been reduced. Deregulation, some argue, has also increased insecurity at the bottom end of the labour market. Six million people, or one in four of the UK's working-age population, are in low-paid jobs, and policymakers have become increasingly concerned by the high proportion of people cycling between low-paid jobs and unemployment.

The need to reduce unemployment – and the government's welfare bill – presents a fundamental challenge over the next few years, particularly given the need at the same time to reduce the deficit. However, the objectives of social policy in the long term are to secure a better quality of life and greater financial security for UK citizens. To this end, it is important to consider not only whether people are able to secure a job, but also the types of jobs they move into, whether they pay enough to live on, the stability of those jobs, and whether workers are able to progress to higher pay or better working conditions.

In this paper, we argue that the current policy framework meant to help people compete in the labour market is limited and fails to grasp the extent of the challenge. We argue that employment and skills support is both underwhelming – characterised by restricted access and meagre wage returns from vocational qualifications – and fundamentally flawed. Without a parallel plan to tackle the demand for labour and skills, promising early success under Labour's welfare-to-work programmes petered out. Since the economic crisis, this weakness has become all the more apparent, particularly alongside current expectations that high unemployment will be remedied through private sector job creation. Yet the Coalition government's new Work Programme is still based on the idea that unemployment and insecurity are best tackled by improving the skills and employability of jobseekers.

This paper is in three parts. In Part 1, we look at London as a case study to explore the nature of work available to disadvantaged workers. We examine the specific nature of the capital's labour market, but also use the city as a lens through which to view the challenges facing the wider economy in the UK and other OECD countries.

In Part 2, we analyse the UK policy context. In doing so, we ask two questions. First, how could employment and skills interventions better support people to stay in work and progress? Second, what are the limitations of this approach in addressing disadvantage at the lower end of the labour market? We examine interpretations of 'sustainability' and 'advancement' in policy terms, and argue that the incentives for providers to engage with innovative practice in these areas are limited.

In Part 3 we set out a new approach. We look at how back-to-work services can best support sustainability and advancement, and how commissioners could improve the incentive framework to encourage contracted providers to support people to stay in work and progress. We set out an agenda for making positive change, one that involves a fundamental shift in how policymakers conceive of and engage with the challenges in the UK labour market.

Part 1: The London labour market: a case study

1.1 Polarisation and flexibilisation

London is a unique beast. This global city attracts talent and investment from across the world, with the result that more than one-third of UK businesses are located in London and the south-east (BIS 2010a). Yet thriving centres of economic activity coexist next to pockets of entrenched poverty and unemployment. The London riddle is why – despite hosting more and better jobs than elsewhere – does the capital have the lowest employment rates of any UK region?

Figure 1.1
Employment rate,
London and UK

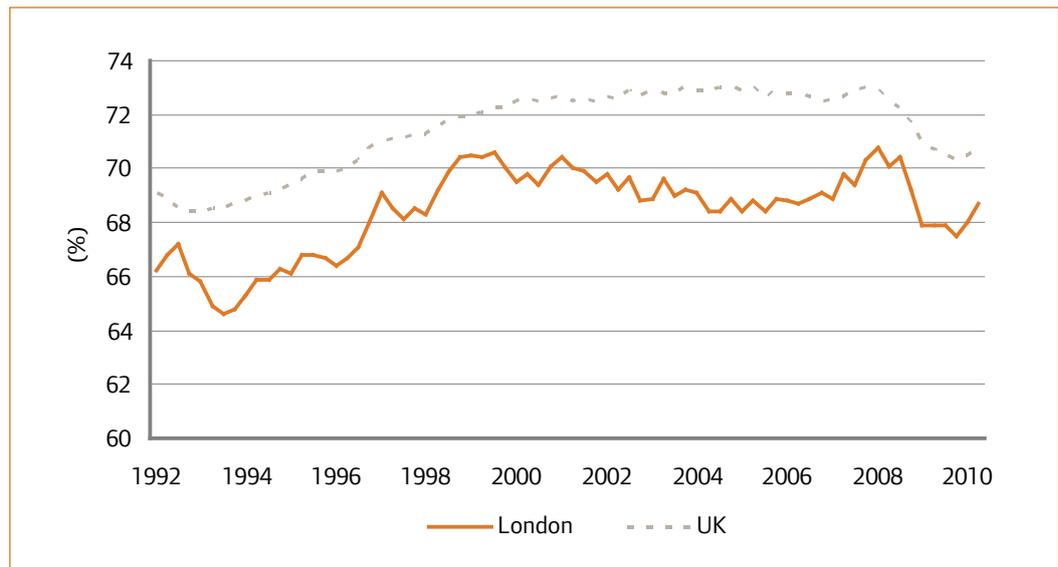
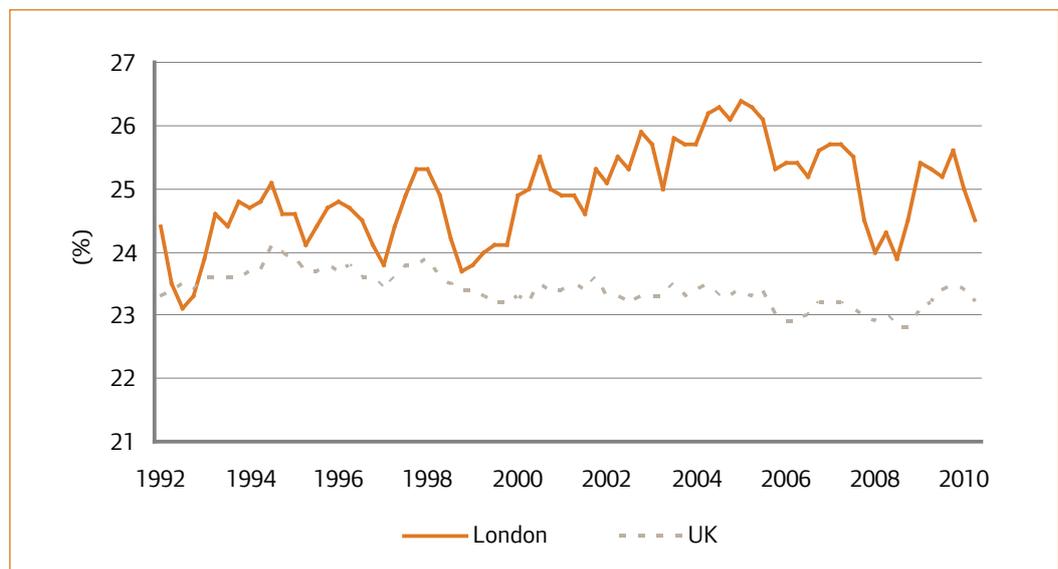


Figure 1.2
Inactivity rate,
London and UK



Source: Based on ippr analysis of Labour Force Survey data

A focus on London's inimitable dynamism can mask the fact that the employment problem here is symptomatic of broader shifts in the nature of work. Deindustrialisation, privatisation and the pressures of global competition on the open market since the 1980s have resulted in dramatic economic restructuring in the UK, with increased reliance on private services and the public sector for employment. These structural changes to the labour market were initially associated with a large rise in inactivity. While unemployment has since fluctuated, 'inactivity' – the numbers of unemployed people not actively seeking work – has remained stubbornly high, despite a series of targeted and intensive employment programmes, suggesting that not everyone has adapted well to change.

Over the same period, the number of highly paid jobs at the ‘top’ of the UK labour market has increased significantly. Low-paid jobs at the bottom have also increased in number, though to a lesser extent. The proportion of average-paid skilled and semi-skilled jobs in the middle, however, has fallen dramatically. While structural economic changes since the 1980s are partly responsible, technological change is the real driver in the ‘hollowing out’ of many labour markets across the OECD. From computers to ATMs to the recent introduction of supermarket self-checkouts, routine clerical and manual tasks are increasingly performed by technology in place of paid members of staff (Michaels et al 2010, Oesch and Menés 2010).

In the UK, this polarisation – described by some as a choice between ‘lousy and lovely’ jobs (Goos and Manning 2007) – has been most intense in London (Kaplanis 2007). Over the last 30 years, the capital has been transformed from an industrial economy to a service economy. The factories and docks of the East End have been replaced by the steel and glass of the financial and business services giants, and with this the demand for managers and professionals has grown considerably. It is more difficult to replace people with technology in low-end interpersonal service jobs, and the call for workers in elementary, sales and customer service and personal service occupations has increased in the capital, as it has elsewhere.¹ The growth in high- and low-paid jobs is forecast to continue, although perhaps less aggressively than in the past. Meanwhile, there is little prospect of reversing the substantial decline in secretarial and administrative roles or the losses in skilled trades and process, plant and machine occupations (LDA 2010).

Another factor that drove labour market change was the ‘flexibilisation’ of the labour force. During the 1980s and 1990s, the government reduced taxes and regulation, including employment protection, which made it easier to hire and fire employees and to contract work on a temporary basis. Opinion on the impact of deregulation is divided.

In the UK, the predominance of fulltime jobs (mostly filled by men) meant the labour market lacked entry-level jobs for young people and people without qualifications. The more flexible labour market has been characterised by an increase in part-time and temporary work, the use of agencies, and labour subcontracting. The increase in flexible and entry-level jobs facilitated greater participation in the labour market, among women in particular, and many people on part-time or temporary contracts are in those jobs because they have chosen to be.

However, it has also been suggested that the removal of employment protection increased insecurity at the bottom end of the labour market. Some low-paid sectors, and particularly subcontracted jobs, have been characterised by wage reductions, reduced access to benefits such as overtime, sick pay and employer pension contributions, and highly variable pay and conditions for the same type of work, even within the same firm (see for example Evans et al 2007). Greater flexibility has resulted in other, perverse effects. One by-product of the employment reforms was the removal of incentives for employers to invest in skills and to retain staff (Clifton et al 2009). Poor investment in and utilisation of skills by employers, leading to low innovation and productivity, is a key problem in many sectors of the UK economy (see Keep et al 2010).

The impact of these labour market changes, coupled with demographic factors and a high cost of living, go to the heart of the London problem.

1.2 The London problem

Demographically, London’s population includes a greater proportion of groups with high typical unemployment rates than is the case in other parts of the country, with more lone parents, more black and minority ethnic (BME) groups, more low-skilled people and more foreign-born residents than elsewhere. This alone, however, does not account for the poor rates of employment in the capital: these groups find it harder to find work in London than they do elsewhere in the UK (HM Treasury 2006).

While the structural transformation of London parallels changes in the UK economy as a whole, and particular in other cities, workers face additional challenges in the capital. Firstly, intense competition at the lower end of London’s labour market means that disadvantaged workers are more likely to be ‘squeezed out’. In 2006, there were 3.1 low-skilled residents to every low-skilled job in London, compared to 2.3 in the rest of the UK (HM Treasury 2007). The combination of an

¹ Some have hypothesised that the growth of a low-paid servant class is in some way linked to the consumer demands of the managerial class, although the empirical evidence for this is inconclusive (eg Kaplanis 2007).

over-supply of skills with a lack of mid-skill jobs means that people with low and intermediate skills are competing for low-skilled jobs. Those with the least skills and experience struggle to compete (HM Treasury 2007, LDA 2010).

Secondly, many disadvantaged workers are 'priced out' of the capital's labour market by the much higher cost of housing, transport and childcare in London relative to earnings. For work to be worthwhile, wages need to be higher for people to take up offers of work in London than they do elsewhere. Where wages are too low to compensate for the high cost of living, particularly the cost of housing, it can be very difficult for people to move off benefits. It can also make it more difficult for Londoners to take up offers of part-time work. The cost of transport means that workers in low-paid jobs are likely to favour a more limited commuting range than high earners, and the high cost of living is particularly difficult for workers with families and dependents, which explains why parents have disproportionately low employment rates in London (Gregg 2006).

These problems are at least partly a reflection of the attraction London holds for jobseekers by comparison with the rest of the UK. Government policy has been criticised for relying too heavily on London as a driver for economic growth, without insufficient effort given to improving the quality and quantity of jobs across the UK (for example Turok and Webster 1998, Turok and Edge 1999, Reed 2008). The result is that young people leaving education flock to London in droves, while international migrants to the UK also see London as the most sensible port of call. Students and other well-qualified migrants from the UK and abroad increase the pressure by taking on low-paid jobs while they look for something better (HM Treasury 2007). The London Development Agency (LDA)(2010) has predicted that future demand could be met by in-migrants and young people leaving education rather than by London's workless residents.

1.3 Sustainability in low-paid jobs

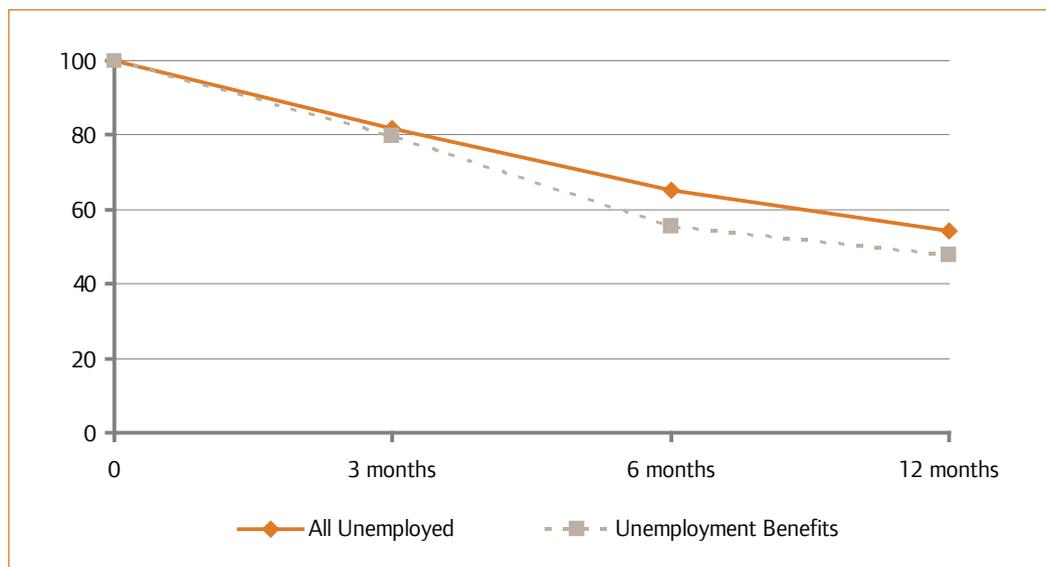
Our research, based on analysis of the 2009 Labour Force Survey, shows that almost one in four people of working age, or six million in total, are in low-paid jobs, defined as those that pay wages below £7.85 in London (the 'London Living Wage') and £7.60 across the rest of the UK (the minimum income standard for the UK). These jobs are concentrated in the wholesale and retail, health and social work, and accommodation and food services sectors: across the UK, these sectors employ three million people and account for half of the UK's low-paid jobs. People in low-paid jobs are more likely to become unemployed than those in higher paid jobs, and this can create a problem of 'low pay, no pay' cycles, which keep people on low, insecure incomes, either in work or on benefits (Lawton 2009).

In addition to problems of entrenched unemployment, evidence shows that even at a time of strong growth and low unemployment a high level of 'churn' between work and benefits was a persistent policy challenge. In 2008, for every two people who left the benefits system, one returned within six months. This measure of repeat benefit claims increased from 42 per cent in 2006 to 49 per cent before the recession hit in 2008² (LDA and CfE 2009). The likelihood that long-term unemployed people who find work will remain in work declines as time goes on. On average, of the long-term unemployed who find work, more than 80 per cent are still working three months later, but half will be out of work again after one year. Moreover, those who were claiming benefits prior to finding work are more likely to fall out of work sooner than those who were not, although the difference is marginal (see Figure 1.3 over).

Studies exploring the nature of the jobs at the lower end of the labour market provide further clues as to why not all residents are sharing in the capital's success. Employee turnover is highest in low-paid private sector service industries, including retail, hotels, call centres, and catering and leisure (CIPD 2010). High staff turnover is often associated with low pay and poor working conditions. Evans et al (2005) examined the increasing trend towards subcontracted employment in London's low-paid economy, such as the cleaning, hospitality, home care and food processing industries. The study found that workers were hired on a wide range of different contracts – some in-house, some subcontracted – meaning they were entitled to different levels of pay and benefits for the same work. Employees in some sectors also complained of unfair treatment by employers, unsociable hours and a lack of decent facilities.

2 Some repeat claims may be explained by reasons other than poor job retention, such as a return to benefits after a missed appointment.

Figure 1.3
Proportion of long-term unemployed sustaining employment



Source: ONS, LFS 5Q Longitudinal
Note: Average of eight datasets spanning a two-year period.

Despite these factors, leaving work is not necessarily voluntary. Studies of repeat Jobseeker’s Allowance claimants have found that by far the most common reason that workers return to benefits from employment is because a temporary contract has ended (see for example Knight 2010).

Part-time workers, women, young people, ethnic minorities, migrants and people with fewer qualifications are those most likely to be low paid in London (Melville and Harker 2008). Most significantly, the proportion of migrant workers in low-paid occupations has increased since the mid-1990s, with as many as 46 per cent of London’s elementary jobs filled by migrants (Evans et al 2005). Research on low-paid jobs in London by Wills et al (2008) found that the majority of people who take these jobs are those with few alternatives in the labour market, especially migrants whose immigration status restricts access to state benefits or for whom poor language skills and racial discrimination mean they are unable to find better jobs. The study also found that employers favour recent (white) EU migrants over those from the ‘global south’ and over British-born workers.

High staff turnover can create high costs for employers, and some employers try to improve retention by increasing wages or providing better opportunities for progression. However, employee turnover is less of a problem where it is relatively easy to fill vacancies (CIPD 2010). In London, with a large and willing migrant workforce and agencies to move them into jobs – that is, with a highly flexible labour market – it is likely that employers are able to sustain high-quality levels of service despite poor staff sustainability. The influx of migrants with few rights and poor access to the labour market allows employers to fill vacancies quickly and without fuss, removing ‘market’ incentives to improve conditions (Wills et al 2008).

1.4 Stepping stones to better jobs? Moving on from insecure or low-paid jobs

Entry-level jobs offer opportunities for people who may otherwise struggle to find work. A pool of entry-level jobs can also function as ‘stepping stones’ to jobs with better pay and working conditions. Young people, for example, might choose to take a low-paid job to gain experience before looking to move up the career ladder. The fact that these jobs are low-paid and insecure, however, matters much more if there are limited opportunities to progress.

Previous research by ippr found that almost half of low-paid workers in the UK experienced no significant increase in their income between 2002 and 2005, and that where low-paid workers’ earnings did increase they tended to fluctuate around a relatively low average (Lawton 2009). The same study found that administrative and secretarial jobs – precisely those mid-skill sectors that have been in decline – offered relatively good opportunities for progression out of low pay. However, moves out of low pay were less likely for workers in skilled trades, customer service, semi-

skilled manual occupations and in entry-level jobs. Young people (aged 16 to 21) were more likely to move out of low-paid work than older workers, and men were more likely than women to see wage increases.

Lower-level service jobs may always have offered limited opportunities to workers, but the polarisation of the job market means there are now fewer mid-skill jobs for people to step up into. The UK's dependence on low-paid, low-productivity sectors that offer poor opportunities for training also leaves workers in these sectors ill-equipped to compete (see Lanning 2010). The prospects for moving up are increasingly limited, particularly in the capital's dog-eat-dog job market. One London study found that neither the employers nor the workers in low-paid jobs thought there were many opportunities for advancement, within the same firm, the sector or the wider labour market (Wills et al 2008). The result is that many people are simply shifting from one low-paid and insecure job to another, with some being squeezed or priced out of the labour market altogether.

Relying solely on upward mobility to improve people's working conditions is also problematic. Skills, ability and availability will always constrain opportunities for promotion, and some people will want to stay in the same job but still see improvements in their material situation. People with caring responsibilities for children or disabled relatives, for example, may need to work part-time but require those jobs to be of a certain standard. What's more, the market does not always pay a fair price for people's skills or for the effort and responsibility involved in a job. Some jobs, including for example some in the care sector, require extremely complex skills, but low status means they are poorly remunerated (NEF 2009).

1.5 Impact of the recession and future trends

There is no guarantee that the economic model that created jobs in the past will continue to do so, and the near-collapse of the global economy has shaken some of the foundations underpinning labour market reforms. While many countries face similar challenges as a result of the financial crisis, they have introduced a range of labour market policies to manage unemployment, suggesting there are different routes to employment and flexibility.

Flexibility was lauded for securing lower-than-expected unemployment after the crisis. The argument is that employers – because they were able to reduce labour and production costs easily – were able to adjust to market shocks or changes in demand without resorting to mass redundancy. The increase in part-time and temporary working which occurred in the UK was seen as a measure taken by employers to preserve jobs and retain skills. The Organisation for Economic Cooperation and Development's (OECD) *Employment Outlook 2010* concluded that, overall, short-term working had an 'economically important impact' on preserving jobs in OECD countries (2010a).

The assumption that flexibility was the key ingredient in this resilience has been questioned, however. Gregg and Wadsworth (2011) argue that relatively low unemployment in the UK (when compared to past recessions) resulted from the cut in VAT and negative inflation over the course of the recession, which meant employers were able to resist pressures to increase wages. In other words, real wages fell enough to mitigate the threat of widespread redundancies. Similarly, the 'German miracle' that has kept both employment and unemployment stable may have been the result of the Hartz reforms of 2003–05, which increased labour market flexibility by decreasing regulation and increasing incentives for jobseekers, but extensive government job subsidies were at least as significant, and most of this flexibility was negotiated through unions.³

A second issue is how the increase in short-term working has impacted on workers. Evidence suggests permanent workers in OECD countries have benefitted primarily, while temporary workers have been more vulnerable (Hijzen and Venn 2011). In the UK, the increase in short-term working has resulted in high 'under-employment', as a growing number of people are in part-time work because they cannot find a fulltime job, rather than out of choice. London suffered less severely than the rest of the UK during the recession, but the city's working poor were hit hard (Overman 2011) and high youth unemployment can only be creating additional pressure on entry-level jobs there. The cost of living, already high in the capital, has been increasing and looks set to go higher yet: consumer price inflation was running at 4.0 per cent in March 2011 (and retail price inflation at 5.1 per cent), while average earnings have been increasing at the much lower rate of just 2 per cent.

³ See Davies 2010 and *Economist* 2010 for a discussion of Germany in the recession.

Changes to the benefits system, in particular the cuts to the childcare element of the Working Tax Credit and to the Housing Benefit for single people aged under 35, are also expected to affect Londoners disproportionately (Lister et al 2010).

The government appears to be relying on the thinking of the 1980s, assuming growth will materialise as a result of cuts in tax and regulation. Although sluggish growth has been widely predicted, most studies assume the London economy will continue to grow, with the caveat that the public spending cuts have the potential to derail the recovery (see for example Wickham 2010). Unstable or low work-rates among disadvantaged groups have most often been tackled through supply-side efforts to remove the 'barriers' to work, for example by improving skills. This rest of this paper examines these efforts.

Part 2: Policy context and limitations of the current approach

The government has policy choices, not just about whether and how to address job insecurity, but also about how it compensates for it. Through policy, the government defines the processes in place to help people cope when they lose a job and to find work. This part considers the impact of some of those policy choices.

The government's employment and skills programmes have had limited impact and have inadequately supported people at the bottom of the labour market to manage change. We argue that this is the result both of specific failures in delivery and implementation, and of a more fundamental failure to grapple with the problems in the labour market. We first outline the limitations of active labour market programmes before going on to look at the practical constraints on provision of support for people to sustain and advance in work.

2.1 UK labour market interventions

While successive governments have adopted a hands-off approach to employment practices, policymakers have been increasingly hands-on when it comes to jobseekers. Inspired by reforms in the United States, Labour's New Deal programmes of the late 1990s applied a carrot-and-stick approach to reduce unemployment and expand the pool of 'active' labour. Evidence that prolonged periods of unemployment are associated with recurring unemployment and reduced earnings in the future ('wage scarring') meant that a 'work first' approach was adopted. Certain groups, such as lone parents and young people, were identified as being most susceptible to long-term unemployment and were referred to intensive job-search support services, which were contracted out to a range of public, private and third sector providers. Where jobseekers failed to comply with the rules, however, it could result in benefits being withdrawn.

At the time it was felt that the New Deal programmes would revolutionise back-to-work support in the UK. The early impact on employment rates was encouraging, particularly for disadvantaged groups. By March 2000, the New Deal had reduced unemployment by 45,000 and increased employment by 25,000. During this period, the government recovered almost 60 per cent of what it spent in higher tax receipts and reduced benefit expenditure (Riley and Young 2000). However, performance began to plateau from 2002 onwards. Moreover, there was growing concern about the success of back-to-work programmes for the long-term unemployed, which led the government to measure job sustainability as well as job entry. The data on job placements delivered by the New Deal in the decade prior to the 2008 recession show that one in four placements was not 'sustained', measured as 13–26 weeks in work (LDA and CfE 2009).

Despite these setbacks, the principles underpinning the New Deal programme – a 'work first' approach supported by intensive job search – remain the foundation of UK back-to-work support. What's more, the expectation of what they are able to achieve has increased. The Coalition government's flagship Work Programme will make job sustainability the key measure of success, alongside proposed reforms that further increase the conditionality of welfare by time-limiting certain out-of-work benefits. There is ambiguity about where the crux of the sustainability problem lies: some policymakers suggest that poor job retention is principally down to a lack of commitment on the part of workers (for example Freud 2010), while the Secretary of State for Work and Pensions, Iain Duncan Smith, has indicated that welfare-to-work providers can and should influence the character of jobs:

'We will reform the regime so that we properly reward the providers who do best at creating sustainable jobs that help people move out of benefits and into work. But we are not prepared to pay for anything less.'
(Duncan Smith 2010)

The quality of the jobs that people go into and the opportunities available in the labour market are virtually absent from this debate. Yet these are crucial: ippr's research has shown that most people who return to benefits do so because a temporary contract has come to an end (Lanning 2010). The failure to acknowledge the limitations of supply-side efforts is also evident in education and skills policy, which is the dominant policy framework for advancement. The Department for Business Innovation and Skills (BIS 2010b) has stated that skills underpin 'every aspect' of the Coalition

government's purpose 'to return the economy to sustainable growth, extend social inclusion and social mobility, and build the Big Society'. Yet whether improving the nation's skills will achieve all or any of these goals depends on how employers use people's skills, whether qualifications provide skills that match the needs of the labour market, and the extent to which skills policy is coordinated with other relevant policy areas.

In this part, we argue that employment and skills policy has not adequately supported people to respond to the challenges in the UK labour market. It is just as important, however, to recognise the limitations of services, no matter how good they are. Opportunities to find, hold and progress in work are, as we have demonstrated in Part 1, constrained by the nature of the job market. In fact, the largest-ever randomised trial in the UK failed to produce substantial gains in sustainability and advancement for participating workers, despite significant support and access to training (see Section 3.1 below). Finding lasting solutions to these issues will require a change in how the government intervenes in the labour market.

2.2 Job sustainability and the Work Programme

The main support for people to find and sustain work is through the government's welfare-to-work programmes. By 2014, it is estimated that the Work Programme will be supporting two million benefit claimants, more than any other single welfare programme. Information currently available on the Work Programme aligns payment milestones to job sustainability targets over a three-year period. Welfare-to-work providers will be encouraged to develop support that not only helps clients to sustain work but also 'catches' those who drop out of work.

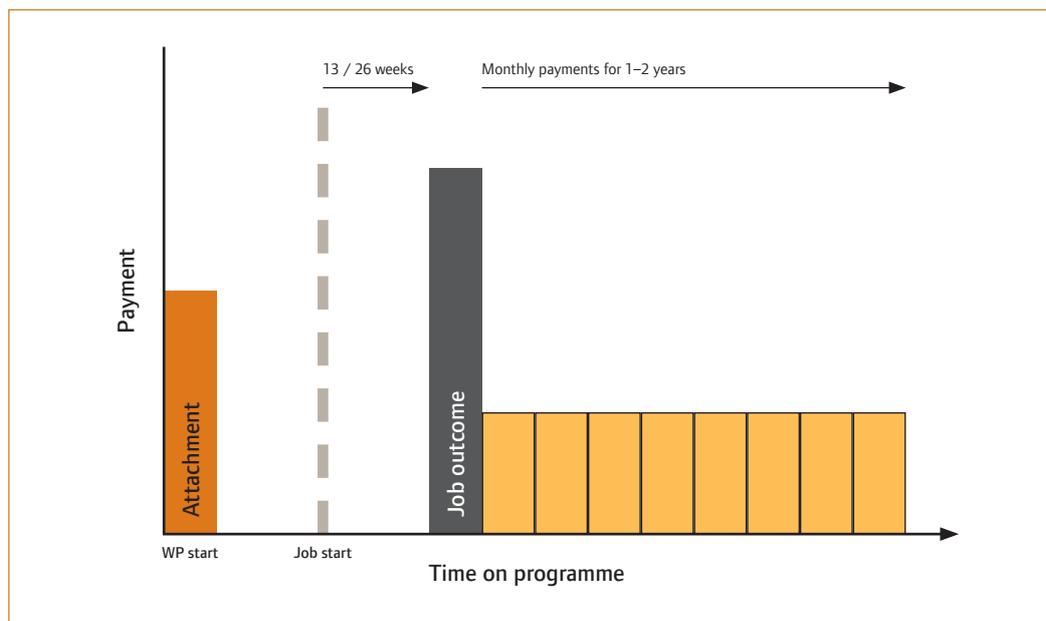
The Work Programme's current pricing structure provides the best guide as to how sustainability is being defined and measured by the government (see Department for Work and Pensions 2011). The overall pricing structure has four defined outcome points at which incentives will be paid to providers:

- An **attachment fee**, paid when providers take on a client. This small fee will reduce to £0 over the course of the contract. The attachment fees are £400 to £600 depending on which client group the jobseeker belongs to.
- A **job outcome payment**, after either 26 or 13 weeks' employment. This fee is £1,200, except for the ESA work-related activity group, for which it is £1,000, and for ESA (ex-IB), for which it is £3,500.⁴
- A **sustainable outcome payment** (or 'sustainment payment'), paid every four weeks while the customer is in employment and off benefits. Payments are £115–£370 and will be paid for 13, 20 or 26 months, beginning four weeks after the job outcome point, and may include a four-week break.
- An **incentive payment** for providers who deliver high performance for specific groups of jobseekers.

This pricing structure places a much greater focus on job sustainability. Whereas providers previously received the bulk of payment upfront, a bonus on job entry and, later, a second bonus on a measure of job sustainability, the pricing mechanism is now weighted towards a continuous or cumulative period in work (see Figure 2.1 over). The figures in Table 2.1 (also over) show how the pricing structure will be implemented for different groups in the Work Programme.

⁴ ESA refers to Employment and Support Allowance; IB refers to Incapacity Benefit.

Figure 2.1
Payment model structure



Source: Adapted from Department for Work and Pensions 2010

Table 2.1
Payment structure for different groups on the Work Programme

	Year 1 attachment fee	Job outcome fee	Job outcome paid in week:	Sustainment payment	Sustainment payment (4-weekly) from week:	Number of sustainment payments	Incentive payment
JSA (18–24)	£400	£1,200	26	£170	30	13	£1,000
JSA (25+)	£400	£1,200	26	£215	30	13	£1,000
JSA – early access	£400	£1,200	13	£250	17	20	–
JSA – ex-IB	£400	£1,200	13	£250	17	20	–
ESA – contribution-based volunteers / work-related activity group	£400	£1,000	13	£115	17	20	–
ESA flow – work-related activity / support group	£600	£1,200	13	£235	17	20	£1,000
ESA – ex-IB	£600	£3,500	13	£370	17	26	–

Source: Adapted from Department for Work and Pensions 2011

Note: JSA refers to Jobseekers’ Allowance. Work-related activity group: unlikely to be fit for work in short term (income related); volunteers. ESA flow work-related activity group: likely to be fit for work within three months (income related). Work-related activity group: likely to be fit for work within three months and ex-IB support group.

The move towards greater recognition of the need to measure job outcomes – in this case through sustainability – is a positive step and should be welcomed. There are, however, several serious concerns surrounding this change.

- Under the Work Programme, providers are being asked to do more for less. The maximum amount a provider would be entitled to receive for supporting a claimant on Jobseeker’s Allowance and aged 25+ would be £4,395 (not including a potential £1,000 performance incentive). This fee is divided into different milestones over a time period of at least 18 months. While the overall fee is comparable to what the Department for Work and Pensions (DWP) paid under some New Deal contracts (see Inclusion 2008 for unit costs under previous programmes), this new pricing structure is back-loaded, with most of the total payable only after the client has been in work for 26 weeks. This means that many providers will need to consider in-work support beyond their current expertise. Unless providers change their approach to support, it is unlikely they will achieve these objectives.

Evidence suggests that the transition into work is the key period during which people require support (see for example Ben-Galim and Sainsbury 2010). Once a person has remained in work for 12 months, standard information, advice and guidance may not make much

difference to whether or not they keep their job. The risk is that sustainment payments beyond 12 months pay for support which is either not necessary or does not take place, offering skewed incentives to providers. Tight unit costs could place pressure on the quality of the service delivered, while providers are now expected to deliver two to three years, rather than three to six months, of sustained employment.

- **Only certain people are eligible for support.** The main entry route will be after a person has been unemployed for over six months – this means that people cycling between work and short spells of unemployment will only have access to very limited administrative support through Jobcentre Plus (JCP), although some may be fast-tracked. Many people in low-paid jobs will not have access at all. Previously, a range of discretionary employment services (which supported people in work but in need of support to find more permanent or secure work) existed alongside mainstream compulsory employment programmes – now, many of these services will be cut as councils reduce spending outside of core services.
- The Work Programme **concentrates power at the level of central government** (in DWP) and hands responsibility for supporting jobseekers to a small number of prime providers. The back-loaded payment structure for the Work Programme means that only those organisations able to take on significant financial risk have been able to compete for prime provider contracts, leaving voluntary sector and public sector organisations virtually unable to compete. This transfer of risk alongside a concentration of provision also raises the likelihood of an accountability deficit, potentially exacerbated through a ‘black box’ approach.⁵ While the DWP has at its disposal a range of measures such as a star rating system and the Merlin Standard, these won’t necessarily identify problems as they unfold. Greater scrutiny is needed to ensure that providers are supporting all groups equally.

In the design of the Work Programme, the government has placed a premium on sustainability. This is a move in the right direction, but in doing so it has transferred all the risk to a small group of prime providers and it is unclear whether they will be able to deliver.

In pursuing a model that is broadly similar to that of the New Deal programmes, achieving sustainability will be extremely challenging. Wider questions related to the structure of the labour market remain unanswered and need to be considered if ‘sustainable sustainability’ is to be achieved.

2.3 Skills and advancement

Improving job sustainability means providing labour market interventions that are lasting and result in a measure of security in work for people at the lower end of the labour market. Principally, this is about ending the ‘low pay, no pay’ cycles of work and unemployment. However, there is little attention given to whether people have the opportunity to progress from entry-level jobs to jobs with higher pay and better working conditions. This is despite evidence suggesting that, after the initial period in work, job quality and opportunities for retention and advancement become more important in achieving sustainability (NAO 2007).

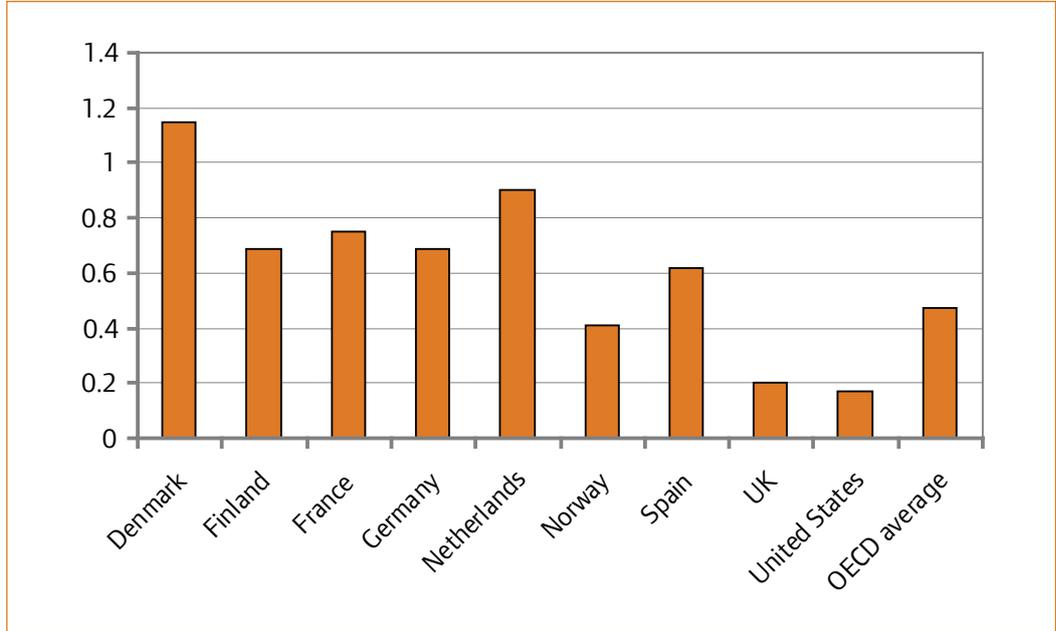
The ‘advancement vacuum’ in employment policy means that the main framework for supporting progression in work is adult skills policy. Poor integration of employment and skills, however, is an ongoing concern, resulting in limited and variable access to training for people on employment programmes. In recent years, the problem of gaps and duplication had moved the issue up the policy agenda – now, however, the Coalition’s deficit reduction programme means that public investment in adult skills will be scaled back significantly. It is likely that decisions on access to training will be left to Work Programme providers, which risks further narrowing access to those who are the easiest to help, such as young people and the recently redundant.

Compare the UK system to Denmark, where the policy decision to reduce employment protection is compensated by much higher levels of social security. Life-long learning is seen as a critical element of Danish ‘flexicurity’, with more opportunities to train and retrain and relatively high rates of out-of-work benefits. In the UK, expenditure on active labour market programmes (ALMPs) as a proportion of GDP is lower than in many other OECD countries (see Figure 2.2 over). It is also highly concentrated on active job-search support. In 2008, the UK spent three-quarters of its ALMP expenditure on job placement and just 10 per cent on training (see Figure 2.3 over).

⁵ This refers to the processes used by contractor organisations in delivering welfare-to-work services. Each organisation is free to decide how it does things (ie what goes into the ‘black box’) – the government prescribes or rules out nothing.

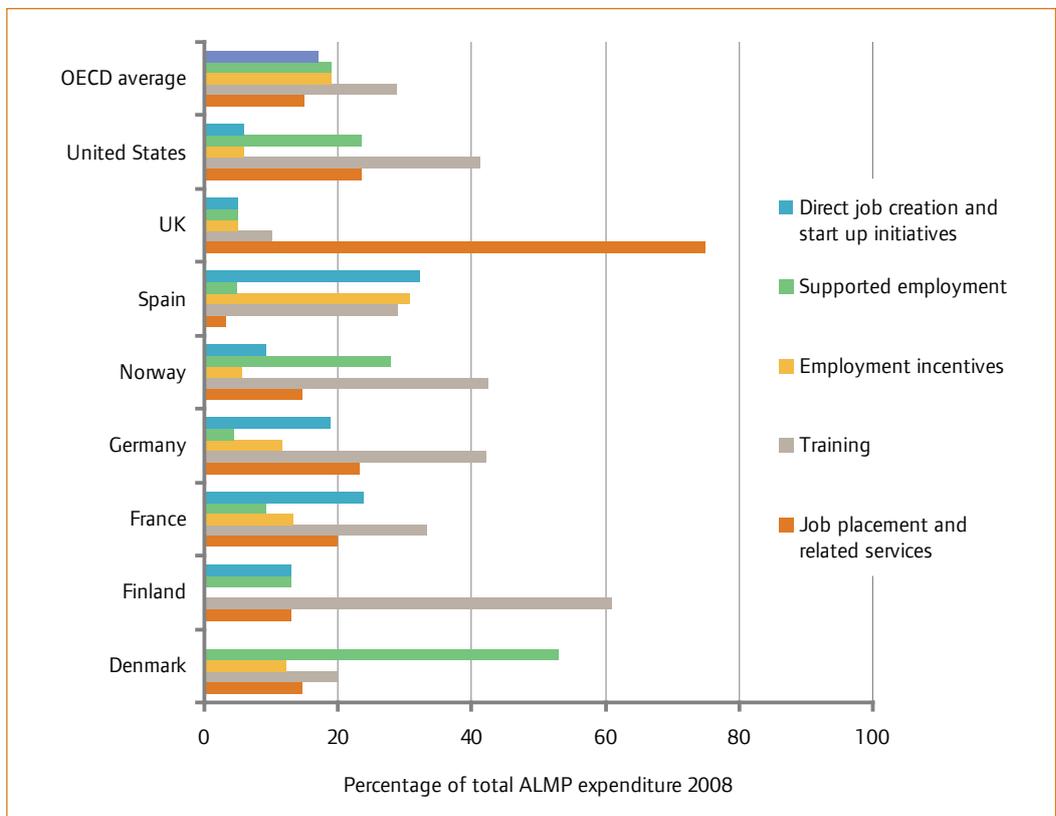
In contrast, the OECD average reveals that training, direct job creation, and employer incentives (including wage subsidies) are all prioritised over job placement services. A more diverse range of ALMPs elsewhere includes higher spending on ‘supported employment’, providing transitional jobs to prepare people for integration into the regular labour market (see Figure 2.3). There are often trade-offs in these policies, with Danish flexicurity, for example, underpinned by higher taxes than we have in the UK.

Figure 2.2
Total spending on active labour market programmes as a percentage of GDP, 2008



Source: OECD 2010b

Figure 2.3
OECD spending as a percentage of total expenditure on active labour market programmes, 2008



Source: OECD 2010b

The issue is not just how much is spent on training, but the quality of training. Vocational training can be expensive and does not always provide returns in gaining employment or higher wages (Dearden et al 2006). The recent Wolf Review (2011) for example criticised vocational education for 14-to-19-year-olds for delivering low-level qualifications with little or no value in the labour market. In comparison to DWP's measurements of success for employment outcomes, the BIS skills framework is less advanced. The Learning and Skills Council (and now the Skills Funding Agency) who were responsible for skills funding in England have focused predominantly on the number of qualifications delivered rather than the impact those qualifications have had on people's pay and job prospects or on productivity in the workplace. This was a by-product of the Leitch Review (2006), which used qualifications as a proxy to benchmark the UK against other leading countries and consequently suggested that, to compete internationally, the UK had to reduce the number of people without qualifications. The subsequent targets regime and qualification level quotas resulted in funding based on the number of qualifications delivered, but it failed to address whether the qualifications helped people to find jobs and build a career, or whether the skills were utilised by employers in the workplace (Keep et al 2010).

In recent years, the major programme to address low pay and progression in work has been 'Train to Gain', which subsidised employers who offered level two qualifications to their staff. The concept behind Train to Gain was sound: offering incentives to employers to train staff and providing workers with qualifications to evidence skills acquisition. However, implementation and application was flawed. In practice, Train to Gain simply accredited existing skills rather than directing funds to equip workers with new skills that they could apply in the workplace or to help them progress in their careers (see NAO 2009). Train to Gain has been scrapped by the Coalition government, with some of the money diverted to increase the number of apprenticeships. For young people, this is a step in the right direction, as apprenticeships generally offer higher returns than other forms of training (LDA and CFE 2009). However, skills policy is still skewed towards skills acquisition rather than skills utilisation. Like welfare-to-work, it has had limited impact because it has failed to engage with demand-side challenges. The Coalition government has set out its ambitions to transfer some of the costs of skills provision to businesses, but offers little explanation of how they will leverage this or engage firms that typically invest poorly in workforce skills. The government's plans also emphasise high-skill sectors and so fail to address low-skill or low-productivity sectors (see for example BIS 2010b).

2.4 Conclusions

In this part, we have raised specific concerns about whether the Work Programme will provide the support people need to stay in and get on in work. We have argued that a crucial drawback of current support is that access is constrained by eligibility criteria, availability and funding, and also by the lack of incentives to ensure support for sustainability is a genuine feature of the Work Programme. The government is failing to deliver qualifications that provide genuine wage returns or to encourage employers to use skills in the workplace. Meanwhile, the new welfare-to-work commissioning framework heaps too much risk on providers, who are being asked to deliver highly sustainable job outcomes in a section of the labour market that is defined by low-paid and insecure jobs.

Part 3: Solutions for policy and practice

The available support for people to access opportunities to advance into jobs with better working conditions or to move out of low pay, no pay cycles of work is limited. In this part, we address this gap. We set out the sort of service delivery we envision, and how to commission it. Finally, we set out an agenda for dealing with the more complex problems in the labour market.

3.1 Delivering sustainability and advancement: improving welfare-to-work services

This section responds to the immediate policy context and, in particular, asks how the Work Programme could be adapted to better support sustainability and advancement. We draw on wider literature and a number of sources – including ippr’s ‘Now It’s Personal’ project⁶ and responses to a call for evidence on innovative practice⁷ – to explore how providers can best support people to sustain work and progress. We examine the evidence on ‘individual-led’ approaches to sustainability and advancement (models that support people through access to advice and training) and highlight innovative employer-led models, which aim to change the very nature of the jobs available. Given DWP’s commissioning framework, responsibility will lie with the Work Programme’s prime contractors for making these changes.

We go on to examine how improvements to the current commissioning framework could further encourage these kinds of changes.

Individual-led approaches to sustainability and advancement

Attempts to ‘personalise’ welfare-to-work provision have aimed to create flexible support that fits around the needs of each individual jobseeker. Similarly, the government’s emphasis on sustainability aims in part to redress the linear nature of previous employment programmes, which targeted specific groups, assessed ‘barriers to work’, provided treatment to address those barriers, and then moved people into jobs, at which point support ended. The key to achieving sustainability in practice is to ensure, firstly, that providers understand how best to support people who are in work, and secondly, that the right incentives exist for them to do so.

But what should the objectives of ‘sustainability’ in the context of employment be? Working sustainably does not mean staying in the same job no matter what. Research in the United States found that people who changed jobs were more likely to move out of low pay than people who stayed in low-paid jobs. Workers were also more likely to be rewarded for loyalty (retention) at higher paying companies, which suggests that the key may be to move into jobs at better companies early and then to stay in those companies (Andersson et al 2005). Taken to extremes, though, job mobility can be damaging. Although temporary jobs can prove to be stepping stones to more stable jobs, several European studies have found that shorter-term contracts, a repeated incidence of temporary work and gaps between jobs increase the risk that an individual will incur a ‘wage scar’ (lower wages in the future) and that this pattern of employment is less likely to lead to stable work in the future (Gagliarducci 2005, Cockx and Piccio 2009).

Many of the barriers to sustainability and advancement are similar to the barriers to job entry, including the competitiveness of the job market, a patchy work history or lack of experience, and the unavailability and cost of childcare and transport. This means that a focus on advancement and sustainability should also be part of the personalised support that people receive *before* they enter work.

Despite the constraints of the labour market, good job matching is still one of the best ways to help people achieve sustainability and advancement in work: a job’s hours, skill requirements and location should be appropriate to people’s needs, ability and caring responsibilities (LDA and CfE 2009). Generally, providers should try to secure better entry-level jobs for their clients wherever possible.

6 ‘Now It’s Personal: citizen-centred welfare’ ran between 2009 and 2010 and evaluated back-to-work support across different public, private and voluntary sector providers (see McNeil 2010). See also <http://www.ippr.org/research/themes/previousproject.asp?id=3436&pid=3436&tid=4269>

7 The authors would like to thank A4e, JobsMove, Stratagia Limited, Symmetry Group and UKCES for their evidence and advice. We also held a working seminar with a range of policymakers, industry experts and practitioners.

There is often assumed to be a contradiction between an approach that offers people opportunities to train or retrain and a 'work first' approach which moves people straight into work. This is a false choice. Training does not have to be lengthy or stop people looking for work, and basic skills can be incorporated into vocational skills training. One of the most successful ways providers can support disadvantaged groups to find work is to provide short 'pipeline' courses that create entry routes into jobs and sectors (Lanning 2010). One approach, currently little utilised in the UK, is support for self-employment and start-ups. With one in seven workers either an owner-manager or self-employed (SFEDI 2008), providers may want to explore the viability of supporting jobseekers to enter self-employment. Experienced organisations like InBiz and BizFizz⁸ suggest that a good understanding of the local labour market and mentoring and coaching by people with expertise in self-employment are crucial.

ippr's research has shown that many providers currently offer in-work support, if at all, only through the early transition into work. Financial support to bridge the gap between leaving benefits and receiving the first pay-cheque can be important for some workers, and transport and childcare vouchers – where available – are useful, particularly in areas like London where these costs are high. Where providers have a good relationship with the employer, they can also play a troubleshooting role, resolving initial misunderstandings between employers and employees or offering advice on basic expectations, such as turning up on time and talking to the employer if a problem arises (Ben-Galim and Sainsbury 2010).

Given its transitional nature, there is a risk that this basic motivational support and advice can quickly become a tracking service and a tool for providers simply to *monitor* rather than support sustainability. Delivering ongoing support to clients can present a key challenge to providers: many advisers interviewed for the 'Now It's Personal' project said that it was difficult to stay in touch with clients once they moved into work. In general, models of in-work support that effectively engage clients all share as a common feature an offer to support people to achieve future or longer-term aims, for example through access to relevant training and careers advice.

Employment support following this transitional period will need to anticipate and reduce the risk of job loss. Given that people who cycle between work and benefits are predominantly employed on temporary contracts, improving work sustainability may depend on helping workers to bridge the gaps between temporary jobs. 'Project Match' in the United States offers service-users support for as long as they need it: once people have enrolled, their employment and support history is kept permanently on record and they are invited to re-engage with services at any point. While some people require very little support, others stay on the programme for more than a year, and individuals may find the range of job placement, retention, re-employment and advancement support useful throughout their careers (Herr and Wagner 2007, 2010).

In responding to our call for evidence, the welfare-to-work provider A4e proposed an initiative whereby they (the provider) would broker temporary vacancies to ensure people have access to year-round work. In this model, the provider would guarantee work for a year, and would need to maintain contact with workers placed in temporary contracts to provide re-employment support before contracts end. The model could be extended to offer exit routes from 'bad' jobs and to provide support to find another job where people want to move on.

Individual-led approaches, however, cannot influence the nature of jobs. They can only help people to navigate existing opportunities and better compete in the job market. Wider research reveals the limitations of purely client-focused policy levers in addressing retention and advancement in work.

The Employment Retention and Advancement (ERA) evaluation was the largest-ever randomised control experiment in the UK. It trialled in-work support for New Deal clients combined with training grants and staged financial incentives to remain in work. Advancement Support Advisers (ASAs) worked with clients to cope with their initial transition into work and beyond this to help them progress on to more stable work, higher pay and better working conditions, with their current employer or elsewhere. The trials were targeted at the long-term unemployed and lone parents, as these were identified as the groups which struggle most to stay in work or progress to better jobs. The outcomes were compared with those for people who had received mainstream services.

8 For more information see <http://www.inbiz.co.uk/> and <http://www.bizfizz.org.uk/about>

The ERA trial had mixed success. Lone parents engaged with the programme more than the long-term unemployed, and were also more likely to combine work with training than the control group. Earnings among the lone parents increased, largely because a significant proportion were supported from part-time into fulltime work. For the long-term unemployed, however, the interventions had a negligible impact on both employment and retention. There was no impact on advancement for either group. Even with high incentives, people did not progress to better jobs or gain increases in their wages (see Riccio et al 2008, Miller et al 2008). It may be that the timeframe, at two years, was too short to gauge whether the ERA approach was successful. However, the ERA trial may simply suggest that the low-paid job market offers too few opportunities for progression, regardless of improvements in workers' skills or the extent of support and incentives offered.

Employer-led approaches to sustainability and advancement

For the Work Programme to achieve its objectives, businesses need to thrive and grow. The outlook, given poor growth prospects and deep cuts to business support services, is not good. We argue that, although they cannot solve them, welfare-to-work providers could engage more effectively with entrenched problems in the labour market. In this section, we explore how welfare-to-work services can support job growth and improve the quality of new jobs by working in a targeted fashion with individual firms.

The most successful providers engage actively with employers, develop a clear understanding of their needs and provide services that meet those needs, in addition to their client-facing services to jobseekers. By supporting employers' plans to expand or invest in their workforce, business-specific employment programmes have the potential to help create new jobs and support better outcomes for disadvantaged workers. In these models, welfare-to-work providers can work in partnership with local training providers to offer bespoke packages to firms that want to recruit, train and retain staff. Such an approach may offer basic human resources support or more intensive services, for example, to help firms develop business plans, examine opportunities in the market, or improve job design to address high staff turnover or prepare for natural turnover.

These services can also expand firm capacity and boost productivity through training for new or existing staff and, at the same time, provide disadvantaged workers with the skills to advance within a business or sector. One example of this approach is job rotation, where providers train and place unemployed individuals in businesses as replacement workers, allowing existing employees to complete training or take general leave. For unemployed people, this can lead to permanent jobs with employers with whom they might otherwise struggle to find work, and they may also learn new skills, which can provide a route out of low-pay, low-quality work. By up-skilling existing staff, job rotation can also support employers to boost productivity and to improve the quality of their employment, for example by creating progression routes and encouraging training and retention of staff.

Employer-led approaches are likely to work better with some companies than others. Targeting companies in growth sectors will increase the potential of these initiatives to generate more jobs. Most small businesses say they would like to expand, but many lack the capacity or business acumen to take advantage of new opportunities (Clifton et al 2009). Providers' efforts are most likely to be rewarded in industries which will benefit from a boost in productivity without displacing jobs elsewhere and in sectors with skills gaps. Changes to skilled migrant occupation lists for example – which will place restrictions on recruiting workers in certain occupations from non-EU countries⁹ – could offer an opportunity for providers to support employers to up-skill resident workers in the UK, particularly in the social care, catering and food processing sectors that dominate low-paid work in London and elsewhere.

Firm-level approaches require back-to-work providers to develop a separate employer-facing service in parallel to client-facing support. This enables a targeted and tailored approach, as a team of advisers builds relationships with local employers, designs firm-specific packages that meet their needs and manages in-work support (which can be just as helpful to employers as it is for employees). Building and managing relationships with employers calls for a different set of skills to the counselling and coaching skills required to support the jobseekers most in need of it. In the UK, the organisation Women Like Us¹⁰ provides a good model of how these parallel services can work.

9 See <http://www.ukba.homeoffice.gov.uk/sitecontent/newsarticles/2011/march/10-mac-uk-shortage-occ-lists>

10 See <http://www.womenlikeus.org.uk/home.aspx>

Women Like Us offers a support service to jobseekers alongside a recruitment and HR service for small businesses. In addition to ensuring good employer engagement, they offer support to help small businesses to grow and to implement training or change job design, for example to create flexible work opportunities. This allows Women Like Us to create and improve job opportunities for their jobseeking clients as well as businesses. They are also able to support clients to move into jobs with higher pay and better working conditions, by brokering job moves among the different businesses they are contracted to.

Evidence from the United States shows that this sector-specific and demand-led approach to employment and skills provision results in better jobs, higher wages and increased retention for clients (Maguire et al 2010) and suggests that it can result in an improved local economic climate and more and better jobs (Seedco 2009). Closer to home, one study of job rotation in Scotland showed that, of the 72 per cent of trainees who completed the placement, at least 76 per cent got a job and 97 per cent of those job entrants were still in work six months after leaving the project (McTier et al 2007).

Recommendation for providers: Towards greater advancement

Providers should offer people ongoing support once in work, but must offer them a reason to engage with support beyond the initial transition into work. They should develop specialist advancement support, such as access to careers advice, relevant training, and support into better work.

In addition to their client-facing services, back-to-work providers should develop employer-facing services that engage with firms and offer tailored packages to help them recruit, train and retain staff. Providers should target small businesses, businesses with high turnover or which struggle to recruit, growth industries, and sectors with skills gaps. Evidence suggests that these approaches will lead to greater sustainability in work and can help people to progress to jobs with higher pay and better working conditions.

3.2 Commissioning services

Having considered how providers could better support people to stay and get on in work, this section turns to the question of how to ensure the right incentives are in place to encourage providers to take up innovative practice.

We argue that commissioners should support the individual- and employer-led approaches outlined above, build providers' capacity to pursue them, and monitor services to ensure that high-quality services are delivered. First, we look at the LDA commissioning framework on advancement as an example of a different approach to commissioning, and discuss lessons from it. We then address challenges we have identified in the current employment and skills policy frameworks.

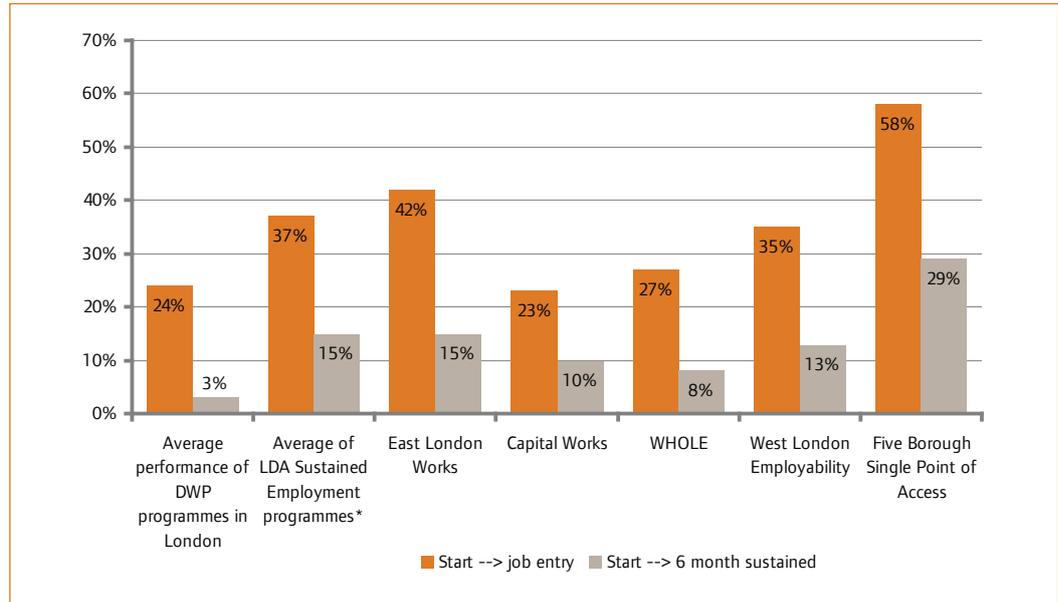
The LDA's labour market programme: Lessons from commissioning framework

As Part 1 made clear, London's labour market is complex and too many Londoners are excluded from its success. Successive labour market programmes have tried and failed to close London's employment deficit. In 2008, the LDA re-designed its labour market programmes to try to improve labour market outcomes for 'hard to reach' groups in London. The LDA's programmes were similar in their design to those that are now seen as part of the Work Programme – a 'black box' commissioning framework, payment by results, differential pricing, and longer-term sustainability measures. The aim of the LDA was to increase value for money from labour market investments that had been historically poor, with a particular focus on long-term Incapacity Benefit (IB) and Income Support (IS) claimants.

This programme has largely outperformed comparable DWP provision on job entry and sustainability measures. Figure 3.1 (over) compares the LDA's sustained employment programme with similar DWP provision – crucially, the LDA-commissioned provision outperforms a range of DWP programmes on job entry and six-month sustainability by 13 and 12 percentage points respectively. Although this comparison is not strictly like-with-like – DWP provision was focused on mandatory Jobseekers' Allowance (JSA) clients while the LDA's focused on voluntary IS and IB claimants – it

is a useful comparator to draw where performance differences are and what might explain these differences.

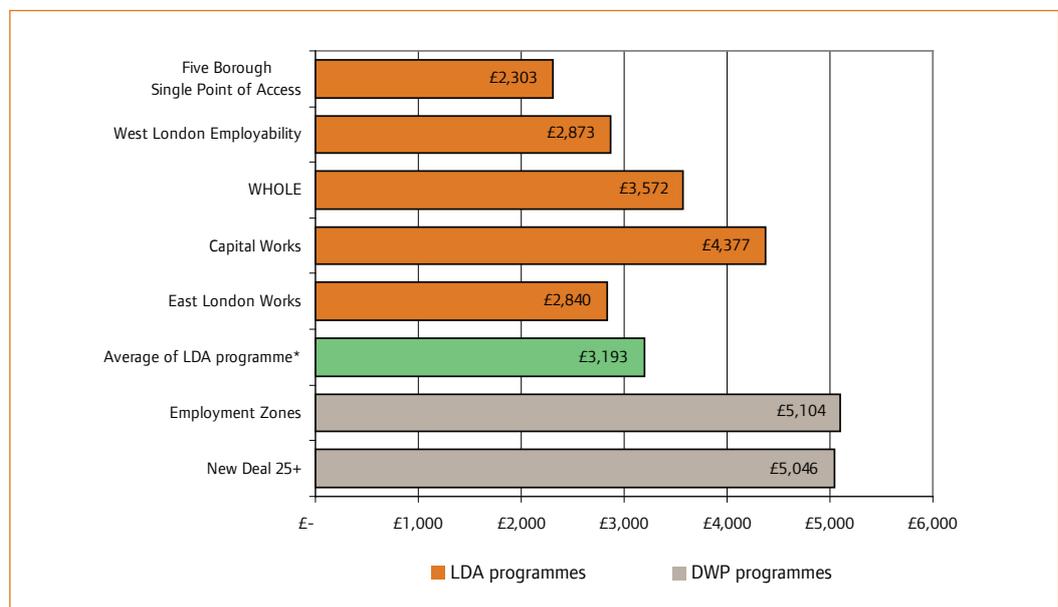
Figure 3.1
Comparison of DWP New Deal 25+, Employment Zones and Flexible New Deal programmes with LDA Sustained Employment Programme, London only



Source: LDA and Inclusion (forthcoming)

Comparative data shows that the LDA labour market programme also performs better on price (see Figure 3.2). The cost per job of New Deal 25+ and Employment Zones in London was around £5,000, compared to just over £3,000 for LDA provision (LDA and Inclusion forthcoming).

Figure 3.2
Cost per job, selected DWP and LDA programmes, London only



Source: LDA and Inclusion (forthcoming)

On performance and price per job the LDA is delivering more with less. The LDA’s experience offers key insights and lessons on commissioning and managing payment by results contracts. Some of these have already been incorporated into the design of the Work Programme.

- **You get what you pay for:** The LDA’s shift to measuring sustainability over a longer timeframe and to paying a higher proportion of the outcome payment against sustainability targets seems to have driven changes in provider behaviour differently to those seen under DWP’s previous contracts. Anecdotal evidence drawn from discussions with LDA contractors suggests that many providers adapted their delivery models in order to focus more on sustainability than they had in the past.

- **Contract management and then some:** Black box provision requires a new way of managing contracts if it is to be successful. The LDA experience suggests that contract managers have had to develop additional skills, including policy expertise, understanding of which approaches work in practice, and knowledge of the local labour market. These skills help contracts teams to identify project shortcomings before outputs and outcomes become undeliverable. Most importantly, contracts managers need to be given authority to act.
- **Early and robust intervention:** Where projects are at risk of failing, early and robust intervention is a necessity. Tough sanctions against providers that are not delivering, including the use of claw-back mechanisms (and reducing contract size) before they fail, can improve accountability. The feasibility of this kind of intervention is dependent on having active contract management processes in place to identify problems in the first instance.
- **Transparency aids accountability:** Holding providers and their supply chains to account publicly for their performance throughout the life of the contract also reinforces accountability. In London, the Employability Performance Rating, a star rating system, has been universally welcomed.¹¹

The most important of these insights may be the need for a more active role for contract managers. The black box approach adopted by the LDA was not pure: it was arguably more grey than black, and included an active role for contract managers in supporting, challenging, monitoring and quality-assurance throughout the life of a contract to deliver welfare-to-work support.

Previous ippr research has argued that ‘a key flaw in the DWP commissioning strategy is the absence of a meaningful local dimension to the Work Programme’ (McNeil 2010: 38). Results from the LDA’s labour market programme strengthen this argument, demonstrating that local commissioning and management are indeed important ingredients that contribute to better outcomes. Local labour market and policy expertise were essential, and the commissioning process ensured that contract managers had the authority to work with, support, challenge and – at times – sanction providers. This hands-on contract management is important not only for monitoring purposes, but also to allow providers to adapt practice when required – it can promote innovation through the creation of a collaborative relationship between commissioner and provider – and the distance between the DWP commissioner and providers is one of the key concerns of the Work Programme commissioning strategy.

It is not just the lack of active contract management that raises concerns, but also how contracts will be awarded by central government to providers. Based on ippr’s previous research, it is clear that a gap exists between a highly centralised commissioning framework on one hand and, on the other, delivery that aims to support individuals into work (McNeil 2010).

Aligned to the government’s aim to devolve more power, ippr has called for groups of local authorities, with a strategic lead from new local enterprise partnerships (LEPs) to share with the DWP responsibility for commissioning and contract management of the Work Programme. This would allow for more effective and ‘hands-on’ contract management. Given that it is the responsibility of the LEPs to set economic priorities, this would also better integrate welfare-to-work with employers’ needs and concerns, and with wider economic development issues. Recognising that local authorities and LEPs are working differently – responding to the cuts in different ways – only local authority partnerships that demonstrate the necessary strength and expertise should take on a co-commissioning role. The capacity building needed could take place over a transitional period leading up, say, to the mid-point in Work Programme contracts in 2013.

Recommendation for commissioners: Towards genuine advancement

Commissioners need to ensure the right incentives are in place to encourage back-to-work providers to better engage with the challenges in the labour market, and to provide strong support not only to help people sustain work but also to progress to jobs with higher pay and better working conditions. DWP, as commissioners, can do this by implementing a more active contract management system that monitors the quality of employment and skills provision and holds providers to account.

¹¹ See <http://www.lda.gov.uk/work-with-us/delivery-partners/employability-performance-rating.aspx>

Based on the limitations of skills and employment policies identified, ippr recommends that a new pool of funding, 'Advance', is established as part of the adult Information, Advice and Guidance (IAG) budget for Nextstep. This would be a voluntary programme, paid through a proportion of the £80 million Next Steps agenda. Employment and skills providers could draw on this funding to provide advancement support.

Defining and measuring success is an essential component in the responsible commissioning of services. The recent history of employment programmes suggests that the DWP has learnt many of the lessons regarding definitions and measures of success; however, the same cannot necessarily be said for the skills system.

A more clearly defined metric of advancement could include:

- **wage increase:** this could be measured through an individual's wage increase, with the same or a different employer
- **moving from insecure to secure employment:** this could mean transition from temporary to secure work, or to better terms and conditions – for example, to include access to occupational pension schemes, occupational parental leave and sick pay – with the same or a different employer.
- **a report from the client** which would indicate satisfaction with existing pay and conditions, monitor progress towards the measureable advancement outcomes, and also assure the commissioner of the quality of provision.

This could also be adopted as part of the Work Programme by refocusing the post-one-year sustainability payments on advancement. Success could be measured by a wage increase and/or a move from insecure to secure employment. This could ensure that the correct incentives are in place for providers to continue to support people over the long term.

3.3 Moving forward: Addressing the trade-offs of a flexible labour market

We believe the changes outlined above could improve the service provision available for people to help them cope with labour market changes. Government has a responsibility to support citizens so they can manage change and to mitigate harmful impacts on individuals. The degree of flexibility in the labour market presents real trade-offs, and it is the role of government to set the parameters for flexibility, employment protection and state intervention to promote growth and ensure a fair and inclusive job market. We do not pretend to have given all the answers here but we do set out a more ambitious agenda for policymakers: to improve staff retention and training in the workplace, to increase opportunities for workers to progress and to embed in the wider labour market some good and proven employment and skills practices.

The UK needs a skills system that meets the needs of employers and delivers real wage gains for workers. One approach is to facilitate mobility by creating career pathways through different sectors. In the United States, 'career clusters' have been developed to address technical skills gaps and support young people through the transition from education to work by providing genuine career pathways through various sectors. Cluster advisory committees were set up in each sector – from finance to hospitality and tourism, construction to business and law – with representatives from government, education and training, business and industry, associations, and other stakeholder groups. The committees developed curricula based on their knowledge of the actual progression routes within the given sector in a particular area (in this case, a US state). Employer involvement in design and delivery of training was crucial, although in the United States as here employers' needs have too often been ignored (Hughes and Karp 2006). In the UK, the NHS offers a good model for the creation of career pathways, through the health sector in this case.¹²

Skills policy in the UK is devolved, and the Scottish government in particular is leading the way in implementing a strategy to increase investment in and utilisation of skills (see Keep et al 2010). This goal will be particularly challenging among low-wage sectors at the bottom end of the labour market. Vocational training can be expensive, and a more flexible and demand-led skills system

12 See http://www.nhs Careers.nhs.uk/working_develop.shtml

will need to draw on different sources of funding. As employers will ultimately reap the gains of these policies through a more skilled and productive workforce, ippr has argued that they should contribute more (Clifton et al 2009, Lanning 2010). In countries such as Australia and Germany, where employer investment in workforce skills is higher, employers pay levies through sector-skills bodies to generate collective funding for skills provision. These industry-led institutions coordinate, design and certify training. They are stronger and more lasting than those that have characterised the English skills landscape in particular. Employers, because they are paying for it, are incentivised to make better use of the skills system to invest more in training and, consequently, to boost productivity and innovation. The government can also drive this agenda further by setting professional standards and occupational licences to practice, which set a certain level of competence for a job or task and may determine sector-based progression routes.

This is a modest contribution to a much deeper debate. Challenges to sustainability and advancement include deep structural changes to the nature of jobs and how to ensure a balance between flexibility and fair working conditions. The specific challenges faced by people in low-paid jobs in London raise a range of questions for policy, such as how the government can mitigate the high cost of housing, transport and childcare in the capital in an environment of fiscal austerity. The problem of poor investment in skills may be seen in the wider context of government support for and channelling of employers' investment to ensure growth and shared prosperity for UK citizens. ippr will be exploring some of these wider questions over the next year through a programme of work on reforming skills policy.¹³

3.4 Conclusion

We have argued that a greater focus on job quality and advancement would crystallise the objectives loosely described as 'sustainability' and made recommendations for both providers and commissioners on how to support workers into better jobs. In particular, we have argued that any attempt to improve job outcomes must involve employers and so have set out how providers can work with specific firms to improve job opportunities for disadvantaged groups.

Good services are important but, by themselves, not enough. Specific challenges in London and the UK more widely point to problems beyond disadvantage at the individual level. Entrenched unemployment and poor job retention is associated with the competitiveness of the job market and the quality of entry-level jobs. In London, not only is this competition more intense than elsewhere but the pressure is compounded by an extremely high cost of living relative to wages, which restricts entry to the labour market.

The financial crisis has exposed the need to strike a better balance between demand for flexible, part-time and entry-level jobs and the vulnerability of groups in low-paid and temporary jobs who struggle to find, stay and advance in work. This, alongside the challenges of an ageing population and the needs of workers with caring responsibilities, means that the quality of flexible and part-time work must be part of a new discourse on flexibility in employment.

¹³ ippr's 'Smarter Skills' work will examine how to develop the skills that will be needed for sustainable growth, how to improve UK employers' investment in and utilisation of skills, and how to create better career pathways for workers at the bottom end of the labour market. <http://www.ippr.org/research/themes/project.asp?id=4393>

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