

Low earners in the recession: Work and skills roundtable
3rd September, 9:30am
Work Foundation, London

Attendees

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| John Andrews | <i>UKGateway</i> |
| Kat Ashby | <i>The Work Foundation</i> |
| Lynsey Brooks | <i>Federation of Small Businesses</i> |
| Annette Cox | <i>Institute for Employment Studies</i> |
| James Evans | <i>Creative and Cultural Skills</i> |
| Chris Kent | <i>Department for Work and Pensions</i> |
| Christa Masbruch | <i>Turn2Us</i> |
| Abigail Morris | <i>British Chambers of Commerce</i> |
| Denise Morrisroe | <i>Equality and Human Rights Commission</i> |
| Sophia Parker (Chair) | <i>Resolution Foundation</i> |
| Lee Savage | <i>Resolution Foundation</i> |
| Faiza Shaheen | <i>Centre for Cities</i> |
| Gareth Thomas | <i>Learning and Skills Council</i> |
| Matthew Wells | <i>A4E</i> |

Speakers

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| Matthew Whittaker | Resolution Foundation |
| Penny Tamkin | The Work Foundation |
| Nicola Smith | TUC |

Seminar aims

1. Outline the problems faced by low earners in the areas of work and skills during the recession
2. Bring together leading experts to discuss the opportunities for how these problems might be minimised and overcome
3. To consider the role that government, private, public and third sector organisations can and should be playing, and to discuss what more can be done
4. Explore the ways in which low earners can be supported through the recession and into a period of recovery

Minutes of Seminar

Sophia Parker (Director of Research and Policy at the Resolution Foundation) opened the seminar by giving a brief overview of the Foundation's work to date and the current work programme, 'Low Earners in Recession and the Recovery'. She then outlined the aims and objectives of the seminar before inviting Matthew

Whittaker to speak about the work programme in further detail and to expand on the topic of low earners in general.

Matthew Whittaker – Senior Economist, Resolution Foundation

“Who are low earners?”

Matthew introduced the Foundation’s definition of low earners as those between the upper threshold of median income and the lower threshold of “independence” from state support. He presented previous work which showed that low earners have been squeezed, exposed and overlooked during economically benign times and highlighted how the recession has left this group further exposed. There are currently 7.6 million households in the UK considered to be low earning, comprised of 13.7 million adults and 4.3 million children.

Low earners are particularly vulnerable to losing their jobs or having their hours cut during the economic downturn because of their concentration in vulnerable industries and firms and because of their relatively low levels of skills: they are more likely than higher earners to work in small or medium sized enterprises and more likely to be self-employed while they typically have low- to mid-level skills and qualifications, being more likely than any other income group in society to have GCSE’s as their highest level of qualification. The lack of availability of skills training means that low earners are less able than higher earners to progress in the labour market. Low earners are also more vulnerable to the *effects* of job loss than others income groups because of their lack of financial safety nets and the likelihood that they will not receive substantial redundancy payments.

Nicola Smith – Senior Policy Officer, TUC

“Low earners – recession and work”

Nicola’s presentation focussed on the effects of the recession of low earners in work. The data showed that during the recession the unemployment rate for those in low earner elementary occupations had risen at a much greater rate than the average unemployment rate. She also suggested that specific groups of low earners will feel the impact of the recession more than others, in particular young people, workers in certain locales and those with the lowest skills. Figures show that the unemployment rate for the 16-17 and 18-24 age groups has increased at a rate far greater than any other groups. It was noted that the unemployment rate for those with Level 1 skills or below was three times greater than the rate for those with Level 4 skills. Nicola also showed the growth in temporary work during the recession though pointed out that a large proportion (just under a third) of those going into temporary employment did so involuntarily.

The presentation finished with a summary of the government’s policy response to the recession which has included a new focus on demand-led interventions such as the Future Jobs Fund and limited new training flexibilities. The major gaps were seen to be the lack of a short-time working subsidy and the failure to

recognise the problems of precarious work and employment status together with inflexibilities in the benefits system.

Penny Tamkin – Programme Director Management and Leadership

“Low skills and policy”

Penny spoke on the context of UK skills policy and recent policy responses. There has been a gradual increase in the skills demanded by employers and research has shown that 40% of employees have skills greater than that demanded for the job. Of those workers in typically low earning elementary occupations two thirds did not know what training opportunities were available to them. Penny identified a number of barriers that exist to increasing the skills base of the workforce including the weak incentives for the lower paid to engage in training, the limited demand for Level 3 qualifications which in turn hinders career progression, the lack of value some employers attach to training and qualifications and the poor returns generally seen from training employees for low level qualifications.

The policy response in recent years has been to try and improve the levels of high and intermediate skills in the UK workforce with an emphasis on participation in post-compulsory education or training. There has also been a drive to raise the value of vocational qualifications and encourage employers to invest more in training together with reducing the number of jobs that offer little training for young people. However, there have been few robust evaluations of government skills policy and there is evidence that employers are using government subsidies to provide training that they would have provided themselves. The hardest to reach workers, often those with the lowest skills, have remained hard to reach.

Low earners in work: the challenges and possible solutions

As outlined above, Nicola Smith’s presentation highlighted the effect of the recession on those in typically low earning occupations. Unemployment has increased for those in elementary occupations to a much greater extent than for those who were previously employed in managerial or senior official positions. The key questions concerned how to get low earners back into work quickly but also how to get low earners into sustained and appropriate employment.

Targets

The role of targets is an issue that can have inconsistent outcomes for low earners. Contracted providers of employment services have a target of getting people back into employment within six months, however this could mean that providers are incentivised to get people into *any* job rather than one that is appropriate for the client or one that is more likely to be sustained. The pressure of government targets can therefore exacerbate the ‘low-pay no-pay cycle’, with unemployed individuals being placed into entry level positions

which subsequently prove unsustainable and result in them returning to unemployment.’ Although questions were raised about the role of employment agencies, suggesting that they could simply cream off those that are easiest to get back into employment quickly, it was noted that some employment services providers would prefer a longer-term measure of success that incentivises them to place clients into a job for a sustained period – the possibility of an 18 month to three year sustained employment target was mentioned.

Routes to employment

How Jobcentre Plus has operated in the recession is a central concern. It has been widely reported that Jobcentre Plus was poorly equipped to deal with the initial rise in unemployment during the early part of the recession at which time many people previously in professional and financial services occupations were losing their jobs. In terms of low earners, the concerns are that Jobcentre Plus is not being used adequately by employers and that it is becoming primarily a benefits processing organisation in which advisors are not capable of giving clients sound advice on employment and training opportunities. Research by the British Chambers of Commerce showed that only 40 per cent of employers used Jobcentre Plus to find staff and just 14 per cent of micro-businesses did the same. It was noted that many people find employment in smaller organisations via less formal routes where CVs are not required. Employment agencies need to develop similarly informal approaches.

One of the suggested solutions to this problem is an extension of the Local Employment Partnerships (LEP) scheme to engage more employers to work directly with Jobcentre Plus and other agencies. The benefits of this approach have been demonstrated by Tesco which has given pre-employment training via the LEP to a number of people who were long-term unemployed. It is considered that by recruiting and skilling people at the pre-employment stage the scheme will lead to a greater chance of them remaining in employment for a sustained period of time. There is also a need for Jobcentre Plus to work more closely with employers with regard to information sharing. The action plans agreed between Jobcentre Plus and clients do not get passed to employers who then have little idea about that persons training needs or what has been previously agreed.

Regional variation

The regional variation in unemployment and the labour market is an area that is still under-researched. Although there is some data available, such as that provided by the Centre for Cities on urban labour markets, there is little detail on local barriers to work. In particular it is uncertain exactly how regions should be defined. Rather than typical geographic areas we should perhaps talk about employment regions defined by “travel to work” time as this is often more important than the actual location of where people live. There is also a lack of analysis on how low earners in different regions have fared during the recession in terms of employment. Some areas are known for being particularly dependent on certain sectors, for example, the automotive sector was an important employer in the West Midlands and has been hit hard during the recession. However, it is not known whether or not low earners have suffered disproportionately in this region. It was noted that Wales has appeared to perform quite well during the recession backed by a more

pro-active policy outlook from the Welsh Assembly (which included subsidised short-time working) though it could also be due to Wales starting at a lower point of overall employment than the rest of the UK.

Increasing the mobility of low-earners seeking employment was thought to be one solution to regional labour market demands, though the practicality of moving away from a person's local area and family or social support networks was thought to prohibit this in many cases.

Government and business co-operation

There is a need for government and employers to work more closely to develop solutions to unemployment. Employers feel that the government often overlooks the role that they could play and point out that most government documents contain only a standard paragraph on co-operation without specifying how this will be achieved. The LEPs referred to above are an example of government and employers working together. On a larger scale the possibility of subsidised short-time working has been proposed by some organisations including the TUC. This would see staff work fewer days rather than be made redundant and on those "free days" they would participate in skills training with their wages subsidised by the government during the time spent training. A similar scheme was introduced in Wales called ProAct. The premise of the policy is to cushion people from the effects of the recession and at the same time to prepare for the upturn in the economy by increasing the skills of the workforce. The short-time working scheme operating in Germany is estimated to have saved 300,000 and 800,000 jobs. In both examples, the subsidy has only been made available to workers in specific sectors, at least initially. The challenge of such a policy for the whole of the UK is that it could be too expensive and too late. It would also require making difficult decisions regarding which industries should be subsidised. This could mean the UK government becomes the "champion" of a specific sector which is something they have thus far been reluctant to do. It was agreed that if introduced, short-time working would be more likely to be aimed at those in skilled employment which may ultimately exclude many low-earners.

Introducing a short-time working policy at this point, with the UK likely to be heading out of recession, could still be beneficial with job losses predicted to continue for some time during the recovery. It was however, noted that some businesses are already operating a similar policy with some cutting wages by much less than the time removed from an employees working week and others offering employees the opportunity of a career break.

Low earners and skills: challenges and possible solutions

The discussion on skills centred around three interrelated issues: access, funding, and appropriate skills.

Employers

The UK training system can be difficult to negotiate for both employers and employees. There are a number of different funding streams available to provide training for employees from the government's flagship Train to Gain programme to the various New Deal initiatives. For most businesses, Train to Gain has been their main point of access to skills funding. The scheme has been criticised by the National Audit Office for failing to deliver effective skills training and for providing greatest benefit to larger businesses that some have suggested would have provided the same training in-house. Research by the Federation of Small Businesses showed that only 10 per cent of small businesses had accessed Train to Gain funds and it was noted that those enterprises generally had a lower level of satisfaction with the service than other forms of training that were available. Train to Gain was recently reformed to help small- and medium-sized enterprises (SMEs) during the recession so that employees could take "bite-sized" courses rather than lengthy stints out of the workplace. However, the scheme proved initially successful and has subsequently run out of money resulting in many employers now failing to offer any skills training with the capacity for in-house provision restricted by economic factors.

The difficulty of navigating the training system was identified as a particular problem for smaller businesses. The Learning and Skills Council is currently attempting to increase co-operation between the Sector Skills Councils and SMEs – it is thought that currently, some Sector Skills Councils are dominated by big businesses which can lead to the needs of many businesses being overlooked. There is also a role for employers to help each other, particularly on a regional level. Partnerships of employers could be established so those that have managed to negotiate the training system can provide assistance and support to those that are relatively new to the field, a move that could be very beneficial to SMEs with fewer resources.

A significant challenge to increasing the skills base of the current workforce is trying to ensure that employers value training. For many employers, the language of qualifications can be dense and unwieldy which can prevent them from seeing the value of training to their business.

Individuals

For individuals, accessing training can be even more difficult. An issue for lower skilled workers – of which many are low earners – is that they often will not pursue their own training; if an employer does not initiate the training then they will not improve their skills base which leaves them immobile in the labour market. Research has shown that two-thirds of employees in elementary occupations do not know what training opportunities are open to them. They therefore rely on employers to identify their skills needs which can be problematic considering the above point that many employers simply do not understand the value of qualifications and training to their businesses. Ensuring that employers value training and are willing to initiate the upskilling of their workforce is a key challenge for the government. Trade Unions can help in this regard. The TUCs *unionlearn* programme helps to identify the skills needs of members and helps to broker learning opportunities as well as seeking to help unions themselves become learning organisations.

Many individuals also lack the information to access skills training. Those currently not in employment will have access to training primarily through Jobcentre Plus. However, research has shown that Jobcentre Plus is inadequate as a broker of training services. One of the reasons for this is the formal procedure for identifying the skills needs of clients which for the first six months of contact consists of a light touch assessment of basic needs such as numeracy and literacy. This is not a criticism of Jobcentre Plus advisors who are not sufficiently trained to give in-depth advice and assessments of skills needs and what courses could be available to clients. It was suggested that a greater personalisation of the Jobcentre Plus service would be a positive step that could help advisors identify the skills needs of clients, especially where they have multiple and complex pre-employment needs (e.g. childcare).

The incentives for individuals to train are currently minimal, especially for those on income support benefits. It was discussed whether or not a tax break could be introduced for individuals who undertook self-directed skills training perhaps by giving them an entitlement to Working Tax Credit through a combination of 16 hours of work and training.

Appropriate and demand-led skills

The central aim of future skills policy was seen to be identifying and developing appropriate skills. It has been argued that the government's current skills policy is not focussed enough on equipping people with skills for the labour market. Research into future labour market demands is required to ensure the workforce is properly equipped for the recovery though it can be difficult to forecast where future jobs growth will lie – for example, Further Education (FE) colleges were incentivised to train people for the construction industry prior to the recession, a sector that has suffered more than most during the downturn. There also needs to be a change of focus from FE colleges which are incentivised to get people into Level 2 or 3 skills training which has resulted in many possessing the wrong type of qualifications and oversupply of labour in certain industries, such as hairdressing. It was emphasised that the level of qualification is less important than having the *right* skills.

There is a need for skills policy to be demand-led to ensure that employers are fully engaged with the benefits of workforce training. Employers and government should work together to identify skills gaps and how they can be filled in the future. Furthermore, government must work more closely with employers on a regional level to ensure that people are appropriately skilled for their locality. This is important for low earners who are less likely than higher earners to move to a new location to take up employment due to the high transaction costs of moving home. Although skills policy needs to be demand-led it should also ensure that the workforce is equipped with core skills that are transferable between occupations.

Summary

The chair asked each of the speakers to make some final remarks regarding the future of work and skills policy with the likelihood of a new party forming the government in 2010. The consensus is that

Conservative skills policy is still being formulated. The new government could have an impact on the way tax credit entitlement is calculated as well as other forms of income support and benefits. It was agreed that the recession has highlighted the position of low earners in the economy and it is hoped that this group receives greater attention going forward.