



Select Committee on Economic Affairs

Corrected oral evidence: The economics of universal credit

Wednesday 13 May 2020

3.05 pm

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Lord Fox; Baroness Kingsmill; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky; Lord Tugendhat.

Evidence Session No. 10

Virtual Proceeding

Questions 92 - 102

Witnesses

I: Tony Wilson, Institute Director, Institute for Employment Studies; Emma Stewart, CEO & Co-Founder, Timewise Foundation.

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Examination of witnesses

Tony Wilson and Emma Stewart.

Q92 **The Chair:** Welcome, Mr Wilson and Ms Stewart, to the Economic Affairs Committee. We are extremely grateful to you for taking time to join us, particularly in this virtual form.

I shall start by asking the first question, which is: how well do the original aims and objectives of universal credit fit with the contemporary labour market, particularly for low-paid workers and those in insecure or irregular employment? Both witnesses should feel free to chip in if they wish to, and to say nothing if not. Let us start with Mr Wilson.

Tony Wilson: Thank you, Chair. The original aims of universal credit were broadly threefold, and the Government broadly set these out as being threefold: first, to try to increase the take-up of benefits; secondly, to try to ensure that people are always better off in work than out of work; and thirdly, to try to better support progression in work and to remove some of the cliff edges that existed in the previous benefit system and in the tax-credit system, in particular as far as it affected parents on benefits.

Looking at the contemporary labour market, and in particular the labour market that we will face in the coming years, which will be one of much weaker demand for labour, higher worklessness and potentially lower wages, all three of those objectives can still be met by universal credit, and the Government would still be able to make the case that they were meeting those objectives.

I think benefit take-up will be higher as a proportion of all who are eligible in the years ahead. That is what tends to happen in downturns; you tend to see a higher rate of take-up—not just the numbers but a higher rate of take-up of benefit—because some of the stigma associated with benefits is less pronounced and also because the value of benefits that people are claiming is generally higher. One of the reasons why we have low take-up tends to be that often people at the margins have very low entitlements.

In terms of the incentives to work, universal credit is just not a very generous benefit compared with its predecessors. That is where the main incentive effects are. You are generally better off in work because if you are out of work on a low income—particularly if you have children and high housing costs, if you are a private renter—your benefits are relatively low compared to how it used to be, so the incentives for working are higher.

The point about progression is much more nuanced and more difficult. Although universal credit has meant that people are generally better off by earning more, the incentives are not always better than they were under the previous system. For people who are working more than about 16 hours a week, there is often not a huge amount of difference between the legacy tax credits system and the current system. Some people are a

bit worse off, particularly homeowners, while renters tend to be a bit better off. All the benefits around hours progression tend to be for people working fewer than 16 hours, particularly parents.

It comes down to a judgment about whether you feel the previous system incentivised people to enter work because they were made significantly better off at 16 hours, which is why you got quite a lot of bunching around 16 hours, or whether it disincentivised people from entering work because if they took a job that was fewer than 16 hours they would not really get anything at all. My concern, and this is what a lot of the academic evidence suggests as well, is that what we will likely see is some people shifting down and working fewer hours, potentially having lower incomes overall as a consequence, but that may serve to just reduce the labour supply a bit. I do not necessarily think it will make a massive difference, it may lead to less quality employment, and worse experiences in work for some people.

There is a judgment here about how we think the labour market works for those who are working shorter hours with low earnings, particularly with families. The previous system incentivised people to work 16 hours and a bit more, and 30 hours too. With this system you can enter work at any level of hours and you will continue to receive your benefit.

Emma Stewart: To add to that, I would say that overall the principles of the system are the right ones. The challenge is that we have an increasingly flexible and insecure labour market, and that is going to increase over the next few years, but we do not necessarily have a very flexible universal credit system. As I said, the principles are right in terms of enabling you to flex up and down your hours, but there are a number of challenges and I guess I want to draw out three of them. The first is structural: it is very hard for universal credit to work for you if you are cycling in and out of insecure work and you do not have permanent contracts.

The second is in terms of who universal credit benefits and does not benefit. I mirror what Tony says; certainly from our work at Timewise we have identified that women in particular fare less well, whether single parents or potential second earners, in terms of the incentives. Thirdly, as an example of the process, we still have challenging issues around up-front payments, particularly when it comes to issues such as childcare and enabling people to move out of or into work or from one job to another.

The Chair: We have had a lot of evidence that for people who have irregular earnings or insecure employment, the effect of the system is to hugely increase the volatility of their income.

Tony Wilson: That is absolutely right. I reiterate what Emma said. Moving beyond the design of the incentives, the taper, the disregards, the work allowances and so on, universal credit is a simple benefit for those who are sitting in Whitehall and looking at spreadsheets and taper rates, but is not a particularly simple benefit for the people who are

claiming it. The more than 2 million households that have submitted claims in the last six weeks will find it hard to understand how the entitlement that they subsequently get has actually been worked out and how it relates to the inputs that they put into the machine when they made their claims. That is point 1—that there is a complicated set of calculations happening behind the scenes, as it were.

The second point is that the deliberate built-in lag in universal credit means that people have real peaks and troughs in income that do not cancel out the peaks and troughs in their earnings but often reinforce them, so people end up with periods of no income and then periods of earnings plus universal credit, periods of no income or earnings plus universal credit, and so on. That would be hard for people on decent incomes to manage on but is impossible for people on low incomes when they are in insecure work and have high outgoings, high rents and everything else.

The Chair: That is really what my question was focusing on. I do not want to put it too pejoratively but, having listened to and read much of the evidence, for people who are in regular employment with a regular pay cheque and not very complicated lives, or not particularly stressful positions in their families or whatever, I can see that it works perfectly well, but otherwise you have a feeling that people have to fit into the system rather than the system fitting to the people. Do you agree with that?

Emma Stewart: I absolutely agree with that. When the system was developed, it had as an aspiration a full-time job with a monthly pay packet. Unfortunately we do not have a labour market that reflects that in the main these days.

Q93 **Baroness Bowles of Berkhamsted:** I think we have already started straying into some of the aspects of my question. I wanted to ask you what the strengths and weaknesses are of trying to make the benefit systems look like, or mimic, work. Are there in fact any benefits? We have just heard some of the downsides.

Emma Stewart: There are a number of lenses through which we can look at this. The first obvious point is to say that work has changed fundamentally in the last few decades, and we have far more flexible ways of working. Matthew Taylor's report references the need to create two-way flexibility in the labour market—that is, flexibility that works both for employers and for individuals. We have a fundamental challenge in getting that right and then a challenge as to how the welfare system needs to adapt to it.

We also need to look at this through the lens of how people want to work in this country. Obviously, fundamentally we want to have employment and we want to make sure that it is fair and covers their costs so that they do not need benefits. The challenge is that we have a lot of people who need to work very differently. One-third of our workforce work part-time. As I said, we have millions of people who are currently working

flexibly not by choice, but of those who work part-time eight out of 10 choose to do so. We need to challenge some of the basic assumptions around how we look at work and then we need to try to see how we can adapt a system that is as flexible as the labour market that we are looking into.

Tony Wilson: The really big prize with the introduction of universal credit was to make the out-of-work benefits system as similar as possible to the in-work benefits system. That is what we all should have looked at. I worked on the Freud review that Lord Freud led for the department way back in 2007. It was his report but I contributed to the chapter about achieving a single working-age benefit. That was always the prize. It was about the behavioural and practical and administrative barriers leading from out-of-work to in-work, and having two different benefit systems. The idea that the in-work benefits system should replicate work is a leap of faith. There is no evidence at all that it is beneficial, or that it makes it easier for people to manage their incomes, to claim and to enter into work. I think there is good evidence that it probably makes that harder.

Monthly pay does not suit low-income workers that well, to be honest, and employers will pay at the rate that is convenient for them, understandably. The tax credit system, by paying fortnightly and sometimes weekly, actually enables people to better manage their incomes. For me, I would much prefer that we had regular and frequent payments of benefit and that these were mirrored in-work and out-of-work so that there was a really smooth transition between the two and the benefit system was focused on helping people to manage their income, not trying to replicate the way in which employers pay. That is a complete distraction and I do not believe that there was any evidence that it was beneficial or desirable.

Baroness Bowles of Berkhamsted: What you are saying is that we should make it, in a sense, fit the most flexible way of working so it should be done on a weekly basis, and then those who happen to get paid monthly and regularly fit in because it is just the same every time, but the system also takes account of others.

Tony Wilson: The great thing is that, first, we have the opportunity to test different approaches if we want to and, secondly, that we can focus on the claimant, on the citizen, and what will make them best able to manage their incomes and to make transitions into work and to support progression in work and changes in work. What we could have done 10 years ago was to say, "We will test monthly, weekly and fortnightly, we will test different frequencies of payment, and we will do this as proper robust trials, and we will see which ones work best". We could still do that. Why do we not test it? Why do we not create an evidence base about what works best for individuals and for supporting our economic and fiscal objectives as well?

Lord Fox: That last point reflects the first point that you were making about peaks and troughs. My question is whether that regular and frequent payment would effectively iron this out or reinforce the peak-

and-trough situation that you described in answer to the Chairman's question. Is that sufficient to iron it out, or does the system need to do something else as well in order to iron out these peaks and troughs?

Tony Wilson: I think that is pushing the limits of my expertise a little bit! Regarding the technicalities, from speaking to Gareth Morgan and others—I know Gareth has given evidence to you, and others will have given written evidence as well—I believe there are ways that this could be done, and ideally it would work to smooth out some of those peaks and troughs. I would not be able to say to you now which were the best ways to do it because there are technical reasons why the monthly payment, particularly as far as it relates to rent and monthly salaries, is much easier to administer than weekly and fortnightly payments, but it should certainly help to smooth out the peaks and troughs and enable payments to be more immediate and based more on people's current incomes.

The Chair: Ms Stewart, I saw that you wanted to come in.

Emma Stewart: Yes. I am sure we will come to this later, but I think there is a wider fundamental problem, which is to try to avoid peaks and troughs, obviously recognising that that is not necessarily a DWP issue but a much broader labour market issue. It is a much bigger challenge that we have.

This is probably something that Tony and I would agree on as we have talked about it many times: at a policy level we need to come at this from both directions. There is a need to look at how we tackle some of the ways in which we design work in this country and how we engage with employers, alongside how we ensure that those who are the lowest-paid and the most vulnerable are given a support system through universal credit.

Q94 **Lord Burns:** Could you tell us a little about how you think the in-work progression service is expected to work and how important it is in the whole process once it is rolled out? Is it going to be an important part of the service for those people who are in work?

Emma Stewart: At Timewise we have run a number of in-work progression pilots, so we have had some practical experience of what that looks like. My perspective on this is that we need to be really clear about what "progression" means and certainly what the definition of "good work" and "quality work" are, and I think they are very much interlinked. We know from the work that we have done that in order to enable people to have a decent wage we absolutely have to be able to support them in order to maximise their opportunities in the jobs that they have or to find better-paid work. In order to do that, we need better-quality jobs in the labour market and in order for that to happen, as I said earlier, we need to make sure that we engage with employers. The system cannot create better work; obviously it is employers who will be able to provide that kind of quality.

The other point to make is that if we are looking to provide a decent form of support, advice and coaching to people who are looking to progress in work, and I think we need to, we need to be really clear how we define that progression and what "good work" means to different communities and different people who are looking to progress in work. For some it means a job that is much more local, for others it may mean a job that is more secure so they do not have those peaks and troughs and that unpredictability, and for yet others it may just mean having more money on a weekly basis in a different industry or a different job. It is about having something that is very bespoke and very much tailored.

Historically we have had provision within the jobcentre system for tailored programmes of support, and obviously there are a number of other localised and regional partnerships. The challenge that we have currently is recognising the complexity of our labour market and the challenges around progressing. We do not necessarily have the level of support in place that can respond to those issues for a wide variety of groups.

Lord Burns: In your view, what is needed to provide that support? Is it to do with the number of people or the amount of time that they are able to spend with them?

Emma Stewart: Again, I am just talking from our experience of running a number of in-work progression trials, because there is very little evidence in this space, but we would say it is critical to provide bespoke coaching. Again, the group of people that we have worked with are predominantly parents and carers trapped in low-income jobs who cannot work full-time, so we have a structural issue that we are trying to address.

There is a huge issue around skills. There is also an issue around providing people with bespoke support and with confidence and mentoring. It is also about making sure that if you are finding someone who is in a job and looking at how they can get a better one, you should not just assume that they are job-ready and that it is going to be easier. We have found that often it is harder as you have more to lose if you are in a job. In order to be provided with a better job, people often need to believe that they are sometimes worth more than they are currently being paid in the job that they are in. So we should not always assume that the solution is a skilled intervention; sometimes it is more holistic than that.

The second point that we found is that really thoughtful job brokerage is required to enable people to find the right kind of jobs in the right locality with the right number of hours with the right level of control and input schedules or work patterns. That requires a much more thoughtful approach to job brokerage.

Lord Burns: Are you implying that you think the system as it is emerging is putting too much emphasis upon some single objectives such as more income and more hours, and that it needs something that has to

be looked at in a different way?

Emma Stewart: Yes. Again, our experience from working with people that we have supported, particularly women, mainly single women who are looking to get better but still flexible work, is that it can sometimes take two or three jobs to get you there. So, in order to be able to increase your earnings but also to be able to balance work with everything else that you have to fit in that big complicated jigsaw in your life, you need to address childcare. Sometimes just having security and fixed hours, which means that you can fit everything else around them, is a first step before you can even consider getting a better job. Sometimes you need—

Lord Burns: It is about definitions of “quality”, I suppose you are saying.

Emma Stewart: Exactly.

Tony Wilson: I very much agree with the points that Emma has been making. The DWP ran a pretty robust randomised controlled trial of an in-work progression service, which was a relatively light-touch service along the lines of the core regime that it delivers for those out of work. The trial found modest positive impacts on individuals’ earnings from more regular, more intensive and more frequent contact, and more frequent contact was associated with better impacts.

That is all very reassuring and positive, and it is something that we can build on. I am less convinced of the value of having strict conditionality, which I think we will come on to, in those circumstances compared with when we are dealing with people who are out of work and able to work or available for work. The fundamental challenge, and the reason why we do not see bigger impacts, is that the starting point here is delivering it through Jobcentre Plus work coaches in a model where they have very little time to actually spend with claimants and where the day-to-day is about helping people in a short amount of time to see what jobs are available, see how well they are suited to those jobs and move into those jobs.

That is a reasonable approach to take in many cases for people who are in low-paid work because you see the biggest benefits from moving into another job—it is not by trying to get a promotion within your own job, for example—but it is not going to meet the diversity of need that people who are in work on low incomes have. It is certainly not going to address some of the more challenging reasons why people who are stuck in low pay for longer do not progress in work. Those are often around caring responsibilities but also around things like having very low qualifications or poor English-language skills, not being able to navigate the labour market very effectively or having a health condition that limits their ability to work longer hours.

This comes back to the point that Emma was making earlier. We have to think about how we can make work better for people who work shorter hours and need to work more flexibly and not just think about how we

can encourage people to work more hours or find a different or a better job. Actually I do not think we should expect work coaches to do that, but that means there are limits to what we can do through universal credit and the in-work progression service.

Q95 Lord Burns: Are there any international comparators that are helpful here in terms of countries that have managed this in a way that we could learn from?

Tony Wilson: Yes, but not many. There is not much evidence on this. I have done a few evidence reviews on this over the years, and just in the last year we at IES have been looking at what firm-level or employer-level behaviours better support progression in low-paying sectors.

The best international examples are from the US, which has tested very sector-specific approaches. The Work Advance model is probably the best; it did not work in all sectors, but in some there were really impressive results around trying to work with people who were in specific parts of the economy where there were good growth prospects but were stuck in low pay, and thinking about how to help people to get the skills they need to navigate the job market and make the sort of social capital, social connections and networks that we all need to find better jobs and to manage things that can get in the way and make it harder to find a job.

Critically, the US is very good at running randomised controlled trials of these sorts of things. They were very focused on finding people who were motivated and wanted and were ready to work. The additional impact there was really significant compared to people who were motivated but did not get the help. Here we tend to view motivation as a problem: if people were motivated then they would have got a job or progressed anyway, though this evidence suggests that often they will not. So we have to design these things well and test them rigorously.

Lord Burns: Emma, do you want to say anything on the subject of international comparators?

Emma Stewart: No.

The Chair: I think Baroness Kingsmill wanted to come in on this.

Q96 Baroness Kingsmill: I am just getting a slight sense of unreality about some of the answers that we have been getting, and indeed some of the questions too, since we are right in the middle of a huge crisis. I suppose that all this talk about jobs—people getting better jobs, trying harder and that sort of thing—all sounds a bit irrelevant. I wonder if you could flavour some of the responses you have made with a sense of how the system is coping with the current situation. Is it suitable? Is it the right thing? Or is it fraying at the edges? Are the faults in the design that you have talked about made worse by the current situation?

Tony Wilson: I think it is too early to tell. There are real positives but there are challenges as well. First, if I have said anything that suggests

that the answer is that people need to try harder, that certainly was not my intention. People are not in low pay because they are not trying.

Baroness Kingsmill: I was not suggesting that you thought that, but that was the implication—

Tony Wilson: I suppose I am sensitive to that because it is often a criticism where we try to advocate for active labour market interventions.

On the point about how universal credit is coping, the move to a predominantly online and digital service has saved the department and many millions of households in the last six weeks. There is no way that the previous benefit system—I worked in the DWP at the time—would have stood a chance of coping with the massive increases in volume that we saw in March and April. However, there have had to be a heck of a lot of workarounds of the rigidities in the system in order to get money to people quickly, and the volume of advanced payments is the best example of that.

I am really concerned about the time that it takes for people to get their benefits set up. There is good evidence that until people have the certainty of having money in the bank and their benefits set up, it is very hard to have a conversation about employment and getting back to work because there is too much else going on in one's life at that point. As it happens, in the midst of this pandemic it is not feasible to have conversations with people about getting back to work; we are doing analysis of online vacancy data every week, and vacancies are down by 60%. They are at the lowest levels they have been since the early 1990s. The economy is not producing many jobs.

But we do need to be talking to unemployed people. We need to be helping them to think about how they are going to start to take steps and prepare but that is not happening, and I think that has been made harder in some respects because of the way that universal credit is designed and paid.

Q97 **Lord Skidelsky:** I would like to continue the conversation started by Baroness Kingsmill. We talk about motivation and helping people to progress to better jobs, but we are not just facing the COVID-19 situation; this is against the background of 10 years in which the proportion of low-paid jobs in the economy has been steadily rising. Low-wage or minimum-wage jobs have been the biggest category of increase, and we have data to show that.

Against that background, how are you going to get people to fulfil the aim of UC of getting people into better jobs? The better jobs are not there for people of their skills or perhaps in their localities. There is a complete mismatch between the system and the way that the labour market works. That has to be acknowledged and then one has to say, "Well, what is to be done about it?" Otherwise you cannot just say that this is a challenge for the system; it is actually a huge defect in the system that it does not connect with the way that the labour market has been working

not just not for the last three months but for the last 10 years. That question is to either witness.

The Chair: Ms Stewart, you are nodding in agreement.

Emma Stewart: To reflect on this question and the last one, it does feel slightly strange to be having a conversation about progression in work in the current climate. We at Timewise run a job site, and we are seeing this writ large in terms of the fall-off in vacancies. We work with some of the UK's largest companies and advise them on flexible working, and I have to say that obviously we recognise how complex this time is and how challenging it is going to be.

There are a couple of points regarding your questions. One is that we have to consider a sectorised approach to helping people either to stay in jobs or to find jobs. The definition of "quality" and "good work" should be retained and that should always be an aspiration, but we are going to be pivoting away from the question of how to help people to progress in work towards helping people to stay in the work that they have and supporting them, and then helping them to find other jobs. Certain sectors are shut down, while others are just about surviving. We are going to have to take a much more selective approach to this.

While this is an absolute crisis, there are some opportunities. The question—and obviously I do not have the answers—is how fast we can mobilise in responding. We have an opportunity at the moment to fundamentally think about how we redesign work in this country, because we are having to. There is an interesting debate to be had around the furlough system and the fact that we are now looking at a transitioned approach, certainly over the remainder of this year, which is going to facilitate a subsidised-wage/part-time working option for many people. It suggests to me, and again I think we will come on to this, that in these kinds of times we probably need to revert back to some of the evidenced work where wage subsidies and many more demand-side-facing interventions are required, so that we have things like the Future Jobs Fund, which actually was relatively successful but very short-lived many years ago.

Whatever happens, we are going to have to integrate an approach alongside working with employers. We know from our work every day with the communities that we serve, who are desperate to find work that is flexible and that pays a decent wage, that even before this crisis only 15% of job vacancies in the UK referenced any form of flexibility. That is 15% compared to how many people want to work flexibly. We have an opportunity now to encourage more employers to think differently about how they design work, but we are going to have far fewer jobs so we have to make sure that the ones we have are designed in a way that fits the needs of people who need to balance work and care. We will also need some form of subsidy over the next few months to make sure that we do not have the much more significant hits to the economy that may come down the line.

Q98 Viscount Chandos: We have heard evidence that universal credit should move away from a punitive sanctions-based approach to an approach that is focused on support. Where do you think that balance lies?

Tony Wilson: When we are thinking about those who are in work, I cannot see that there is any evidence, nor really any rationale, for applying sanctions to people in work for not doing more to look for work, for the sorts of reasons that we have talked about already regarding the nature of the low-paid labour market.

On universal credit more broadly, the story of the last seven years since its introduction has been quite instructive. The Government made major punitive reforms to sanctions policy in 2012 that put us at the furthest extreme internationally in our approach to sanctions. At one point in time about one in 11 universal credit claimants was being sanctioned every month, a shockingly high number.

The evidence about the effectiveness of sanctions is pretty mixed internationally. You can see how conditional systems might work, around getting 'something for something' and trying to drive behaviour. But the actual application of a sanction is not really behavioural at all at that point; it is a penalty for non-compliance.

Anyway, about five years ago the figure was one in 11 but right now it is more like about one in 70 claimants who is sanctioned each month. There is very little sanctioning actually happening now in universal credit, and I think that reflects the fact that the department has listened to and read a lot of the good-quality evidence now coming out that has been done particularly by health scientists, looking at their negative effects on health and well-being and on mental health in particular.

There has also been a realisation that a lot of the behavioural techniques that they might use to try to encourage job-search behaviour, for example, do not rely on sanctions at all; they rely on good-quality one-to-one work-coach support. Jobcentre Plus has invested a lot in trying to develop its work coach capability, which is very welcome. So I think we are actually getting the balance about right now on sanctions.

Viscount Chandos: And that was true before the COVID crisis?

Tony Wilson: Indeed. With the crisis, conditionality has in effect been switched off, and I think it should remain off during the crisis. However, switching off conditionality should not be the same as switching off all employment support for people who are unemployed, and I think it is at the moment. JobCentre Plus really must start reaching out to and trying to support people who are out of work to prepare for and think about their return to work, and that should not be conditional; it should be supportive and it should build on the skills of those work coaches in doing that.

The Chair: Ms Stewart, do you want to add anything to that?

Emma Stewart: I endorse that. From our experience in delivering services, we have certainly seen that individuals who are considered to be very far from the labour market are not necessarily far from the labour market or lacking in motivation. The intervention that is bespoke, supportive and responsive to their needs drives engagement. I do not think that sanctions in this punitive way are more effective, certainly from our experience, in terms of helping to get people better jobs.

Q99 **Lord Fox:** Turning to the in-work part of universal credit, and to reflect a bit on the preponderance of low-paid poor-quality employment, which Lord Skidelsky was talking about, is there any evidence that the in-work element of universal credit is subsidising those jobs? Is there research showing which sectors of the economy are benefiting from that subsidy—in other words, getting the benefit of low-paid workers with universal credit picking up some of the pieces in these people's lives?

Tony Wilson: There is no evidence that I am aware of that has been able to demonstrate, for example, that employers in some sectors are choosing to pay less because they think the benefit system will pick up the slack, as it were. This was a common criticism of the tax credit system as well. It is certainly plausible—you can certainly imagine circumstances where employers in some sectors with some workforces might think they could do that—but I have not seen any quantitative evidence that that is happening.

Lord Fox: is that because people have looked and not found it, or is it because people have not bothered to look?

Tony Wilson: I think it is mainly because people have looked and not found it. I was having a look before this session earlier in the week for such evidence just to reassure myself that I had not missed it somewhere, and I do not think it is there, although there will be anecdotes, circumstantial cases and examples where people are concerned that this might happen.

To put this a different way, there are three sectors in particular that account for a lot of low pay in this country: hospitality, retail, and social care. Those three sectors are all low-paid and sectors where a large part of the workforce are likely on in-work benefits too, particularly where they have families or they are in the private rented sector, for example. They are all sectors that are really under the spotlight right now and where we are in a position where we can make some of those choices and hopefully take the high road in the recovery about improving the quality of that work.

These two factors around the sectors, the occupations that people do and the benefits that they get are really closely intertwined, and that serves to mean that people in those sectors are often cushioned from the worst effects of low pay because they are also receiving in-work support through the benefits system.

Lord Fox: Ms Stewart, many of your clients are probably people as just

described there. Does that coincide with your findings?

Emma Stewart: Yes. Our clients are both employers and individuals looking for these jobs, which gives us a perspective on both sides. I think we need to look at those three sectors through the lens that most employers are going to try to do the best thing. I do think you can look at it from a sectoral perspective. We have a few anecdotal cases of not-great employers but in the main I support what Tony said, which is that the evidence is not necessarily there.

One challenge is that social care is much more structural and a lot of the people doing these jobs are women working part-time or in insecure work. There just are not progression routes in social care. We also have a commissioning structure that means many social care providers are very limited in the margins they can make and the pay they can provide. So there are bigger issues here. I agree that we need to look at this through the optic of what our care providers and our carers in this country have been doing over the last few months, and challenge why they are paid so little. That is more of a social and moral judgment about what we value that we need to think about.

Lord Fox: Does that say something about what the market will bear? Because there is in-work benefit, people are not destitute on the low wages that they are going to get, so therefore in a sense there is a more subtle influence going on here. It is not cause and effect; it is just an overwhelming influence.

Emma Stewart: Precisely, and a tension. If you took that floor away then we would have a very different-looking sector that would probably be decimated. However, in order to be able to provide better wages, again, we need to look seriously at how we commission care in this country and how we put that investment in, because that is the only way in which people are going to get better paid.

With regard to the other sectors, obviously hospitality and retail are facing real challenges at this time. The same often applies, which is a slightly other lens through which to look at it. We have done a lot of work with retailers over the last few years that have been really keen to try to facilitate progression. The challenge in the retail environment is that we have fewer jobs in the retail industry. There is an argument that good employers will need to make those jobs better jobs, but there is also an argument within progression in retail that the job you get on the shop floor is often incredibly flexible and shift-based, and in order to progress up you often end up having to take on far more responsibility, often for not a huge increment in wage, so there are disincentives for individuals in retail.

We have worked with some great retailers that are creating managerial roles that are job shares and which facilitate women in particular to be able to progress into those jobs. But you have to be able to take into account some of those structural issues, which takes me back to the point that if we are going to look at how we can facilitate better jobs in

some of these industries, we really have to think about the demand-side piece of how we design work when we have less work, to make the work that we do have fair and better for individuals. We have to challenge—probably at board level—some of the more public listed companies to look at the pay grades that they provide to their workforce.

Baroness Kingsmill: On that point, there is quite an interesting debate going on in the United States at the moment about whether care workers, because they are so badly paid on the whole, should currently be getting hazard pay, and there should be a hazard bonus, if you like, paid out quickly to support them. This is slightly off-message here but that is quite an interesting element.

The Chair: But very much in line with our report on social care, which I commend.

Tony Wilson: Well, indeed. Care workers are not able to use the job retention scheme, for example. Care workers who have symptoms or should be shielding are reliant at the moment on their employer paying them to be off. Otherwise, they have to fall back on statutory sick pay. I know that this is entirely unrelated, but whatever happens with the job retention scheme, we need to sort out statutory sick pay and income replacement for people who are unable to work or should not be working because of having symptoms or needing to shield.

Baroness Kingsmill: You should take note of our previous report on social care. It is a quite interesting insight into some of the issues that we are covering. We had an interesting discussion about the nature of work but can you give us more information for our report about the barriers that people who struggle to work full-time face—people who want or need to work part-time—where the whole system seems to be focused on getting people into full-time work? I want to understand more about the barriers that stop people from being able to pursue that line.

Emma Stewart: We are talking millions of people.

Baroness Kingsmill: Are they predominantly women?

Emma Stewart: They are predominantly women, but we are also talking about people due to health issues, wider caring responsibilities and often disabilities—whether mental or physical disabilities. We are talking millions of people for whom this is really prevalent, but it is women in the main. To break it down, if you think about how universal credit was designed to enable people to get better work and to get off benefits, the first thing is to get a job. If you cannot work full-time, to refer to what I was saying previously, we look at the state of the vacancy market in the UK every year. We do an index tracking how many decent jobs reference flexibility. Currently, of all 6 million vacancies that existed last year, only 15% had any form of part-time or flexible working at the point of hire. So first of all, if you need to work part-time or flexibly you are only fishing in a pool of 15% of the jobs market. That is a bottleneck and a problem. Obviously, there are a significant number of women who want to work

part-time, so we have a downgrade displacement issue, which is that higher-quality, higher-skilled women will choose to downgrade to take lower-value, part-time jobs, which displaces women at the bottom of the labour market.

The second opportunity is to get a better job by leaving your employer and finding a better job somewhere else, and all the evidence suggests that—going back to the point about progression—if you want to progress, you are better off finding a job somewhere else than internal progression. Again, I refer back to the 15%: you are still looking at a labour market that does not give you that flexibility. So many people who choose these low-paid part-time jobs in areas such as retail, hospitality and care get stuck in those industries because they look out and they cannot find the flexibility they need somewhere else.

The third thing to look at is that, again, if you are in an industry where you are able to work part-time or flexibly, there is a huge amount of evidence that shows that it is hard to take that flexibility with you. This comes back to the structural issues that we have; it is one thing to serve coffee in a coffee shop and be able to do a part-time shift, but another thing to be an area manager for a major hospitality firm, where they want you to work 40 hours and travel 100 miles a week. So there are structural issues and problems if you cannot work more hours but you want a better job.

The last point is just to work more hours generally. We often find that in many of these industries, even if you were able to work more hours, often those hours are not available, or if they are, the shift patterns that you are asked to do are often really challenging when it comes to balancing health, work, care and everything else that sits around. It may not be possible to even take an extra shift because you cannot have any control or input into your schedule.

Fundamentally, we feel that the solution to this has to be twofold: first, we need to be looking at other businesses, whether small businesses or other industries, and encourage more firms to be open to flexibility at the point of hire and say so in their job ads. That is what Timewise calls flexible hiring. If we can turn the dial on the number of jobs that are referenced as flexible from day one, we can give more opportunities to the people who are trapped in those low-paid part-time jobs, not because of a lack of skills but because of a lack of flexibility to move.

Secondly, I come back to the point about sectoral approaches. We need to look at how we can support more businesses to think more creatively and build in capabilities to design jobs differently. We do not teach job-design in this country and we do not look at it from a human capital perspective. We think about many other ways of training managers, but we do not think about how we can unlock more ways of working differently. Those are two quite complex areas, and I do not think they are necessarily something that the DWP is able to face into, but we think that it is a gap in terms of provision across government; a gap that

probably falls somewhere between the BEIS and DWP that needs to be addressed.

Q100 Lord Livingston of Parkhead: It is excellent that we are now talking about employers. This is one of the first evidence sessions where employers have come into the discussion and it feels in many ways that the role of the employer was left out of either universal credit planning or at least its implementation. Is that fair? If it is, what sort of dialogue do you feel should go on? Maybe Ms Stewart should start. I should say, for good order, that the Retail company that I chair uses Timewise. I should mention that because it features prominently on your landing page.

Emma Stewart: Thank you. There is an inherent challenge in engaging employers in the welfare system. We need to look at this more creatively so that any job brokerage services that are designed, whether they are delivered by Jobcentre Plus, regional combined authorities or local authorities, are responsive to employers' needs. I would cite a classical example of that, which is the apprenticeship levy, which was designed on the basis of a particular government principle, but in fact there have been a number of issues in how it has been applied and lots of challenges. Employers often want to, and can, train people the way they want to train them and not have to outsource training to training providers who do not necessarily respond to how they need people to work. So our perspective is that we probably have to look at this at a regional level, which means working much more closely with LEPs, being really clear where there are opportunities for employment growth, as Tony was saying, in particular regions and particular sectors and then trying to address through networks of employers and their intermediaries how service provision can respond to where there is jobs growth and what kind of jobs need to be created for people in individual communities.

Fundamentally, we have quite a big gap between what is currently a job brokerage service and what, aspirationally, should be much more of a workforce and workplace advisory support service. That is not the Jobcentre Plus role. It used to be a Business Link role, but it is a gap that needs addressing because some employers want to do good and want to hire. What they do not want is to be given 100 CVs of people who are unsuitable for the jobs that they have and be asked to address them very quickly. We also need to be careful. We can sometimes do some very quick and simple things to help small businesses to find good people, but it is about turning job brokers into almost a recruiter-type of vision.

Lord Livingston of Parkhead: I have a question for Mr Wilson. Should the needs of the employer and the positive role that they can play have been considered more, particularly perhaps but not only in the area of skills? We have a skills shortage in the UK. It seems almost with DWP and BEIS that the two shall never meet on this issue. Does that gap exist, and do you see a way of bridging it? What would you do on the one side about people crying out for skills in order to have better work, and on the other side businesses crying out for skills because they do not have them?

Tony Wilson: That gap certainly exists. I am tempted to say that it has got even wider in some respects because the Government have had such a big job in trying to roll out universal credit, land it successfully and make it work. I do not believe that there was any conscious thinking at the universal credit design stage about how to create the conditions for better-quality work and how to work with employers to support better-quality work. In the economy, we focus very much on the individual and on the model for motivation, activation and taking steps to find work.

We recently published a report, which I will share with the Committee, called *Progression in Employment* as part of a project with the JPMorgan Chase Foundation. We looked across Europe at employers in low-paying sectors that did this well, and we focused particularly on retail, hospitality and social care. We also carried out quite a lot of evidence reviews around what good employers do in this space. A lot of low-paying employers do really good work in this space, and there are a lot of common themes. I was just looking at one of the examples in the case studies—a small care employer, Penrose Care. It ensures that all staff have access to the same training opportunities—it is not a case of some staff getting it and some not. It makes sure that there is a minimum level of training that people are entitled to. They have the opportunity to job-shadow other roles to see where they might be able to work in different roles in the future: they can work on the administrative side of the business, not just in a care-facing role.

To give an example, the retailer Carrefour in France has clear progression routes for employees. Thought is given to job design and flexibility by default. In a lot of these examples, it comes down to having HR and leadership buy-in to support good-quality work and break the low-pay, low-quality, low-skill cycle. Critically, that then translates into line management practice, where people really think about how to make sure that jobs are flexible by default and ensure that everyone has access to training opportunities. There is an attempt to create security in work and in terms and conditions and so on—the fundamentals that are needed in order to be able to think about progression. It does not rely completely on having really well-structured career paths and big investment in training. A lot of it involves having things that many of us in good-quality jobs take for granted but which people in lower-paid jobs, particularly in those sectors, just do not get.

Lord Livingston of Parkhead: We were talking particularly about UC. Presumably it is also a question of how it links into UC as well and whether the advice given to claimants can point them in the right direction so that there is almost a three-way conversation between government, the claimant and employers on a wider basis.

Tony Wilson: Absolutely. I think that is right. Universal credit means that we have the opportunity to identify where people are in these jobs and where there might then be scope to engage with an employer, for example. I do not believe that it is for Jobcentre Plus, or indeed government at all, to engage directly with employers and tell them how

to run their businesses, but we can fund the sorts of services that employers would use.

CIPD did some work on trying to fund business-to-business, consultancy-type support for SMEs, looking at how to improve job security and progression routes. Let us think about how we can commission that locally—how to link up Jobcentre Plus and the DWP so that we identify employers that we can engage with and then deliver on that.

The great thing is that we have the opportunity to test some of these models. I am more on the optimistic side. As we move into next year, 2021, it is likely that there will be more opportunities to talk to employers about this. There will be sectors and individual employers where we see growth and can have those discussions.

The Chair: I am conscious of the time. Lord Monks.

Q101 **Lord Monks:** Do you think there is any merit at all in making UC payments dependent on local or regional angles or variations? I understand that that is the case in the United States. The principle tends to be that you pay higher benefits in areas of the highest unemployment where there are very few job vacancies, but if you did the same in areas with lots of job vacancies, it might create a disincentive for people to look for work. I am interested in knowing whether you think there is any merit at all in that kind of approach being applied in the UK.

Tony Wilson: That is not something that I have done any research or thinking on, so I am not sure that I can give you a good answer. The UK has tended to take the view that we have a fairly centralised, national system, with national rates of benefits. Compared with many countries, we have a pretty universal system but not a very generous one. I think that we need to raise the level of benefits for people who are out of work, full stop, because they are now lower than they should be or need to be. I do not believe that increasing them would have a negative effect on work incentives.

To put it another way, would there be a case for having a higher level of benefits in general and a lower level in stronger labour markets? Potentially we could do that, but could we operationalise it? Would there be public support for that? I do not know, sorry.

Emma Stewart: I do not really have any evidence on that either but, if we flip the question, we have seen some evidence of really good, strong localised partnerships between service providers, local authorities and other employer intermediaries, exploring how to generate job creation schemes in local communities. Obviously, the whole agenda is around increasing growth and, where there is a depressed labour market, providing subsidies to enable employers to look at how jobs can be created in particular sectors. From our perspective, that would probably be more effective in the long term than providing a high level of benefits but, again from my personal perspective, I think that there would

probably be unintended consequences if you were to do that in particular regions.

Q102 **Lord Monks:** To follow up on a different topic, Mr Wilson was quite complimentary about the way that the DWP has dealt with the surge of claimants due to the current crisis. This question is for both of you. Are you optimistic that it can cope with the next surge and the surge after that, which are likely to come in very short order?

Tony Wilson: The DWP has shown that it can cope with a huge increase in universal credit claims. Hopefully, we will not see anything on quite that scale again but there will almost certainly be a second wave as the job retention scheme is wound down. My big concern is about how we are delivering active and supportive help to unemployed people to prepare for a move back to work. Data will be coming out on Tuesday that will almost certainly show that about 3 million people are claiming benefits and are available for, and could actively be looking for, work. That will be the highest number since the early 1990s. Just talking about sheer staff numbers, the DWP is a third smaller than it was 10 years ago, but we think that it is short by about 8,000 work coaches just to maintain a basic regime of support for people who are out of work.

Therefore, we are nowhere near being able to provide a meaningful, good-quality service for people who are out of work. We might be able to pay them benefits but at this stage we are not able to help them back to work.

Emma Stewart: I entirely endorse that. We are facing a huge surge and we do not have enough quality or capacity within the system to deal with it at the moment.

The Chair: That concludes this session. I thank you both for your very helpful answers to our questions. I am sure that they have given the Committee much food for thought.