Briefing Note:

Universal Credit and In-Work Conditionality – a productive turn?

Katy Jones, Craig Berry, Julia Rouse, Richard Whittle

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Introduction

Universal Credit (UC) subsumes six existing working age benefits and brings together what were previously separate systems of out-of-work (Job Seekers Allowance) and in-work financial support (Working Tax Credits). UC also potentially involves the introduction of "in-work conditionality" (IWC) to welfare claimants on a low income, placing responsibilities on individual claimants to increase their earnings. Whilst policy specifics are developing, the Department for Work and Pension's (DWP) (2018, 10) "Employer Guide to Universal Credit" states that workers on a low income who are in receipt of UC, may be expected to:

a) increase their hours
b) look for ways to progress in their current workplace
c) search for additional work with a different employer (i.e. take on multiple jobs)
d) take up alternative work elsewhere (i.e. move jobs).

These expectations may be backed up by support (for example, through advice from Jobcentre Work Coaches, or access to training), but also by penalties (benefit sanctions) if individuals do not comply with mandatory work-related requirements (House of Commons Work and Pensions Committee, 2016). This is a significant policy shift, as those currently in receipt of (non-conditional) tax credits are moved on to UC. Whilst some stakeholders have welcomed additional support for low-income workers, the extension of conditionality to those in work is controversial. Existing research focusing on claimant experiences has raised questions about the extent to which IWC results in meaningful in-work progression (DWP, 2018) and has highlighted the counterproductive consequences of a conditionality regime overwhelmingly focused on requirements to apply for a high volume of (often inappropriate) jobs (Wright et al. 2018).

In-Work Conditionality – a productive policy?

According to the DWP, UC will help 'business to grow' and 'improve productivity' (DWP, 2018). However, detail on how this is to be achieved are lacking. According to the ILO (undated), 'increasing productivity of the poor, improving their employability and creating productive employment opportunities for them is an important way to fight poverty'. Active labour market policy is therefore considered a key part of tackling low productivity through ensuring that those who are able to participate in the paid labour market are supported to do so. However, some employment opportunities are more productive than others, which presents a challenge for policymakers. Particularly where unemployment is low, the key challenge is not moving people into work, but ensuring that participants are supported into decent and productive work where their skills and capabilities will be developed and utilised (ILO, 2016).

Considering moves to extend conditionality to low income workers, there are arguably a number of implications for productivity. As McCann (2018, 7) explains: 'productivity… is a result of a complex interplay between many different influences', and the policy has implications for a range of productivity-related issues including skills, well-being and the nature of work. Arguably, focusing on individual workers, and emphasising work intensity (i.e. increasing working hours), whilst neglecting to consider demand side issues, such as work quality and management practices seems unbalanced, if 'improving productivity' is an aim of UC. This briefing note presents a summary of key findings from a small pilot project, which considered: Would the introduction of 'in-work conditionality' under Universal Credit lead to more productive work?

2 Method: Employers in focus

Employers are key to outcomes arising from active labour market policy, and their response to new expectations placed on low-income workers will be pivotal to the policy's productivity effects. However, employers have been largely absent from policy discussions to date. This pilot study begins to address this gap, based on 12 semi-structured qualitative interviews with HR managers/Owner-Managers of businesses operating in Greater Manchester. Without set policy details, topic guides were informed by existing employer guidance.

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Table 1: Sample details

	Employer type/sector	Job role	Size
Employer 1	Manufacturing company	Owner-Manager	SME
Employer 2	Local authority	HR Manager	Large
Employer 3	Landscaping company	Owner-Manager	SME
Employer 4	Hotel	HR Manager	Large
Employer 5	Hotel	HR Manager	Large
Employer 6	Social care provider	Owner-Manager	SME
Employer 7	Housing Association	HR Manager	Large
Employer 8	Restaurant	HR Manager	Large
Employer 9	School catering service (council services)	HR Manager	Large
Employer 10	Soft play centre	Owner-Manager	SME
Employer 11	Hotel	HR Manager	Large
Employer 12	Housing Association	HR Manager	Large

3 The current state of play: understanding the nature of work

Some businesses employed predominantly low waged/low skilled workers, with relatively few managerial/supervisory positions. Larger organisations offering multiple services offered a greater range of job roles in terms of skill level and pay. The contractual status of staff also differed across and within firms. In the hotels, for example, staff tended to be employed on a part-time basis (around 16-20 hours) but typically took on more hours in response to fluctuations in business need. The majority of staff employed by the care provider and soft play centre were on zero hours contracts. Businesses had a range of existing approaches/processes in place to help staff to progress (either take on more hours or improve their pay) including mentoring and annual reviews. However, these varied in formality and opportunities for progression depended on factors including the size and structure of the business and the availability of career ladders. In some organisations, staff could access training opportunities to help them to develop in their roles and careers. In others, progression was considered an individual responsibility, with training not typically covered in work time.

4 Employer understandings of productivity (and efforts to improve it)

Productivity was generally understood by employers as being mostly about making efficient use of resources and getting the most out of their staff. Staff well-being and retention were felt to be key influencing factors. Particularly for service sector employers, productivity was about providing a quality service in an efficient and effective manner, generally underpinned by a strategy of minimising labour costs. Flexible workforces were considered key to this – both in terms of staff being available to take on more work at times of high demand, and having staff who were willing and able to work in different roles when necessary. Increasing the hours worked by staff was not considered key to efforts to improve productivity. Instead, several employers talked about the importance of improving the skills of staff (although this was limited in low skilled roles). One employer emphasised the importance of improving management skills. Although not necessarily articulated in terms of productivity, most shared an understanding that minimising labour costs (without sacrificing output) was important to their business model, or that labour costs in the private sector could only increase in tandem with business growth.

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5 Likely responses to in-work conditionality

Regarding expectations for employees to progress within their firm, employers generally reported that this was something they would consider, but that ultimately whether or not they offered more hours/pay depended on whether there was a clear business case to do so. Capacity for existing staff to take on more hours reportedly varied. Weak consumer demand could make offering more hours difficult.

Several employers described opportunities across different departments/partner organisations to take on more hours. However, this depended on the number of hours required, and may not be offered on a permanent basis. Moreover, employing staff on a part-time, flexible basis was central to existing business models:

> *"We wouldn't want to have every single person on a full-time contract. We'd still need some flexibility to fluctuate with the demands of business levels"* (Employer 11, hotel)

When considering that employees could be subject to expectations to look for additional/alternative work, employers in the hospitality sector raised the issue of a potential 'conflict of interest', and believed that clauses staff contracts would mean they would be able to prevent them taking on additional jobs in similar organisations.

Some employers felt they might offer more pay/hours in order not to lose 'good employees'. Conversely, they appeared indifferent about losing less valued staff. One social care employer felt they would need to pay more/offer more hours to retain staff, a cost which they would pass on to customers. Ultimately, the businesses we spoke to explained that their 'bottom line' would continue to have more sway than expectations placed on staff, and there was widespread reluctance to increase wages due to perception that this would impact negatively on the profits of the business.

6 Likely impact of In-work conditionality

Employers felt that the impact of IWC would depend on a range of factors including business needs, worker responses, and the approach taken (i.e. whether a supportive/sanctions-based approach, and the nature of support). One employer felt that the impact of IWC would depend on an employee's willingness to work in other areas of the business, but also explained that staff needed to be trained appropriately:

> *"[I]t depends on whether they're willing to work in another area of the hotel…[but] if they've never cleaned a hotel bedroom, that's going to be a wasted resource for the housekeeping team because they're going to have to spend all that time training"* (Employer 11, hotel)

There was a concern that new expectations introduced as part of the policy may be a hindrance to workforce flexibility and it was widely felt that if staff hours increased in response, this would not necessarily be productive for their business.

Some employers felt that IWC could help to open up opportunities for staff and encourage them to ask for more hours. Overall though, employers voiced concerns about the potential for it to have an adverse impact on staff (and their business as a result). Employers felt that the policy might negatively impact staff motivation and well-being, and that absenteeism and presenteeism may result. Employers felt the risk of this was bigger for (mainly female) staff who were combining work with caring responsibilities.

> *"[It's] simple, happy team, happy guests…If we have a team who's burdened with all these headaches, then of course that's going to impact on our quality, productivity"* (Employer 5, hotel)
>
> *"We want people to be committed to our business and… see it as a career and that will not be at the forefront of their mind if they're just between one and two jobs or even three"* (Employer 6, social care provider)

Employers also felt IWC could lead to increased costs for businesses, incurred through managing recruitment – not only due to increased turnover, but also if more applications were made by others subject to it. Employers complained about the high costs associated with dealing with a high volume of applications, which they felt in part resulted from the existing emphasis of Jobcentres on requiring jobseekers to focus on the quantity, rather the quality of applications and job fit:

> *"We get people applying for jobs just so they can sign on and say that, 'Look, I've applied and I've been for interviews,' and then waste all our time because they don't actually want the job… It's a cost to our business"* (Employer 6, social care provider).

A few employers raised concerns that the policy could have a negative impact on employer-employee relationships, and that tensions could arise from mismatches between their requirements and those placed on workers by the Jobcentre. One employer said that simply requiring their staff to request more hours and/or higher pay was unlikely to have any impact, but that if the policy led to the provision of suitable skills training which their business could use, they would be more likely to offer of more hours/higher pay.

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7 Employer views of 'in-work conditionality'

Employers were divided on their views of IWC. Some welcomed the policy if it meant that more support would be available to help those on a low income to improve their position in the labour market. Others were against the extension of conditionality to working claimants. Some doubted its viability, given the resources and administration IWC would require. Others questioned the capacity and capability of Jobcentres to expand their service to working claimants:

> *"[I]t's great if there's a real need for it, but I don't think the Jobcentre's coping very well with helping people find jobs who don't have work. Surely that should be their priority"* (Employer 11, hotel)

Several employers emphasised a need for support rather than sanctions-based measures, overall favouring a voluntary approach. Employers also stressed the need for a tailored approach, which takes into consideration individual circumstances outside of the paid labour market. Several employers also felt that IWC seemed to go against a broader policy push for flexible working.

8 Supporting employers with in-work conditionality

Employers felt more should be done to consult with them about the proposed policy change, to better understand how this might impact on their businesses, and to develop appropriate in-work support.

> *"What worries me is the impact that it will have on businesses which haven't really been thought about"* (Employer 8, restaurant)

Interviewees made numerous suggestions about how agencies could best support them in responding to the policy, and more broadly in terms of supporting the progression of their staff. These included ensuring that expectations placed on claimants were communicated to employers, and that Jobcentres worked closely with employers and understood their needs. Several felt that a policy of in-work support could usefully help their employees to access skills training, and emphasised the importance of ensuring that such a policy did not operate in isolation, but instead linked into broader skills strategies. Furthermore, some employers felt that policymakers should focus more on employer practices, rather than solely on claimants. Supporting employers to be better businesses was felt to be more likely to have a positive impact on both individual progression opportunities and firm productivity:

> *"It would be probably more beneficial for the government to help employers become better employers, and to make the workplace a more positive environment than it is to push employees to get more jobs"* (Employer 10, soft play centre)

9 Conclusion

This project has gathered insights from employers about the potential impact of (and their likely response to) the extension of conditionality to working UC claimants. Whilst only a small pilot study, it highlights a number of important issues which policymakers in the Department for Work and Pensions should consider as their 'in-work offer' is developed. Importantly, it shows that rigid expectations placed on individuals to increase hours or pay are at odds with the realities of working life in the UK labour market. At a time of low unemployment (and low productivity), the key challenge for policymakers is not moving people into work, but ensuring that, where appropriate, UC claimants are supported into decent and productive work where their skills and capabilities will be developed and used effectively. A 'work first, then work more' approach, focused on placing conditions on individual workers fails to consider long-standing issues of poor work quality and management practices, and broader issues relating to the needs of workers outside of the paid labour market. This approach also appears to be at odds with the broader policy agendas focused on improving productivity and the quality of work (e.g. related to flexible working and 'good work').

For more information about this research, please contact Katy Jones at katy.jones@mmu.ac.uk

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