

# Budget representation

**January 2016**

If you would like to arrange a meeting with one of our experts to discuss the points raised please contact:

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## Summary

Two challenges now face the government if they are to continue to strengthen economic security under a modern and reformed state. First, how to better equip our working age population to interact with a rapidly changing labour market, so as to continue to ensure that work provides ladders of opportunity for all. Second, how to focus further government attention on the question of prevention, both to reduce financial burdens placed upon a now leaner public sector by acting early to restrain social and economic pressures, and to support better outcomes for those who interact with the state as part of the government's wider public service and social reform agendas.

This submission therefore focuses upon prevention and progression as areas which we believe it is necessary for the Treasury to tackle on route towards a secure and prosperous United Kingdom. Alongside this, we have included some recommendations under the theme of prosperity, which build upon the steps needed to increase economic security, towards those which would support a thriving, modern Britain. These are drawn from our work to construct a comprehensive plan to create a prosperous, poverty-free UK. This plan, developed with a wide array of stakeholders from across the political spectrum, is due for publication this year. Should Treasury officials wish to meet to discuss our proposals further ahead of publication we'd be glad to arrange a meeting with our senior research team.

## Recommendations:

### Prevention

- develop a network of family hubs to provide wrap around support to parents and families
- introduce local authority welfare 'earn-back' deals to properly incentivise local action towards the government's ambition of full employment

### Progression

- invest in high quality careers advice to be delivered in school by expert advisers
- utilise procurement towards the government's ambition of reaching full employment by supporting those furthest away from the labour market
- re-orient employment services to focus on increasing earnings alongside sustainable employment

### Prosperity

- improve personal pension saving by reducing opt-out rates
- support the implementation of a Living Rents model

## Prevention

In his recent speech on life chances the Prime Minister argued that *"the economy can't be secure if we spend billions of pounds on picking up the pieces of social failure."* The troubled families programme has been an important plank in the government's action on this agenda in recognising that, in certain cases, early government intervention can produce better outcomes at a reduced cost, helping free citizens from dependency upon the state at the earliest opportunity.

Similarly, our analysis of case studies of local authority responses to grant reductions shows that those who integrated services and developed prevention programmes were able to maintain positive public perception of services despite budgetary tightening,<sup>1</sup> supporting the contention that to run a leaner state requires a strong focus on heading off pressures upon services before they accumulate. Utilising effective prevention can both produce further savings, and improve users' experience of public services.

Whether the government is able to identify prevention programmes that work, and incentivise good practice across a devolved system will be central to their ability to create a strong, reformed safety net within difficult fiscal constraints. The following proposals we believe would support progress with this agenda, under the overall aim of increasing economic security and driving prosperity.

## Supporting family security and preventing breakdown

This government has placed supporting families and relationships at the heart of its social reform agenda. The Prime Minister was recently quoted as saying that *"families are the best anti-poverty measure ever invented."* Our evidence also demonstrates that children's prospects are strongly affected by the relationships they have with their parents, and the relationships their parents have with each other. Helping parents to best support their child's development, and early action to reduce the likelihood (or soften the impact) of family breakdown are therefore an important part of any anti-poverty plan.

With this in mind, we believe that the government should develop a network of family hubs to provide wrap around support to parents and families, and act as a medium for wider co-ordination, integration and the joining up of services.

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<sup>1</sup> Hastings, A., et al, *'The cost of the cuts'*, Joseph Rowntree Foundation, 2015

In their report 'Fully Committed', the Centre for Social Justice outlined similar proposals, these included;

- Using a 'hub and spokes' model which builds on larger children's centres (which have been shown to be more effective) with more numerous community based services to maximise access to services especially for those for whom travelling to a centre would be a barrier.
- Family Hubs would become the 'go to' place for mothers and fathers to access services and information about any family related issue.
- Locating as many services as possible in Family Hubs including birth registration, antenatal and postnatal services, childcare information, debt advice, relationship and parenting support, local activities for families and support for families who are separating.
- Link with local voluntary and community sector activities.

The Centre for Social Justice report also envisaged these Hubs providing employment advice and substance misuse services. This would have clear advantages for some service users, but might not be appropriate for all. Local areas would need to think carefully about the client groups needing to access the range of services and ensure that the mix of users accessing services in one location was appropriate. Should it be considered appropriate following assessment, family hubs could be linked to employment support services, extending co-ordination to form a family and employment hub network.

We estimate that a revitalised early intervention network of family hubs in every local authority would cost £560 million per year in England. Estimates of the funding required in the rest of the UK are - £130 million in Scotland, £74 million in Wales and £45 million in Northern Ireland. However, these are based on assuming that the same level of funding is needed per head of population. Since the existing networks of family support services are very different across different parts of the UK we recommend that the devolved governments carry out their own more detailed assessment of the funding required.

## Preventing city decline

Despite the promising steps the Chancellor has taken towards a Northern Powerhouse, with a major devolution of powers to city regions in the North of England and the introduction of directly elected Mayors, there is still much to do. Forthcoming evidence from JRF shows that growth in many northern cities continues to lag behind national levels. Ten of twelve cities ranked highest on the study's index of relative decline are in the north of England, while no city in southern England is among the 24 relatively declining cities identified by this index.<sup>2</sup>

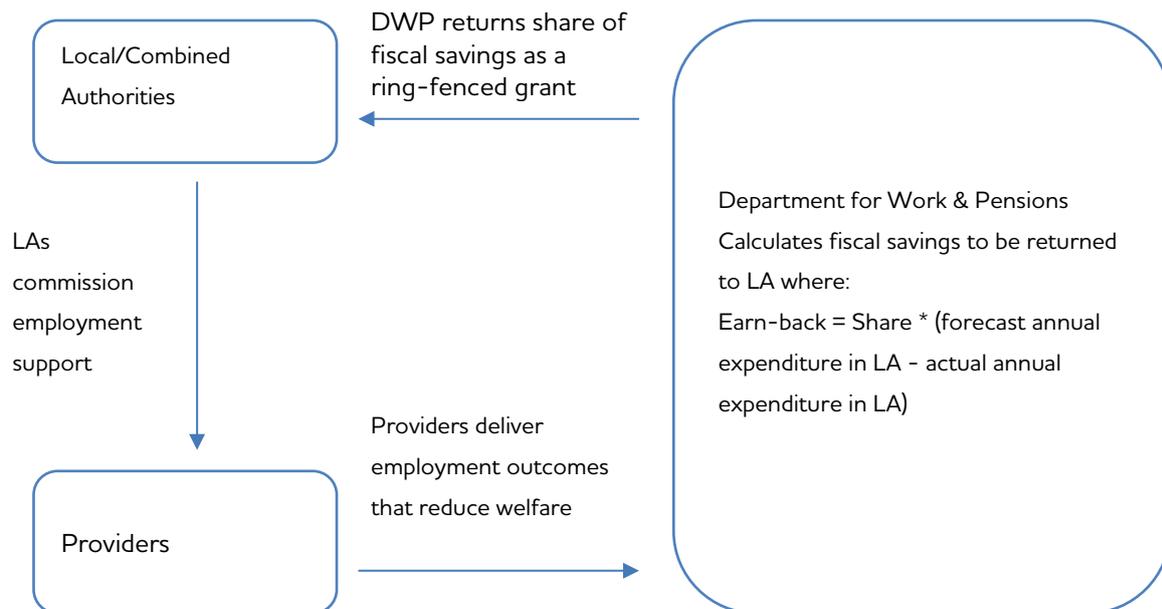
Understandably, the Chancellor started to catalyse the Northern Powerhouse by working with the larger conurbations in the region. However, with city deals firmly underway and the beginnings of a new political economy taking shape, we believe that there is now an opportunity to extend the programme to prevent relative decline in other northern urban areas. Policy intervention now could foster a stronger, inclusive growth within these places, supporting a broader Northern Powerhouse agenda.

Separately, our evidence also points to specific measures that the Treasury could take in line with the government's ongoing fiscal devolution agenda to support inclusive growth across the country (not just cities facing relative decline). Our forthcoming report 'Financial Incentives and their potential to drive inclusive growth', examines the efficacy of local authority welfare 'earn-back' deals with government.<sup>3</sup> A similar mechanism to the GVA earn-back agreed with the Manchester Combined Authority, these would incentivise local authorities to bring down the benefits bill and support people to move off benefits and into work (or better paid work) by offering authorities a share of the savings to total benefits expenditure within their local area, relative to a baseline forecast. The share retained would reflect the desired risk/reward balance between central and local government.

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<sup>2</sup> Pike, A., et al 'Unequal Growth: tackling city decline', Joseph Rowntree Foundation, Forthcoming 2016

<sup>3</sup> Carey, H., et al 'Financial incentives and their potential to drive inclusive growth', Joseph Rowntree Foundation, forthcoming 2016



Their proximity to their labour markets means that city-level stakeholders are well placed to understand local demand, benefit from local partnerships and referral networks and identify gaps in national support. Following the principles of localism, local authorities would be free to decide how best to deliver savings, where to focus efforts and which programmes would deliver most effectively. By allowing them to share in the fiscal benefits of reducing welfare spend, the Treasury could create a virtuous circle, whereby prudent investment leads to higher returns and further re-investment, incentivising local action towards the government’s ambitions for full employment.

## Progression

In the Summer Budget the Chancellor began to deal with some of the entrenched issues within the labour market, by introducing the National Living Wage to boost the pay of those on low incomes. Our research analysing the Summer Budget showed that this pay increase will have a very positive effect upon the living standards of those able to work full time, especially those without children.<sup>4</sup> However, while this important gain has been made, there remains a deeper problem within the British labour market to which the Chancellor must now turn his attention; progression.

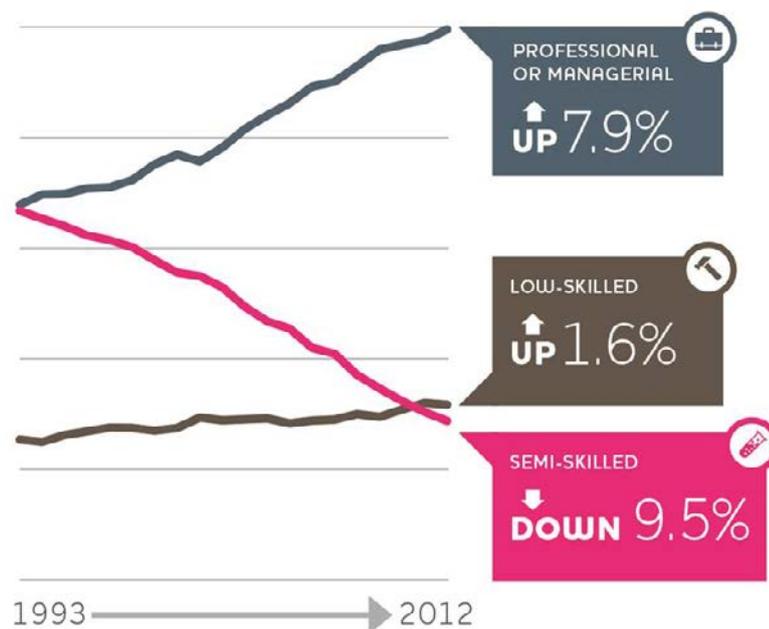
Our research shows that increasing numbers of workers are becoming stuck at the bottom of the labour market. Four in every five low paid workers have failed to escape low pay ten years later.<sup>5</sup> A report by the Business, Innovation and Skills Department suggested that technological innovation was one contributing factor in the changing shape of the bottom end of the labour market, driving job polarisation through the automation of middle income jobs.<sup>6</sup> This ‘hollowing out’ is contributing to the stickiness at the bottom end, reducing ladders of opportunity for many.

<sup>4</sup> Hirsch, D. et al ‘Will the 2015 Summer Budget improve living standards in 2020?’, Joseph Rowntree Foundation, 2015

<sup>5</sup> Macinnes, T., et al ‘Monitoring of Poverty and Social Exclusion 2014’, Joseph Rowntree Foundation, 2014

<sup>6</sup> Macintosh, S., ‘Hollowing out and the future of the labour market’, Department of Business, Innovation and Skills, 2013 (BIS Research Paper Number 134)

## THE NUMBER OF SEMI-SKILLED JOBS HAS FALLEN DRAMATICALLY



Source: Schmuecker, K. (2014) *Future of the UK labour market*

Alongside job polarisation, the experience of different age groups in the labour market is changing alongside the market itself. Compared with those in mid-life, younger and older people are now significantly disadvantaged.<sup>7</sup> In particular, the position of young people worsened significantly in recent years, especially for those least qualified. Being out of education, employment and training between ages 18 and 25 is likely to inflict longer-term damage on employment prospects. The unemployment rate for young people remains at 13.7%. While this is lower than the European average, it is much higher than the rate for older groups in the UK.<sup>8</sup> Both groups are now more likely to be in insecure employment, employed part-time on non-standard contracts, and with less access to training, making them more vulnerable to unemployment.<sup>9</sup>

The following are some suggested measures by which the government could help to support upward mobility into and through the labour market, removing barriers and securing better opportunities for many.

### Helping young adults progress out of school

Our evidence suggests that good-quality careers advice is especially important for young people, who are less likely to have informal social networks providing equivalent advice and opportunities, and whose relative position in the labour market has deteriorated in recent years (as per above).<sup>10</sup> Numerous reports have detailed the patchy quality of careers advice in schools across the UK. Only 21 per cent of schools take young people on two or more university open days; only 39 per cent of schools enable young people to have a 'meaningful engagement' with an employer by age 16; less than half of British young

<sup>7</sup> George, A., et al 'Understanding age and the labour market', Joseph Rowntree Foundation, 2015

<sup>8</sup> Office of National Statistics, 'Labour Market Statistics January 2016', 2016

<sup>9</sup> George, A., et al 'Understanding age and the labour market', Joseph Rowntree Foundation, 2015

<sup>10</sup> George, A., et al 'Understanding age and the labour market', Joseph Rowntree Foundation, 2015

people have access to a high-quality work experience placement. This is likely to lead to poorer labour market choices, reduce earnings and therefore weaken opportunity and life chances.<sup>11</sup>

The UK and devolved countries should invest in high quality careers advice to be delivered in school by expert advisers, alongside strong links between schools, local employers and training providers. This careers advice could focus particularly upon enabling young people to enter high quality apprenticeships, which would drive quality and efficiency across the apprenticeship pipeline by ensuring that school-leavers were entering the right apprenticeship, based upon their interests and aspirations. Treasury funding would be required of around £200 million (in the first year, less thereafter) to implement this policy in England. Scotland, Wales and Northern Ireland governments could assess what funding they need to provide to enable the same high standard of careers guidance to be delivered in their schools.

## Using procurement to create first job opportunities

In 2013/14 the UK public sector spent a total of £242bn procuring goods and services, accounting for 33% of public spending. While value for money has rightly remained a key principle for procurement processes, over the last parliamentary term the government used procurement to pursue wider public policy aims, for example, by looking to widen access for small and medium enterprises to procurement contracts. The introduction of the Social Value Act in 2013 helped to develop a legal framework for such initiatives.

JRF evidence suggests that procurement should be utilised to support the government's ambition of reaching full employment, by creating opportunities for young people furthest away from the labour market. Our First Job Opportunities (FJO) model demonstrates a means to achieve this by utilising the competitive procurement process.

The model is composed of a set of contract clauses that can be used at each stage of the public procurement process in order to make the delivery of first job opportunities for young people furthest away from the labour market a condition of contract, providing a new pathway for young people to acquire the practical skills and experience they need to compete in the labour market. The number of opportunities the contractor is expected to offer in their bid can be set relative to the contract value.

A way to focus and drive this activity is to commit to creating one job with training for every £1m in contract value spent on works and services, with the jobs targeted at those with barriers to the labour market. Service providers (and potential service providers) can be supported to respond to this challenge through the provision of links to existing training and job-search providers in the local area, learning from the experience of delivering opportunities through the planning process.

- If this principle was applied to just half of the pipeline of UK Government capital spending it would create 64,000 entry level jobs with training.
- If applied to half of all public sector procurement in 2013/14 it would have created 121,000 entry level jobs with training.

By specifying a recruitment agency in a particular area as a partner to the contractor it is possible to target recruitment towards areas with poor labour market participation. In this way, social procurement methods can be used to leverage private finance towards improving employment and skills among young people in those areas, incentivising the market to spread opportunities and helping the government towards its ambition of full employment, with minimal impact upon contract costs.

## Supporting earnings progression

The most recent official labour market statistics show unemployment at its lowest rate in a decade, continuing a very impressive trend of job creation since the recession.<sup>12</sup> We know that work remains the best route out of poverty and welcome this promising upturn in employment figures, which will undoubtedly improve the living standards of many thousands of households across the UK. Alongside this,

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<sup>11</sup> Social Mobility and Child Poverty Commission 'State of the Nation 2014', 2014

<sup>12</sup> Office of National Statistics, 'Labour Market Statistics January 2016', 2016

by introducing a new National Living Wage, the Chancellor has ensured that many of those now in employment, particularly those working full time, will enjoy improved living standards.

Despite this progress towards higher employment, wages continue to perform poorly. The most recent ONS analysis of average weekly earnings showed wage growth slowing in November to its lowest rate since February 2015.<sup>13</sup> While the introduction of the National Living Wage will improve the living standards for many at the bottom end, the government could use more of the tools at its disposal to drive wages forward.

Our evidence recommends re-orienting the employment service so it concentrates on higher employment *and* earnings. This will not only help to continue to push up employment figures, but also increase participants' chances of securing jobs with as high a level of pay as possible in the first instance. It would give providers a clear rationale to prioritise ongoing support, advice and access to training once people are in work in order to progress to jobs with higher earnings or more hours. By incentivising an efficient match of labour to demand it would maximise the possible reductions in state support to individuals.

For this policy to be most effective however, demand side policies are also necessary. JRF recommend that the Treasury work with city regions to trial brokerage models, based on experience and evidence from the USA. Working with sectors with skills shortages or specific business challenges (like high staff turnover), a broker will marshal existing business support and skills providers, map job roles and develop training packages to support people to progress from one role to another. They would also link with employment support services to identify candidates, targeting opportunities at suitable low income individuals. Randomised control trials in the USA find an uplift in earnings of 18 per cent over the course of the study.

Finally, we welcome the government's announcement of a new Work and Health Programme. Many people with a disability or health condition want to work and there is evidence that work is generally good for health. For individuals with health conditions or disabilities their perception of their health condition has proved important in evaluations of previous programmes. As such, joining up employment support with condition management and occupational health services is crucial, but evaluation of the Work Programme finds advisers lack the skills and knowledge to be able to do this. Better outcomes will require more experimentation with different types of support combined with more specialist advisers. This could include the co-location and joint working between employment support specialists and clinical teams, which has been shown to work for some conditions. Evidence also shows how the role of a personal adviser in building motivation and confidence, access to work experience, intermediate labour markets, individual placement support and subsidised employment can all be effective; these are important lessons for the new Work and Health Programme.

## Prosperity

### Ensuring security in later life

Among pensioners in the UK, the biggest gaps between those who are in income poverty and those who are not relate to ownership of occupational or private pensions. In 2013/14, only a quarter of pensioners overall lacked any kind of personal pension, compared with over half of those in poverty. Levels are likely to reflect insecurity during working life; for instance between men and women and between ethnic groups – fewer than 1 in 10 Pakistani and Bangladeshi women of working age are in an occupational pension scheme.

The pensioner income policy mix from April, combining the new State Pension with a Pension Credit top-up, should address much of the needs of future generations of pensioners. However, this does not mean that private and occupational pensions can be ignored. Such savings enable people to rely less on state support, become more self-reliant for a standard of living above a basic level and provide protection for themselves against future changes in state pension policy.

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<sup>13</sup> Office of National Statistics, 'Labour Market Statistics January 2016', 2016

The automatic enrolment of people into workplace pensions for those aged over 21 and earning above £10,000 a year has largely been a success. It provides a foothold for people to save for a decent pension if and when they can afford it. Once fully implemented, the policy aims to increase the numbers starting to save (or saving more) by nine million, and the total amount saved by £11 billion a year. It is estimated to reduce the proportion retiring with no private pension income at all from 27% to 12% by 2050, turning around the longer-term falling trend. Median private pension income is projected to be £3,700 by 2050, compared with £2,200 if auto-enrolment had not been in place.

These improvements are concentrated among low to median earners. The lowest quartile of earners is expected to see an increase of nearly 60% in their median private pension income at retirement but this may not be enough to avoid poverty given it is an increase from a very low base. Rates of opting out from auto-enrolment are higher for those aged over 50 and for part-time workers (but not by salary level). However, while some workers opt out because they already have enough savings, others do so because they cannot afford the contributions.

JRF strongly recommends that auto-enrolment should continue, but supplemented by new initiatives to reduce opt-out rates, particularly among those at higher risk of poverty in later life. Opt-out rates for women, older workers, part-time workers and ethnic minority groups should be reduced through greater advertising of schemes to employees and employers; additional incentives not to opt out for high risk groups; and through initiatives to workers in social housing via social landlords. This needs government, employers, employees, unions, scheme providers and others to work in partnership.

There should also be regular statements of lost contributions for those who opt-out of their workplace pension to encourage re-engagement and awareness of what they might be losing out on. Targeted financial management and advice for opt-outs identified by their employers as having poor financial management skills would also help. Finally, giving people who opt out the chance to reclaim lost employer contributions if they commit to re-join their workplace pension and remain in it for a defined period should be tested to see if this improves re-join rates.

The earnings threshold for auto-enrolment should be reduced to below £10,000 per year and kept under review to bring more part-time workers into scope (and therefore helping women and other groups over-represented in part-time work). However, removing the threshold altogether is unlikely to be effective because of the fixed costs in providing schemes and the small pension pot that would result. The Government should test and model alternatives so that the earnings threshold remains at an optimum level, balancing coverage with affordability and outcomes.

## Living Rents

A major barrier to opportunity for low income households is their difficulty in acquiring assets. Demand side subsidies and a commitment to building more housing on the part of this government will help many to get on the first rung of the property ladder and increase their economic security.

This positive commitment to supporting home ownership though must be accompanied by measures which deliver security to those who are not currently in a position to access loans to buy property. As stock has transferred from the social rented and owner-occupied sectors into the private rented sector over many decades, the latter has increasingly become the tenure occupied by households in poverty. In 2013/14 there were 4.3 million people living in poverty in the private rented sector, two million more than a decade earlier.

JRF's Living Rents model, developed with Savills, makes the case for rent levels linked to local earnings.<sup>14</sup> This would continue the Chancellor's work to make social rents more affordable, while also reducing the government's housing benefit bill. Rents would start at 28% of net pay for someone in the lowest 25% of earners locally, and be adjusted according to the size of the property. While the scheme does require £3bn of government investment a year, the research suggests that this could both unlock £7bn of further investment from housing associations and deliver 80,000 affordable homes a year – half at Living

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<sup>14</sup> Lupton, M. & Collins, C., 'Living Rents - a new development framework for Affordable Housing', Joseph Rowntree Foundation, 2015

Rent, with the other half compromising low cost home ownership and other intermediate housing. This approach would reduce the housing benefit bill by £5.6bn a year by 2040.

A Living Rents model would ease pressure upon the private rented sector, ensuring that it works better for its core market, produce savings on the housing benefit bill, and allow hardworking families the spare income necessary to begin to build capital to put towards a subsidised family home. A government policy of Living Rents would complement the National Living Wage which the Chancellor introduced at last year's budget.

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## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent organisation working to inspire social change through research, policy and practice.

Our vision is for a prosperous UK without poverty where everyone can thrive and contribute. To achieve this we work in partnership with private, public and voluntary sectors, as well as with individuals and communities. Using evidence and experience, we search for the underlying causes of social problems and demonstrate practical solutions in order to influence lasting change.

All research published by JRF, including publications in the references, is available to download from [www.jrf.org.uk](http://www.jrf.org.uk)