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Social Mobility &  
Child Poverty  
Commission

# Social mobility: the next steps

July 2013

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The Social Mobility and Child Poverty Commission is an advisory Non-Departmental Public Body established under the Child Poverty Act 2010 (as amended by the Welfare Reform Act 2012) with a remit to monitor the progress of government and others on child poverty and social mobility. It is made up of ten Commissioners and is supported by a small secretariat. Its Chair is The Rt. Hon. Alan Milburn, and its Deputy Chair The Rt. Hon. Baroness Gillian Shephard.

The functions of the Commission include:

- monitoring progress on tackling child poverty and improving social mobility including implementation of the UK Child Poverty Strategy and the 2020 Child Poverty targets, and describing implementation of the Scottish and Welsh Strategies
- providing published advice to Ministers on matters relating to social mobility and child poverty
- undertaking social mobility advocacy.

This project was undertaken as part of the Commission's advice function. See <https://www.gov.uk/smcpc> for more details.

## **Executive summary**

Two years on from the publication of the UK Government's social mobility strategy *Opening Doors, Breaking Barriers*, the Commission has been asked to provide advice to Ministers on *the three or four most impactful steps that the Government could reasonably take to improve social mobility*.

Government is already undertaking a lot of activity under the strategy, as well as implementation of a wider range of policies announced since its publication, which further seek to meet its social mobility objectives. Much of this activity is still being implemented, so in many cases it is too early to say how effective those policies will be in improving life chances. Meanwhile, the unfavourable fiscal and economic climate puts limits on what government alone can do, even as it raises the bar on some of the challenges to be addressed. We have interpreted 'reasonably' as working within the Government's fiscal envelope and general approach to public sector reform (e.g. emphasis on choice, accountability and localism). Our work has been informed by speaking to experts, including at three roundtables chaired by our Commissioners, and by reviewing relevant literature. We have focused here on the social mobility policy of the UK Government which in the main refers to England.

The Commission's view is that the most impactful steps beyond those already being taken by the UK Government to improve social mobility would be:

- to strengthen its commitment to closing attainment gaps through its early years strategy, including by developing a long term plan with clear ambitions and milestones and new accountability arrangements
- to address the weaknesses in the system for young people not heading to higher education and strengthen non-academic routes
- to seek to give adults real chances to improve their position in life by unlocking in-work progression, especially on hourly wages, and tackling low pay.

The Commission was asked to suggest specific policy ideas on a spectrum of radicalism: from short-term wins to longer term more visionary options. The Commission has set out a range of recommendations in the body of this report, but our most important suggestions for Government are set out here.

### **In the early years**

The early years matter because they lay the cognitive and social foundations for children's future lives. The key social mobility problem here is the need to reduce the significant gaps in outcomes that open up between birth and age 3. We have heard evidence of policy challenges including the need to clarify overall vision, improve accountability, appropriately support parents and manage the risks posed by spending reductions to some early years' services. We believe the Government could consider:

- **developing a new, long-term plan for the early years**, which clearly sets out Government's ambition on early education, with milestones and timescales to achieve them; and puts child development and quality of

provision front and centre. It should also prioritise the development of stronger accountability mechanisms on the sufficiency and quality of early years services

- **putting in place the information and resources to help reduce early years developmental gaps** by stretching the Pupil Premium allocation into early years' education for 3 and 4 year olds. We believe this will help incentivise a narrowing of the attainment gap between less advantaged and more advantaged children earlier in life. It should be supported by the creation of a new robust assessment for children in Reception (which aligns with the new 2/2.5 year old check and later tests at Key Stage 1 and 2) so that children at risk of falling behind can be identified early and appropriate support put in place
- **reducing gaps in the first place by giving parents that lack it targeted information on child development basics.** The focus should be on ensuring accessible information is made available to low income parents and on bringing together third and private sector organisations to develop a new parenting campaign focusing on the basics of child development.

### **In transitions for 16-19 year olds:**

Life chances are heavily shaped by whether or not young people at 16 stay on in education, get into work, or end up unemployed, outcomes influenced in turn by how well young people do in school (those who are not in employment, education or training at age 18/19 have the lowest KS2 and GCSE scores).<sup>1</sup> The scale of the ongoing high levels of youth unemployment and long-term disengagement from education or work means the Commission is seeking a step change in the ambition of policy in this area. Against a backdrop of high youth unemployment and with the policy opportunity presented by a rising participation age, Government needs to better align accountability, objectives and funding across education, employment and skills. To improve pathways for those not heading to university, the Commission believes the Government could consider:

- **bringing local partners together to stop young people falling through existing gaps in provision.** Government should promote and test 'Youth Transition Partnerships', which could be introduced under the framework of City Deals, to deliver clearer co-ordinated support to young people who are not on a direct path to higher education. These would be flexible local structures that bring together councils, employers, the voluntary sector, schools and Local Enterprise Partnerships backed by pooled or aligned budgets, to own and co-ordinate a single joined-up offer to young people and local businesses;
- **ensuring the right information, support and incentives are in place to get young people into good destinations.** This includes: higher quality careers advice that begins early, backed by greater weight in Ofsted inspections; improving destinations data on the jobs and other outcomes of young people, with Ofsted taking the data into account in its assessment of school performance; testing of payment by results and personal budgets approaches in further education; and promoting the use of a common brand and application process to make it easier for young people to make informed choices about the full range of post-16 options;

- **better engagement with employers.** This includes encouraging schools to appoint business engagement champions, and encouraging our proposed Partnerships to run campaigns and provide practical support to make it easier for Small and Medium-sized Enterprises (SMEs) to offer apprenticeships, traineeships and work experience;
- **rising to the basic skills challenge for over-16s.** This includes urgently testing ways to improve success rates for over-16s studying for Maths and English GCSE, which might include considering allowing schools to delay GCSEs for individuals who need and want extra time to reach the benchmark.

### **On progression in work:**

Opportunity to progress in work matters because it determines whether people get second chances to fulfil their potential or whether they are trapped in jobs with no prospects. In turn, this influences the aspirations and prospects of their children. Lack of progression is driven by low supply and demand for skills, and the weakening of career ladders in many occupations. It is welcome that the Government has put renewed energy into making a reality of welfare to work policies. But if social mobility is to gather pace, getting people into employment is just the first step. The next step is to enable them to earn more once they are in work; then people need to be enabled to progress in their career. Government efforts are very much focused on the first of these objectives. The Commission believes more Government attention should be paid to the other two. It should consider:

- **helping low earners move up the hourly pay ladder.** Government should aim to improve hourly wages, not just hours worked, so that the 4 million people ‘doing the right thing’<sup>2</sup> but still on Universal Credit can get ahead. We suggest: testing earnings-level related performance measures for Jobcentre Plus and the Work Programme; encouraging those lacking progression or training to connect with the National Careers Service; and focusing skills funding on employer-led training;
- **raising the bottom rungs on the pay ladder by developing a proper low wage strategy.** Stagnating low wages threaten living standards and burden the taxpayer. In the recent past, tax credits have bridged the gap between low pay and a living wage. The squeeze on public spending, including tax credits, means it is no longer possible for taxpayers alone to make up the difference. Employers need to step up to the plate and share some of the heavy lifting alongside taxpayers. The Government should look carefully at what more can be done to increase pay among low income earners without damaging employment. We suggest: mandating the Low Pay Commission to set out affordable wage benchmarks (non-binding) for different sectors in the economy; encouraging employers who can afford it to pay the living wage on a voluntary basis; paying the living wage more widely in the public sector (since there are savings to be made on tax credits); and introducing a requirement that listed firms and the public sector publish the number of staff earning below relevant pay benchmarks;
- **improving hours and keeping women in the labour market by employment proofing its childcare policies.** This includes: Government clarifying its ambitions for addressing barriers to work for parents and how it

plans to get there; and revising Budget 2013 proposals on childcare to lower the £10,000 threshold for Universal Credit claimants to benefit, funded by lowering eligibility for very high earners;

- **paying the same attention to the lower end of the labour market as it has jobs in the professions.** Employers have made progress in opening access to the professions. There needs to be a similar effort to mobilise firms to do more for the lower-skilled end of the workforce and their supply chains. The Government should use the Social Mobility Business Compact to explore with employers the business benefits of promoting and developing low paid staff, supporting childcare, and helping employees reduce their costs (e.g., by enabling collective purchasing of mobile phones or advice on bills). It should also build on Employer Ownership of Skills pilots to help firms create careers ladders for low-skilled staff.

In keeping with our Terms of Reference this advice to Ministers is published. We look forward to discussing our proposals with Government and others.

## **Background**

In April 2011, the UK Government launched its social mobility strategy *Opening Doors, Breaking Barriers*, which sought to establish ‘*improving social mobility as the principal goal of [the] Government’s social policy*’. It set out policies broken down by life-stage to tackle the UK’s long-standing structural problem of low and stagnating social mobility. Two years on, the Commission for Social Mobility and Child Poverty has been asked to provide the Government with published advice in response to the question ‘*what are the three or four most impactful steps the Government could reasonably take to improve social mobility?*’

## **Our approach**

The Commission’s approach has been to:

- undertake an evidence review on social mobility including the extent to which social immobility is determined at each life stage;
- carry out evidence reviews and expert interviews across the policy landscape to determine key strengths and weaknesses in the Government’s approach with a view to identifying specific policy areas where the Commission believes Government’s approach could be strengthened;
- conduct exploratory work in the areas identified, including a formal roundtable in each policy area, chaired by a Commissioner;
- set out to Government the most impactful steps that the Commission recommends should be taken to improve social mobility, on a scale from small, practical policy ideas to longer term, more ambitious reforms.

This report contains our preliminary findings across the broad policy areas of the early years, transitions for 16 to 19 year olds and adults in work. It focuses on the social mobility policy of the UK Government and therefore in the main refers to England (since many of the key areas are devolved). Although the policy contexts are different in the devolved administrations, the Commission believes that the broad principles set out here are applicable across the UK.

The Commission’s Annual Report, due in the autumn, will provide further analysis and recommendations.

The Commission would like to thank all of the experts who took the time to contribute to this report and whose assessments, views and ideas have informed the advice set out here.

## **Social mobility policy**

The Commission shares the concern of the Government and others that stagnating levels of social mobility are a serious concern for the UK. They matter for reasons of fairness: every person should have equal opportunity to fulfil their potential. There is also a powerful economic rationale. Untapped potential is a waste of productive resources that could give a stimulus to business, tax revenues, innovation and growth.

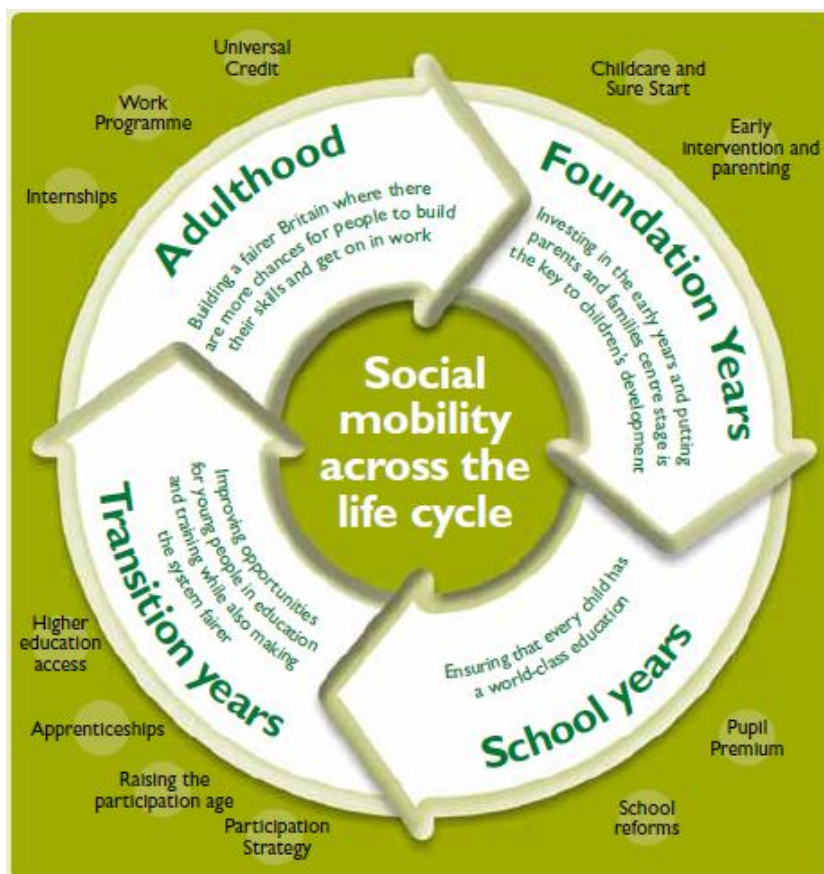


How well children do as adults is a complex function of a number of factors: levels of cognitive and social development; subsequent educational attainment; and access to opportunity. Each of these is strongly influenced in turn by parents and communities as well as public services; and outcomes often reflect pre-existing inequalities in human, financial and social capital. The Commission acknowledges that there are some structural drivers which it is very difficult for Government to do anything about. One important constraint facing Government is the current fiscal climate. The economic downturn is likely to be putting families under greater pressure, even as many of the services meant to level the playing field face retrenchment. The Commission appreciates that spending has to be ruthlessly focused on the areas where it can make the greatest difference, which often means more efficient targeting of resources. In interpreting what government could 'reasonably' do, the Commission has generally worked from the assumption that Government's approach to social mobility will seek to reform within existing parameters and additional funding is unlikely to be available.

The key levers available **to Government** to improve social mobility have been set out by a number of other studies<sup>3</sup> and include:

- **quality early education for under 5s**, which can support child development and increase family incomes by enabling parents to work;
- **schools**, which are the main mechanism by which gaps in attainment can be closed. Teacher quality is fundamental and there is evidence that high quality teaching is more beneficial to lower attaining students;
- **support for the transition from school to higher education and employment**. Prior attainment is the most decisive factor in enabling young people to succeed, but clear routes, information and appropriate financing are also vital to ensuring that opportunities are more evenly distributed and that young people of differing abilities and career interests can progress. These pathways and information should not stop at age 18; it is important that adults already in work have opportunities to progress and change career;
- **active labour market policy**. A whole series of changes in the labour market have made it more difficult for people to progress if they don't have skills and qualifications, and the connections and know-how to turn those skills and qualifications into a good job. Levers to change employers' behaviour range from advice and guidance to regulation like the minimum wage;
- **the tax and benefit system**. There is some international evidence to suggest it is possible to be a very unequal and yet still socially mobile society. Australia has been held up in this regard. However, progress in improving social mobility tends to be easier where there aren't big inequalities of wealth or income that entrench both advantage and disadvantage. The OECD has concluded that 'redistributive and income support policies seem to be associated with greater intergenerational social mobility'.<sup>4</sup> The tax and benefit system is also a vital tool in ensuring that there are incentives in the system for people to work, which evidence tells us plays a significant part in improving the prospects of adults, as well as the impact that a working parent has on the outcomes of their children.

The Government has developed policy across most of these areas, although notably its social mobility strategy doesn't say much about the role of tax and benefits. Under the social mobility strategy, Government has broken down the trajectory of children into life stages, with flagship policies focused on early years, schools and access to university.



In order to inform this project, the Commission conducted a high-level assessment of the importance of each life stage to enabling social mobility and the extent to which each policy area enjoys protected funding, clear ownership within government, obvious objectives and public interest (see overleaf). The Commission will look further at the Government's social mobility strategy in our forthcoming Annual Report.

The key areas where the Commission considers more strategic direction and focus is needed are in relation to early years, transitions for young people not on the route to university and progression in work. We now discuss each of these areas in turn.

<b>Factors considered by the Commission in identifying focus areas:</b>					
<b>Life stage</b>	<b>Funding</b>	<b>Accountability</b>	<b>Clarity of Government's objectives</b>	<b>Public interest</b>	<b>Overall assessment</b>
<b>Early years</b>	Unprotected	Complex ownership. More work needed to balance local freedoms with clear accountability. Responsibility cuts across multiple Government departments.	Unclear	Moderate/High	Look further
<b>Schools</b>	Relatively protected	Strong accountability (data, inspections); clear ownership; accountability arrangements vary by type of school(role of Local Authority diminishing for Academies).	Clear	High	Subject to strong external scrutiny and attention. Commission to revisit
<b>Transition; university</b>	Unprotected	Ownership complex; accountability mixed.	Some clarity	High	Government and OFFA monitoring progress. Commission to revisit
<b>Transition; non university</b>	Unprotected	Ownership complex. At Government level, cuts across multiple departments. Locally cuts across multiple stakeholders with no single body accountable for those not continuing in education.	Somewhat unclear	Low, though increasing	Look further
<b>Work</b>	Unprotected	Relatively clear departmental accountability.	Somewhat unclear	Low	Look further

## **The early years**

### **The problem**

As the Government has recognised; and a wealth of independent reviews during this Parliament have affirmed, the early years (birth to age 5) of a child's life matter profoundly to social mobility. It is here that developmental gaps open up, most of which never close. For example:

- the Government's own measure of school readiness tells us that in 2011/12, 48 per cent of children eligible for Free School Meals achieved a good level of development in the Early Years Foundation Stage (aged 5), compared to 67 per cent of other children, a gap of 19 percentage points;<sup>5</sup>
- Department for Education analysis suggests that these results are highly consequential for later attainment. 94 per cent of children who achieve a good level of development at age 5 go on to achieve the expected levels for reading at Key Stage 1, but children who start off in the bottom 20 per cent at age 5 are six times more likely to be in the bottom 20 per cent at Key Stage 1 compared to other children.<sup>6</sup>

This is also the period where interventions can have most impact. Investments here have high returns, both because they have longer to pay off and because they make later investment (for example in schools) more efficient.

In order to understand what more Government can do in this area we need to understand what drives early development gaps. Parenting and the home learning environment are key factors and are driven by influences including parental education levels which are, in turn shaped by material resources and income, as well as access to high quality services like early education.

There is considerable literature which demonstrates the poorer cognitive and other outcomes of children living in poverty. Evidence shows that income makes more of a difference for children in the earliest years and although there is an income/outcomes gradient, it tapers off at higher levels of income.<sup>7</sup> The way in which income impacts on children's outcomes is complex. How parents invest in their children in different ways matters a great deal, whether through attachment and attention, educational materials in the home, high quality early education, or through parents' own levels of wellbeing. These factors have been proven to explain a significant proportion of the gap between cognitive outcomes of children from the poorest and the most well off families at age 3.<sup>8</sup>

A particularly important mediator driving cognitive development gaps is early language use. Low income children have been shown to lag their middle income counterparts at school entry by nearly one year in vocabulary, and by smaller but still substantial amounts in other types of cognitive development,<sup>9</sup> which evidence suggests has strong links to the children's communication environment (reading, talking at home, parents teaching a range of activities).<sup>10</sup> There is also compelling evidence from the US on children's early vocabulary. One widely cited study finds that by the age of 3, children from privileged families had heard 30 million more words than children from underprivileged backgrounds.<sup>11</sup> Other studies find that

increasing the general knowledge and vocabulary of a child before age 6 is the single highest correlate with later success,<sup>12</sup> with language use at the age of two a strong indicator of later performance in school entry assessments<sup>13</sup> and of final educational attainment.<sup>14</sup>

Policy-makers have some key pathways for influencing early childhood development: for parents, reducing pressures and increasing capabilities in order that they can invest in their children in ways proven to improve outcomes; and intervening directly with children through high quality early education.

Increasing parental capabilities is a challenging objective for Government because it touches on the boundary between the state and the family. The key factors that the evidence points to as vital to the influence of parenting include:

- **attachment:** the development of a secure attachment between babies and their caregivers has been shown to impact on children's cognitive abilities, self-esteem and peer relationships;<sup>15</sup>
- **parenting style:** effective, warm, but authoritative parenting gives children confidence, a sense of well-being and self-worth as well as stimulating brain development and the capacity to learn;<sup>16</sup>
- **physical and mental health of the mother during pregnancy:** including stress, diet and substance use. Mental health is important before and after birth and in turn influences other key factors set out here, including secure attachment;<sup>17</sup>
- **home learning environment:** parental involvement in home learning activities in the early years makes an important difference to attainment (and social behaviour) through to the age of 11<sup>18</sup> with evidence suggesting that a home learning environment that is supportive of learning can counteract the effects of disadvantage in the early years;<sup>19</sup>
- **support for parents appropriate to needs:** international reviews of evidence support the use of a range of parenting interventions which start during the antenatal period and continue through infancy and early childhood.<sup>20</sup>

High quality parenting sets the foundations for children to thrive, but other factors also matter in enabling children's development. Over a third of 0 to 2 year olds (36 per cent) and the vast majority (87 per cent) of 3 to 4 year olds spend significant amounts of time in some form of formal early education; an average of 20.2 hours and 25.6 hours respectively,<sup>21</sup> which in itself makes early education an important tool in enabling children's development. The evidence here tells us that:

- **the best provision can have long term effects on children's cognitive ability:** high quality early education is related to better intellectual and social/behavioural development for children;<sup>22</sup>
- **quality really matters:** in an evaluation of early years' education for two year olds, researchers found no evidence of better outcomes at age five, as measured by the Early Years Foundation Stage profile, other than where provision was in high quality settings;<sup>23</sup>
- **disadvantaged pupils benefit significantly from good quality preschool experiences:** in the case of Maths (but not English), disadvantaged pupils who

attended high quality early education had significantly higher attainment than disadvantaged pupils who did not attend;<sup>24</sup>

- **children experiencing poor parenting are also unlikely to attend the types of early education which enables school readiness:** and they are further disadvantaged if they're going to low quality early education;<sup>25</sup>
- **early education should not be seen as a substitute for poor parenting:** Jane Waldfogel writes that although early education is important, the role of parents is even more so and the top line is that quality of both parenting and of early education really matters.<sup>26</sup>

### **How does the Government's activity match up against these challenges?**

The Commission's assessment is that an impressive amount of work is taking place across these areas, spanning health, education and local government, reflecting the importance of this life stage. Key measures include:

- maintaining the 3 and 4 year old offer introduced by the previous government for 15 hours of free early education for all three and four year olds;
- introducing the 2 year old offer, providing 15 hours of free early education for the most disadvantaged 2 year olds (including 20 per cent of all 2 year olds from September 2013 and 40 per cent by September 2014);
- taking on board the Marmot Review emphasis on the importance of a high quality health offer for new parents, implemented through the Healthy Child Programme and increasing the number of health visitors to deliver it;
- the continued expansion (and evaluation of) the Family Nurse Partnership;
- promoting the importance of high quality early education through reviews by Professor Cathy Nutbrown and Dame Claire Tickell, including introducing the Early Years Foundation Stage curriculum;
- introducing pilots of the use of parenting vouchers for universal, market based provision for parents;
- promoting the importance of better evidence on 'what works' through Graham Allen's review of early intervention, the introduction of the Education Endowment Foundation and the Early Intervention Foundation and a strong commitment from Government to promote 'what works';
- implementing new arrangements for more flexible parental leave which aim to give parents more choice about how to share their caring responsibilities;
- providing information to parents through new online and telephone resources, including the Department of Health's Information Service for Parents;
- seeking to address the cost, quality and availability of childcare; including through the work of the Childcare Commission, proposals in the Department for Education's *More Great Childcare* on qualifications, and the announcements in Budget 2013 which include the new tax-free childcare offer.

## Where are the gaps and how should they be filled?

Much of this marks good progress, but the Commission's discussions with stakeholders have also identified gaps and risks. There is a need for far greater clarity about the Government's long-term objectives and for stronger accountability mechanisms to ensure delivery. Here we focus on five areas:

- **Gaps in long-term ambition for early years provision** – while there are welcome steps being taken to build a high quality early education offer and support for parents, it is unclear what final destination Government is aiming for, when it hopes to get there and how it will know if it has been successful. The Commission notes with interest the example of Scotland, which has set out an aspiration to make the country 'the best place in the world for a child to grow up' including ambitious goals to ensure that 85 per cent of children in each local authority area has reached all expected developmental milestones at age 2 and a half (by the end of 2016) and 90 per cent at the start of primary school (by the end of 2017). The Commission's assessment is that in order to improve social mobility, Government must do even more to recognise the paramount importance of quality of provision and of parenting for the most disadvantaged children; and it should start by setting out its long term ambitions. High quality early education provision matters most for disadvantaged children, but a third of all children in the most disadvantaged areas attend early education which is neither Outstanding or Good, compared to a fifth in the most advantaged areas, which is likely to further increase the gap in outcomes.<sup>27</sup> The Commission notes Government's approach seeks market expansion and improvement, but believes the Government should:
  - set out a long-term plan for narrowing gaps in development in the early years, including how it will prioritise the quality of early education, children's centres and the role of parenting, to improve children's development. This should include clarity on how it will measure success. If the ambition is to move towards a Nordic or Quebec-style system of universal, high quality childcare, Government should identify clear milestones and timescales for delivering it. Government should pay particular attention to showing how it intends to ensure that the provision of early education is of higher quality, more affordable and accessible to low income parents and more focused on how the early years fit into the Government's plan to narrow the attainment gap.
- **Gaps in accountability** – the Commission believes that the Government's objectives for the early years, including high quality early years education and children's centres (especially for low income parents) are threatened by lack of adequate mechanisms for Government to hold Local Authorities to account. The Government's vision for the early years relies in no small part on local government, whether as a commissioner of early intervention services, deliverer of those services or as a local agent legally responsible for ensuring sufficient early education. The Commission heard concerns that the Government's rhetoric of protected funding for children's centres in particular is falling short of reality, with some thinning out of provision<sup>28</sup> and real challenges faced by Local Authorities in fulfilling their statutory obligation to ensure sufficient free early learning places for 3, 4 and disadvantaged 2 year olds. Though some evidence<sup>29</sup> demonstrates a degree of resilience in existing provision, challenges in the early

years are set to get more, not less difficult in the future. The Commission shares the Government's instinct that local freedoms can lead to services that best meet the needs of particular populations, but localism needs to be accompanied by transparency and accountability in order to ensure in particular that the needs of the most disadvantaged groups are protected. If the early years are the priority that Government's rhetoric suggests, Government should:

- prioritise the development of new local accountability mechanisms, including on local delivery of children's centres and availability and quality of free early learning places for 2, 3 and 4 year olds. The Commission proposes central collation and public reporting of information, perhaps by Ofsted, on the state of provision of early education and children's centres in each Local Authority area, to include: the number of providers, qualifications of staff, hours of opening, quality and population served. The goal should be to strengthen local accountability and parental choice, whilst enabling a central social mobility objective (closing developmental gaps) to be achieved.
- **Gaps in transitions between early years and school** - it is welcome that Government recognises the importance of the early years in preparing children (and parents) for school. Overall, however, Government has focussed more on school reform than on early years as a means of narrowing the gap. In order to ensure that narrowing the education attainment gap between disadvantaged and better-off children in schools is achievable, Government must do more to promote the early years as part of the journey to a successful education and ensure incentives across the system adequately reflect this. So the Government should:
  - as part of its work on the new national schools funding formula, consider 'stretching' the Pupil Premium funding into early years education, to incentivise narrowing of the gap as early as possible in a child's life.<sup>30</sup> This would involve taking the allocation of the Pupil Premium and extending it to a broader group of children; those receiving the 3 and 4 year old early education offer who meet the same conditions of eligibility as they would if they were in school. Ofsted inspections of providers could cover their use of the premium in the same way as currently for schools;
  - consider supporting the development of a new robust assessment in Reception class which aligns with the new 2/2.5 year old check and later tests at Key Stage 1 and 2. The Commission heard evidence that the Early Years Foundation Stage assessment does not provide an adequate baseline for future attainment and that there may be a more robust means of assessing development. A more robust, credible assessment would better support understanding of where and how the gap in development opens up and enable schools to put in place recovery strategies to close gaps as early as possible.
- **Gaps on parenting** - parenting is the most important factor influencing children's life chances, and there is a spectrum of parents who need support to give their children fairer chances to do well in life. But Government is very dependent upon



children's centres to plug the gap between its universal parenting support (like health visitors and light touch services like the Information Service for Parents) and more intensive, costly interventions for those requiring significant support (like the Troubled Families programme and Family Nurse Partnership). Gaps include a lack of simple messages for parents on key behaviours, like the need to talk to babies and on 'reading baby cues', and an effective, early offer of parenting education for new parents. The Commission welcomes the approach taken in the development of *Pregnancy, Birth and Beyond*, which sets out steps that local providers could take to introduce ante-natal education, but we remain a long way from realising the Social Mobility Strategy's ambition of supporting the development of "a culture where the key aspects of good parenting are widely understood and where all parents can benefit from advice and support...[which is] considered the norm".<sup>31</sup> Current ante-natal care focuses on pregnancy and birth (which are clearly vitally important), but the opportunity to capitalise on new parents' strong desire to learn about how to be parents is missed. Unlike in other areas of public services, when it comes to parenting support there is no clear and simple set of entitlements such as those set out in the funded early education choice framework.<sup>32</sup> The Government's new policy here has predominantly been through the provision of online and helpline family and relationship support services, including the Information Service for Parents, all of which depend upon parents' access to the internet, as well as them identifying a need for and proactively seeking information. Recent US evidence highlighted the importance of a differentiated approach to communication with parents; recognising the different places that mothers from different income groups go for parenting information. Women from lower income groups tended to seek parenting advice from friends and relatives, whereas better-off mothers were more likely to seek information on parenting from books and the internet<sup>33</sup>. A differentiated approach to communication is important to address the needs of parents from different income, cultural, ethnic and age groups. So the Government should:

- do more to consider how effective parenting messages (like the importance of talking to babies) could be communicated to particular cohorts of parents, including reviewing how it communicates with low income parents and the extent of take up of its information services amongst this group. Government must ensure that it makes more use of means proven to be more effective with parents most likely to require additional information and might want to consider testing how it might better tap into informal networks (like online networks), group settings (like children's centres) and trusted intermediaries (like health visitors or family support workers);
- bring together organisations from across the third and private sectors to develop an innovative parenting campaign with clear strategies to target those at the lower end of the income spectrum. The Commission has heard about high quality materials which have already been developed, including the 'five a day' Centreforum programme and materials from the NSPCC.<sup>34</sup> The focus should be on evaluating, packaging and distributing information that already exists, not reinventing it;
- prioritise rigorous testing of an ante-natal education programme for parents, using pre-existing materials as a basis. The aim should be to

develop evidence on what works to improve parenting from the start, including when, how and by whom programmes should be delivered;

- set out, publicise and keep updated a choice framework of services for parents of under 5s, building on the content in *Families in the Foundation Years*, and in the current early education framework.
- **Gaps on evidence** - a strong evidence base is vital to improve the case for the provision of support for parents. Getting the early education offer right for children depends on plugging gaps in our knowledge of what works. While we know that high quality interventions, combined with parental support, targeted at high risk groups can accelerate child development, and reduce disadvantage,<sup>35</sup> the wider evidence base on parenting (based on some well cited US examples like Perry Pre-School and Abcedarian) is often overstated. The establishment of the Education Endowment Foundation and the Early Intervention Foundation should begin to remedy these deficits but the Commission's view is that more needs to be done to identify and fill the gaps in tested interventions, including through investment in robust studies. So the Government should:
    - support the Education Endowment Foundation and the Early Intervention Foundation to develop an innovation pipeline, to identify gaps in the evidence and increase the numbers of randomised control trials taking place of early years interventions (including the ante-natal proposal set out above);
    - prioritise the development and testing of a reformed model for children's centres. This could involve separate testing of different elements within children's centres and the impact of delivering services in different ways or with better qualified staff, so Local Authorities could in future commission their service from a menu of evidence based options, which could be offered by different providers;
    - deliver on joining up data. Enabling the joining up of data like the new 2/2.5 year old check and the National Pupil Database could be hugely valuable to future evaluation and research and support Government's objectives to better understand 'what works' in public policy. Ultimately, the aim should be a whole lifecycle approach, linking in Individual Learning Records, Student Loans data, HMRC tax data as well as DWP/Job Centre data for use under controlled circumstances. If legislative change is needed it should be enacted. This is a low cost change that could make a major difference to evidence and accountability.

## **Transitions from school to work**

### **The problem**

Ensuring that young people successfully make the transition from school to work is critical for social mobility. Even though only two fifths of young people go on to study A-Levels,<sup>36</sup> public policy for decades has prioritised this high-achieving group. This cohort receives a higher level of funding per student than their peers and their transitions (most often into higher education) have been the subject of intensive policy effort. All other young people are faced with a highly complex system which has little visibility, with confusing forms of support on offer. Public policy has not given nearly the same focus or funding to 'the other 50 per cent', despite the fact that they arguably require far more attention to ensure that they are suitably prepared for sustainable employment. The Commission is concerned that the system isn't designed to cater appropriately for this cohort to make informed choices and a successful transition from school to work.

Of those falling through the gaps in existing provision, the most worrying are the 190,000 (10 per cent) of young people aged 16 to 18 who are not in education, employment or training (NEET) and a further 150,000 (8 per cent) who are in jobs without training.<sup>37</sup> Too often, these individuals flow in and out of work and evidence suggests long periods NEET is linked to an increased chance of being consigned to a life of all too frequent unemployment and low earnings. This is not just a new problem; even when the economy was near full employment, a similar proportion of young people were NEET between 16 and 18.<sup>38</sup> This problem assumes new urgency against the backdrop of the UK's current high levels of youth unemployment and long-term unemployment. Since 2008, younger people have fared much worse in the labour market than older people, with youth unemployment almost two and a half times higher than the overall rate.<sup>39</sup> High levels of long term youth unemployment undermine social mobility because individuals affected, more likely to be from poorer families, have an increased chance of being unemployed as adults, experiencing extended periods of unemployment and having lower wages (effects which are visible to middle age).<sup>40</sup> Decomposition analysis of intergenerational income persistence (which looks at the factors affecting the relationship between parental income and adult earnings) indicates that experiencing a period of unemployment explains around 10 per cent of intergenerational income persistence.<sup>41</sup> In other words, periods of unemployment don't just impact on the individual concerned. They have longer-term and more life changing effects, including for the children of the individual affected.

The Commission has focused attention in particular on NEET young people under 18, where the numbers affected, though relatively small, are persistently problematic, and the immediate aftermath of compulsory education (at 16) presents a risk of people getting lost in the system. NEET numbers increase sharply at age 18, which suggests that many of the transition problems seen earlier remain in place for older students and jobseekers, and may be susceptible to the same solutions.<sup>42</sup> The role of schools and Government's reforms seeking to raise attainment and narrow the gap play a significant part here; young people who are NEET at age 18/19 have the lowest KS2 and GCSE scores.<sup>43</sup>

The on-going NEET problem in part reflects a long term decline in the youth labour market. Employers are taking on fewer full time school leavers; only a third did so in the last 2 to 3 years<sup>44</sup> and young people's participation in part time work has also fallen dramatically for those who stay in education.<sup>45</sup> Of those who become NEET, lack of early attachment to the labour market is a particular problem. Some 48 per cent of 16 to 24 year old NEETs have never had a paid job and the evidence suggests prior connection with the world of work is a valuable protective factor against unemployment after finishing education.<sup>46</sup>

In the mid-1980s, graduate jobs accounted for about one in 10 jobs, and more than three times as many unskilled jobs would then have been open to school-leavers without any qualifications. There are far fewer now.<sup>47</sup> This suggests there is a need for an active labour market public policy approach to encourage, support and incentivise employers to give experience to and employ younger workers. More widely, this period offers the window for investments in training and skills development that can lead to higher productivity for the economy as a whole; and higher wages for the young people themselves.

### **How does the Government's activity match up against these challenges?**

The Commission's assessment is that the Government has good intentions and there is considerable policy activity seeking to address the challenges of young people making unsuccessful transitions. Key initiatives include:

- **raising the compulsory participation age to 17 years old in 2013 and 18 years old in 2015** and requiring Local Authorities through the September Guarantee to ensure all 16 and 17 year olds are offered suitable education and training. The Youth Contract has also been introduced to increase participation among very disengaged young people (e.g. those who are NEET and have 1 GCSE or fewer and those leaving care or custody), through the provision of additional support – though questions have been raised about its effectiveness;
- **redesigning the incentives for schools to focus on the outcomes of young people from across the attainment spectrum** through: the Pupil Premium for disadvantaged pupils and a requirement on Ofsted to assess its use; the new school measure of 'destinations' (post KS4) designed to improve accountability and incentivise a focus on long-term outcomes; and the proposed new measures of secondary school accountability (replacing the 5 GCSEs at A\*-C with an 'average point score 8');<sup>48</sup>
- **the reform of vocational qualifications in response to the Wolf Review (2010)** including: addressing the proliferation of qualifications with no or low labour market premiums;<sup>49</sup> and the introduction of the new 'tech levels' designed to offer a high-quality vocational alternative to the A level route which have the support of businesses so that young people know which courses have the best job prospects. Government has also introduced 16-19 Study Programmes ensuring that all vocational provision for this age group will include a substantive qualification, English and Maths GCSE for those who don't have it, and relevant work experience. It is also developing Traineeships targeted at young people to provide progression routes into an apprenticeship or other employment;

- **changing the structure and delivery of vocational education and training** through: rolling out University Technical Colleges (UTCs) and Studio Schools which integrate academic study with technical and practical work; enabling 14 to 16 year-olds to enrol at Further Education colleges which will provide technical education (alongside academic subjects);
- **substantially expanding the number of apprenticeships available and increasing the quality of provision (in response to the Richard<sup>50</sup>, Holt<sup>51</sup> and Wolf<sup>52</sup> Reviews) including:** funding an additional 40,000 apprenticeships focused on young unemployed people; implementation of a minimum 12-month duration for apprenticeships for those under 19; ensuring apprentices without Level 2 in English and Maths work toward these qualifications; encouraging SMEs to take on apprentices;
- **expanding young people's experience of and readiness for work:** making work experience a key component of education and training through the 16 to 19 Study Programme and the Youth Contract;
- **the abolition of the Education Maintenance Allowance and its replacement with the 16-19 Bursary Fund;**
- **the abolition of Connexions as a centrally branded and funded initiative and the devolution of the responsibility to provide careers advice to schools.**

Many of these policy changes are welcome additions and begin to build up better non-university pathways to work. However, despite these efforts, the scale of the ongoing high levels of youth unemployment and especially long-term disengagement from education or work means the Commission is seeking a step change in the ambition of policy in this area.

### **Where are the gaps and how should they be filled?**

The Commission has heard evidence that the pathway for the individual student is too complex, incentives are not aligned, and ownership between Government Departments and local agencies is not clear enough. The result is that too many young people are still falling through the gaps.

- **Gaps in funding** - funding for this cohort of young people falls outside of the Government's protection of education spending. As a result there have been reductions in post-16 education spending, including the de-ring-fencing of Local Government funding for early intervention with young people and the replacement of the Education Maintenance Allowance (EMA) with the 16-19 Bursary Fund.<sup>53</sup> IFS analysis in 2011 found that there would be a 20 per cent real-terms reduction in 16-19 education spending between 2010/11 and 2014/15<sup>54</sup>, with further reductions announced since, including at the Spending Review for 2015/16, which announced a £260 million cut to further education. So the Commission encourages Government to:
  - consider again what financial support for low income young people is needed to incentivise their participation in forms of post-16 education. In establishing traineeships the Government is addressing a long-

standing gap in the post-16 offer, but these are unwaged and although there may be local easing of strict conditionality under Universal Credit, implementation should be monitored to ensure that this does not act as a barrier for its target group;

- commit over the medium and longer-term to rebalance funding between different post 16 routes, including between vocational and university pathways, recognising the immediate pressures facing the public finances.
- **Gaps in ownership** - the Commission's view is that the complexity of organisational structures, multiplicity of agencies and funding arrangements weaken the policy offer for young people post-16. Currently ownership of policy and accountability for outcomes for young people not on a pathway to university cuts across the Department for Education, the Department for Business, Innovation and Skills and the Department for Work and Pensions. Although united in some aims, the respective departments have different policy objectives for this cohort. Locally, there are also complex accountability arrangements for the 16 and 17 year old group, with multiple players with varying objectives and incentives, including schools, Further Education colleges, local authorities, Jobcentre Plus (for a small number), various charities and social enterprises, and Local Enterprise Partnerships. Analysis by the Centre for Economic and Social Inclusion identified over forty separate funding streams providing support to young people, which were accountable to numerous different Government departments/agencies.<sup>55</sup> It notes that, though some simplification was occurring, under recent arrangements *'accountability for delivering the best outcome possible for a young person in study would lie with an institution funded either by DfE or BIS, if they then drop out of study the Local Authority could then be accountable if they are under 19, based on performance indicators set by DfE, unless and until they claim benefit if they are over 18 and meet other criteria – when DWP becomes accountable (either on its own or alongside the Local Authority, although with different success measures). If that individual is over 18 and then takes up training, then that provider would be accountable separately to BIS via the Skills Funding Agency'*.<sup>56</sup> The Commission is particularly concerned that if young people are no longer in school or further education, but the Local Authority has fulfilled the requirement under the September Guarantee to offer an education or training place, no organisation is responsible for their outcomes until they become eligible for benefits at 18 and engage with Jobcentre Plus. This sits alongside long-standing weaknesses in information flows between schools, local authorities and other agencies in identifying and keeping in touch with those who are NEET. We recommend that Government should:
  - give new policy priority in Government to young people not on track to University by establishing a single national budget drawn from different Departmental resources with a new taskforce of Ministers and officials to oversee its deployment, reporting to a single Secretary of State. In the medium term, Government should ensure clearer departmental responsibility for the range of policies affecting this cohort;
  - promote local control to deliver a more integrated offer to young people. The Commission believes that there could be significant

improvements in both service provision and financial efficiency by creating local partnerships which bring together Local Authorities, Local Enterprise Partnerships, Further Education colleges and training providers, schools and employers and charities working in the field. They could be supported by pooling or aligning of budgets including skills, apprenticeships, traineeships and relevant employment support funding.<sup>57</sup> We propose the creation of **Youth Transition Partnerships** which could be implemented through the framework of the City Deals or with the support of the new Public Services Transformation Network. Areas should take a flexible, local approach to membership and function, which should vary according to local need and circumstances, seeking to remove rather than increase bureaucracy and duplication. Some of the features of these partnerships could include: monitoring outcomes of young people; championing the need to track and intervene with those at risk, beginning early; communicating and managing the options on offer in the area; and co-ordinating engagement with local employers to organise work experience, traineeships and apprenticeships in a joined-up way. Implementation through City Deals could build on the potential for areas to bid for devolved funding with associated accountabilities. The Commission heard evidence from experts about the efforts of some Local Authority areas in trying to build a comprehensive system, so there are strong foundations in some places to develop this kind of approach. The Government should now set out its expectations for a system with national and local coherence; as existing arrangements have for some time been confusing at best and chaotic at worst. Though the focus would be the post-16 period, getting this right would make a big difference to post-18 youth unemployment if it ensured people to access better work experience and improve skills.

- **Gaps in prevention** - the best way of preventing young people becoming NEET is through ensuring high quality qualifications and skills. Education policy and schools play a significant role in making young people resilient to unemployment. The Commission will look further at the Government's wider approach to education, which is fundamental to ensuring a high skilled population, in our forthcoming Annual Report. We note with interest the key protective factors (essentially labour market premiums) set out by Demos, which include: having literacy and numeracy to Level 2 (GCSE English and Maths at A\*-C); having real work experience; developing non-cognitive 'character' skills such as persistence, presentation and communication skills; and ideally Level 3 skills (A-Level equivalent).<sup>58</sup> The Government has rightly recognised that English and Maths GCSE at grade C and above is critical to young people's life chances and working towards these has become a compulsory part of the new 16-19 programmes of study. Although significant progress has been made, in 2012, just 38 per cent of Free School Meal children had secured level 2 by the age of 19.<sup>59</sup> Despite the importance of high quality remedial study post-16, we know that current approaches are falling short. Less than 20 per cent of young people who failed to achieve GCSE A\* to C or equivalent in English and Maths at age 16 had achieved both by age 19.<sup>60</sup> The Commission recommends that the Government should:

- support the Education Endowment Foundation to test new approaches to remedial study of GCSE English and Maths as a matter of priority. This could include allowing schools to delay GCSEs for young people who need extra time to reach the benchmark, but who are committed to further study, removing the need for a remedial approach. We understand that some Academies are interested in this strategy, subject to overcoming current legal and administrative barriers;
- **Gaps in incentives and tracking** - schools have historically had weak incentives to focus on low attainment, low engagement students (those most likely to become NEET), because of the strong emphasis on the 5 A\* to C accountability measures. Although Local Authorities have formal responsibility after age 16 to ensure an education offer for young people, they have variable relationships with schools themselves (increasingly so with on-going Academy conversion) and face particular challenges in identifying those young people not going on to an education destination after school. The Commission favours schools being given a dual accountability; to improve absolute improvements in attainment, as well as narrowing the attainment gap. We believe this is the best long-term guarantee against a fast lane/slow lane education system and labour market. But more needs to be done to identify and support those young people at risk of falling behind system-wide. The Commission will look at school accountability in more detail in its forthcoming annual report, but recognises that the Government has taken some important steps here, including through its proposal on Key Stage 4 accountability to broaden accountability beyond the current 5 A\*-C arrangement, the revisions to school performance tables which now show the performance of low, middle and high attainers including using the best 8 value added score, as well as the publication of destinations data. However, Government must continue to monitor the extent to which this incentivises schools to ensure high quality destinations for students not going on to traditional routes. So the Commission also recommends that the Government:
  - takes a broader approach to accountability arrangements at Key Stage 4 which move away from focus on the A\*-C benchmark, but monitors the behavioural impacts of those reforms on schools.
  - supports Ofsted's role in inspecting and increasing the weight placed on destinations data; and works with providers and Ofsted in developing measures which adequately reflect the value added by different institutions (eg schools and colleges) in a young person's transition into the labour market;
  - supports our proposed Youth Transition Partnerships, which could work with schools and Local Authorities to bridge the gap in information on young people who become NEET, perhaps by schools increasingly sharing information on their 'at risk' cohort before the end of Year 11;
  - as suggested in our discussion on the early years, to deliver on joining up data for monitoring and research purposes; in this area, most important is enabling links between and controlled access to the National Pupil Database and HMRC records in order that cohorts of students can be tracked through the education system and into the labour market.
- **Gaps in information and advice for young people** - early advice on jobs, careers and the qualifications needed to pursue them is vital to all students, but is



particularly important to young people who are at risk of becoming NEET.<sup>61</sup> The Commission is concerned that recent changes to the provision of careers advice - the launch of the all-age National Careers Service and a shift in statutory responsibility for careers guidance from Local Authorities to schools,<sup>62</sup> has compounded long-standing weaknesses in support to this cohort of young people. The risks are underlined by research that finds that students often have little awareness and understanding of what jobs are available, or what skills and qualifications they need to fulfil their goals.<sup>63</sup> The Commission believes that employers have an important part to play here. Teachers are often ill-equipped (understandably) to advise their students on the local labour market and specific requirements of different career options. But we have heard evidence that engagement between employers and schools is currently far too variable. This relates closely to student work experience. Schools in England no longer have a duty to facilitate work experience for pupils under 16, after some often-merited criticism, including in the Wolf Review that this provided little value for the majority of students. But for children and young people who are likely to move into the labour market earlier, engagement with employment whilst they are in school is especially important. The Commission recommends that the Government:

- monitors schools' performance on careers advice. The Commission notes that Ofsted is due to report on schools' delivery in this area in the autumn and suggests that should those findings be unfavourable, Government must strengthen schools' obligations to secure high quality careers services. In the meantime Ofsted should give high quality careers provision appropriate weight in its assessment of schools, especially their provision for the most disadvantaged students;
  - encourages schools to appoint a business engagement/employability training advocate within the senior leadership team and similarly champions the need for business leaders to be members of school governing boards in order to focus schools on the need for strong links with the local labour market.<sup>64</sup> This should help to promote entrepreneurship as a route post-16 which, whilst likely to be suitable only for a minority of young people, has historically been neglected.
- **Gaps in providing a simple and clear pathway for young people** - young people not on track to university are faced with a complex array of possible options and are required to negotiate their own path to the next stage of education or employment. This system asks much more of these individuals than their high-achieving peers on direct paths to university. Quite apart from the sheer number of routes (including further education; traineeships; apprenticeships; work with training; employment; entrepreneurship) available to this cohort, the onus is on the individual to seek the necessary information to make an informed choice. By contrast, for university applications at 18, the completion of a UCAS form locks an applicant into a system with significant support, extensive information, and a clearing system in the event of plans going awry. To address these weaknesses the Commission recommends that the Government:
    - Promotes the use of a common brand and application process for 16 year olds when leaving school, where they would fill in fewer forms (ideally one) to access the range of options available to them. Part of

the value of this would lie in creating a consistent expectation that all young people should sit down and consider their future in a structured way. Another part of its value would lie in simplifying the process so that the different choices are presented in one place. The Commission believes that the Youth Transition Partnerships proposed above would be the right vehicle to promote and test this approach. It should help track student progress and identify those at risk of disengaging.

- **Gaps in supporting 16 and 17 year olds into work** - the Commission is clear that education should continue to be the default and most desirable destination for 16 and 17 year olds, as opposed to full-time work. However, even with a rising participation age, some under-18s are likely to continue to want to go straight into a job or do nothing rather than further study. Research has found that half of those in jobs without training post-16 were content with work (i.e. they didn't want to be in education). 38 per cent of young people NEET remain so for a sustained period, and are more likely than other NEETs to want employment, rather than return to education.<sup>65</sup> There is also a wider demand for part-time work for those who continue in school or college. Both groups of individuals are affected by the collapse of the youth labour market in recent decades, with young jobseekers losing out to older workers. It is a problem aggravated by a lack of institutional support for young people to find work. In particular, there is no public employment service for under-18s which makes it particularly difficult to engage them in the necessary support programmes to get them to be 'work ready', unless they have been referred by other routes to non-statutory support services. Those aged 16 and 17 are not eligible for unemployment benefits (unless in extreme hardship) and therefore receive neither the support nor pressure to find work that adults do through Jobcentre Plus. Without the financial incentive to encourage young people to engage with work-related support, disengaged individuals who have dropped out and do not wish to return to education may simply remain outside the system. This is a finely balanced issue, because it would be unwise to create incentives for young people to end up in work who could be in education, but the Commission recommends that the Government:
  - explores with Jobcentre Plus how it could best support 16 and 17 year old NEETs who are not willing to undertake further study, to find work, irrespective of benefits status. The challenge here is to incentivise engagement with Jobcentre Plus. A radical option to enable this would be for the Government to consider creating a youth credit for this group, conditional on participation in job search plus high quality training, in place of the benefits that families receive for children in full-time education. A step towards this approach that wouldn't involve broadening entitlements would be to devolve benefits for 18-19s to local partnerships on the same basis (i.e. linking financial support to participation in support programmes such as traineeships, with no weakening of job search requirements and support).
- **Gaps in further education** - although two out of three of England's Further Education colleges are rated as outstanding or good,<sup>66</sup> the Commission heard concerns about the degree of variation in the quality of provision. Ofsted inspection data lays bare some substantial challenges for the sector, including

that at the end of August 2012, 1.5 million learners in the post-16 learning and skills sector were in provision which was rated less than good, as well as recent 'inadequate' judgements for providers catering for large numbers in some of England's biggest cities.<sup>67</sup> We also heard concerns about whether the right incentives exist in the sector to ensure a focus on employability outcomes, which have received public policy attention in recent months in the Heseltine review. The strongest relationship for the sector remains between individual colleges and the Skills Funding Agency (SFA), rather than with employers. The Commission is aware that the Government has set out the Rigour and Responsiveness in Skills strategy for more rapid intervention, and supports the Government's aims of a stronger failure regime for Further Education colleagues and incentives to focus on employability. The Government should also:

- consider supporting areas to pilot a payment by results approach in further education, based on students' labour market outcomes;
  - consider whether an element of further education funding should be given in the form of credits to young people to commission their own training, although with sensible controls to avoid the pitfalls that befell Individual Learning Accounts;
  - as Ofsted has recently recommended, require Further Education colleges – along with other post-16 institutions to report outcomes for students previously eligible for free school meals.
- **Gaps in the youth labour market** - Government has placed particular emphasis on policies asking more of employers in engaging young people, including through apprenticeships and traineeships. The challenge here is to raise demand and to overcome inertia and perceptions that getting involved is bureaucratic and time-consuming. Government has made some progress with significant increases in the number of apprenticeship starts, but they remain dominated by older workers, and more needs to be done to make it easy and attractive for employers to take on young people. There may be opportunities to bring together further the marketing and communications of the different 'asks' being made of employers in a way that maximises impact, and that uses the full range of levers (for example, utilising procurement mechanisms to drive more apprenticeships), especially for SMEs. The Commission's view is that, despite progress in overall numbers, there needs to be a step change in the provision of apprenticeships for young people. The Government should set out its plans to do so over the medium term and we recommend that as a start:
    - the Youth Transition Partnerships are tasked with providing practical support to firms in their localities, especially SMEs, to make it easier to offer an apprenticeship and to help broker relationships during the early days when a young person starts at a business. They could also run local campaigns to encourage employers to get involved and link up with some of the high quality third sector work in this space;
    - the Government tests how far high quality apprenticeships numbers for young people can be increased among the public sector. Levers here will include scaling up of the Whitehall programme; publishing by Departments the number of apprenticeships (by age) and under 21s they employ; and using procurement routes to incentivise suppliers to increase apprenticeships.

## Work progression

### The problem

Ensuring meaningful opportunities for adults to progress once they are in work is central to achieving social mobility. Without opportunities for individuals to fulfil their potential beyond the education system, life chances are set in stone, affecting not just the individuals concerned but the prospects of their children. The Commission is concerned about what we see as a two-tier labour market: one route for those with good skills, which results in decent wages and good prospects for career and social progression; and another characterised by low skills, low pay and low chances of social progress. Without more work and earnings progression, social mobility will stall.

Low earnings arise from low working hours, low hourly wages and employment levels. Progression arises from increases in any or all of these factors. The key problem is that those who start their working lives at the bottom end of the labour market tend to stay there. Estimates from the British Household Panel Survey (BHPS) show that around a third of those in the bottom 10 per cent of earners in 2001/02 were still there in 2008/09, and more than 60 per cent remained in the bottom three deciles.<sup>68</sup> Analysis of changes in hourly wages in the 1990s and 2000s for individuals between the ages of 30 and 40 (those moving towards peak earnings potential) found that the chance of making significant relative movement up or down is low, though it did improve in the 2000s relative to the 1990s. Earnings mobility was mainly a reality for those in the middle, and for men relative to women.<sup>69</sup> There is also very little movement from the bottom to the top of the income distribution: only six per cent of those in the lowest quintile in the 2000s were in the top earnings quintile by the end of the decade.<sup>70</sup>

The highest earners are largely sheltered from downward mobility. Analysis looking at the characteristics of those most likely to increase their wages in the last decade<sup>71</sup> tells us that graduates, those employed (rather than self-employed) and those working full time were most likely to progress in work. Women were less likely to progress than men and their wages were more likely to reduce. There were also some clear regional differences; people in London were more likely to move up the ladder than those in the North East and the East Midlands.

An important result of low earnings (alongside higher levels of employment) is that the number of people who are working poor is rising.<sup>72</sup> Today over half of working age adults in poverty and two thirds of children in poverty are in households where at least one adult works.<sup>73</sup> Whereas in the past, poverty was associated with unemployment and low hours, the IFS has recently concluded that “the evidence is clear that having a low hourly wage is a stronger predictor of being in poverty than is working part time”.<sup>74</sup>

5 million workers today are paid less than the living wage (£8.55 within London; £7.45 elsewhere),<sup>75</sup> many of whom (four in five low paid workers) are women, often working part-time and in low-skilled service sector jobs. The outlook isn't improving. Since 2003 workers in the bottom half of the income distribution have seen no real

increase in median wages<sup>76</sup> whilst the cost of living is increasing. Food prices for example have risen by 30 per cent since 2007 and gas prices have trebled since 2001.<sup>77</sup> Low paid workers in the UK are faced with a crunch on living standards, as their costs of living are rising faster than their earnings. Meanwhile the recession has put further downward pressure on wages and hours of work.

### **How does Government's activity match up?**

Successive governments have sought to address these problems by a combination of efforts to raise skills levels on the basis that learning more generally means earning more; create more high quality jobs (by investing in growth sectors); support workers with guidance and advice; and put a floor under wages - through the National Minimum Wage (NMW) and family incomes through tax credits. The evidence of the long-term effectiveness of these approaches presents a mixed picture. The current Government is undertaking activity in some of the right areas, with a hugely ambitious programme in train in Universal Credit. But much depends on implementation, and there have been significant cuts to wider parts of the system such as the adult skills budget. Policies include:

- increased conditionality and improved work incentives through welfare reform and introduction of Universal Credit. This brings together the current system of means-tested benefits, tax credits and support for housing. Overall financial work incentives will be increased, meaning that the marginal deduction rates for working will be reduced while the personal and social benefits of working will remain. In return, there will be tougher requirements to seek and increase work. DWP has recently consulted on how to promote progression, with the objective to trial and test different approaches;
- the Work Programme, which seeks to get unemployed adults into sustained employment, and a variety of other active labour market programmes;
- early education policies including the 2, 3 and 4 year old offer, a reduction in childcare support costs under tax credits from 80 to 70 per cent, and plans set out in Budget 2013 plans to extend tax-free childcare to families with parents in work by £750m, and increase childcare support within tax credits and Universal Credit by £200m. The latter reform reverses the earlier tax credit reduction for some claimants;
- raising the personal allowance on income tax to £9,440 this year, and to £10,000 in April 2014;
- on adult skills, publishing a strategy: Skills for Sustainable Growth which made major changes to the funding of adult training between employers and individuals, including a significant reduction to the adult skills budget, and established an all-age careers service. The National Career Service aims to provide face-to-face careers guidance service to adults facing specific barriers, working with voluntary, organisations to help people get the support they need;
- developing Employer Ownership of Skills Pilot, which deploy Government match funding to help employers to raise skills in innovative ways;
- various changes to labour market regulation including the removal of the default retirement age and the introduction of more flexible working practices such as employees being able to work as long as they want to and increased flexibility in parental leave.

A full assessment of the implementation of these reforms is outside the scope of this report but the Commission will return to these themes in our Annual Report.

### **What are the gaps and how should they be filled?**

It is welcome that the Government has put renewed energy into making a reality of welfare to work policies. But if social mobility is to gather pace, getting people into employment is just the first step. The next steps are to enable them to earn more once they are in work and then support people to progress in their career. Government efforts are heavily focussed on the first of these objectives. The Commission believes much more Government attention should be paid to the other two. This includes addressing:

- **Gaps in earnings progression** - under the in-work conditionality regime associated with Universal Credit, there is going to be an explicit Jobcentre Plus responsibility for helping the 1 million people who don't meet their claimant commitment (that is, those earning less than the equivalent of 35 hours at the National Minimum Wage). But there is a gap in provision in relation to a bigger cohort of people, namely those who meet their claimant commitment, but won't be earning enough to lift them off Universal Credit, which could amount to around 4 million people.<sup>78</sup> In the interests of reducing burdens on the taxpayer and increasing people's independence and resilience against further unemployment, helping this group should also be an objective of policy. The main provision to support this cohort includes the adult skills budget, which has been reduced and, in any case, Government-funded adult training has a disappointing record in improving hourly pay<sup>79</sup>. The National Careers Service is the other important player in this space, but it remains very new and has a relatively low profile. **We therefore recommend that the Government develops an explicit hourly pay progression strategy.** It should
  - prioritise higher hourly wages, and not just the number of hours worked. Under the terms of the new strategy, DWP and BIS (Jobcentre Plus and the National Careers Service) should have shared goals, and work together closely to deliver it, alongside United Kingdom Commission for Employment and Skills (UKCES);
  - develop and test revised incentives for Jobcentre Plus and Work Programme providers: for example, measuring and rewarding success on the basis of total earnings for those people helped over a period, not just a binary in/out of work measure, including using payment by results mechanisms;<sup>80</sup>
  - test means of pro-actively engaging with adults on stagnating wages in order to prompt more labour market mobility. Evidence suggests that changing jobs can boost earnings.<sup>81</sup> Such adults could be encouraged to take up their entitlement to a face-to-face interview with the National Careers Service to discuss their options, via automatic prompts when updating details for Universal Credit, or in tax returns;
  - include further consideration of the way Government deploys the remaining adult skills budget. The evidence supports the need to focus

- resources on employer-led training and developing the evidence base on what works to improve non-cognitive/‘character’ skills;
- be informed by detailed research to better understand why those on the lowest pay don’t progress in work, how it varies on a sectoral and regional basis, and the interplay between demand and supply side factors (e.g. choice about hours; trade-offs between flexibility and pay).
- **Gaps in pay progression** - to help people move up the ladder and to do more to lift its lowest rungs. Unless we address the stagnation of wage levels in the lower half of the income distribution, which have been evident for the last decade, economic recovery won’t bring higher living standards for those on middle and low incomes. In the recent past, tax credits bridged the gap between low pay and a living wage. The squeeze on public spending, including tax credits, means it is no longer possible for taxpayers alone to make up the difference. Employers need to step up to the plate and share some of the heavy lifting alongside taxpayers. The Commission therefore recommends that, as the flipside of a **pay progression strategy**, the Government should develop a **low pay strategy**. This should include:
    - broadening the remit of the Low Pay Commission (LPC) and strengthening the National Minimum Wage, as well as encouraging renewed public debate on how pay can be increased in ways that are economically sustainable. Low earnings have direct costs to the Government and the taxpayer. It’s also clear that the NMW has been seen as a successful policy,<sup>82</sup> putting a floor under wages without apparently damaging employment levels or increasing unemployment. The Commission acknowledges that minimum wages need to be set cautiously in order to protect employment but we also note evidence from the Resolution Foundation among others that different sectors of the economy operate under very different constraints. We therefore see the attractions of its proposal to ask the LPC to take a view on affordable wages in different sectors, not initially as a requirement for those employers to meet, but as a benchmark to enable better understanding of pay variation within sectors,<sup>83</sup>
    - actively encouraging employers where it is appropriate to do so to pay the living wage. We acknowledge that it would be preferable to avoid the confusion of having separate minimum and living wage rates. With appropriate action it is possible that over time the gap between the two can be narrowed. In particular, Government should use its weight as an employer and as a procurer of goods and services to incentivise more uptake of the living wage, not least because some of the savings accrue elsewhere in Government in reduced tax credits. Local Government could also do more in this regard. Around one in seven public sector workers are paid less than a living wage and a higher proportion if contractors to the public sector are included,<sup>84</sup>
    - using more muscular transparency to promote higher wages, for example by changing the law to require listed firms and public sector employers to publish pay ratios as well as the number of staff earning below particular hourly pay benchmarks – whether the living wage or, as proposed above, sectoral benchmarks developed by the LPC.

- **Gaps in childcare provision** - the Commission notes the extensive evidence that highlights women's lack of progression in work, which clearly warrants further attention, particularly in the context of the provision of affordable, flexible childcare and enabling flexible working. We recommend that the Government should consider:

  - as noted above, clarifying its long-term plan for the early years including its ambitions for addressing barriers to work for parents and how it plans to get there. This should be supported by a clear strategy on affordability, flexibility, employer engagement and reducing the wage penalty on women in the short term, seeking to ensure that existing support is well targeted to incentivise employment. The Commission welcomed the Budget 2013 commitment to provide more support to help families meet childcare costs, but was disappointed that it won't be implemented until 2016 and that 80 per cent of the new money announced is going to households in the top half of the income distribution. The changes to the element of Universal Credit related to childcare costs go some way towards helping low-income parents affected by previous reductions in the childcare tax credit but it will only support families where both parents are working and where they earn over the personal tax allowance threshold of £10,000. The Commission would encourage Government to think again and reallocate the tax free allowance that is currently set to benefit the highest earners (by reducing the top threshold from £150,000 per adult) in order to increase incentives available to low earners who are genuinely on the edge of work and those in low paid work.
  
- **Gaps in employers' role** - tackling lack of work progression, stagnating hourly pay and, in particular, in-work poverty cannot happen without the active engagement of employers. It is clear that employers' decisions on wages, on subcontracting employment, on shift patterns, on childcare, on recruitment, training and promotion can all have an impact on opportunities for progression. Over recent decades the hollowing out of mid-level jobs, strong growth in low skill service roles, increases in zero hour contracts and self-employment; and the collapse of internal careers ladders (in part a consequence of increased outsourcing) have all impacted on opportunities for low paid workers to progress. Some experts we spoke to also cited weaknesses in UK labour market structures that inadvertently encourage low pay and poor progression. They pointed to evidence that low paid service sector jobs are more strongly associated with low pay in the UK than elsewhere, for example in job design. Germany has created more structured pathways into and upwards in traditionally low skilled sectors, where for example, shop assistants would be more likely to take responsibility for a section of the store through a combination of buying, layout and customer assistance, whereas the same roles in the UK are broken down into lower reward individual tasks.<sup>85</sup> Government has initiated some policy here, including the Employer Ownership of Skills Pilots that may pave the way for creative demand side work, where firms seek to break out of a 'negative equilibrium' of low skills, low responsibility and low reward. But much more needs to be done to help employers create careers. We therefore recommend that the Government should consider:



- paying the same attention to the lower end of the labour market as it has the professions, and using its Social Mobility Business Compact to persuade employers to set out strategies for promotion and development opportunities for low paid staff, as well as more childcare. Employers can also play a role in supporting their staff to reduce costs: the Commission heard examples of firms supporting low paid workers to obtain reduced price mobile phone contracts through the company, and providing help to workers with weak English language reading skills to understand bills;
- developing and testing initiatives where employers work in partnership with Government to upgrade skills and build career ladders. It could, for example, bring together representatives of a low paying sector and the relevant sector skills council to create initiatives along the lines of pioneering programmes in the US such as Boston Skillworks.<sup>86</sup> This organisation provides support to employers and to low-paid workers to increase their potential for wage and career progression by encouraging skills development and promoting employers' use of those skills;
- using its role as an employer and a regulator to build careers ladders itself. It should be prioritising non-graduate routes that offer training and development – for example in the Civil Service, in the NHS, in local government or in social care. It could consider giving a right to low paid contractors working in the public sector to be able to apply for permanent roles in the services with whom they interact.

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- <sup>2</sup> The 4 million figure is an approximate one. We base it on evidence in the Government's consultation on in-work progression, 'Improving employment outcomes under Universal Credit for in work claimants (2013)' which says that there are likely to be 11 million claimants under Universal Credit, 5 million of whom will be in employment. We arrive at the 4 million figure by excluding the one million which will be in the 'working could do more' category.  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/183263/improving-inwork-outcomes.pdf.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/183263/improving-inwork-outcomes.pdf.pdf)
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- <sup>5</sup> Department for Education (2013), *Early Years Foundation Stage Profile Attainment by Pupil Characteristics*, England 2011/12
- <sup>6</sup> Taken from Department for Education internal analysis set out in Families in the Foundation Stage Evidence Pack (2011), accessed at  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/177034/DFE-00214-2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/177034/DFE-00214-2011.pdf), 11 July 2013
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<sup>56</sup> Bivand, Gardiner, Whitehurst and Wilson, T. (2011) *Youth unemployment: a million reasons to act*, Centre for Economic and Social Inclusion

<sup>57</sup> A Local Government Association report based on the same CESI analysis finds that ‘young people between 13 and 24 years old can receive support from at least eight national organisations, funding 33 different funds and schemes, spanning 13 different age groups and – not including school funding – at a cost of over £15 billion each year. This complex picture plays out differently around young people too. For instance a 16 year old with one child studying full time can potentially receive support from 10 schemes, with responsibility spanning five government departments. While an 18 year old not in employment, education and training can receive support from nine schemes, and only two being in common with the 16 year old.’ It identified 33 national funding streams delivering services to young people that – without including universal credit and school funding – accounted for £15 billion a year. Local Government Association (2012) *Hidden talents: supporting the most disengaged young people into employment, education or training*.

[http://www.cesi.org.uk/sites/default/files/publication\\_additional\\_downloads/LGA\\_Hidden\\_Talents\\_Supporting\\_the\\_most\\_disengaged\\_young\\_people\\_into\\_employment%2C\\_education\\_and\\_training.pdf](http://www.cesi.org.uk/sites/default/files/publication_additional_downloads/LGA_Hidden_Talents_Supporting_the_most_disengaged_young_people_into_employment%2C_education_and_training.pdf)

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<sup>68</sup> Sissons, P. (2011) *The Hourglass and the Escalator: Labour market change and mobility*. London: The Work Foundation.

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<sup>78</sup> As noted above, the 4 million figure is an approximate one. We base it on evidence in the government’s consultation on in-work progression, ‘Improving employment outcomes under Universal Credit for in work claimants (2013)’ which says that there are likely to be 11 million claimants under Universal Credit, 5 million of whom will be in employment. We arrive the 4 million figure by excluding the one million will be in the ‘working

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could do more' category.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/183263/improving-inwork-outcomes.pdf.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/183263/improving-inwork-outcomes.pdf.pdf)

<sup>79</sup> Government adult training initiatives have generally had a disappointing record in raising earnings, and economic theory is sceptical of the likely returns (because of the way in which adults learn, because later investments have less time to pay back and because employers may not always value qualifications achieved later on in life). This is not to say that adult training is necessarily without labour market value if it is well targeted. There is evidence that employer-provided training can have more of an effect. Research also highlights that non-cognitive ('character') skills can be developed in later years, and are associated with higher earnings, so may be a more effective means of developing adults to enable progression in work.

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