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Small Project Report

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

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About PIN

The Productivity Insights Network was established in January 2018 and is funded by the Economic and Social Research Council. As a multi-disciplinary network of social science researchers engaged with public, private, and third sector partners, our aim is to change the tone of the productivity debate in theory and practice. It is led by the University of Sheffield, with co-investigators at Cambridge Econometrics, Cardiff University, Durham University, University of Sunderland, SQW, University of Cambridge, University of Essex, University of Glasgow, University of Leeds and University of Stirling. The support of the funder is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders.

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1   Introduction

The UK welfare system is undergoing a period of unprecedented reform, which changes the way those who are in work and on a low income are supported by the social security system. Most significantly, the introduction of Universal Credit (UC), which has been described as the '*most significant change to the welfare system since the Beveridge reforms in 1947*' (DWP, 2010, 46), subsumes six existing working age benefits and brings together what were previously separate systems of out-of-work (Job Seekers Allowance) and in-work financial support (Working Tax Credits). Reforms have also involved the intensification of 'conditionality' for unemployed benefit claimants (Dwyer and Wright, 2014).

As part of this, alongside more stringent requirements for out-of-work claimants to engage in job seeking activity, Universal Credit also potentially involves the introduction of "in-work conditionality" (IWC) to welfare claimants on a low income, placing responsibilities on individual claimants to increase their earnings, as part of the Department for Work and Pensions (DWP) '*In-work progression*' policy. Whilst policy specifics are developing (trialling is underway), the DWP's (2018, 10) "*Employer Guide to Universal Credit*" states that workers on a low income who are in receipt of UC, may be expected to:

   a)   *increase their hours*

   b)   *look for ways to progress in their current workplace*

   c)   *search for additional work with a different employer (i.e. take on multiple jobs)*

   d)   *take up alternative work elsewhere (i.e. move jobs).*

These expectations may be backed up by support from the Jobcentre (for example, through advice from Work Coaches, or access to skills training), but also by penalties (benefit sanctions) if individuals do not comply with mandatory work-related requirements, including searching for and applying for additional work (House of Commons Work and Pensions Committee, 2016). Once UC is fully rolled out, approximately one million households may be subject to in-work conditionality (SSAC, 2017). This represents a significant policy shift, as those currently in receipt of (non-conditional) tax credits are moved on to UC.

Extending conditions and support to working social security claimants (through Universal Credit) has been described as '*ground-breaking*' with '*no comparable precedents*' (SSAC, 2017). Whilst some stakeholders have welcomed additional support for low-income workers, the extension of conditionality (and sanctions) to those in work is controversial. Existing research focusing on claimant experiences has raised questions about the extent to which In-Work Conditionality results in meaningful in-work progression (DWP, 2018) and has highlighted the counterproductive consequences of a conditionality regime overwhelmingly focused on requirements to apply for a high volume of (often inappropriate) jobs (Wright et al. 2018).

In-work conditionality – a productive policy?

According to the DWP, Universal Credit will help '*business to grow*' and '*improve productivity*' (DWP, 2018). However, the mechanisms through which this is to be achieved are unclear. Whilst the government's ambition for a '*higher pay, lower welfare society*' forms a key part of its productivity plan (HM Treasury, 2015), little attention has been paid (in policy debates or academic literature) to understanding how recent welfare reforms that impose conditions on employed people in receipt of benefits are likely to impact on the labour market, including productivity-related issues (Learning & Work Institute, 2016).

Most existing research on active labour market policy (ALMP) and the benefits system has not explored implications for productivity. In the literature, links have been drawn with productivity and ALMP insofar as increasing employment participation rates have been viewed as a mechanism through which to unlock the 'latent productive capacity' or potential of unemployed people. According to the ILO (undated), for example, '*increasing productivity of the poor, improving their employability and creating productive*

employment opportunities for them is an important way to fight poverty'.1 Active labour market policy is therefore considered a key part of tackling low productivity through ensuring that those who are able to participate in the paid labour market are supported to do so.

However, some employment opportunities are more productive than others, which presents a challenge for policymakers. A high prevalence of "non-standard" work (including zero hours contracts) and labour market insecurity can mean that improving working conditions, and developing training and skills is more difficult. Particularly where unemployment is low, the key challenge is not moving people into work, but ensuring that participants are supported into decent and productive work where their skills and capabilities will be developed and utilised (ILO, 2016).

Considering this new policy landscape, and moves to extend conditionality to those who are in work and on a low income, there are arguably therefore a number of implications for productivity, based on the existing evidence base and the emergence of broader perspectives. As McCann (2018, 7) explains: '*productivity… is a result of a complex interplay between many different influences*', and the policy has implications for a range of productivity-related issues including skills (Abreu, 2018), well-being (McSorley, 2018) and the nature of work and the workplace (Newsome, in McCann, 2018). Furthermore, focusing on individual workers, and emphasising work intensity (i.e. increasing working hours), whilst neglecting to consider demand side issues, such as work quality and management practices, which are poor in comparison to competitor countries appears unbalanced, if *'improving productivity'* is an aim of Universal Credit. But as noted above, the mechanisms through Universal Credit are expected to help improve productivity are unclear. Focusing specifically on the IWC aspect of the policy, this pilot project attempts to address this, asking:

Would the introduction of 'in-work conditionality' under Universal Credit lead to more productive work?

The remainder of this report is structured as follows.

> Section 2 outlines our method and focus on employers
>
> Section 3 considers the existing state of play in terms of the nature of work in the firms sampled
>
> Section 4 explores employer understandings of productivity (and efforts to improve it)
>
> Section 5 presents employer perspectives of their likely response to IWC
>
> Section 6 presents employer perspectives of the likely impact of IWC on their businesses
>
> Section 7 presents employer views on IWC policy
>
> Section 8 outlines the ways in which employers felt jobcentres and other agencies could support them to respond to IWC
>
> Section 9 presents conclusions

2   Method: Employers in focus

Employers are key to outcomes arising from active labour market policy (Sissons and Green, 2017; van Berkel et al. 2017), and their response to new expectations placed on low-income workers will be pivotal to the policy's productivity effects. However, employers have been largely absent from policy discussions as this new policy is being developed. As a policy with implications for the supply of labour, workplace social dynamics, management practices, skill development and worker well-being, all of which impact on productivity (Abreu, 2018; McCann, 2018; McSorley, 2018), this is an important omission. This project begins to address this gap, through focusing on employer perspectives on proposals to extend new requirements to working Universal Credit claimants.

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[1] https://www.ilo.org/global/topics/dw4sd/themes/productivity/lang--en/index.htm.

This is a pilot study based on 12 semi-structured qualitative interviews with HR managers or Owner-Managers of businesses operating in the Greater Manchester area. Interviews took place between August and September 2019. With no firmly set policy details, topic guides were informed by the recently published '*Employer guide to Universal Credit*' (DWP, 2018) (whilst policy specifics are yet to be determined, we assume this gives a clear indication of the general principles). The employers sampled represented a mix of large and small businesses, operating in the public and private sectors – including a care provider, a local council, housing providers, hotels and restaurants, a landscaping business and a soft play centre (see Table 1 for an overview). Most firms were long established and several of the private sector businesses had plans to expand. In contrast, the local council and housing providers were reducing the size of their staff, at a time of increasing demand for their support and services. Participants were primarily recruited via local contacts at MMU, the local Chambers of Commerce, and via introductions facilitated by the project advisory group.

A purposive but broad approach to sampling was adopted, inviting employers operating across Greater Manchester to take part, but in discussion with stakeholders we targeted our recruitment efforts towards employers operating in traditionally low paid sectors. Where employers were offering a mix of high and low paid roles, discussion focused on lower paid positions (for example, lower paid admin posts offered alongside higher paid manufacturing roles). Whilst a diverse range of employers, there are limits in the extent to which their views can be understood to be representative of employers more generally. It is notable that most were engaged with the local Chambers of Commerce or other sources of business support, and several were Real Living Wage employers (or working towards this accreditation). Furthermore, as a self-selecting group it is unlikely that this research has tapped into the sharper end of the labour market.

Table 1: Sample details

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

3   The current state of play the nature of work

The nature of work currently offered by the employers varied. Some businesses employed predominantly low waged/low skilled workers, with relatively few managerial or supervisory positions. Within these organisations, a range of roles were available. The soft play centre, for example, employed caterers, cleaners, baristas, receptionists, and party hosts. Similarly, the hotels employed chefs, kitchen porters, food and beverage staff, receptionists, housekeeping/room attendants and so on. Larger organisations offering multiple services (e.g. local councils and housing providers) appeared to offer the greatest range of job roles in terms of skill level and pay.

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[2] Here both the HR manager and head of incomes team took part in a joint interview

Similarly, the contractual status of staff differed across and within firms. In the hotels, for example, staff tended to be employed on a part-time basis (around 16-20 hours) but typically took on more hours in response to fluctuations in business need. The majority of staff employed by the care provider and the soft play centre were on zero hours contracts.

In some instances part-time, short or zero hours contracts were reportedly offered in response to the preferences and needs of staff, in order to 'attract talent' and to be inclusive to those who may be unable to take up full-time positions. However, in most cases, the hours offered reflected the business models on which employers were operating.

> *"We tend to have some casual and part-time workers… because food and beverage business fluctuates"* (Employer 5, hotel)

Businesses had a range of existing approaches/processes in place to help staff to progress (either take on more hours or improve their pay) including mentoring and annual reviews. However, these varied in formality and opportunities for progression depended on factors including the size and structure of the business and the availability of career ladders. For example, whilst there were, in theory, opportunities to progress to better paid managerial positions in most businesses, in reality, these were limited in those with a high proportion of low skilled/low wage roles. Furthermore, whilst employers felt that progression opportunities were available to both full and part-time staff, in reality higher paid positions with managerial responsibilities were often not offered on a part-time basis.

> *"Yes, the progression thing, we love it when people want to progress in the business, but there aren't so many managerial positions that we have within here, so it's difficult to really progress that far because, like I say, unless we give somebody extra responsibilities, they're all on a very similar wage"* (Employer 10, soft play centre)

In some organisations, staff were able to access a range of training opportunities to help them to develop and progress in their roles and careers. However, for some, progression was considered to be an individual responsibility, with training not typically covered in work time:

> *"We do offer cross-training in other areas, but people generally are expected to do that in their own time… on your day off, you can go and spend a day on reception and try and find out how it works. They won't have been paid to do that because we need them to work their job that they're doing"* (Employer 11, hotel).

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

Employer understandings of productivity differed across the sample, and was felt to be influenced by a range of factors including the extent to which they were making efficient use of resources, staff well-being and staff retention. Productivity was generally understood by employers as being mostly about making efficient use of resources and getting the most out of their staff. Particularly across the employers operating in the service sector, productivity was about providing a quality service in an efficient and effective manner, generally underpinned by a strategy of minimising labour costs.

Having a flexible workforce was considered key to this – both in terms of staff being available to take on more work at times of high demand, and having staff who were willing and able to work in different roles when necessary.

> "*We want people who are pretty flexible, who can increase hours if necessary*" (Employer 4, hotel)

A small number of employers talked about a need for flexible working practices and agile working, however this tended not to apply to lower paid roles. More commonly, employers emphasised the importance of staff well-being, and low absenteeism:

> "*Our job is hospitality, so it's all about looking after the customers and if our staff aren't happy, then they're not going to be great party hosts, are they?*" (Employer 10, soft play centre)

Staff retention was also considered an important element of productivity as longer serving staff understood the needs of their business, and recruiting and training new staff was costly:

> "*Long-term staff are more productive than new staff coming in…. [Long-term staff] understand the culture of the business... If we're constantly bringing new people in, and training them, it just saps a lot of time and energy, and recruitment is really expensive*" (Employer 10, soft play centre)

Overall, employers did not consider that the hours worked by their staff was holding back the productivity of their firms. Increasing the hours worked by staff was therefore not part of efforts to improve productivity:

> "*To grow your business, you invest in the people that manage and work in that business. It's not about increasing people's hours.*" (Employer 7, housing association)

> "*We're working really lean and really, really efficiently at the minute*" (Employer 1, manufacturing company)

In fact, several respondents felt that a reduction in working hours would help to boost productivity. One was actively exploring the possibility of a '4 day week'.

The exception to this was the social care provider included within our sample, whose staff were currently employed on a zero hours' basis and tended to work a small number of hours:

> "*I think the sweet spot is round about 30 hours a week. That allows carers to work at a high capacity, but also work at quality, where they're not going to be burned out*" (Employer 6, social care provider)

Instead of increasing hours, improving the skills of staff was considered important for enhancing productivity. Several were investing in apprenticeships and other accredited skills training, others felt learning 'on-the-job' was the main mechanism through which to develop appropriate skills. In hospitality roles, for example, communication, team working and customer service skills were felt to underpin productive workplaces. However, reflecting on the relatively low skilled nature of the roles in this sector, one interviewee felt upskilling was not a significant requirement:

> "*Hospitality is not obviously rocket science. It is basically a low-skilled industry*" (Employer 5, hotel)

Some employers felt that developing the digital skills of the workforce was a key area which would help to improve productivity. The council and housing providers, for example, were exploring opportunities for digitalisation and automation of some services, however they anticipated some reluctance amongst staff to engage in developing digital skills, alongside staff's limited access to technology.

One employer reflected on the need to build management skills, as improving these skills were considered key to productive workplaces:

> "W*e do have a challenge around management… A lot of our managers have become managers because they were really quite talented social workers or they were really talented school cooks. Actually, building management skills is an area of focus for us at the moment.*" (Employer 2, local authority)

Overall, employers were broadly satisfied with the productivity of their firms, although several reflected there is always room for improvement. For the private sector businesses this tied in to efforts to grow their businesses. However, for the local authority and housing providers, this was in part driven by a need to do more with less within a context of reducing resources but increasing demand.

More generally, although not necessarily articulated in terms of productivity, most employer representatives interviewed shared an understanding that minimising their labour costs (without sacrificing output) was important to their business model, or that labour costs in the private sector could only increase in tandem with business growth.

5   Likely responses to in-work conditionality

We asked employers how they thought they would respond if staff were expected to increase their hours or pay within the context of their organisation, or take on additional or alternative work for other employers.

Regarding expectations for employees to progress within their firm, the general sentiment amongst all employers was that this was something they would consider, but that ultimately whether or not they offered more hours or more pay depended on whether there was a clear business case to do so:

> *"I would have to check my budgets to see if that was feasible, but what I'd also have to consider is, is the work there? I wouldn't just do it if the work wasn't there*" (Employer 12, housing association)

The extent to which employers felt they had capacity for existing staff to take on more hours varied across the sample. Employers reflected that some jobs, such as school catering assistants, would only ever be offered on a small hours basis. For others, it was felt that weak consumer demand could make offering more hours difficult:

> *"I suppose that's the difficulty isn't it, is current market at the moment within hospitality is not great... that's probably due to the social impact of Brexit and people are worrying and drawing back on their spending*" (Employer 8, restaurant)

Some employers felt they would be in a position to offer more work, to a point. Several described opportunities across different departments and partner organisations to take on more hours. However, this would depend on the number of hours that employees were looking to take on, and could not necessarily be offered on a permanent basis.

> "I*f it became something that we'd have to manage, we've got different departments, so maybe they could pick up some hours in other departments as well, but it's never guaranteed, it would never be something that we'd definitely do permanently on a longer basis*" (Employer 4, hotel)

Significantly, opportunities to take on more hours did not apply equally to all roles, demonstrating the challenges of progression in low wage work:

> *"I think it's depending on the flexibility as well. I think that would be a problem, as I say, with our cleaners, unless they come in at a lunchtime maybe and help out, probably we would struggle"* (Employer 10, soft play centre)

Moreover, employing staff on a flexible, part-time basis, where they regularly took on more hours as required by business need, was considered important to the effective operation of their firm:

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

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

> *"If someone who works in reservations upstairs or sales upstairs comes to me with this proposition of going to the next-door hotel, then unfortunately, there is a contractual clause that will bar them from doing such a thing"* (Employer 5, hotel)

Several employers expected staff to be committed to the roles they applied for – including a commitment to be flexible around the needs of the business, being available to take on more hours when required.

Some employers felt they might consider offering more pay or hours in order not to lose a 'good employee'. On the other hand, they appeared indifferent about losing other staff who were less valued in their business:

"*We would never lose a good employee over a small amount of money, so we would always try and make it work*…[but] *there might be somebody that we might think well, go on, you are not that great here, so maybe you'd be better off somewhere else*" (Employer 10, soft play centre)

One social care employer felt they would need to pay more or offer more hours in order not to lose their staff, a cost which they felt would need to be passed on to customers. This, they reflected, would make their business less competitive:

"We just have to make our pricing change to facilitate the extra cost but then that would make us less competitive and it's super, super constrained at the moment with the prices in social care. You just really can't move much on the pricing" (Employer 6, social care provider)

Ultimately, the businesses we spoke to explained that their 'bottom line' would continue to have more sway than new expectations placed on staff, and there was widespread reluctance to increase wages due to perception that this would impact negatively on the profits of the business:

"Our wages this year were about 38 per cent of our turnover. It's higher than we want them to be.… there is only one place that wages can come from and that's off our profit, so if it goes up that's where it's coming off. We have to be quite careful with keeping our staffing levels right" (Employer 10, soft play centre)

Employers felt that the policy would have a limited impact overall on their way of working and staffing policy. Several felt that they already had effective progression mechanisms in place, and that proposals to extend conditionality to those in work would not impact on their approach:

"We are already improving our performance management framework, we're looking at talent management... Universal Credit won't change what we're doing there" (Employer 7, housing association)

However, one employer reflected that it might give added impetus to what they were already doing, in terms of linking up low waged employees to existing opportunities across their organisation, and through the promotion of opportunities with other partner employers.

Several also reflected on a potential need to revisit their current approach if the policy were rolled out, and was seen to impact on their businesses:

"I think our approach would be very much reactionary…If there is a profound impact on our operation, then of course we will look at responding to such changes" (Employer 5, hotel).

6 Likely impact of In-work conditionality

Employers were asked to reflect on the likely impact of in-work conditionality on their business. It was felt that the impact of the policy would be highly dependent on a range of factors including business needs, worker responses, and the approach taken (i.e. whether a supportive or sanctions-based approach was taken to the application of conditionality to those in work, and the nature of the support provided).

In terms of business needs, one employer felt that the impact of IWC would depend on an employee's willingness to work in other areas of the business, but also explained that staff needed to be trained appropriately for this to work well:

"I think it depends on whether they're willing to work in another area of the hotel…[but] if they've never cleaned a hotel bedroom, that's going to be a wasted resource for the housekeeping team because they're going to have to spend all that time training that person" (Employer 11, hotel)

However, there was also a concern that new expectations introduced as part of the policy may be a hindrance to flexibility of their workforce (which was considered a productive way of running the business). It was widely felt that if staff were to increase their hours in their organisation as a result of the policy, this would not necessarily be productive for their business:

"We have to keep our productivity very tight here…if we're having to say we've got to give this person an extra two hours this week because they're not going to meet their quota, what are they going to do in that time?" (Employer 4, hotel)

In terms of worker responses, some employers felt that the policy of IWC could help to open up opportunities for staff and encourage them to progress in work:

"I think it will open up more opportunities for the carers to actually actively ask us for more work. I think at the moment they just don't… they're comfortable with the system that they're used to" (Employer 6, social care provider)

Overall though, employers voiced concerns about the potential for the policy to have an adverse impact on staff, and their business as a result. Employers were concerned that the policy could have a negative impact on staff motivation, and that absenteeism and presenteeism may result from an approach to in-work support that was underpinned by conditionality and sanctions:

"The formula is simple, happy team, happy guests... If we have a team who's burdened with all these headaches, then of course that's going to impact on our quality, productivity, potentially as well. It could even lead to presenteeism… It could even lead to absenteeism" (Employer 5, hotel)

"[Staff might be] less committed to the role… let's say they work for me and they work for Asda, you know, Asda's an easy job… and actually decently paid. That's what we're competing with in the care sector… We want people to be committed to our business and we want them to see it as a career and that will not be at the forefront of their mind if they're just between one and two jobs or even three" (Employer 6, social care provider)

Several respondents felt the policy would result in increased stress and reductions in staff well-being, which in turn would have an adverse impact on productivity:

"*Potentially what you'll see is people will go more off with stress, with anxiety, depression*" (Employer 7, housing association)

Employers felt the risk of this was bigger for (mainly female) staff who were combining work with caring responsibilities, with one citing concerns about the potential for employee 'burnout'. Alongside their concerns about how the policy might impact their employees' work-life balance, this was felt to potentially have knock on consequences in terms of the reliability of staff and their relationship with other staff members:

"If we're thinking about our mums, and particularly single mums… I think they already have a job and so this is kind of their secondary job, and if they had to spend too much time on this, they're probably going to end up being unreliable and then that's going to damage our relationship with that member of staff and their relationship with the other staff" (Employer 10, soft play centre)

Several employers were concerned that the policy would result in increased staff turnover, which they felt would adversely impact the productivity of their businesses, for example through reductions in returns from investment in training (both in low skill positions and those requiring more training) and the costs associated with recruitment and training new staff:

"If we saw a rise in turnover because people were looking for work elsewhere, that's going to make us less productive, because more time is going to be spent recruiting people" (Employer 4, hotel)

This was felt to be particularly problematic for some roles which typically only required part-time/small hours working, and if a significant number of staff in these types of roles were expected to leave these posts in favour of full-time work.

Whilst one employer felt that if they were able to support their staff to meet the expectations of IWC, this might help to foster more loyalty and retention, this view was not widespread:

"I'm looking for opportunities where I can do something for the team in question. Something that will help them, so that I can generate some loyalty and dedication towards the brand and the organisation… this could potentially be an opportunity for me" (Employer 5, hotel)

More commonly, employers highlighted the danger that this new policy might increase costs for their business incurred through managing recruitment – not only due to increased turnover, but also if more applications were made by others trying to increase their working hours. Employers complained about the high costs associated with dealing with a high volume of applications, which they felt in part resulted from the existing emphasis of Jobcentres on requiring jobseekers to make a high volume of applications, rather than focusing on the quality of these applications and the job fit/match.

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

Reflecting on the broader economic implications of the policy, one employer felt that it would make workers more 'transient', and more likely to take up jobs in the 'gig economy':

"[It's] going to make employees more transient, I think. If it's done on any sort of large scale… it's like the gig-economy people, they'll go under that, won't they? They'll ride around on a bike, delivering pizzas or whatever" (Employer 1, manufacturing company)

A few employers raised concerns that the policy could have a negative impact on employer-employee relationships, if they were unable to offer staff the increase in hours/pay they required. There was also a concern about tensions arising from a mismatch between their requirements and those placed on workers by the Jobcentre:

"If they're saying to our staff to do something and we're saying the opposite, how is that going to work?... The Jobcentre will not know someone's performance at work" (Employer 2, local authority).

One employer was clear that if the DWP were to simply encourage or require their staff to request more hours and/or higher pay, this was unlikely to have any impact on their business. Alternatively, if the policy led to the provision of suitable skills training which their business could use, then this would be more likely to result in the offer of more hours/higher pay:

If we were put under pressure to pay somebody more, just because they needed more, I would say, 'Well, they're no different now to where they were when they started.' If they were incentivised to go on a chainsaw course, so somebody paid for them to go on a chainsaw course, or subsidised it, or there was some arrangement made, then they said, 'Right, now I've got this certificate, I've got a chainsaw certificate, does that help me?' as an employer I'd say, "Yes, I can use that skill, I've got another two days a week work for you now" (Employer 3, landscaping company)

7   Employer views of 'in-work conditionality'

Employers were divided on their views of IWC. Several were in favour of the extension of conditionality to workers on a low income. Others welcomed the policy if it meant that more support would be available to help those on a low income to improve their position in the labour market. Others were against the extension of conditionality to those in work, with one employer actively campaigning against the use of sanctions. Others did not have a clear position, but questioned how appropriate/realistic the policy was:

"There isn't a one size fits all for this and I think that's the danger that they fall into with these things... This is a massively complex issue that they're trying to address" (Employer 1, manufacturing company)

Some questioned the capacity and capability of Jobcentres to expand their service to those in work. For some this related to their perception of the Jobcentre's performance in supporting people to move from unemployment into work:

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

Some employers were sceptical about the skillsets and capabilities of Jobcentre staff to support people in work. Others commented on the level of resource and administration that the extension of support into work would require, and doubted the viability of this, particularly within a context of constrained public finances.

"[It's] *going to mean enormous pressure on the Jobcentre and additional people working in the Jobcentre. Good luck trying to fund that, government…How is that going to be funded, how is it going to be managed and how is it going to be measured?"* (Employer 1, manufacturing company)

Several employers emphasised a need for support rather than sanctions-based measures, overall favouring a voluntary approach rather than a mandatory approach to in-work support. Employers stressed a need for a cautious and even handed approach, which took into consideration the reasons why some were not able to undertake a full-time role in paid work.

"People's circumstances are varied, aren't they, as why they might not be able to work more than 16 hours or 20 hours. It's very much dependent. The higher increase of carers, all those types of influences, need to be taken into account" (Employer 8, restaurant).

Employers stressed the importance of a tailored approach to support for working UC claimants – simply requiring people to take on any additional work - a 'work first, then work more' approach - with little consideration of the types of work individuals were engaging in, was considered inappropriate:

"I*t's not about the process or the ticking it's box, it's actually about the career management of that person to help them grow into something else… helping them find the right work, rather than just any work*" (Employer 7, housing association)

"[Jobcentres are] *targeted wrongly I suspect, in terms of it's just the number of people applying for jobs, rather than how relevant, the relevance of the applicant for the job*" (Employer 3, landscaping company)

In addition, several employers felt that the policy seemed to go against a broader policy push for flexible working:

"Are we trying to increase them up to full-time? Is that the end goal? In which case it does then remove that flexible working opportunities, which as a business is the direction we're trying to move in, because we're trying to create that flexible working lifestyle which will accommodate people now in today's society of what they need" (Employer 8, restaurant).

Several employers also raised concerns about the impact of such a policy in terms of fairness and equity. For them, it was important not to treat staff differently because they were in receipt of in-work benefits. Furthermore, it was felt that any perception of differential treatment of those workers in receipt of Universal Credit could cause frictions within their teams.

8 Supporting employers with in-work conditionality: the role of Jobcentres and other sources of support

We asked employers about the support they would need to effectively manage this policy, were it to be rolled out, and about where they would go to get support. Notably, several employers felt more should be done to consult with employers about the proposed policy change, to better understand the impact of the policy on their businesses, and to develop in-work support in an appropriate manner. As one employer reflected:

"*What worries me is the impact that it will have on businesses which haven't really been thought about, potentially…I think there's a huge amount of pressure put on employers, which doesn't necessarily get considered when they're launching new things*" (Employer 8, restaurant)

Interviewees made numerous suggestions about how agencies could best support them in responding to the policy, and more broadly in terms of supporting the progression of their staff. These are summarised briefly below.

Communicate expectations to employers, as well as workers

Employers felt it was important that they were made aware of conditions placed on staff claiming UC, in order that they could best support them and understand their needs:

"*We need to understand our staff, or potential staff, and why they are asking for things, so I do think it's important to have that information and to know what's going on*" (Employer 10, hotel)

Simply placing requirements on employees without making employers aware of the expectations their workers could be subject to was considered both unhelpful and unfair, particularly as it was recognised that some employees would be reluctant to share these expectations with employers:

"*It isn't a given that that employee is going to say anything to the employer, in fact it's very unlikely that they will, in truth. You're only going to get the ones that are more vocal that are actually going to say anything, so what of the ones that don't have the confidence to go to their employer and make those requests? They're going to suffer*" (Employer 1, manufacturing company)

Work in partnership with employers, and understand their needs

Several employers felt strongly that in-work support should be developed through partnerships between employers and Jobcentres. Interviewees felt that it was important that if the Jobcentre were to support workers effectively and appropriately, they needed to understand the various industries they work in:

"*We very rarely advertise now with the Jobcentre because… [they] don't have the knowledge about our hotel or the industry… I think they need to come and find out what the industry's all about and understand what types of jobs we have here, and what our requirements are*" (UC Employer 11, hotel)

Furthermore, some employers felt that the policy focus should be more on employer practices, rather than solely on claimants. Several felt that an emphasis on 'in-work conditionality' was misplaced, that the government should instead be doing more to support employers to be better businesses and better managers. This approach, it was felt, would be more likely to have a positive impact on both individual progression opportunities and the productivity of businesses:

"*It would be probably more beneficial for the government to help employers become better employers, and to make the workplace a more positive environment than it is to push employees to get more jobs… I think if the Jobcentre were going to help us… I would probably say it would be along the lines of maybe helping to train our managers to deal with things like mental health issues with staff, to help them really*" (Employer 10, soft play centre)

However, as one employer explained, the nature and tone of how Jobcentres engaged with employers was felt to be important here:

"*I think if I was pulled up and they said, 'Yes you're a really bad company because you've not got a progress plan for them', or, 'They've been with you for two months and you haven't…' I don't know, '…trained them in something'… I think then to have somebody go, 'Why aren't you doing your job better?' I don't think that's something that I would like or welcome.*" (Employer 10, soft play centre)

In addition, several employers described variable and often poor experiences engaging with the Jobcentre in the past, with offices not perceived as welcoming spaces:

"*You either get really good Jobcentres who will work hard to try and make sure the right people are applying for jobs, or you get hundreds of applicants who are just applying for jobs because they have to*" (Employer 4, hotel)

"*I'd been in the Jobcentre three or four times this year… it's not a nice, welcoming, pleasant environment*" (Employer 11, hotel)

One employer recommended that jobcentres made efforts to link up with existing experienced and successful third sector agencies or business development organisations to develop any in-work support offer.

Help workers to access skills training

Several employers felt that a policy of in-work support could usefully help their employees to access skills training. This was felt to be useful both to their businesses but also to the individual progression prospects of their employees (which sometimes, it was recognised, could be outside of their businesses).

Skills needs were felt to be industry specific. As noted above, for relatively low wage, low skilled roles in the hospitality sector, customer service and communication skills were considered important elements of helping employees to work effectively and productively in their current roles – however these were skills best developed on the job. One employer operating in the care sector emphasised the importance of English language skills (for native and non-native English speakers). Digital skills were also considered key for progression.

"[Care workers] *might be doing a role that could see a progression into a more admin role who would then benefit from those digital skills and they're more likely to put it into practice*" (Employer 6, social care).

Reflecting on skills provision, two employers emphasised the importance of ensuring that such a policy did not operate in isolation, but instead was linked into broader skills strategies and sources of funding (e.g. education and skills budgets):

"*Look at where the skill shortage is… encourage people into training them, in the areas with the skills that are needed… I think it just needs to be looked at in a bigger way*" (Employer 3, landscaping company)

Alternative sources of support

Some employers felt they would be unlikely to engage with the Jobcentre, but instead would welcome support through online toolkits and support and guidance around 'what good looks like'. The local council and housing providers said that they would tend to try and access advice and support from within their organisation, or other similar employers. ACAS and the local Chambers of Commerce were also identified as potential sources of support.

9   Conclusions

This project has gathered insights from employers about the potential impact of (and their likely response to) the extension of conditionality to working Universal Credit claimants. Whilst only a small scale pilot study, it highlights a number of important issues which policymakers in the Department for Work and Pensions should consider as their 'in-work offer' is developed.

Importantly, it shows that rigid expectations placed on individuals to increase hours or pay are at odds with the realities of working life in the UK labour market. Overall, employers in this study said that if in-work conditionality were to be introduced, it was unlikely to impact the business models on which they were operating. Their overriding priority would continue to be their 'bottom line' and keeping labour costs low. Increasing the number of hours worked by their staff whilst continuing to operate on this business model was largely considered unproductive. Particularly for those in typically low paying sectors, such as hospitality and care, and where employers expect workers to be flexible around business needs, increasing hours worked by individuals in a sustainable and productive way is likely to be challenging.

Employers may even prevent workers from taking up additional work with similar businesses through '*conflict of interest*' clauses. In general, private sector employers explained that labour costs could only rise in the event of business growth – even if this was not articulated in terms of productivity.

At a time of low unemployment (and low productivity), the key challenge for policymakers is not moving people into work, but ensuring that, where appropriate, Universal Credit claimants are supported into decent and productive work where their skills and capabilities will be developed and used effectively. A '*work first, then work more*' approach, focused on placing conditions on individual workers continues to neglect the 'demand side' of active labour market policy – it fails to consider long-standing issues of poor work quality and management practices, and broader issues relating to the needs of workers outside of the paid labour market. This approach also appears to be at odds with the broader policy agendas focused on improving productivity and the quality of work (e.g. related to flexible working and 'good work' agenda).

Within this context, employers highlighted a number of ways in which this policy might have an adverse effect on the operation (and productivity) of their businesses. Concerns were raised about its potential to negatively impact on employee well-being and motivation, and that it might result in lower retention and higher absenteeism. Furthermore, the gendered impact of the policy was highlighted (as the policy was felt to most likely to impact women with caring responsibilities), as was potential conflict with broader policy agendas focused on flexible working, and efforts to improve the quality of work. Whilst this research has focused on the individual firm level, there are also broader macroeconomic implications if such a policy leads to 'more transient' workforce as suggested by one of our employers.

Employers felt there were a number of ways in which agencies like the Jobcentre could help them and their employees to progress and improve the quality of work, for example through informed advice and guidance, access to training, and support to develop managerial skills. However, the extent to which skills can be developed and utilised within low wage industries is limited.

Further research is needed to systematically explore how UC, and the conditionality that underpins it, interacts with the UK labour market. In particular, research focusing on specific low pay/low productivity sectors would help to identify the ways in which UC helps or hinders the productive and decent functioning of the world of work for low income workers.

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

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