Social Policies and Distributional Outcomes

in a Changing Britain

The Conservative Governments' Record on Employment: Policies, Spending and Outcomes, May 2015 to pre-COVID 2020

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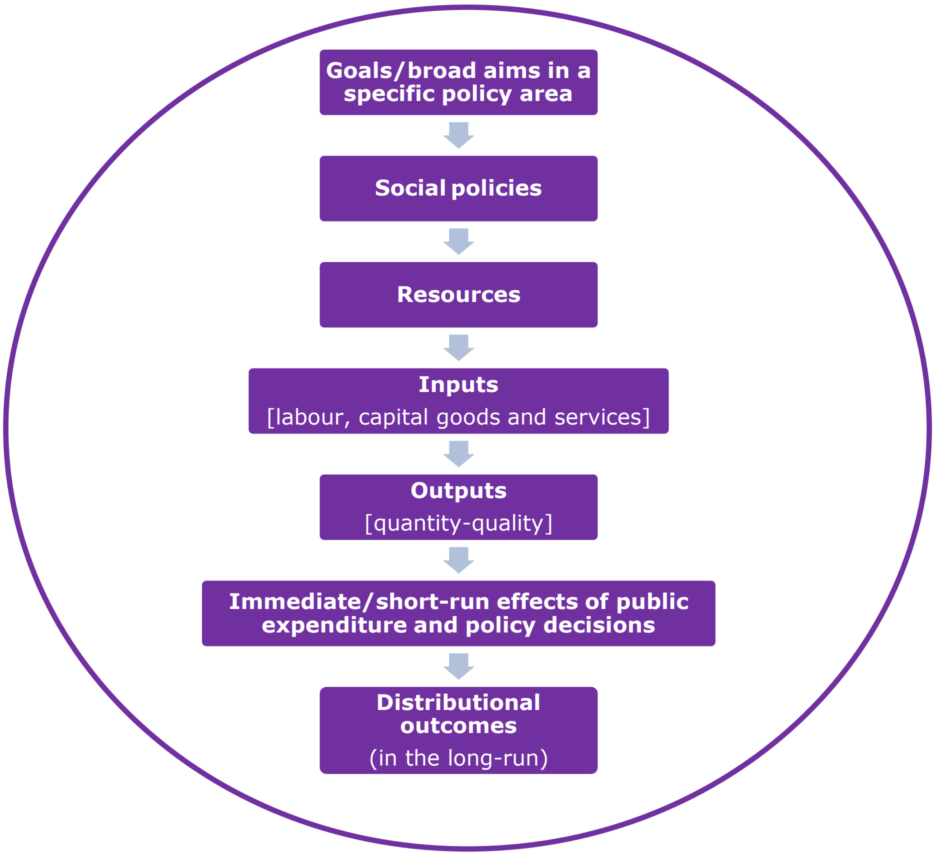
Social Policies and Distributional Outcomes research programme

The central objective of the SPDO research programme is to provide an authoritative, independent, rigorous and in-depth evidence base on social policies and distributional outcomes in 21st century Britain. The central question to be addressed is: What progress has been made in addressing social inequalities through social policies? The research programme is ambitious and comprehensive in scope, combining in-depth quantitative analysis of trends in social inequalities and social divides with detailed and systematic public expenditure and social policy analysis across ten major social policy areas over the period 2015-2020, together with broader reflection on the changing nature of social policies and distributional outcomes over the 21st century.

The programme of research adds to (and reflects on) the previous Social Policies in a Cold Climate (SPCC) research programme covering the period 1997-2015. The SPDO programme will update, extend and broaden our analysis of public expenditure, social policies and distributional outcomes using the most recent datasets available, resulting in a unique evidence base on trends in social inequalities and social policies going back to 1997. Innovative extensions included within the SPDO research programme include: coverage of additional areas of social policy (e.g. physical safety/security and complex needs/homelessness); emphasis on the new context for social policy making (e.g. devolution and Brexit); assessment of a broader range of multidimensional outcomes within our quantitative analysis; and the inclusion of additional breakdowns (e.g. migration status). This programme will also have a forward looking component, identifying the key challenges for social policy in the 2020s.

The current paper is part of work-package 3 of the broader programme, which will provide in-depth and cross-cutting analysis of trends in social policies over the period 2010-2020. The work-package will include analysis within and across ten major social policy areas (social security and general housing; health; social care; early years; compulsory school age education; higher education; employment; safety and security; social mobility; and homelessness / complex needs). The analytical schema for the social policy analysis undertaken within the programme is set out in Figure A below. The figure shows the structure of the analysis, which will address (1) broad policy goals for each policy area; (2) the actual policies and measures adopted in each area; (3) public expenditure trends (including where feasible and meaningful per capita and in relation to demand / need); (4) inputs and outputs (how resources were spent and what was produced from this); (5) overall outcomes achieved.

Figure A: Analytical schema for public expenditure and social policy analysis



Source: adapted from Lupton et al (2013). Note: Arrows denote steps in the analytic chain but not causality through the chain. The background circle denotes the broader universe of other policies, the economy and society, which shape all stages.

More information and other publications in the series are available at the project webpage: http://sticerd.lse.ac.uk/case/_new/research/spdo/default.asp

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1. Introduction

Employment plays a central role is most people’s lives. It provides an income to fund current consumption, support dependent children and savings for retirement. Employment can also play a crucial role in determining well-being and life satisfaction but employment is not evenly distributed either in terms of quantity or quality; with some people facing much higher risks of unemployment and low pay while others enjoy low risks of unemployment and high paid jobs with favourable terms and conditions of employment. Although a wide range of policy areas influence employment outcomes (for example, education and skills, childcare, social security, health, industrial policy and wider management of the economy), employment policy can help to reduce employment inequalities through active labour market programmes, setting minimum wage rates and through regulation of working conditions and workers’ rights. This paper seeks to evaluate employment policy in the period since the Conservative Government took office in 2015 up until the eve of the Covid-19 pandemic in early 2020. It does so following the common framework adopted by research papers in this series for the Social Policies and Distributional Outcomes in a Divided Britain research programme (as outlined in Figure A at the front of this paper). This research updates previous analysis covering employment policy under the Coalition Government (2010–2015) (McKnight, 2015).

To set out the policy context, Section 2 summarises the employment policy landscape inherited by the Conservative government in 2015 (much of which they influenced while in coalition with the Liberal Democrats between 2010 and 2015). Section 3 describes the policy aims of the Conservative Governments from 2015 under three different leaders, as stated in the three Conservative Party general election manifestos published during this period. Section 4 outlines the main policy developments that came into effect during this period. In this paper we focus on employment policy in relation to four areas: employment policies related to health, disability and employment; policies related to increasing employment; policies related to self-employment and the, so-called, ‘gig economy’; and finally policies related to pay and pay gaps. Section 5 provides analysis of trends in expenditure on employment policies. Sections 6 and 7 evaluate, as far as possible with available data, policy inputs and outputs, focusing on the Work Programme and the Work and Health Programme. Section 8 provides descriptive analysis of outcomes in relation to trends in wider labour market outcomes, including analysis of how different groups have fared. Section 9 concludes with a summary of the development of employment policy over this period and identifies future challenges in this area.

2. The 2015 Conservative Government’s Inheritance

The Conservative Party secured a majority government at the 2015 general election, five years after forming, and leading, a coalition government with the Liberal Democrats. This meant that the employment policy agenda of the Conservative government from 2015 was largely a continuation of the policy formulated by them from 2010.

Over the Coalition government's term in office, unemployment rates initially increased from 8.1% in spring 2010 to 8.6% in autumn 2011 and then fell to 5.7% in spring 2015 (ONS, 2019a). This overall fall in unemployment reflected the economic recovery from the recession following the 2007/08 financial crisis. Falling unemployment accompanied increasing employment with the employment rate increasing over this period from 70.4% to 73.3% (ONS, 2019a), but there was a much less rosy picture for pay. Weak and even negative average earnings growth marked the Coalition's term in office, with falling earnings more marked around the median than the mean, suggesting that higher paid employees fared better (McKnight, 2015). In 2013, the average hourly wage was lower in real terms than prior to the recession (Bovill, 2014). Cohort analysis shows lower real average age-wage profiles for younger age cohorts (McKnight, 2015).

Despite the backdrop of rising levels of employment, concerns about employment insecurity increased over this period with a rise in the gig economy[1], zero-hours contracts and false self-employment. With zero-hours contracts the employer is not obliged to provide a minimum number of regular hours of work. In contrast, in many cases, workers on these contracts have to agree to accept any work that is offered to them and some had to sign exclusivity clauses which prevented them from working simultaneously for another employer. Between 2012 and 2013 the number of workers classified as being employed on a zero-hours contract more than doubled (Gardiner, 2014) and by May 2015 it was estimated that 2.1 million workers were employed on a zero-hours contract (Tomlinson, 2017). However, some of the increase may be due to greater awareness of zero-hours contracts leading to greater reporting in household surveys (Alakeson and D'Arcy, 2014). False self-employment also tends to be more advantageous for employers than employees; through insisting workers register as self-employed, employers can avoid paying the minimum wage, employers' National Insurance, Statutory Sick Pay, Statutory Maternity Pay, provide Statutory Holiday Entitlement and pension contributions. Research by Citizens Advice in 2015 estimated that there were nearly half a million workers 'bogusly self-employed'.

Despite real terms increases in the National Minimum Wage (NMW) in 2014 and 2015, low pay remained more prevalent in the UK than in most other

[1] A report for the Department for Business, Energy and Industrial Strategy (2018) developed the following working definition of the gig economy: "The gig economy involves the exchange of labour for money between individuals or companies via digital platforms that actively facilitate matching between providers and customers, on a short-term and payment by task basis."

high-income economies. Assessments showed that while the NMW had been effective at eradicating extreme low pay, rates of low pay remained high, in part because minimum wage upratings had not kept pace with inflation and the NMW had effectively become a 'going rate' in some sectors (Resolution Foundation, 2014).

There were also changes to programmes designed to help job-seekers find work. The Coalition government replaced Labour's Flexible New Deal with the Work Programme in June 2011. This active labour market programme was targeted at longer-term unemployed people claiming Jobseeker's Allowance (JSA) (mainly those claiming JSA for at least one year, although some were referred sooner) and people with limiting illnesses or disabilities claiming Employment and Support Allowance (ESA). Delivery of these employment services were contracted-out to providers using a payment-by-results model with the aim of motivating innovation to increase the rate of exits from unemployment and into work. However, the Work Programme performed below expectations with the majority of participants returning to the Jobcentre without securing work and it was found to be least successful at helping the most disadvantaged participants despite contracts rewarding providers a higher financial incentive for achieving job outcomes for these claimants. Part of the problem was that the share of Incapacity Benefit claimants classified as capable of work (according to Work Capability Assessments) and the share of these individuals who actually went on to secure a job, had been overestimated but a wider problem was that the payments fell short of the cost of interventions required to successfully help the most disadvantaged participants.

Social security reforms under the Coalition government also shaped the policy landscape for some low earning workers. Universal Credit was introduced in 2013, as part of the Welfare Reform Act 2012. Under Universal Credit, six legacy means-tested benefits and tax credits are rolled up into a single monthly payment. During the Coalition's term in office, the gradual rollout of Universal Credit started, initially to new claimants with the least complex circumstances (single people not claiming Housing Benefit). From an employment policy perspective, an important change under Universal Credit was the introduction of in-work conditionality. This means that in-work Universal Credit recipients with household earnings below a given threshold are required to take steps to increase their earnings as a condition of their claim (prepare, look, and be available for more or higher paid work); a condition that applies to all working age members of the household. The earnings threshold is set at the national minimum wage for a 35-hour week, although claimants with young children, caring responsibilities and work-limiting health problems or disabilities may have a lower threshold, equivalent to the national minimum wage for the number of hours they are required to be available for work (as set out in their Claimant Commitment). Failure to meet this condition can result in payments being reduced or cut altogether (known as sanctions).

3. Goals

General election manifestos provide a useful record of a party's goals. In this period of political upheaval, we have three Conservative Party manifestos to draw on, under three different party leaders. Policy goals relevant to employment cover a number of different policy areas including taxation and pay, social security, education and training, workers' rights, equality of opportunity and migration. In this section we review the original policy goals laid out in the three manifestos; the policy changes that were actually brought into effect are discussed in Section 4.

3.1. 2015 Conservative Party manifesto

In relation to employment policy, David Cameron's 2015 Conservative Party manifesto focused on increasing employment, protecting and increasing pay, and measures to improve equality of opportunity in the workplace. It outlined ambitious aims to achieve 'full employment' and 'the highest employment rate of any major economy' over the next parliament (Conservative Party, 2015, p. 17), specifically helping businesses create 2 million new jobs and to increase apprenticeships by 3 million. In doing so the party also committed to abolishing youth unemployment with increased support form Jobcentre Plus advisers working with schools to help 16-17 year olds not in education, employment or training (NEET) find routes into work experience and apprenticeships (Ibid). The manifesto also included a pledge to address youth unemployment with tougher Day One work requirements for young people claiming out of work benefits, with a Youth Allowance set to replace Jobseeker's Allowance (JSA), limited to six months after which claimants would be required to do an apprenticeship, traineeship or daily community work in order to receive their benefits (Ibid). They also promised to review how best to help those with long-term conditions such as drug or alcohol addiction or obesity, back into work, but with a warning that if people refuse treatment their benefits might be reduced (Ibid). As well as promising to provide 'significant new support' for mental health to help those receiving out of work benefits.

In relation to pay the party pledged real terms increases in the National Minimum Wage over the next parliament, accepting the recommendations of the Low Pay Commission to increase the National Minimum Wage to £6.60 by the autumn of 2015 and to £8 by the end of the decade, as well as encouraging businesses and organisations to pay the real Living Wage (set by the Living Wage Foundation) 'whenever they can afford it' (Conservative Party, 2015, p. 21). At the same time the manifesto promised tax cuts to enable people to take-home more of their pay, by raising the personal tax allowance to £12,500 and to pass a new law so that the personal allowance automatically rises in line with the National Minimum Wage (Ibid). This new Tax Free Minimum Wage law was to be applied from the first budget after the 2015 general election, as well as raising the higher rate of Income Tax threshold so that no one earning less than £50,000 pays it (Ibid). To help parents back into work the party promised tax-free childcare for working parents and thirty hours of free childcare for parents of three and four year olds (Ibid).

Finally, with a focus on equality of opportunity the 2015 manifesto outlines goals to close employment gaps. It included an aim to *halve* the disability employment gap and to reduce the gender pay gap, by requiring companies with more than 250 employees to publish their gender pay gaps (Ibid). In relation to worker's rights, they also promised to 'take further steps to eradicate abuses of workers, such as non-payment of the Minimum Wage, exclusivity in zero-hours contracts and exploitation of migrant workers' (Conservative Party, 2015, p. 21).

3.2. 2017 Conservative Party manifesto

Following on from the EU referendum in 2016 and under the new leadership of Theresa May, the Conservative Government called a snap general election in June 2017 with the hope of securing a bigger parliamentary majority (a bid that failed, as they lost their slim majority, which forced the Conservative Party to establish a minority government with support from the Democratic Unionist Party. The lack of a parliamentary majority made it increasingly difficult to focus on the policy agenda beyond Brexit). The manifesto for this election included some continuation of previous aims set out in the 2015 manifesto with renewed pledges to increase employment, keep taxes as low as possible and continue to increase the National Living Wage up to 60% of median earnings by 2020, and a commitment to ensure it rises by the same rate as median earnings thereafter (Conservative Party, 2017). The 2017 manifesto repeated the promise to introduce thirty hours of free childcare and to provide targeted support for young people aged 18-24 to get them into work (Ibid). It outlined no new welfare reforms but a commitment to continue the rollout of Universal Credit to 'ensure that it always pays to be in work' (Conservative Party, 2017, p. 54).

There was also a clear shift in direction under the May administration with a greater focus on equality of opportunity, addressing skills shortages and, given the EU referendum result, various issues related to Brexit and employment. The focus on equality expanded with pledges to address the 'race gap' and mental health gap in employment as well as reiterating aims to address the gender pay gap and the disability employment gap. These included plans to ask large employers to report on their ethnic pay gap, to introduce a new Mental Health Bill and amend health and safety regulation to ensure employers provide appropriate first aid training and needs assessments in relation to mental health, as well as extending the Equalities Act to include protection from discrimination based on mental health. The 2017 manifesto included more specific commitments in relation to the disability employment gap, pledging to get 1 million more people with disabilities into employment over the following ten years, as well as a vague promise 'to legislate to give unemployed disabled claimants or those with a health condition personalised and tailored employment support (Conservative Party, 2017, p. 57).

The greater focus on improving technical education, training and dealing with skills shortages included a pledge to create 3 million apprenticeships by 2020 as well as improving the quality of apprenticeships and making them more accessible, for example with discounted travel (Ibid). The party also promised new rights including a right to lifelong learning in digital skills and a right to request leave for training (Ibid).

It is no surprise that Brexit was another new key focus of the 2017 manifesto, with three Brexit issues in particular being relevant for employment. The first of these relates migration policy. The Conservative Party set out its aims to ask the Migration Advisory Committee (MAC) to make recommendations about how to make the visa system work well with the modern industrial strategy, with a view to setting aside significant numbers of visas for workers in 'strategically important sectors' (Conservative Party, 2017, p. 20). At the same time they expressed an intention to encourage investment and recruitment of UK workers over migrant workers, with a doubling of the Immigration Skills Charge for companies employing migrant workers by the end of the parliament, using the revenue from this to invest in higher level skills training for UK workers (Conservative Party, 2017). Second, with the money no longer paid to the EU which had previously been released back to the UK in the form of structural funds, the 2017 manifesto outlines plans to create a UK Shared Prosperity Fund in order to reduce inequalities and promote inclusive growth. And finally, there is brief mention regarding workers' rights post-Brexit with a commitment that those deriving from EU law will remain in place at the point of departure from the EU, but with the possibility to 'amend, repeal or improve' this law in future (Conservative Party, 2017, p. 36).

3.3. 2019 Conservative Party manifesto

Following May's resignation in June 2019 in the face of increasing opposition in her own party and continued defeat on her EU Withdrawal Agreement, Boris Johnson was voted in as leader of the Conservative Party. Another snap general election was called in December 2019, following continued stagnation over Brexit. The 2019 manifesto was unsurprisingly lighter touch with even less time for preparation than for the previous election. Unsurprisingly issues related to Brexit were a prominent feature, with more detail on the future immigration system. There were some continuity with specific policy aims included in the two previous manifestos, such as pledges to make sure that it 'always pays to work' and the continued goal to reduce the disability employment gap, though now with no specific target (Conservative Party, 2019). It also featured continued pledges to invest in skills but stands out as having a stronger focus on workers' rights, as well as a number of measures to help working families with work/life balance.

To help 'make work pay', as well as continued promises to reduce taxes the party refers more specifically to the role of Universal Credit in creating a 'clearer pathway from welfare to work', in particular with increased work allowances for claimants (Conservative Party, 2019, p. 17). For working families in particular a number of initiatives are outlined, including funding more childcare before and after school and during school holidays, encouraging employers to allow flexible working and consulting on making this the default, legislating to allow parents to take extended leave for neonatal care, to make it easier for fathers to take paternity leave and reform redundancy law to protect women from discrimination upon returning from maternity leave (Conservative Party, 2019).

The 2019 manifesto commits to creating a new National Skills Fund worth £3billion over the next parliament to help people who lack qualifications to get into work or return to work after a gap in employment (Ibid). There is also a commitment to publish a National Strategy for Disabled People before the end of 2020 to address a number of issues including disabled peoples' access to jobs, to reduce the disability employment gap (Ibid).

In relation to workers' rights, the party promised to build on existing employment law to protect low paid workers and those working in the gig economy (Ibid). This includes plans to create 'a single enforcement body to crackdown on any employer abusing employment law' as well as giving workers the right to request more predictable contracts (Conservative Party, 2019, p. 39).

Post-Brexit, the manifesto describes an Australian-style points based immigration system designed to reduce the number of low-skilled migrants coming to the UK, with some protection for public services, for example with an NHS visa and still actively recruiting those from abroad at the top of their field, with a Start-up visa and Student visa (Ibid).

3.4. Summary

The main policy aims featuring in all three Conservative Party manifestos are increasing employment and closing employment gaps particularly in relation to disability, 'making sure work always pays', improving workers' rights, and more selective and reduced immigration. Whilst manifestos state a party's intentions, for a number of reasons there is not a linear relationship between parties' stated aims and the policy changes that they eventually bring into effect. In addition, any assessment of policy aims and achievements over this period is complicated by the fact that there were three party leaders, three general elections and three manifestos. Although, it amounts five consecutive years of a Conservative led government, aims, goals and emphasis changed under different leaders. The next section outlines the policy changes that took place in the period 2015 to 2020.

4. Policies

This section summarises the main changes to employment policy from 2015 up to the eve of the Covid-19 pandemic in early 2020. In this paper we focus on employment policies related to the following areas: physical and mental health and disability; increasing employment (including active labour market programmes and employment-related conditionality in social security benefits); self-employment and the gig economy; and pay and pay gaps.

4.1. Physical and mental health and disability

The government commissioned two independent reviews and one White Paper related to physical and mental health and disability in relation to employment. In December 2016 Dame Carol Black led the Independent Review of the Impact on Employment Outcomes of Drug or Alcohol Addiction and Obesity. The review focussed on the challenges to enter, return to or remain in work for individuals with addiction problems or who are obese and emphasises the mutually reinforcing relationship between employment and recovery (Black, 2016). It made a series of recommendations relating to employment support in treatment services, the benefit system and employers (Ibid). A couple of the recommendations made have been acted upon, including Public Health England undertaking a randomised controlled trial of Individual Placement and Support for alcohol and drug dependence (IPS-AD) across seven areas in England[2]; the programme involves intensive personalised support with job search and, once a job is secured, in-work support for both the employee and employer (O'Connor, 2019). In the White Paper 'Improving Lives' (covered in more detail below) they describe having started proof of concept testing for voluntary conversations between customers, a healthcare professional and a work coach for customers with a health condition or disability who have been assessed as having limited capability to work (Department for Work and Pensions, 2017, p. 59).

The Stevenson/Farmer Review of mental health and employers was published in October 2017 (Stevenson and Farmer, 2017). The Review argued that the UK faces a significant mental health challenge at work and suggested that the number of people leaving work with mental health problems could be reduced by 100,000 each year, bringing it in-line with the number who leave work due to physical health conditions (Ibid). To do this they set out 'mental health core standards' – a framework for actions that all organisations can implement quickly, based on best practice and some evidence, as well as more ambitious 'enhanced' standards for organisations that should lead the way (Ibid). They make 40 recommendations in total for the government, public sector and employers

[2] The areas are Birmingham, Blackpool, Brighton and Hove, Derbyshire, London Borough of Haringey, Sheffield and Staffordshire.

(Ibid). In the White Paper 'Improving Lives' the government accepts the Stevenson/Farmer review recommendations for the Civil Service as a (leading) employer (Department for Work and Pensions, 2017, p. 63).

In October 2016, The Department for Work and Pensions (DWP) and The (then) Department of Health published *Improving Lives: The Work, Health and Disability Green Paper*, which was followed by a 15 week consultation on the next 10 years of reform. The publication of the White Paper in November 2017, *Improving Lives: The Future of Work, Health and Disability*, set out a ten year strategy to increase the number of disabled people in work (Department for Work and Pensions, 2017). The White Paper replaced the Green Paper pledge to halve the disability employment gap with a new aim to get *one million more disabled people in work* over the next ten years: this would mean increasing the number of disabled people in work to 4.5 million by 2027 (ibid). It includes commitments to report on progress each year on the number of disabled people in work and to start a national roll-out of any interventions that prove to be successful and scalable in the early 2020's. The proposed policies focussed across three settings: the welfare setting, the workplace setting and the health setting.

In relation to the *welfare setting* proposed actions include new and improved training for Work Coaches at Jobcentre Plus, including improving understanding of different health conditions and disabilities, skills of empathy and active listening (Ibid: 17). The DWP also launched a Group Work Trial to see whether combining job search skills training with interventions to improve motivation can improve employment and health outcomes. For those on Employment Support Allowance (ESA) and Universal Credit, DWP rolled out a Personal Support Package which includes Health and Work Conversations. The White Paper also describes plans to introduce voluntary schemes for those furthest from the labour market – those in the ESA support group and Universal Credit equivalent (ibid: 22); noting that since September 2017, for both ESA and Universal Credit, reassessments had stopped for people with the most severe conditions (ibid: 22).

In relation to the *workplace setting*, the White Paper endorses recommendations made in the Stevenson/Farmer Review of mental health and outlines actions taken since the publication of the Green Paper in relation to disability and employment. These include launching the Disability Confident Business Leaders Group, a scheme that encourages and supports employers to employ people with disabilities. The rollout of the Small Employer Offer, introduced in June 2017 as part of the Personal Support Package for people with disabilities and health conditions, with Small Employer Advisors at Jobcentres to encourage local small employers to offer employment to people with disabilities or health conditions. It also included the introduction of Community Partners, a role created for those who have lived experience or expert knowledge of disability to work in partnership with third sector organisations to help shape the support people with disabilities and health conditions receive, develop a national mentoring scheme and build relationships with specialist organisations. In the White Paper, DWP also commits to improving Access to Work, a scheme that provides practical and financial support to help disabled people get into and stay in work. In the 2019 budget this was extended to include internships and further Jobcentre Support for young people with disabilities and special educational needs (2019 Spending Review).

The Personal Support Package, which provides tailored support for ESA claimants in the work-related activity group and UC claimants with limited capability for work, was rolled out from April 2017, in Jobcentre Plus with revised support from April 2019 which included the creation of Disability Employment Advisor Leaders and the revision to the role of Disability Employment Advisors to include elements of Community Partner and Small Employer Advisor roles, and new training for work coaches as part of the Work and Health Conversation to improve relationships with customers (Powell, 2019). In late 2019 the Intensive Personalised Employment Support Programme was rolled out to support individuals who are at least one year away from moving back into work and is expected to benefit 10,000 people (Powell, 2019).

There has also been development in policies aimed at benefiting young people with disabilities – such as the Jobcentre Plus Support for Schools programme which was rolled out across England in November 2016, providing targeted careers advice.

4.2. Increasing employment

The Work Programme and the Work and Health Programme

The Work Programme was first introduced in June 2011 under the Coalition government with the aim of helping long-term unemployed people and those considered to need most assistance, find and maintain work. JSA claimants aged 18-24 were referred after nine months of being out of work, after twelve months for JSA claimants aged 25+, and after only three months for any JSA claimant considered to be most in need of help. ESA claimants in the work-related activity group were also referred to the programme and all ESA claimants could participate on a voluntary basis. Participants could remain on the Work Programme for up to two years, after which time they returned to Jobcentre Plus if they had not found employment.

Delivery of the Work Programme was contracted-out to providers on the basis of a payment-by-results model with higher payments available for participants considered harder to help. Providers had considerable freedom in terms of the choice of interventions to provide. A job outcome payment could be claimed when a participant had been in work for a total of three months if they were in the harder to help group or for a total of six months for others, and sustainment payments were claimed for every four weeks a participant remained in work beyond the job outcome period up to a maximum of two years.

The Work Programme officially ended on 1st April 2017, and was later replaced by the Work and Health Programme (for a fuller discussion of the Work Programme see McKnight (2015)).

The Work and Health Programme (WHP) replaced the Work Programme and Work Choice schemes and was rolled out in England and Wales between November 2017 and April 2018. The Work and Health Programme provides assistance to people with disabilities, long-term unemployed benefit claimants and certain priority groups (known as early access groups) to help them find work. An important difference with the Work and Health Programme is the greater focus on providing assistance to people with disabilities and limiting health conditions. It is much smaller in scale than the Work Programme with a budget around one-quarter of the programmes it replaced (HoC Library, 2020). One reason why it is smaller is because unemployment benefit claimants need to be out of work for at least two years before they are referred to the Work and Health Programme. In contrast, unemployed benefit claimants were referred to the Work Programme after claiming for one year, and in some cases after much shorter durations (HoC Library, 2020). Due to these strict eligibility criteria for the unemployed, the largest group comprises people with disabilities.

All eligible groups participate on a voluntary basis with the exception of long-term unemployed benefit claimants. Employment services are provided by Jobcentre Plus to people who are unemployed less than two years unless they meet the criteria for the early access group. DWP identifies the following eligible groups in England and Wales[3]:

Disabled group

- People with disabilities, defined by the Equality Act 2010

Long-term unemployed group

- Unemployed people who have been claiming unemployment benefit for at least 2 years

Early access group

- Carers and former carers
- Homeless people
- Former members of the armed forces or armed forces reservists
- Partners of current or former members of armed forces

[3] Employment support for the long-term unemployed and people with disabilities is a devolved matter in Scotland, Northern Ireland and to a lesser extent, in Wales.

- Care leavers
- Young gang members
- Refugees
- Victims of domestic violence
- People who are currently, or were previously, dependent on drugs or alcohol, such that it prevented them from getting work
- Ex-offenders who have completed a custodial or community sentence
- Offenders serving community sentences

The type of support available includes personalised support with regular face-to-face contact, mentoring and peer support; integrated access to specialist support networks at a local level including health and wellbeing professionals; and support from dedicated employer experts with knowledge of the local labour market and job opportunities (Department for Work and Pensions, 2019a). More information on the Work and Health Programme can be found in Box 1.

Box 1

The Work and Health Programme

The Work and Health Programme (WHP) is an active labour market programme designed to help some out of work individuals find sustained work.

Delivery of WHP in England and Wales is outsourced by the government to providers in the public, private and voluntary sectors. It is run by five service providers across six regions. In addition, London and Greater Manchester have devolution deals that provide them with funding and the ability to choose their provider (HoC, 2018). Providers are paid a service delivery fee as well as additional payments according to the results they achieve based on whether or not participants achieve a job outcome. Participants are classified as having achieved a job outcome when they are in employment for 26 weeks, working at least 16 hours a week at the National Living Wage, or self-employed for 26 weeks. Only one outcome can be claimed per participant and must be achieved in either employment or self-employment (self-employed earnings cannot be combined with employment earnings for the purpose of achieving an outcome).

There are three provider models operating across England and Wales: (1) WHP is delivered by five providers across six areas which the DWP refer to as Contract Package Areas; (2) The Greater Manchester Combined Authority (GMCA) and London sub-regions, design, procure and contract manage their own WHP with funding from DWP and, at least initially, with matched funded from the European Social Fund (ESF). These are referred to as Local Government Partners; (3) In some areas, the government has designed WHP in consultation with Local Enterprise Partnerships and city regions; known as Devolved Deal Areas.

As providers have a financial incentive to achieve sustained employment, they offer in-work support after participants find work. Providers can support participants for up to 15 months and this support can be extended to participants in work for a further six months. Types of support include: identification of employment needs; assistance with finding suitable job vacancies; introduction to employers; help with appropriate training; help with managing health problems to reduce their impact on work. To deliver their support, providers link up with health, social care and other local services.

Universal Credit and in-work conditionality

Another major change during this period has been the (slow and delayed) rollout of Universal Credit (UC). Universal Credit replaces six legacy benefits and tax credits (Housing Benefit; Child Tax Credit; Working Tax Credit; Income Support; income-based Jobseeker's Allowance; income-related Employment and Support Allowance) and combines entitlements across all of these into one single monthly payment. A central aim of UC is to increase employment; DWP estimated that by 2024/25 an additional 200,000 individuals will be in employment because of UC (Department for Work and Pensions, 2018). One of the features of UC that is expected to help achieve this aim is increased conditionality. Under UC some groups of claimants are required to look for work for the first time[4]. Additionally under UC conditionality is also extended to those in work for the first time, with claimants being required to secure more paid work or better paid work if they do not meet their earnings threshold (Hagi, 2018). The earnings threshold is calculated for each claimant based on the number of hours they are expected to be able to work and the minimum wage. For couples both earnings thresholds are combined so it is possible to meet the total earnings threshold even if the hours and pay are not divided exactly in-line with each individual threshold e.g. if one partner works more than their required hours or is better paid. There are four levels of work related conditionality a UC claimant can be placed into:

- No work related requirements
- Work focused interview requirement only
- Work focused interview and work preparation requirement
- All work related requirements

The work related requirements and any actions agreed to in meeting those are recorded in a Claimant Commitment, the acceptance of which is a basic requirement of claiming UC (Ibid). In January 2020, on the eve of the pandemic, in-work conditionality applied to 14% of all UC claimants (48% of UC claimants in work)[5].

What claimants have to do to satisfy these work requirements has also become more demanding: previously under old-style JSA, claimants had to take at least three steps to find work each week to show they were 'actively seeking work', but under UC and new-style JSA the work search

[4] It was estimated that one million claimants who were not subject to conditionality under legacy benefits will be subject to conditionality under Universal Credit (National Audit Office, 2018). This includes claimants who under the legacy benefits system were only claiming Housing Benefit or Child Tax Credit, as well as claimants' partners (as one single payment is made at the household level rather than to each adult individually), and claimants who are appealing or awaiting work capability assessments (Ibid).

[5] Based on UC statistics available through Stat-Xplore https://stat-xplore.dwp.gov.uk/webapi/jsf/dataCatalogueExplorer.xhtml accessed 26 February 2020.

requirement is based on expected hours of work, with an expectation that claimants will spend 35 hours per week on work search activities (Ibid).

Other features of UC expected to increase employment are a smoother transition between out-of-work benefits and in-work benefits and a reduction in the withdrawal rate as earnings increase. Under old-style JSA as soon as claimants worked more than 16 hours a week, payments stopped and, if eligible, individuals would need to submit a claim for tax credits and other in-work benefits. In contrast, UC claims do not automatically end when hours of work exceed 16 hours a week (or any hours threshold), instead the value of UC claims adjust according to the UC taper rate. Claims for UC only end when household income increases beyond the maximum threshold or if other eligibility criteria are no longer met. This means that UC claimants can take up temporary work or accept temporary increases in hours of work without having to end their claim[6]. Additionally claimants with at least one dependent child or limited capability for work receive a work allowance meaning they can earn a certain amount before the value of their UC claim is affected. When earnings exceed the work allowance, the UC taper rate applies which means for every £1 earned above the work allowance UC is reduced by 63p (the UC taper rate was subsequently reduced to 55p). The government expects that in addition to being better off in paid work the simpler processes involved in claiming UC will also encourage more people to take up work (Department for Work and Pensions, 2018).

4.3. Self-employment and the 'gig economy'

In July 2017 Matthew Taylor was commissioned to conduct a review of modern working practices (Taylor, 2017) with a focus on new forms of work, including the 'gig economy' and the implications for workers' and employers' rights and obligations. The review set out seven principles aimed at achieving 'good work' for all, with the definition of good work extending beyond good pay, including opportunities for progression for all workers to be engaged and heard by employers, and autonomy at work (for example relating to the content and pace of work) (Ibid). It recommends greater clarity in the law around self-employment status as well as improving the rights and entitlements of self-employed people. It also makes recommendations to help workers know and exercise their rights, particularly dependent contractors vulnerable to one-sided flexibility, by providing additional protections and stronger incentives for firms to treat such workers more fairly (Ibid). The review calls for a more proactive approach to health in the workplace and argues that the National Living Wage needs to be accompanied by sectoral changes that ensure people don't get stuck on minimum wage rates but can progress (Ibid). The review also highlighted the need for a new social security guarantee for

[6] A taper rate also applies to tax credits.

precarious workers; social security policies in this period are discussed in more detail in the social security paper from this programme (Cooper and Hills, 2021).

In February 2018 the government published its response to the review, accepting some of the recommendations and committing to consultations in relation to a number of the issues raised including the legal framework underpinning employment rights in Great Britain (see pages 68-75 for the government response to each of the 53 recommendations that were made). The government response was also informed by the Work and Pensions and Business, Energy and Industrial Strategy Committees' framework for modern employment, published in November 2017 (House of Commons Work and Pensions and Business, Energy and Industrial Strategies Committees, 2017), which made 11 recommendations focused on legislating to clarify employment statuses and implement a workers by default model, as well as strengthening protections for workers' rights and introducing tougher penalties for employers that breach employment legislation for repeat offenders (ibid). The government agreed in its response to work towards legislating on clearer definitions of employment status, and to extend the duty of employers to provide workers as well as employees a clearly written statement of employment conditions (HM Government, 2018). The government launched a consultation on employment status in February 2018 but so far have not published a written response. They also agreed to ask the Low Pay Commission to evaluate the impacts of a wage premium on the National Minimum Wage on non-guaranteed hours (i.e. where employers would have to pay a higher minimum wage rate for hours of work that are not guaranteed) to re-balance the benefits of zero-hours contracts and encourage employers to offer more stable work (Ibid). However, the LPC concluded that there were too many potential trade-offs to this measure and instead proposed an alternative package of measures including a right to switch to a contract which reflects normal hours worked, a right to reasonable notice of work schedule and compensation for shift cancellation or curtailment without reasonable notice (Low Pay Commission, 2018, p. 42).

There have also been some legislative changes in this period in relation to self-employment, agency workers and zero-hours contracts. On 26 May 2015 legislation[7] came into effect banning exclusivity clauses in zero-hours contracts; this means employers are no longer able to block workers (on zero-hours contracts) from working for another employer. In January 2016 new regulations came into force, providing additional protections for workers[8]. These include automatically deeming as unfair any dismissal of an employee if the principal reason for dismissal is breach of an exclusivity

[7] The Small Business, Enterprise and Employment Act 2015 amended the Employment Rights Act 1996 to ban exclusivity clauses in zero-hours contracts but did not include sanctions for employers that continue to use them.
[8] http://www.legislation.gov.uk/uksi/2015/2021/made

clause, and deeming it unlawful for an employer to subject a worker on a zero-hours contract to a detriment if he or she works for a different employer. There have also been further clampdowns on false self-employment. The Income Tax (Pay As You Earn) (Amendment No. 2) Regulations 2015[9], legislation put forward by the 2010-2015 Coalition government, allows HMRC to require employment intermediaries (e.g. employment agencies) to provide details of the workers they supply and payments made to workers when not made through Pay As You Earn (PAYE), as well as justifications for why they did not operate PAYE. Another legislative change which is part of the Government's Good Work Plan is The Agency Workers (Amendment) Regulations 2019, came into force on 6 April 2020[10]. This removes the 'Swedish derogation' from the Agency Workers Regulations 2010 giving agency workers a right to parity of pay with employees; under the Swedish derogation agency workers are excluded from the right to equality of pay with comparable permanent employees if they have a contract which guarantees a certain amount of pay when they have gaps between assignments. It is thought that this will encourage employers to take on permanent employees, providing greater job security.

In relation to self-employment was an increase in government support for unemployed claimants wanting to start up their own business, as eligibility for the New Enterprise Allowance expanded (Department for Work and Pensions, 2019b). This scheme provided claimants with access to a business mentor who helps develop a business plan, then once a claimant is deemed to have a viable business plan they also got access to financial support as well as ongoing mentoring for the first six months of trading. The allowance was worth £1,274 over 26 weeks as well as the possibility of accessing a start-up loan. The scheme was introduced in 2011 for JSA claimants only but eligibility was expanded in January 2015 to include claimants of Employment and Support Allowance (ESA), Incapacity Benefit (IB), Income Support (IS) and some UC claimants. Eligibility criteria was further expanded in April 2017 to include UC claimants who already have businesses but whose earnings fall below the minimum income threshold (Ibid).

In the 2017 Spring Budget Phillip Hammond (as Chancellor) announced an increase in the self-employed rate of national insurance contributions, though reversed this decision a week later, following pressure from backbench MPs[11]. This was due to fears that this policy would damage the party's reputation by breaking the promise made in the 2015 manifesto to make no increases to national insurance contributions nor income tax.

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[9] https://www.gov.uk/government/publications/employment-intermediaries-reporting-requirements/why-the-new-legislation-was-introduced

[10] http://www.legislation.gov.uk/ukdsi/2019/9780111177297

[11] Stewart and Walker, 15th March 2017, 'Phillip Hammond defends scrapping national insurance rise for the self-employed', *The Guardian* https://www.theguardian.com/politics/2017/mar/15/philip-hammond-ditches-national-insurance-rise-for-self-employed accessed 16th April 2020

4.4. Pay and pay gaps

Finally, there have been some important changes in relation to regulation of workers' pay. The National Living Wage (NLW) was introduced in April 2016 for employees aged 25 and over and a target was set by the government that the more generous NLW rate should reach 60% of the median wage, subject to sustained economic growth. Previously it was left to the LPC to recommend increases in minimum wage rates to government but concern was growing that NMW rates were not growing in line with inflation and becoming 'going-rates' in some sectors.

Table 1 National Minimum Wage (NMW) and National Living Wage (NLW) rates, 1999 - 2020 (nominal values)

Year	NLW 25+	21-24	18-20	Under 18	Apprentice
1 April 2020	£8.72	£8.20	£6.45	£4.55	£4.15
1 April 2019	£8.21	£7.70	£6.15	£4.35	£3.90
1 April 2018	£7.83	£7.38	£5.90	£4.20	£3.70
1 April 2017	£7.50	£7.05	£5.60	£4.05	£3.50
1 October 2016	£7.20	£6.95	£5.55	£4.00	£3.40
1 April 2016	£7.20	£6.70	£5.30	£3.87	£3.30
Year	**NMW 21+**		**18 to 20**	**Under 18**	**Apprentice**
1 October 2015	£6.70		£5.30	£3.87	£3.30
1 October 2014	£6.50		£5.13	£3.79	£2.73
1 October 2013	£6.31		£5.03	£3.72	£2.68
1 October 2012	£6.19		£4.98	£3.68	£2.65
1 October 2011	£6.08		£4.98	£3.68	£2.60
1 October 2010	£5.93		£4.92	£3.64	£2.50
Year	**NMW 22+**		**18-21**	**16-17**	
1 October 2009	£5.80		£4.83	£3.57	–
1 October 2008	£5.73		£4.70	£3.53	–
1 October 2007	£5.52		£4.60	£3.53	–
1 October 2006	£5.35		£4.45	£3.40	–
1 October 2005	£5.05		£4.25	£3.00	–
1 October 2004	£4.85		£4.10	£3.00	–
1 October 2003	£4.50		£3.80	£3.00	–
1 October 2002	£4.20		£3.50	–	–
1 October 2001	£4.10		£3.50	–	–
1 October 2000	£3.70		£3.20	–	–
1 April 1999	£3.60		£3.00	–	–

As well as raising gross wage rates for the lowest paid employees, changes to the personal income tax allowance led to increases in take-home pay. The tax free allowance was increased to £10,600 in 2015/16 and increased further to £12,500 in 2019/20 (one year earlier than planned), with plans for the personal tax allowance to be increased by CPI rate of inflation from 2021/22. Also for high earners, the higher rate Income Tax threshold was raised to £42,386 in 2015/16 with further increases each year, reaching £50,000 by 2019/20.

Legislative changes were introduced aimed at reducing pay gaps between specific groups of employees. Changes to the Equality Act, which came into effect in April 2017, made it compulsory for companies in Great Britain with more than 250 employees to report their gender pay gap at the end of each financial year[12]. This requirement is enforced by the Equality and Human Rights Commission (EHRC) who can take legal action against employers who fail to report this information. In December 2018 the Government consulted on reporting ethnicity pay gaps[13], but this is still not a requirement.

In August 2016, Prime Minister Theresa May announced a Race Disparities Audit to analyse ethnic disparities across a number of outcomes including employment, with the view that if ethnic disparities cannot be explained they must be changed. The audit, published in October 2017, found ethnic disparities in employment with those from an ethnic background other than White British less likely to be employed, though the gap had narrowed between 2015 and 2016 (Race Disparity Unit, 2017). It also found that some ethnic groups were more likely to be concentrated in the three lowest-skilled occupations. In February 2017 the McGregor-Smith review 'Race in the workplace' was published, highlighting issues of bias and discrimination that prevent people from minority ethnic backgrounds from progressing in the workplace (McGregor-Smith, 2017). The review made 26 recommendations including for Government to legislate that all companies employing more than 50 people publish their workforce data broken down by ethnicity and pay band as well as an update to the review one year on (McGregor-Smith, 2017). The Government response stated that rather than pursuing legislative change they believed in a business-led voluntary approach to transparency, though they did commit to updating the review one year later (Department for Business, Energy and Industrial Strategy, 2017). The review one year on found little progress and even some regression as the proportion of managers who report that they have a performance objective to promote equality at work had fallen (Department for Business, Energy and Industrial Strategy and Race Disparity Unit, 2018).

[12] https://www.legislation.gov.uk/ukdsi/2017/9780111152010 accessed 18th November 2019

[13] https://www.gov.uk/government/consultations/ethnicity-pay-reporting

4.5. Brexit

Despite very good overall levels of employment, there is some evidence that high levels of immigration have disproportionately affected some groups of workers and some areas of Britain, though the effect sizes are small (Migration Advisory Committee, 2018). The perception that immigration negatively impacts access to jobs was a major driver behind the leave campaign running up to the referendum on the UK's membership of the EU. The share of workers born outside of the UK has increased from less than 10% in 2004 to 17% in 2018 (Fernandez-Reino and Rienzo 2019). The overall employment rate for migrants is similar to that of the UK-born however this differs by gender with higher employment rates among migrant men compared to UK-born men and migrant women having lower employment rates compared with UK-born women, though there are also important differences based on country of origin (Ibid). In terms of the types of jobs that migrants are more likely to work in there are important differences by country of origin: migrants born in India, East and Southeast Asia and in EU-14 countries are more likely to work in high skilled occupations compared to those born in the UK, whilst migrants from the new EU member states (EU-8) are overrepresented in low skilled occupations, with a third of workers from new EU member states working in retail and manufacturing jobs in 2018 (Ibid).

Brexit is likely to have a significant impact on the labour market both via its impact on the economy and via reduced migration which will impact sectors that rely heavily on migrant workers (see Stewart, Cooper and Shutes (2019)). At the time of Stewart, Cooper and Shutes's analysis the UK had entered the transition period to leaving the EU with the final agreement on the relationship between the UK and the EU once the transition period ends on 31st December 2020, signed on 24th January 2020. There had already been negative economic consequences of the vote to leave the EU, with a slowdown in economic growth and increased inflation (Stewart et al., 2019; Valero and Reenen, 2019). In terms of future consequences there was still uncertainty around what trade deals the UK will manage to negotiate however, Stewart, Cooper and Shutes found a broad consensus across a range of economic forecasts that Brexit will result in lower economic growth compared to the UK remaining in the EU (Stewart et al., 2019; Valero and Reenen, 2019), with more negative consequences for harder forms of Brexit or no deal (OECD, 2019a). This clearly has important implications for the labour market as economic growth drives employment and wage growth (Stewart et al., 2019).

The main driver of the projected fall in GDP growth is a fall in trade due to non-tariff barriers, with certain sectors such as financial services being particularly affected by loss of market access (Stewart et al., 2019). There will also be differential impacts across industries with those working in clothing and textiles, transport equipment and pharmaceuticals being particularly exposed as well as finance (Ibid: 34). Older men in process, plant and machine operative occupations may be most hard hit and find it difficult to find other employment at the same pay rate if they lose their job (Ibid).

The predicted fall in migration is also likely to have a negative impact on growth, as well as labour supply. This is a particular concern for health and social care which has a significant proportion of workers from EU countries and already faced a staffing crisis (see section 2.3 in (Stewart et al., 2019) a more detailed discussion). The number of EU nurses registering to practice in the UK dramatically fell after the Brexit vote and for the first time in 20 years there was a net exit from the NHS by EU trained clinicians (Oliver, 2019). Construction is also likely to be significantly impacted by reduced migration, with 18% of the homebuilding workforce from the EU, rising to 50% of the workforce in London (Home Building Federation, 2017). It is worth noting however, that whilst EU migration has declined non-EU migration to the UK increased after 2016 (ONS, 2020a) and so some impacts on labour supply may be off-set.

But could Brexit have some positive consequences for the UK-born? Will the logic of some leave voters be vindicated as reduced migration benefits UK-born workers, reducing competition for jobs and relieving downward pressure on wages? The impact of migration on employment outcomes and wages is not straightforward to estimate and causality is difficult to untangle as immigration can be both a cause and consequence of changes in wages and employment (Ruhs and Vargas-Silva, 2018). Furthermore, the number of jobs to be shared is not fixed and migration could increase the size of the economy and thereby lead to increased availability of jobs. Reviewing existing evidence, the Migration Advisory Committee (MAC) concluded that most studies find little or no impact of immigration on employment outcomes *on* average, though a handful of studies find there is an impact which differs for different types of workers, with a positive effect of immigration for workers with higher levels of education and skills and a negative impact of immigration on those with lower levels of education and skills (Migration Advisory Committee, 2018). In terms of the impact of immigration on wages, based on existing evidence as well as the MAC's own analysis, they find small negative effects on wages for those at the bottom of the wage distribution and small positive effects on wages for those at the top of the wage distribution, though they caution against interpreting these findings too strongly as they capture short-term effects that likely dissipate over time and also the range of analyses shows the findings are very sensitive to methodological choices (Ibid). Also the evidence used is previous to the increase in the national minimum wage which we would expect to limit the impact on the pay of lower earning workers. Overall then there is not strong evidence of negative effects of immigration on employment outcomes or wages, though there is some indication that workers on lower wages and with lower levels of education and skill may experience small negative impacts of immigration, not to mention that regional differences are likely to be important here. Nevertheless, we would not expect UK-born workers to benefit in terms of employment outcomes or wages after Brexit, as the MAC explain any migration effects on wages and employment outcomes are much smaller than the impact of other changes, such as the depreciation of the pound after the vote to leave the EU (Migration Advisory Committee, 2018). However, one potentially positive consequence of reduced migration is that skills shortages, such as in medicine, may lead to greater investment in training UK-born workers, though this of course requires financial investment, where the UK has previously benefited from medical professionals being trained by their home countries and then bringing their skills to the UK. It also requires a considerable amount of time to train doctors, therefore relying on increased migration of medical professionals from non-EU countries is likely necessary in the short term.

Of course levels of migration post-Brexit will depend on the immigration system put in place. The MAC investigated the potential impact of an Australian-style points based immigration system and salary thresholds by comparing what would have happened if salary thresholds in Tier 2 (general) immigration had been applied to EEA migrants since 2004 (Migration Advisory Committee (MAC), 2020). They find that GDP would have been lower but GDP per capita and average labour productivity would have been higher and public finances would have improved, though apart from the impact on GDP these impacts are estimated to be very small (ibid).

Brexit will also have consequences for the UK labour market via its consequences for workers' rights (see chapter 2.1 in (Stewart et al., 2019) for a more detailed discussion). EU member states are legally bound by EU law, which can take the form of both regulations and directives, and which overrides any conflicting laws of member states (Ibid). EU law has had a significant impact on UK law in relation to sex discrimination and work-life balance legislation as well as important developments for the rights of precarious workers in the form of the Part-Time Workers Directive, the Fixed Term Workers Directive and the Agency Workers Directive (Fredman et al., 2018). During the transition period the UK was still subject to EU law but there was concern that once the transition period ended, the UK will not only fail to keep pace with progress on workers' rights at the EU level but that existing workers' rights will be watered down (Stewart et al., 2019). There are a number of reasons for this concern: the pressure to attract investment and offer a 'business-friendly environment' with low regulation (O'Cinneide, 2018); second, the impact of new trade deals can also put pressure on workers' rights (Harrison et al., 2017); finally, the UK has a history of opposition to some of the EU directed workers' rights: earlier Conservative governments vetoed directives related to working regulations and have implemented some only to minimum standards (Ford, 2016). The Working Time Directive for example, which protects workers' rights to rest, paid leave, maximum working hours and protection for night workers is a likely target for amendments; the UK initially tried to reject this Directive and when it was finally implemented this was two years after the deadline and came alongside legislation to protect employers against financial liability (Ford, 2016).

4.6. Devolution

An important part of the context for social policies, including employment policy is devolution. This is briefly discussed here in relation to employment policy but is explored more fully in two sister papers from this research programme, one on country-level devolution (Stephens and Fitzpatrick, 2018) and one on city-region devolution (Lupton et al., 2018). In relation to country level devolution, following the Scotland Act 2016 employment support for the long-term unemployed and for other groups such as people with disabilities, is a devolved responsibility in Scotland (Powell, 2018). Two transitional programmes were introduced in April 2017 - Work Able Scotland and Work First Scotland – and these were replaced by Fair Start Scotland in April 2018[14]. Participation is voluntary in Fair Start Scotland and participants are offered 12 months of tailored pre work support followed by a further period of in work support. Most referrals are made through Jobcentre Plus which continues to operate in Scotland. The Scottish Government has also set its own target to at least halve the disability employment gap in Scotland in *A Fairer Scotland for Disabled People: employment action plan* (The Scottish Government, 2018). Additionally, in relation to pay and pay gaps the Scottish Government announced an alliance with the Poverty Alliance in November 2017, with the aim of increasing the number of people receiving the Real Living Wage (set by the Living Wage Foundation) by 25,000 by 2021; launch a regional accreditation scheme to create 'the UK's first Living Wage towns, cities and regions'; and increase in the proportion of accredited organisations in low-paid sectors, such as hospitality[15]. An action plan to reduce the gender pay gap was published by the Scottish Government in 2019 along with a Fair Work Action Plan aimed at encouraging employers to embed fairer working practices (The Scottish Government, 2019).

The devolution settlement in relation to employment policy in different in Wales. Along with Jobcentre Plus, the Work and Health Programme operates in Wales providing job search and employment support services for the long-term unemployed and people with disabilities and health conditions. In addition, Working Wales which is delivered by Careers Wales and funded by the Welsh Government and the European Social Fund, provides free work advice, guidance and access to training for people looking for work or wanting to further their careers.

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[14] http://www.employabilityinscotland.com/policy/background-on-scotlands-devolved-employment-services/ accessed 17th April 2020

[15] https://www.gov.scot/policies/employment-support/fair-work-and-pay/ accessed 17th April 2020

5. Spending

The level of spending on employment policy[16] is sensitive to the unemployment rate, with higher spending required to fund active labour market programmes when unemployment increases and lower spending when unemployment falls. This means that care must be taken in interpreting levels and trends in expenditure on employment policy. To help understand changes in demand, we show trends in unemployment rates alongside trends in expenditure (Figure 1), although it is worth noting that employment services are also targeted at some groups who may not be defined as unemployed (for example, people with disabilities who may be classified as economically inactive).

Total spending on employment policy, reported in the official Public Expenditure Statistical Analyses (PESA) series, is shown both in real terms and expressed as a % of GDP. Spending on the New Deal programmes by the previous Labour government, which was initially funded by a one-off £5 billion windfall tax on privatised utility companies, increased overall expenditure on employment policy 1997/98-2000/01. This extra spending notably occurred during a period that unemployment rates were falling, representing an increase in the provision of employment services. Following this period of investment, trends in expenditure (in both real and % GDP terms) have largely followed trends in unemployment rates. However, it is worth noting the changes after 2010/11. Prior to this unemployment and expenditure rose as a result of the economic recession following the 2007/08 financial crisis with the unemployment rate rising to 8.1% in 2010/11 and real expenditure reaching £5.4 billion (2018/19 prices) which represented 0.29% of GDP. Between 2010/11 and 2012/13

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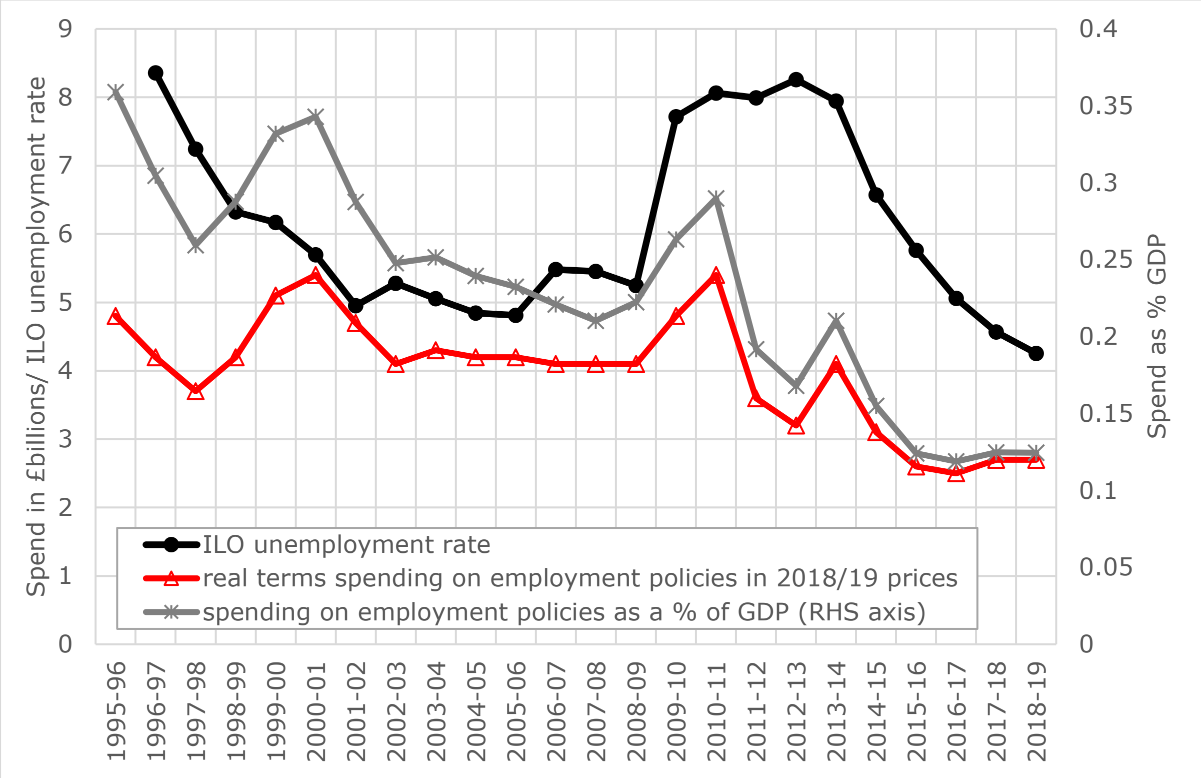
[16] The definition of employment policy used in the National Accounts and Public Expenditure series is based on the United Nations' Classification of the Functions of Government (UN COFOG) of 'General labor affairs' which includes:

- Administration of general labor affairs and services; formulation and implementation of general labor policies; supervision and regulation of labor conditions (hours of work, wages, safety, etc.); liaison among different branches of government and between government and overall industrial, business and labor organizations;
- operation or support of general programs or schemes to facilitate labor mobility, to reduce sex, race, age and other discrimination, to reduce the rate of unemployment in distressed or underdeveloped regions, to promote the employment of disadvantaged or other groups characterized by high unemployment rates, etc.; operation of labor exchanges; operation or support of arbitration and mediation services;
- production and dissemination of general information, technical documentation and statistics on general labor affairs and services;
- grants, loans or subsidies to promote general labor policies and programs.

It excludes: labor affairs of a particular industry (classified to (7042) through (7047) as appropriate); provision of social protection in the form of cash benefits and benefits in kind to persons who are unemployed (71050). (Annex to Chapter 6: Classification of the Functions of Government in IMF (2014) available at https://www.imf.org/external/pubs/ft/gfs/manual/pdf/ch6ann.pdf).

expenditure fell sharply (to £3.2 billion; 0.17% of GDP in 2012/13) but unemployment increased to 8.3%. Part of the fall in expenditure was associated with a shift to a deferred payment scheme under the Work Programme whereby contracted providers were paid according to the results they achieve in terms employment outcomes of participants. This shift to a deferred payment system leads to a lag between when services are provided and when public expenditure is incurred. It also explains why, despite now sharply falling unemployment rates, expenditure increases in 2013/14 before falling again in line with falling unemployment trends. Spending on employment policy has been stable 2015/16 to 2018/19 at around 0.1% GDP (£2.7 billion in 2018/19 prices). It is not clear why this is the case although it was a period in which employment services were reformed, with new referrals to the Work Programme ending in March 2017 and the Work and Health Programme did not start being rolled out across England and Wales until April 2018.

Figure 1: Spending on employment policy 1995/96 to 2018/19 (real terms 2018/19 price levels (£billions) and % GDP) - unemployment rates (ILO measure)



Source: Public Expenditure Statistical Analyses (PESA) (2019), Tables 4.3 and 4.4. Unemployment data from ONS UNEM01 SA: Unemployment by age and duration (seasonally adjusted) (21 January 2020), Series LF2Q available at https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/unemploymentbyageanddurationseasonallyadjustedunem01sa

Notes: (1) Expenditure 1995/96 to 1997/98 cash basis, from 1998/99 onwards accruals basis. (2) ILO unemployment rates UK (16-64 years), March-May Labour Force Survey (seasonally adjusted).

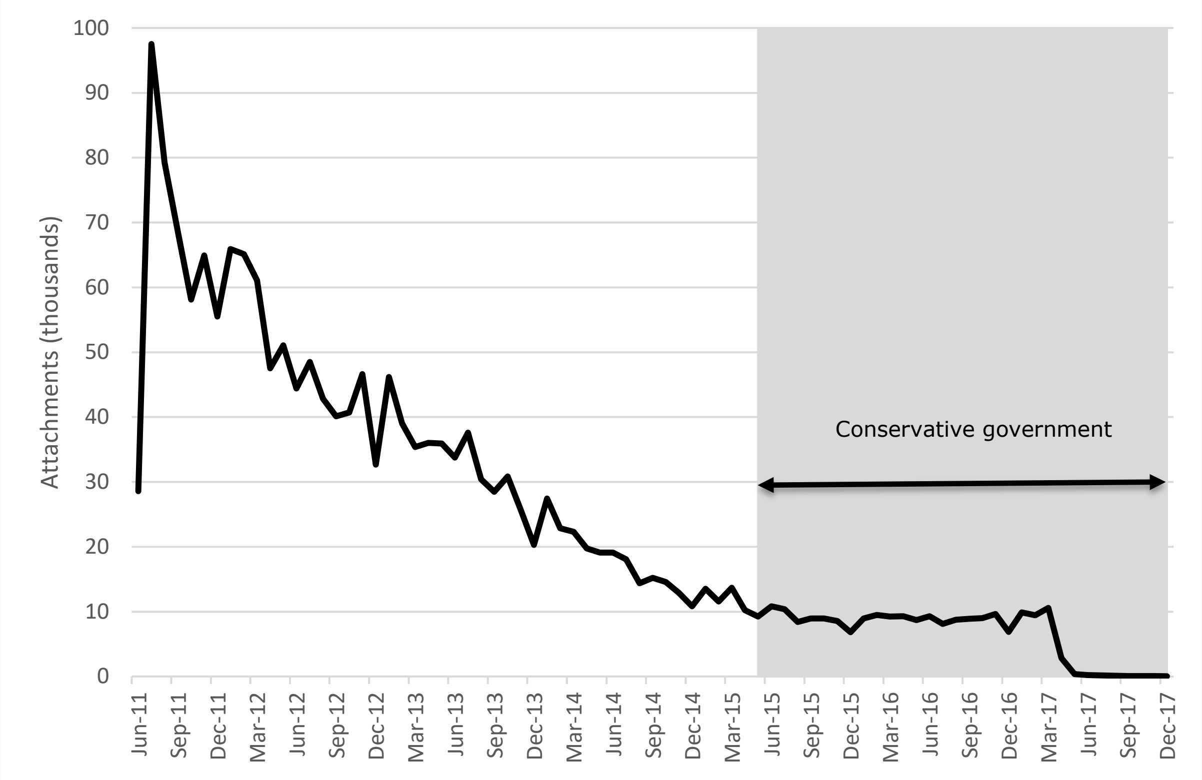
6. Inputs

In considering employment policy inputs we examine the number and characteristics of people entering the Work Programme and the Work and Health Programme.

6.1. The Work Programme

Starting with the Work Programme, introduced by the Coalition government in 2011 but still operating as the main active labour market programme for the unemployed for the first two years of the Conservative government elected in 2015. Figure 2 shows the number of people who were participating in the programme by the month they started. Initially there is a big increase in the number of attachments and this is due to participants on the Flexible New Deal being transferred to the Work Programme as the Flexible New Deal programme came to an end. From this point onwards the number of new attachments declines, in part this was due to the initial surge in attachments as claimants transferred from the Flexible New Deal but also due to falling unemployment and the fact that individuals can only participate in the programme once. The shaded area represents the period when the Conservative governments were in power from May 2015 and the Work Programme was still in place. The last referrals to the Work Programme occurred in March 2017.

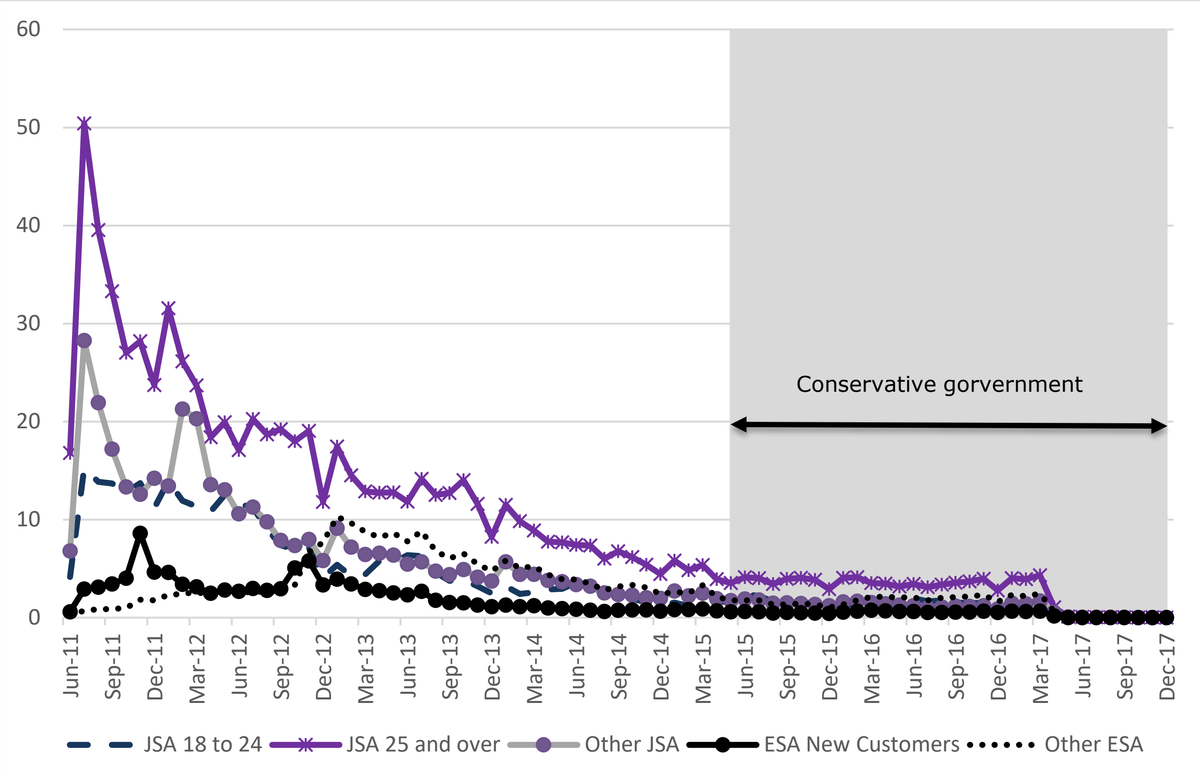
Figure 2: Work Programme: number of attachments each month



Source: Work Programme Statistics - March 2018, Department for Work and Pensions.

JSA claimants aged 25+ were the largest group of participants in the Work Programme (Figure 3). Under the Work Programme, people who were unemployed for 12 months or longer were required to participate. In contrast, smaller numbers of people with disabilities claiming Employment Support Allowance (ESA) participated than people without disabilities claiming unemployment benefit.

Figure 3: Work Programme: number of attachments each month by claimant group

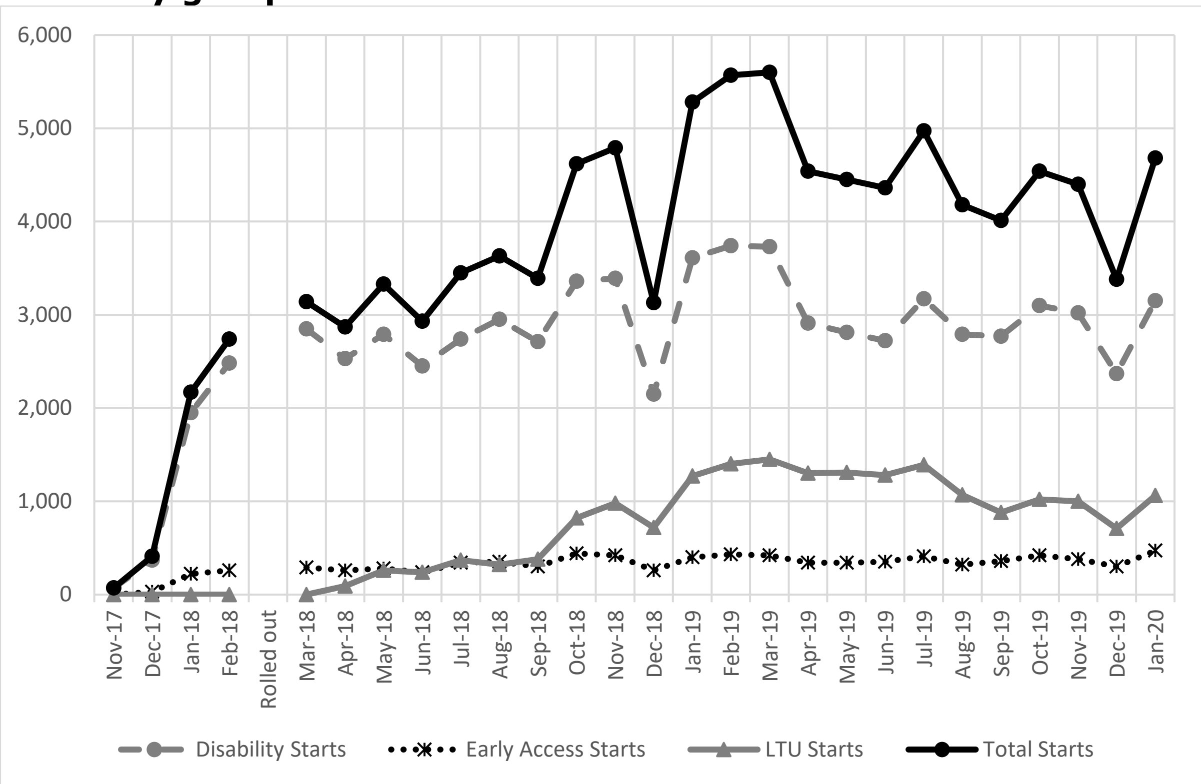


Source: Work Programme Statistics - March 2018, Department for Work and Pensions.
Notes: JSA (Jobseekers' Allowance); ESA (Employment Support Allowance) New Customers includes new claimants classified as being able to enter employment within 12 months, Other ESA includes claimants classified as not considered to be able to enter employment within 12 months.

6.2. The Work and Health Programme

In contrast to the Work Programme, the largest group of participants in the Work and Health Programme is people with disabilities (defined according to the Equality Act 2010), reflecting the aims of the programme (DWP, 2020). The monthly number of individuals in this group starting on the WHP increased as the programme was rolled out and became established, peaking in March 2019 at 3,730 (Figure 4). Since then the number of starts has trended downwards with some cyclical variation. The second largest group is long-term unemployed benefit claimants for whom the number of starts were slower to increase due to the eligibility criteria (the length of time they need to be unemployed before participating). It wasn't until October 2018 that the number of long term unemployed starting in a single month exceeded the number of early access group starts. Since the start of the programme and up to early 2020, the largest number of starts for this group occurred in March 2019 (1,450). In January 2020, 1,060 long term unemployed claimants started the programme making up under a quarter (22.6%) of all starts in that month. After being overtaken by long-term unemployed benefit claimants in March 2019, the group with the smallest number of starts each month is the early access group. The largest number of starts for this group was in January 2020 (470), making up 10% of all starts in that month.

Figure 4: Work and Health Programme: number of starts each month by groups

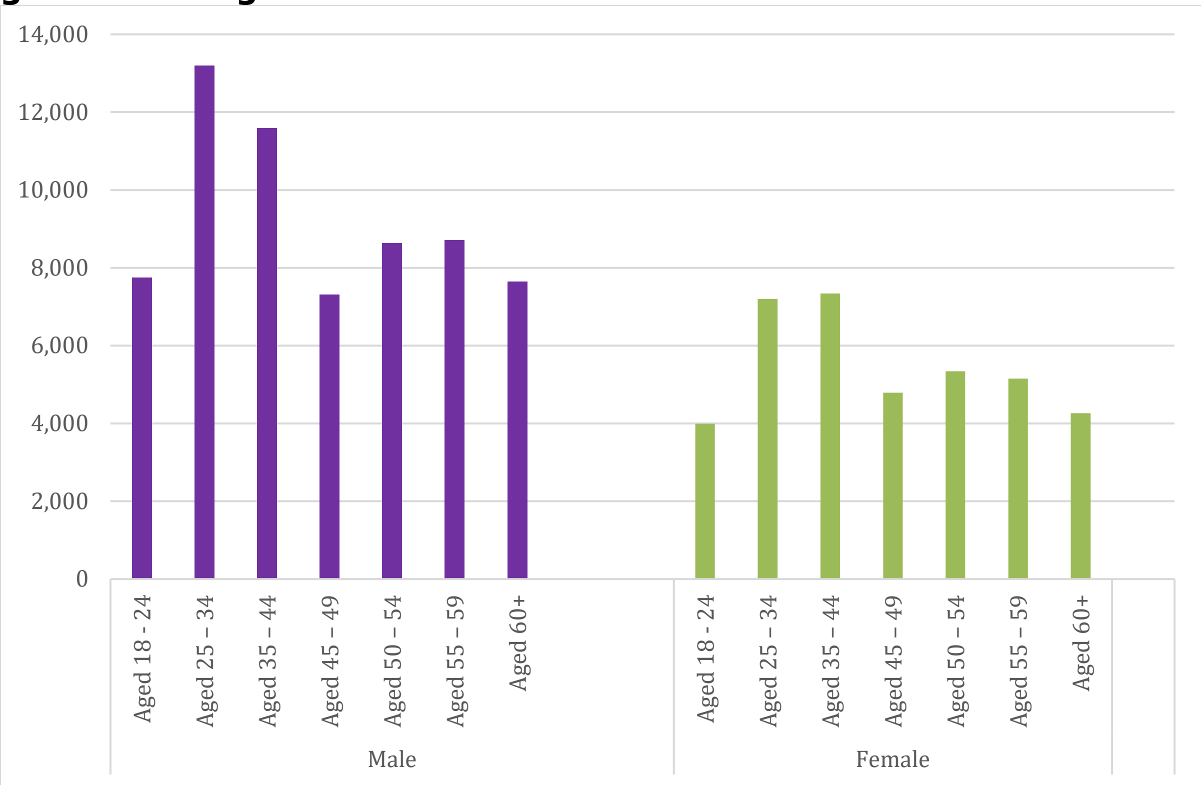


Source: Work and Health Programme statistics to February 2020, Department for Work and Pensions.

Note: A start on the programme is recorded when a WHP participant attends the initial face-to-face meeting with the provider. The vast majority of starts should take place within 15 working days, although starts outside of the 15 days may occur if the participant is unable to attend the initial meeting within this timeframe.

Very little information is published on the characteristics of Work and Health Programme participants for the national programme but we are able to look at breakdowns by gender and age. The majority of participants are men, making up around 63% of all participants up to the end of January 2020 and slightly lower than under the Work Programme (around two-thirds). This, in part, reflects the fact that the majority of long-term unemployed claimants are men but must also indicate that a higher share of disabled men volunteer to participate as there is a more equal gender balance among disabled people (for example, around half of ESA claimants are women). For both men and women, participation is highest in the younger age groups (18-24 years, 25-34 years and 35-44 years) (Figure 5).

Figure 5: Number of Work and Health Programme participants by gender and age



Source: Work and Health Programme statistics to February 2020, Department for Work and Pensions.

7. Outputs

For employment policy outputs we examine the share of Work Programme and Work and Health Programme participants who find sustained employment.

7.1. The Work Programme

Work Programme participants needed to find sustained employment before providers were awarded job outcome payments. For JSA claimants, this required participants to be off benefits for six months over the period of two years in which they could participate in the programme (the six months did not need to be continuous). At the time it was not possible to observe in the available administrative data whether participants had entered employment only that they were not claiming out-of-work benefits, but it is likely that the majority were in employment. For ESA claimants, who were deemed 'harder to help', they were only required to be off ESA for a total of three months and again this total could be cumulative across the two years.

For each claimant group, DWP calculated a minimum expected level based on an assessment of the counterfactual (what share were expected to achieve a 'job-outcome' in the absence of the programme) which took into account characteristics of the claimant group. Initially, providers failed to meet these minimum expected levels (Figure 6) but as time progressed, no doubt helped by improving labour market conditions, the share of job outcomes achieved exceeded the minimum expected levels. Despite these improvements, the majority of programme participants returned to Jobcentre Plus after two years without achieving sustained employment (highest for ESA claimants).

Figure 6: Work Programme: percentage of each monthly intake achieving job outcome after a year – by claimant group

Source: Work Programme statistical summary: data to December 2017, DWP.

7.2. Work and Health Programme

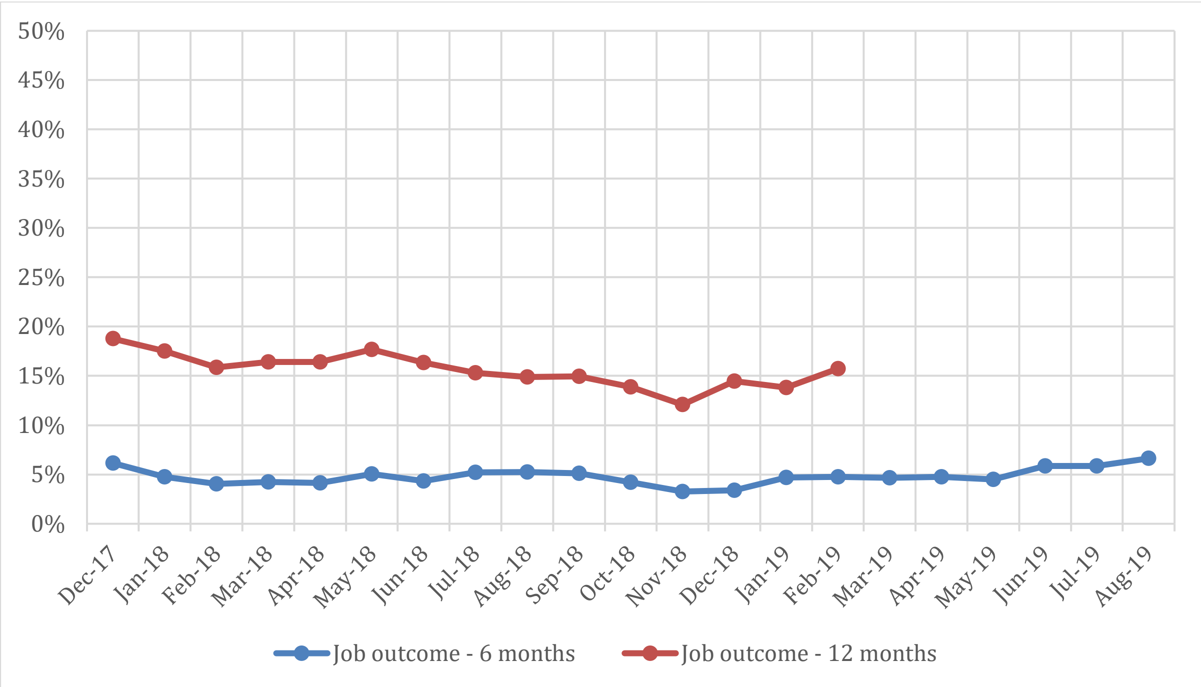
Job outcomes are also used to measure the success of the Work and Health Programme. The key outcome used is contracts with providers is whether or not participants achieve a job outcome over the 15 months that they can participate in the programme. A job outcome in the national programme is defined as being in employment for 26 weeks, working at least 16 hours per week at the National Living Wage, or being self-employed for 26 weeks[17]. For the Work and Health Programme it has been possible to measure this outcome using administrative data. Due to differences in the job outcome measures in the Work Programme and the Work and Health Programme, differences in the claimant groups and their eligibility it is not possible to make meaningful comparisons between the two programmes to assess which is most effective. A rigorous evaluation comparing the two programmes is required to address this question. This is because descriptive statistics measuring the share who achieve job outcomes do not take into account the fact that some participants would have achieved this outcome in the absence of the programme. With no counterfactual evidence all we can do is examine the descriptive statistics on job outcomes but it is important to be aware that the contribution of programme in improving job outcomes will be a fraction of the overall job outcomes recorded for each cohort and claimant group.

[17] The threshold for the West London Alliance is 16 hours a week at the London Living Wage and for the Greater Manchester Combined Authority (GMCA) at the Real Living Wage.

Official statistics are available for the different participant groups and can be analysed by the month in which participants joined the programme. Job outcome statistics are available after six months and after 12 months. To achieve a job outcome after participating in the programme for only six months means that a participant would have to get a job within days of starting the programme, because to achieve a job outcome you need to be in a job for 6 months. The share of participants achieving this outcome is very unlikely to be due to anything that the Work and Health Programme contributed but for completeness we show this measure in the charts below.

First we examine the results for the largest participant group: people with disabilities (Figure 7). Around 5% of each cohort achieved a job outcome after six months. The cohort who joined the programme in August 2019 had highest share achieving a job outcome after six months (7%). After 12 months, around 15% of this cohort had achieved a job outcome, or to put it another way 85% had not.

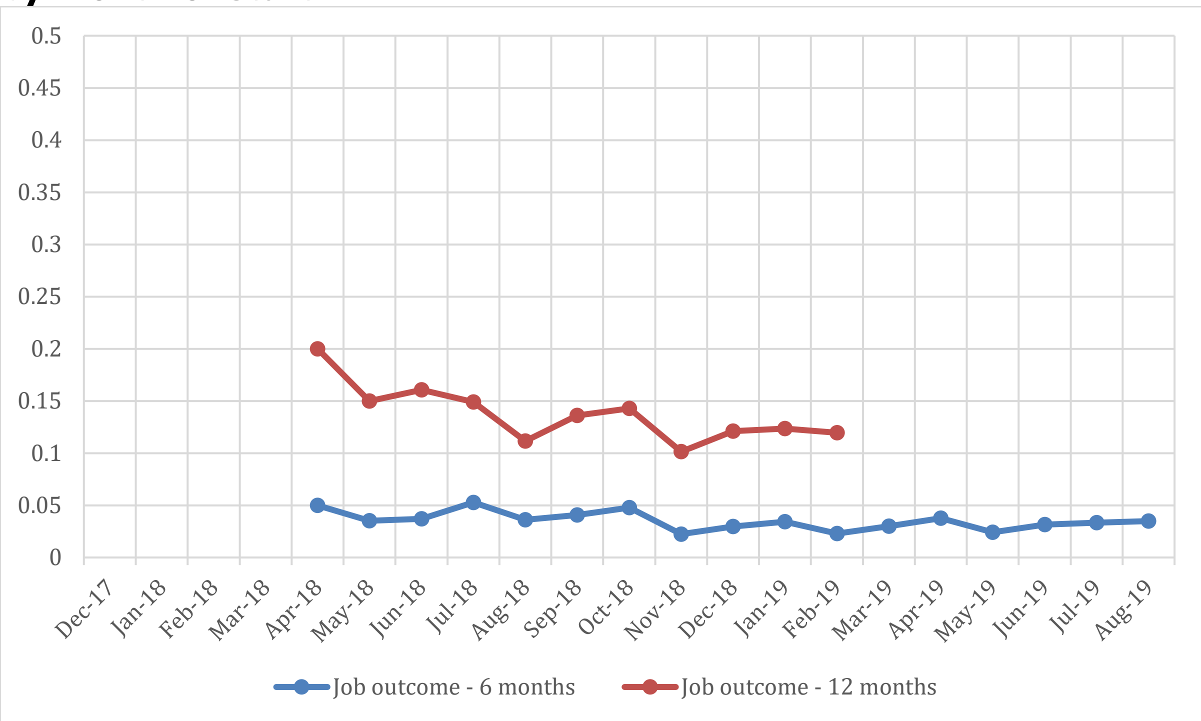
Figure 7: Percentage of participants in the disability group achieving a job outcome after 6 months and after 12 months, by month of start



Source: Work and Health Programme statistics to February 2020, Department for Work and Pensions.

Individuals in the long-term unemployed group didn't start participating in WHP until it was fully rolled-out in April 2018. This is the only group for whom participation in the Work and Health Programme is compulsory. Around 5% of the early cohorts achieved a job outcome after six months but for cohorts starting WHP from November 2018 onwards the share has fallen to around 2-3% (97-98% did not achieve this outcome within 6 months) (Figure 8). For the first cohort of long-term unemployed who started WHP in April 2018, 20% had achieved a job outcome after 12 months of participating in the programme. It appears that this higher rate is related to compositional differences related to this first cohort which only comprised 90 individuals. The share fell to 15% for the cohorts starting in June, July and August 2018 and to 12% for the cohort who joined in February 2019 (i.e. 88% of this cohort had not achieved a job outcome after a year of participating in Work and Health Programme).

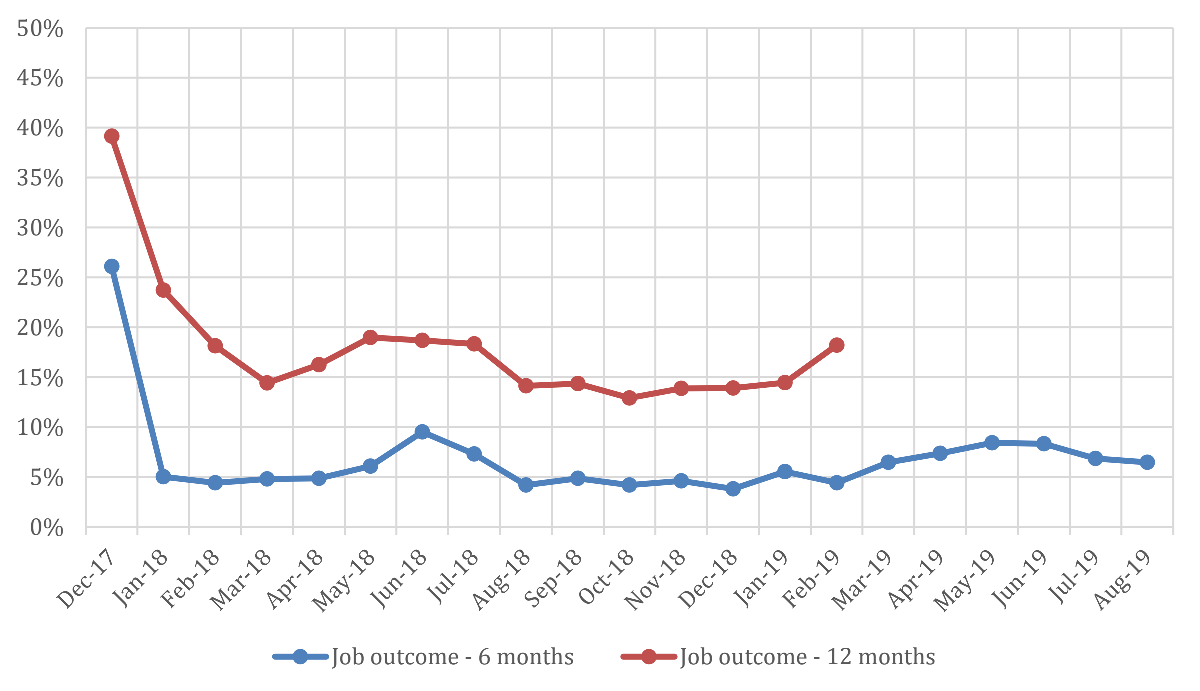
Figure 8: Percentage of participants in the long term unemployed group achieving a job outcome after 6 months and after 12 months, by month of start



Source: Work and Health Programme statistics to February 2020, Department for Work and Pensions.

In the early access group there are much higher job outcomes recorded for the first cohort starting in the pilot programme in December 2017. Over one quarter (26%) of this cohort had achieved a job outcome after six months of joining the Work and Health Programme and nearly 40% had achieved a job outcome after one year (Figure 9). However, these figures aren't reliable as we saw in Figure 2 above that only a very small number of people in this group started on the Work and Health Programme while it was being trailed in the North East of England and in Wales in December 2017 (30), although a few more started in January 2018 (220). From March 2018 when Work and Health Programme was fully rolled-out around 5% of the early access group had secured a job outcome after six months and 14-19% had achieved a job outcome 12 months after joining; 18% for the cohort joining in February 2019.

Figure 9: Percentage of participants in the early access group achieving a job outcome after 6 months and after 12 months, by month of start



Source: Work and Health Programme statistics to February 2020, Department for Work and Pensions

To date no official evaluation of the effectiveness of national Work and Health Programme in improving job outcomes has been published. However, it does appear that a national evaluation is planned as there is a randomised control designed delivery in place which means that a small percentage of claimants who are eligible for the programme are being randomly allocated to a control group and will be given standard Jobcentre Plus support for 24 months (Department for Work and Pensions, 2019a).

Also some districts are operating a service called Public Sector Comparator (PSC)[18], to see if jobcentres can deliver similar or better performance in terms of outcomes and costs. The statistics presented in the figures above cover only Work and Health Programme participants and not individuals assigned to either of the comparison groups of the trial; the Random Control Group or the Public Sector Comparator.
There is some evidence evaluation evidence from programmes operating in the two city regions in London and Manchester where funding and commissioning has been devolved. Evaluation of Working Well: Work and Health

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[18] The PSC rolled out in January 2018 and runs alongside the Work and Health Programme in four districts:

- Lincolnshire, Nottinghamshire and Rutland
- Dorset, Wiltshire, Hampshire and Isle of Wight
- Leicestershire and Northamptonshire
- Devon and Cornwall

Programme operating in GMCA found statistically significant differences in the likelihood of participants finding work and achieving an Earnings Outcome[19] by personal characteristics (e.g., length of unemployment, age and confidence in being successful in a job), but also by provider and the local authority in which they live (SQW, 2020). By March 2020, 42% of participants who had completed the programme had achieved a job start. However, the programme was found to be underperforming relative to the target set for job starts (50%), although on-target for conversion of job starts to Earnings Outcomes (SQW, 2020). However, as outcome payments are based on Earnings Outcomes, the fact that job starts are lower than expected means that Earnings Outcomes are not on target and this will impact providers' revenues. The evaluation identified a tension between meeting referral targets (the number of people joining the programme) which had resulted in a higher proportion of participants who were less job-ready than expected and required more help, and achieving expected job starts targets (SQW, 2020). Participants facing the greatest barriers required more support and were less likely to achieve a job start (SQW, 2020).

An early evaluation of the Work and Health Programme in London also found that the client group was more disadvantaged than anticipated (e.g., more long-term unemployed and more over 50s) (SQW, 2019). The number of job starts and Earnings Outcomes were also less than expected. Many participants faced high barriers to employment and there was unwillingness of some people to look for work (even among those joining on a voluntary basis) (SQW, 2019). These created challenges for providers.

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[19] Working 16 hours a week for 182 days at the adult rate (aged 25 or over) of the Real Living Wage. Earnings Outcomes, rather than job starts, are required to qualify for an outcome payments.

8. Outcomes – Wider labour market trends and how different groups fared

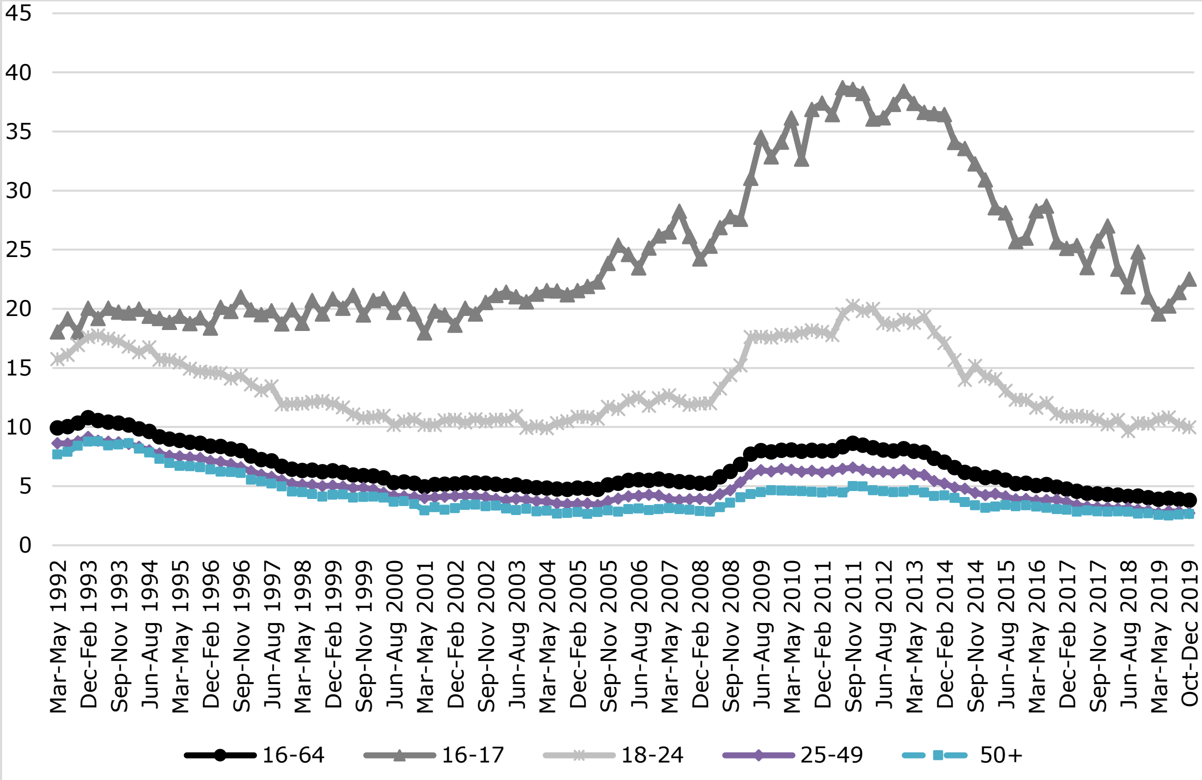
This section focuses on the wider performance of the labour market, in terms of employment, unemployment, earnings and in-work poverty. It also examines how different groups have fared, focussing on the following protected characteristics: gender, ethnicity and disability. Where relevant, breakdowns are also included for age, region, employment status, industry and public/private sector.

Unemployment

The unemployment rate is one of the key labour market indicators. Here we examine trends in the ILO unemployment rate which is defined as the share of the working age population (aged 16 to 64) who are out of work and have been actively seeking work within the last four weeks and available to work within the next two weeks. The longer term trends in unemployment rates show how rates increase over recessions and fall as the economy grows. It is clear that aggregate unemployment rates for the working age population did not increase as much in the recession that followed the 2007/08 financial crisis as in the early 1990s recession (Figure 10). Although unemployment rates were higher for the 18-24 age group and the 16-17 age group. Trends in unemployment rates for the 16-17 age group have been affected by the increase in the participation age. In 2013 the participation age increased from 16 to age 17 and in 2014 it was increased to age 18. Young people under the participation ages are required to be in full-time education, such as school or college, an apprenticeship or part-time education or training if they are employed, self-employed or volunteering for 20 hours or more a week. The increase in the participation age no doubt contributed to the steep decline in the 16-17 unemployment rate after 2013 and makes the interpretation of trends in youth unemployment difficult but we report it here for completeness. One thing worth noting for this group is that from the early 1990s when unemployment rates were similar to the 18-24 age group, they didn't fall as the economy improved and remained at around 20% until increasing from around 2005 (i.e. before the financial crisis).

Under the Conservative governments after 2015, unemployment rates in the working age population fell from 5.8% (March-May 2015) to 3.8% (October-December 2019). These are historically low rates of unemployment. Among the 18-24 age group, the group with the highest rates of unemployment who are now above the participation age, unemployment rates fell from 14.1% (March-May 2015) to 10% (October-December 2019).

Figure 10: UK unemployment rates (aged 16-64) by age group, seasonally adjusted, March-May 1992 to October–December 2019



Source: Labour Force Survey. ONS UNEM01 SA: Unemployment by age and duration (seasonally adjusted) (18 February 2020).

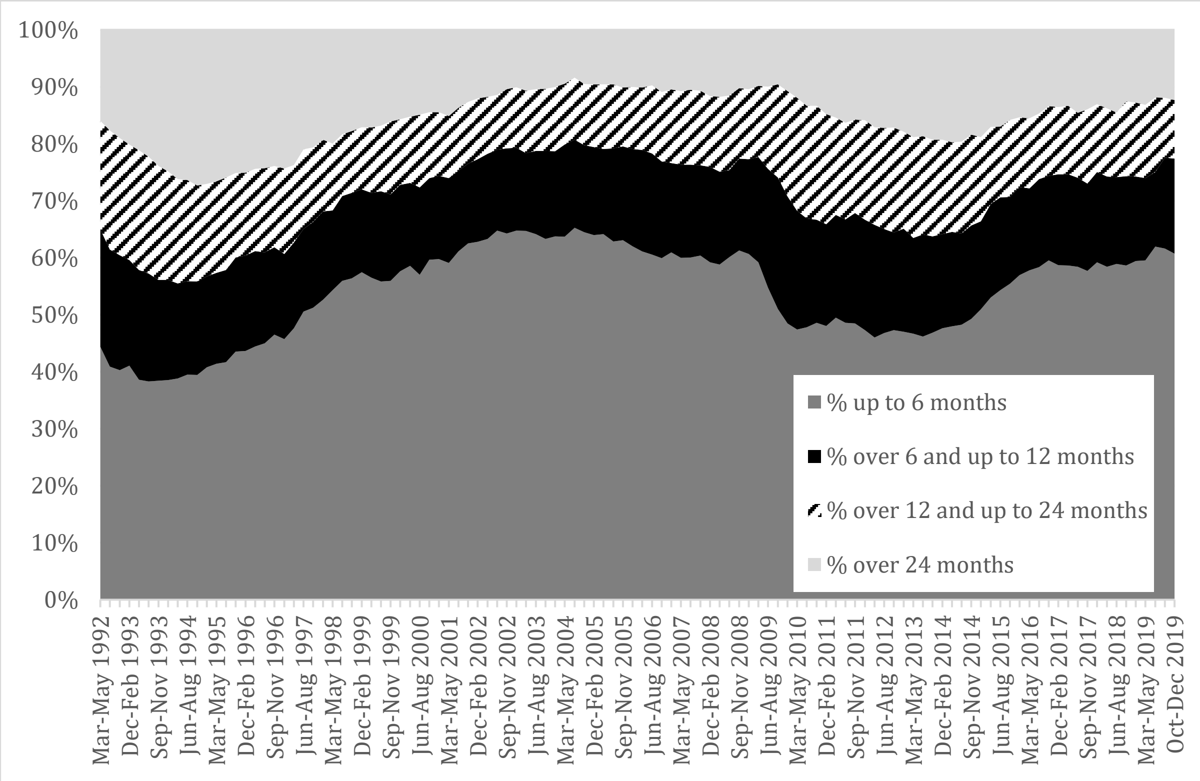
Unemployment duration is also an informative indicator of the labour market, and trends in unemployment duration tend to follow the economic cycle with unemployment duration increasing following economic contractions. In Figure 11, the unemployed are classified according to the length of time they have been unemployed: up to 6 months; 6-12 months, 12-24 months and over 24 months. The majority of unemployed people are unemployed for a short duration[20] and the share unemployed for up to six months make up around half of all those who are unemployed. Although there is a cyclical nature to trends in unemployment duration, the duration of unemployment increased more in the early 1990s recession that the late 2000s recession and this reflected the higher unemployment rates associated with the earlier recession. A relatively small share of unemployed people are long-term unemployed (unemployed for 12 months or longer), although following economic contractions this share can increase to over 40% of all those who are unemployed.

Concentrating on the period since 2015, the share of long-term unemployed who had been unemployed for over 12 months, fell from 30.6% (March-May 2015) to 22.6% (October-December 2019) and the share of very long-term unemployed, unemployed for over 24 months, fell

[20] Although a large share experience repeat spells of short-term unemployment (see, for example, Hannah, 2006).

from 17% (March-May 2015) to 12.3% (October-December 2019). As outlined earlier, under the Work and Health Programme the unemployed only qualify for assistance after being unemployed for 24 months rather than 12 months under the Work Programme. Instead, individuals unemployed for 12-24 months now receive employment services solely through Jobcentre Plus. Not all of those classified as unemployed for 24+ month in these statistics will qualify for the Work and Health Programme as they also have had to be claiming either Jobseekers Allowance, Universal Credit or Employment and Support Allowance. Whether this change in eligibility will increase the duration of unemployment for those unemployed for 12-24 months is too early to assess but an increase in the very long-term unemployment rate could be an early indicator.

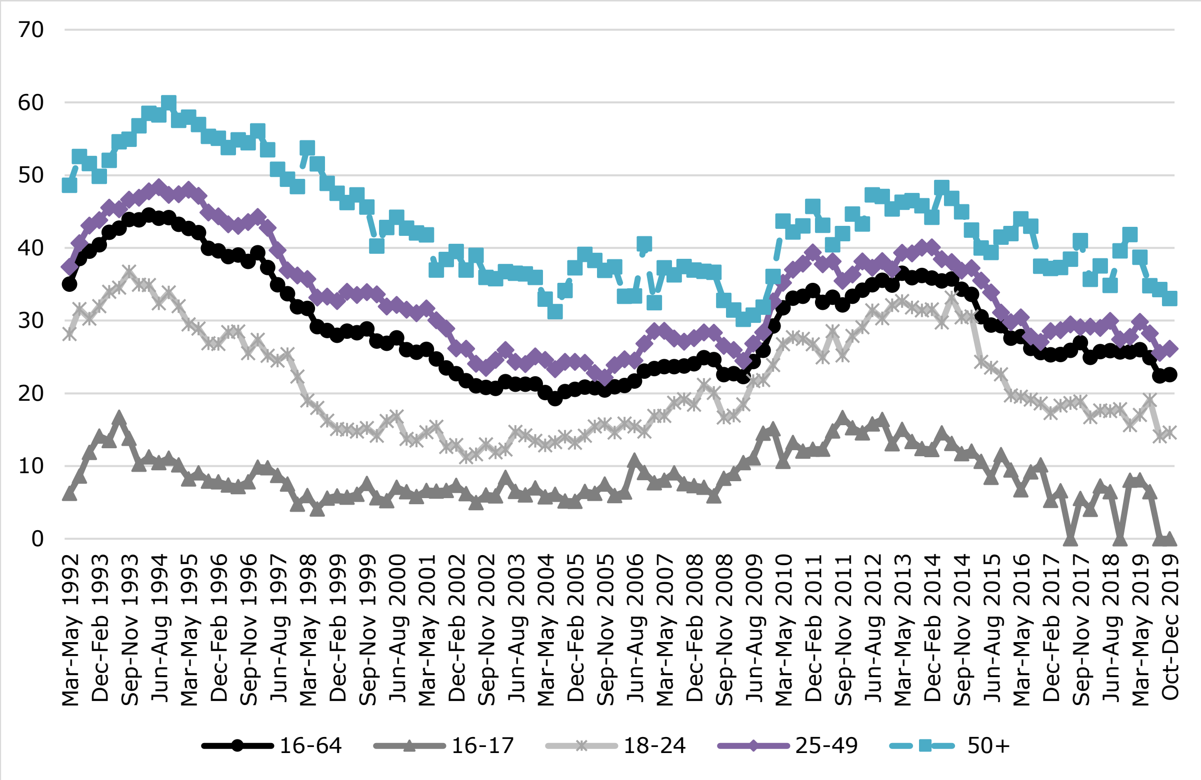
Figure 11: UK unemployment by duration (aged 16-64) by age, seasonally adjusted, March-May 1992 to October-December 2019



Source: Labour Force Survey. ONS UNEM01 SA: Unemployment by age and duration (seasonally adjusted) (18 February 2020).

Examination of long-term unemployment rates (12 months or more) by age group shows that older age groups are more likely to be long-term unemployed than younger age groups (Figure 12). This is not surprising given that older age groups have been in the labour market for longer and therefore are at greater risk of being long-term unemployed. However, it is noticeable that unemployed people in the oldest age group (50+ years) are the most likely to be long-term unemployed and this is likely to reflect the challenges faced by this group in finding employment due to shifts in skill requirements, lower average levels of qualifications relative to the 25-49 age group and employers' recruitment preferences which can favour younger workers.

Figure 12: Share of unemployed who are long term unemployed (12+ months) (aged 16-64) by age, seasonally adjusted, March-May 1992 to October-December 2019



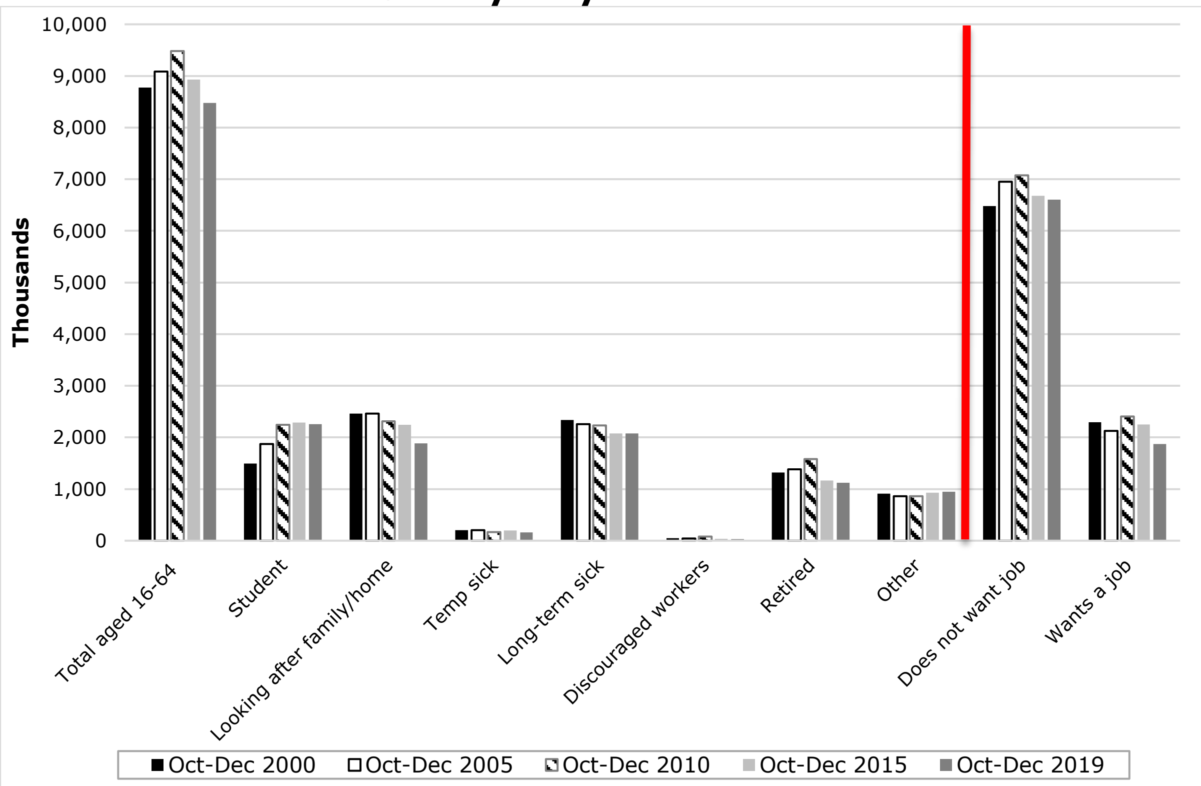
Source: Labour Force Survey. ONS UNEM01 SA: Unemployment by age and duration (seasonally adjusted) (18 February 2020)

Inactivity

Working age people who are not in work or classified as unemployed are considered to be economically inactive. This group includes people with caring responsibilities, students, people with disabilities and health conditions, and people who have taken early retirement. In October-December 2019 nearly 8.5 million people aged 16-64 were considered to be economically inactive (Figure 13). Comparing this figure with levels in the same quarter in 2000, 2005, 2010 and 2015 we can see how economic inactivity increased following the 2007/08 financial crisis. In October-December 2010 nearly 9.5 million working age people were economically inactive. In early 2020, levels of inactivity were below the pre-financial crisis level. Some economically inactive people would like to have a job even if they don't meet the work search and availability criteria to be classified as unemployed under the ILO definition. In October-December 2019 1.9 million, of the 8.5 million (22%) who were classified as economically inactive, reported that they wanted a job.

The breakdown of the reasons why people are inactive has changed over time. For example, after 2005 there was a fall in the number of people who are inactive because they are 'looking after family/home' and between 2000 and 2010 there was an increase in the number reporting that they were economically inactive because they were students. Increases in higher education participation and more young people staying on in school post 16 is likely to be behind this trend. After 2010 there was also a fall in the number of people who are economically inactive because they are retired and this is likely to be linked to the increase in the State Pension Age for women.

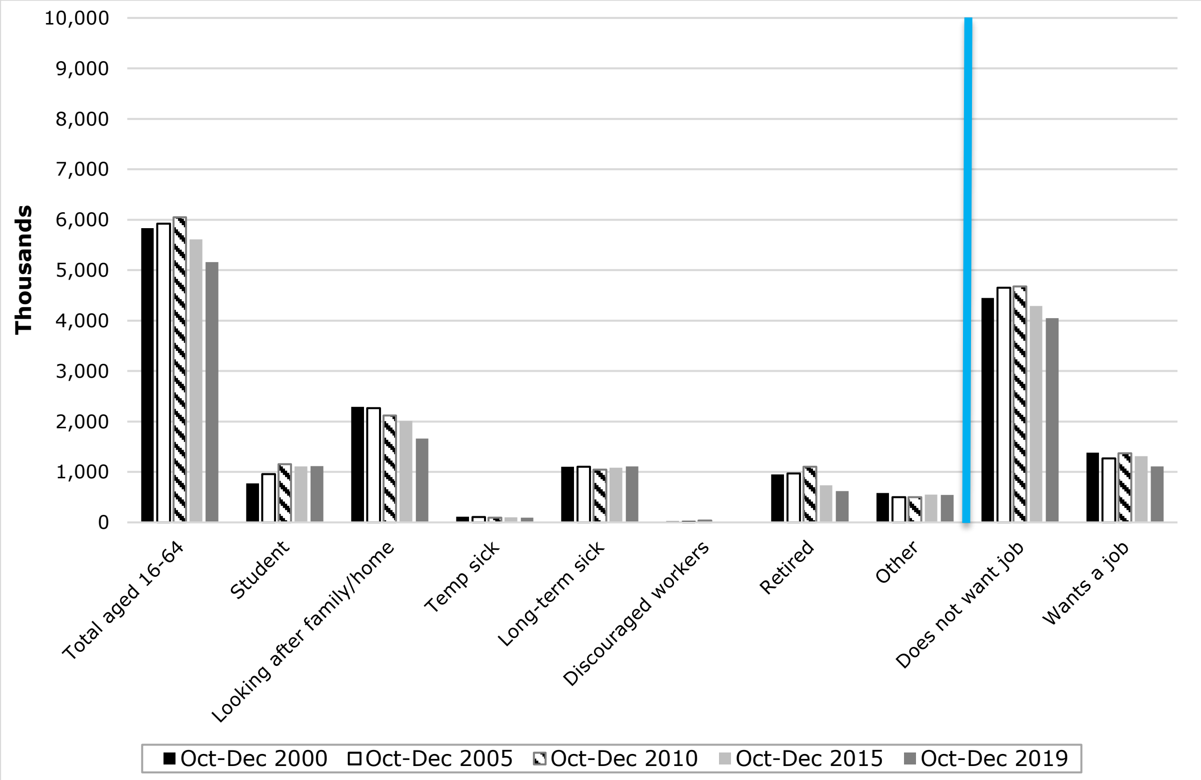
Figure 13: Number of 16-64 year olds who are economically inactive and the reason why they are inactive



Source: Labour Force Survey, ONS Table INAC01: Economic inactivity: People aged 16 to 64 by reasons for inactivity (seasonally adjusted) (18 February 2020).

Women make up the largest share of the economically inactive. Out of the 8.5 million economically inactive in October-December 2019, 5 million were women (Figure 14) but the main reasons for economic inactivity have changed over time. After 2010 there were large falls in the number of women who were economically inactive due to looking after family/home or retirement and it is these changes for women that have driven the overall trends in economic inactivity.

Figure 14: Number of 16-64 year old women who are economically inactive and the reason why they are inactive



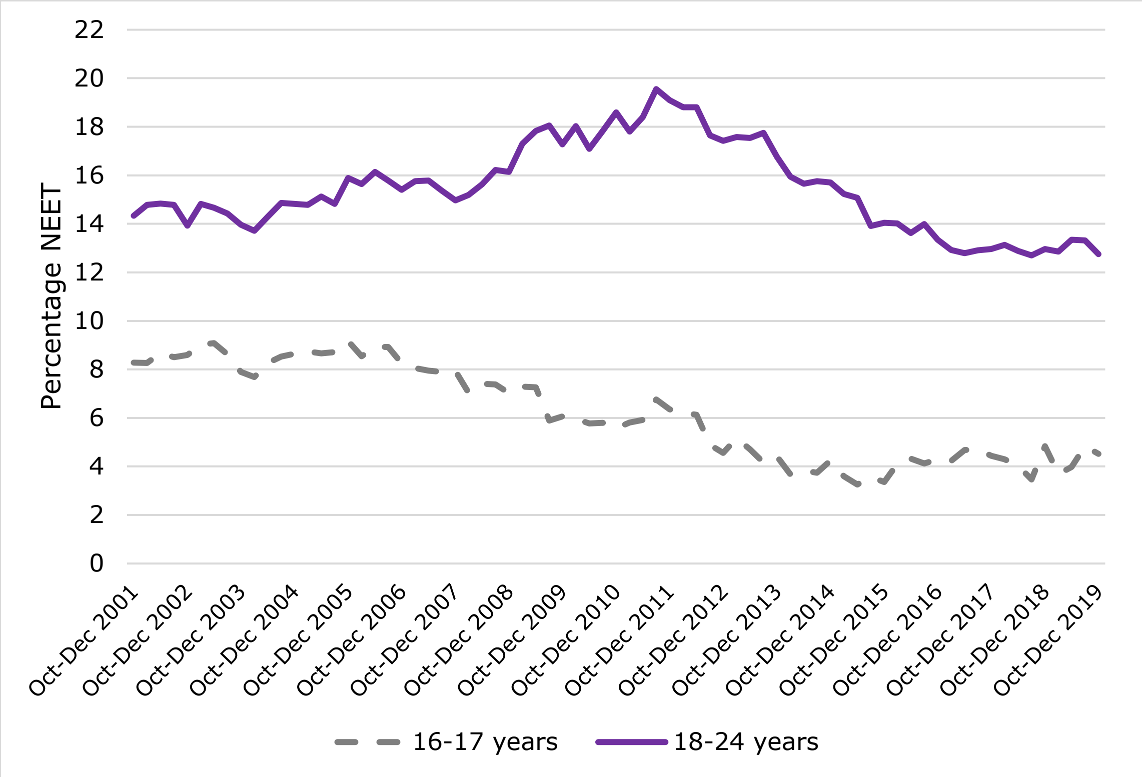
Source: Labour Force Survey, ONS Table INAC01: Economic inactivity: People aged 16 to 64 by reasons for inactivity (seasonally adjusted) (18 February 2020).

The Conservative manifestos in 2015 and 2017 highlighted youth unemployment as a key policy area, including a pledge in the 2015 manifesto to abolish long-term youth unemployment, but there has been limited targeted policy change. One exception is the Jobcentre Plus Support for Schools programme in England. Figure 15 shows the percentage of 16-17 year olds and 18-24 year olds not in education, employment or training (NEET)[21]. The percentage of 16-24 year olds who are NEET fell after reaching a peak in 2011 but the NEET rate remained relatively flat at around 11% from the beginning of 2017 up to the eve of the pandemic (ONS, 2020a). In the year up to October-December 2019, the percentage of 16-24 year olds classed as NEET declined by just 0.3 percentage points (ibid). As can be seen from Figure 15 the peak in 2011 was for young people age 18-24 years whilst for those aged 16-17 years the NEET rate had declined between 2002 and 2011 and continued to decline thereafter. Starting from a much higher rate, the percentage of 18-24 year olds classified as NEET

[21] People are defined as in education or training if: they are enrolled on an education course and still attending or waiting for term to start; doing an apprenticeship; on a government-supported employment or training programme; working or studying towards a qualification; have had job-related training or education in the last four weeks (ONS, 2020d). People are classed as 'not in employment' if they are unemployed (have been looking for work in the past four weeks and are available to start work in the next two weeks) or are economically inactive (not been looking for work and/or not available to start work) (Ibid).

declined much more steeply from 19.6% in July-September 2011 to 12.9% in January-March 2017, but changed little since then and on the eve of the pandemic at 12.7% in October-December 2019.

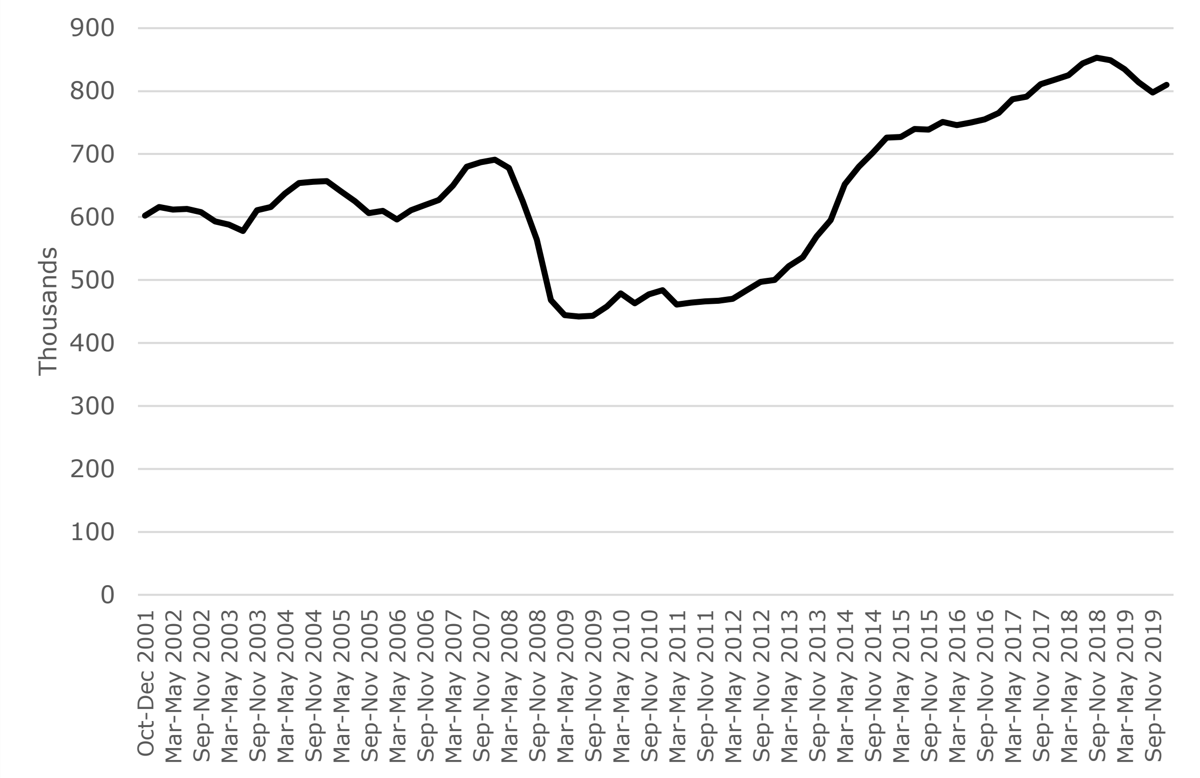
Figure 15: Trends in UK NEET rates, 16-24 year olds, seasonally adjusted, October–December 2001 to October–December 2019



Source: ONS (27 February 2020) 'Young people not in education, employment or training (NEET)' dataset, Labour Force Survey.

The number of job vacancies is also a good indicator of the strength of the labour market. Following the 2007/08 financial crisis the number of vacancies fell but as th3e economy recovered, vacancies increased after 2012 (Figure 16). By 2015 the number of vacancies had increased to above pre-crisis levels, peaked at the end of 2018 before falling again. In November 2019–January 2020 there were an estimated 810,000 vacancies in the UK. This is 7,000 more than the previous quarter, and the first three-monthly increase since the same quarter one-year earlier, but 50,000 fewer than a year earlier (ONS, 2020b). The downward trend in job vacancies over 2019 may be an early indicator of the beginnings of a contraction in the labour market, but the overall level of vacancies remained high on the eve of the pandemic.

Figure 16: Number of vacancies in the UK, seasonally adjusted, October-December 2001 to November-January 2020



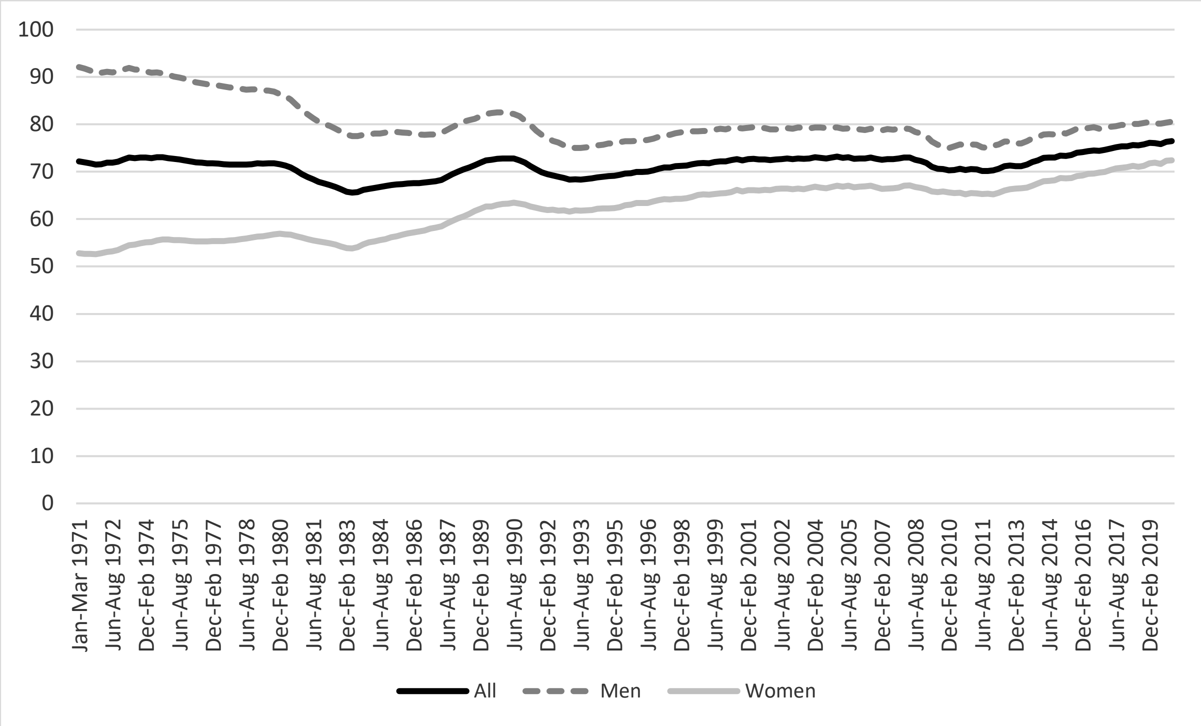
Source: ONS – Vacancy Survey. ONS Labour market overview, UK: February 2020.
Note: Vacancies are defined as positions for which employers are actively seeking recruits from outside their business or organisation. These estimates are based on the ONS Vacancy Survey; this is a survey of businesses designed to provide estimates of the stock of vacancies across the economy, excluding "agriculture, forestry and fishing" (a small sector for which the collection of estimates would not be practical).

Employment

The proportion of people aged 16-64 in the UK in paid work has been increasing since 2012 (Figure 17) and reached an historic levels but growth rates stalled in spring and summer 2019 before recovering a bit in the autumn. In the October-December 2019 quarter, the estimated employment rate was 76.5% with a record 32.90 million people aged 16 years and over in employment, 359,000 more than a year earlier. This increase was largely mainly driven by increases in full-time workers (up 349,000 on the year to a record high of 24.36 million) and female workers (up 317,000 on the year to a record high of 15.58 million) (ONS, 2020c). Part of the increase in female employment rates in recent years is related to the increase in the State Pension age for women which means fewer women are retiring between the ages of 60 and 65 (ONS, 2020c). Although employment rates for women are at historically high levels, this is not the case for men for whom employment rates are still currently below rates recorded in the 1970s, late 1980s and early 1990s (Figure 17).

Over the Conservative Party’s term in office from 2015 up until the eve of the Covid-19 pandemic, working age employment rates (16-64 years) increased from 73.3% (March-May 2015) to 76.5% (October-December 2019); for men 78.1% to 80.4%; for women 68.6% to 72.3%.

Figure 17: UK employment rates (aged 16 to 64 years), seasonally adjusted, from January-March 1971 to October-December 2019



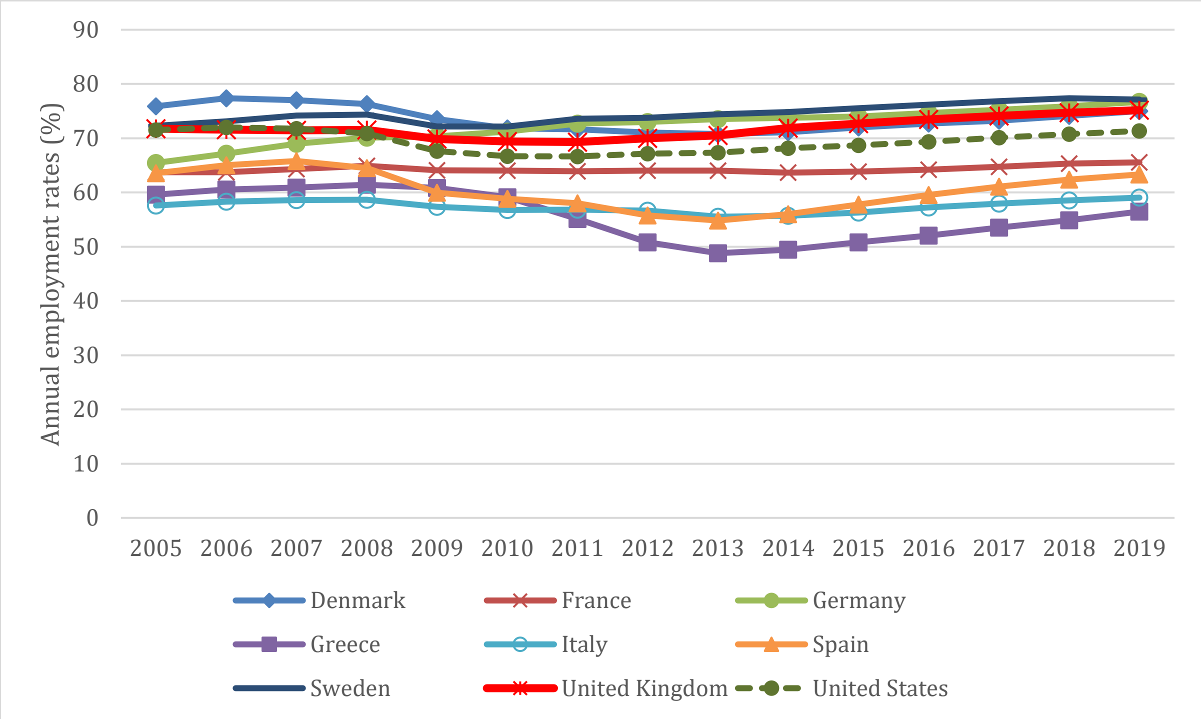
Source: Labour Force Survey. ONS Labour market overview, UK: February 2020.

Comparisons between a selection of OECD countries finds that since 2005 annual employment rates in the UK have been comparable to rates in Germany, Sweden and Denmark (Figure 18). Employment rates in the US were similar to the UK from 2005 to 2008 but were hit harder by the financial crisis and have not recovered to the same extent as in the UK. The large negative impact of the financial crisis on employment in Greece and Spain is very evident and despite some improvement in recent years, by 2019 employment rates in Greece were nearly 20 percentage points lower than in the UK; double the gap observed in 2005. Although employment in Italy was not as severely affected by the financial crisis as in Greece or Spain, employment rates remain low at under 60%.

One of the main factors shaping international variation in employment rates is differences in labour market participation of women. The growth in female employment in the UK now means that only Sweden out of the group of nine OECD countries shown in Figure 19 has higher employment rates by 2019. Growth in female employment in the UK was not matched in the US were female employment rates in 2019 were 4 percentage points lower than in the UK despite comparable rates between 2005 and 2007/08. The financial crisis had a large negative impact on female employment in

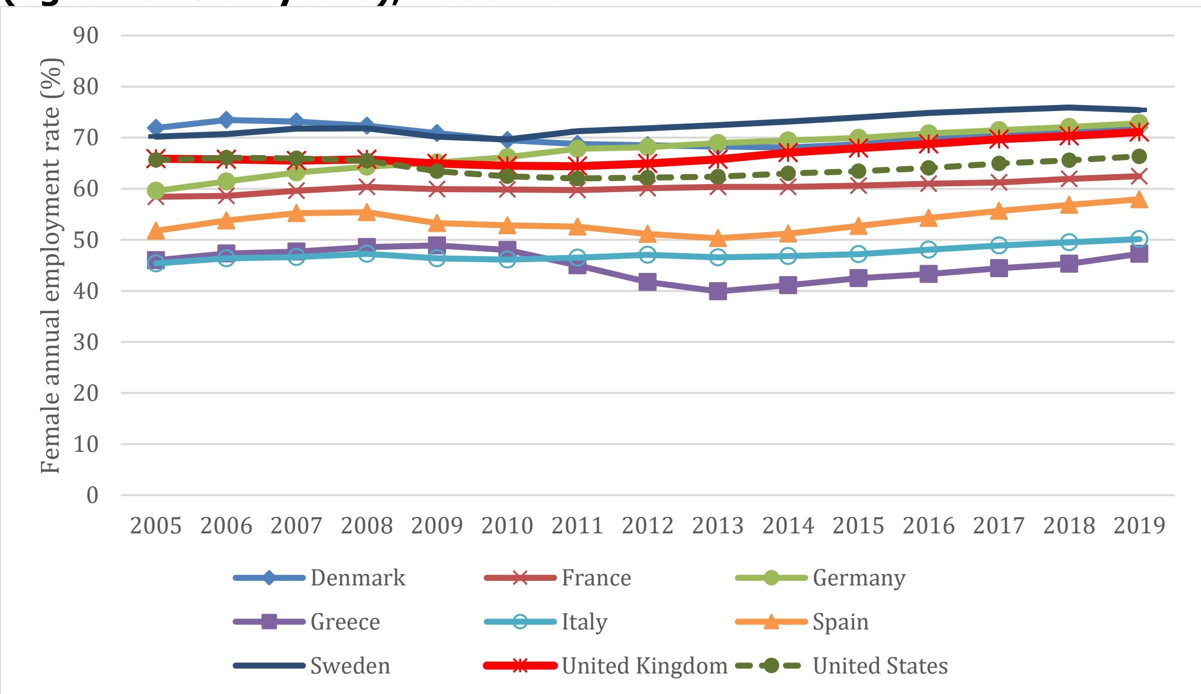
Greece but in Spain female employment did not decline as much as the overall employment rate suggesting that the crisis had a larger impact on male employment in Spain.

Figure 18: International trends in annual employment rates (aged 15 to 64 years), 2005-2019



Source: OECD.Stat https://stats.oecd.org/# (accessed October 2020).

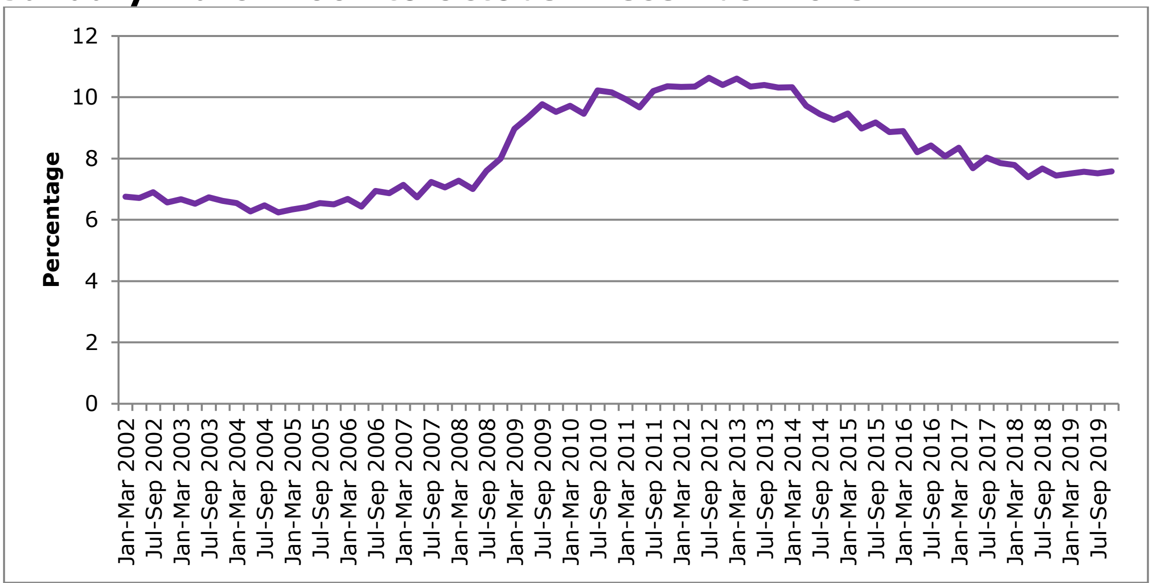
Figure 19: International trends in female annual employment rates (aged 15 to 64 years), 2005-2019



Source: OECD.Stat https://stats.oecd.org/# (accessed October 2020).

Concerns have been raised that the record high levels of employment in the UK are driven by increases in underemployment, with more people in work but work 'being spread more thinly', with many people having to work fewer hours than they would like (Panjwani and Rel, n.d.). However, there are a number of reasons why this does not appear to be the case. Firstly, as discussed above, increases in employment have mainly been driven by increases in full-time employment. Secondly, as the number of people in employment has increased over the past decade, the average number of hours worked has remained relatively flat (Panjwani and Rel, n.d.). Thirdly, unemployment is shown to have fallen consistently across multiple different thresholds for how many hours of employment count as work (Ibid). Furthermore, as shown in Figure 20 dissatisfaction with the number of hours people work has also been decreasing since 2010 (Ibid). Still, this doesn't address the issue of zero-hours contracts, discussed further below; concern has also been raised that the record high employment level is driven by an increase in zero-hours contracts (Panjwani and Rel, 2019). However, whilst zero-hours contracts have increased since 2010, even if zero-hours contracts are discounted from the employment statistics employment is still at a record high (ibid).

Figure 20: Underemployment rate, not seasonally adjusted, January-March 2002 to October-December 2019.



Source: Labour Force Survey. ONS (18 February 2020) 'EMP16: Underemployment and overemployment' dataset available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/underemploymentandoveremploymentemp16 accessed 20th April 2020

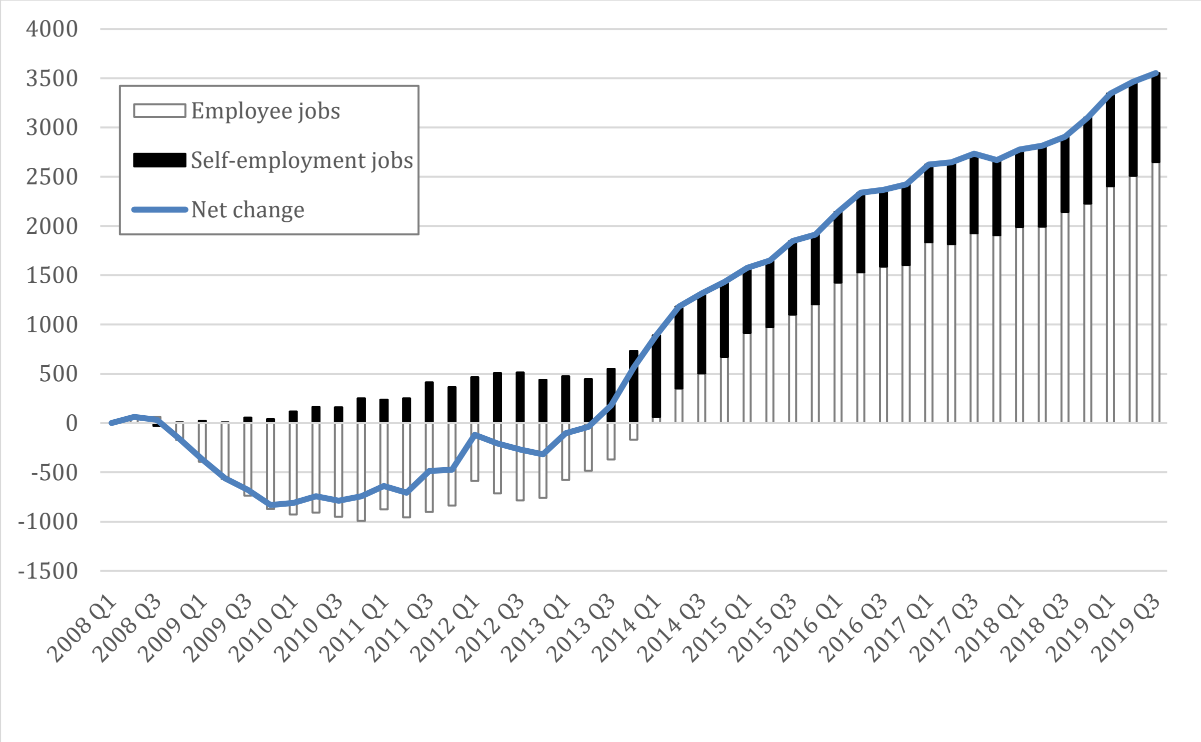
Notes: The underemployment rate is the proportion of employed individuals who want to work more hours, are available to start in the next two weeks and whose actual weekly hours worked were less than 40 for those aged under 18, and 48 hours or less for those aged 18 and over.

Next we analyse trends in workforce jobs; people can have more than one job so these estimates are not the same as the number of people in employment. In Figure 21 we have benchmarked the number of employee and self-employed jobs to the quarter before the economic recession of 2008/09; 2008 Q1. The economy remained in recession until 2009 Q3 but as we can see the number of workforce jobs did not recover pre-crisis levels until 2013 Q3. However, trends differed for employee and self-employed jobs over this period with self-employed jobs higher in every quarter apart from 2008 Q3 while employee jobs didn't increase above pre-recession levels until 2014 Q1. The growth in self-employment jobs has slowed in recent years. Between 2010 Q1 and 2015 Q1 (under the Coalition government) the number of self-employment jobs increased by 14.1%, outstripping the growth in employee jobs which increased over the same period by 6.7%. In contrast, between 2015 Q1 and 2019 Q3 (under Conservative governments) the number of self-employment jobs increased by 5.5% and employee jobs increased by 5.9%. ONS estimate that recent increases have led to a record 5 million people in self-employment (15.2% of all people in employment) (ONS, 2020c).

The growth in self-employed jobs after the financial crisis was attributed to a decline in the number of people leaving self-employment; the outflow rate[22] fell from 36% to 23% between 2004 and 2009 rather than an increase in the number of people becoming self-employed (the inflow rate remained fairly stable at around 37%) (ONS, 2014). One estimate found that 28% of the overall growth of self-employment was due to a decline at which people left self-employment (D'Arcy and Gardiner, 2014). This may have been due to limited alternative opportunities in the labour market 'pushing' people into self-employment and one possible indicator of this is the fall in average self-employment income following the financial crisis up to 2014 (ONS, 2014; D'Arcy and Gardiner, 2014). There were also compositional changes with increases in the younger (16-24 years) and older (65+ years) age groups, increases in male part-time self-employment and female full- and part-time self-employment ONS (2018). In addition, ONS analysis shows that between 2001 and 2016 there was an increase in the number of self-employed reporting themselves as working on their own, or with a partner but no employees, while those who report themselves as having employees fell over the same period (ONS, 2018). Despite concern that an increasing minimum wage might be pushing people into self-employment, there is little evidence that this has happened (Cominetti, 2019). More recently as the labour market has tightened, there has been growth in high earning self-employed with tax advantages increasing the incentive for this group (Tomlinson and Corlett, 2017).

[22] The outflow rate is the share of self-employed who leave self-employment over a defined time period, while the inflow rate is the share of the stock of self-employed who had entered self-employed over a defined time period (e.g., over a five year period).

Figure 21: Trends in the number of people working as employees or in self-employment relative to levels in 2007 Q1, UK (seasonally adjusted)



Source: Authors calculation from ONS data series DYZN UK Self-employment jobs SA: Total (thousands) and BCAJ UK Employee Jobs SA: Total (thousands); Labour market overview, UK: January 2020.

Analysing employment by industrial structure can be an informative way to understand the impact of the recession following the 2007/08 financial crisis and the subsequent recovery in employment. Figure 22 shows the percentage change in the number of workers by sector over three periods: 2005-2010 (straddling the financial crisis/recession – Labour government); 2010-2015 (recovery – Coalition government); 2015-2019 (longer-term recovery – Conservative government). It also includes the level of employment by sector in January-March 2019[23] and three panels shows the breakdown of employment by sector for a) all; b) men; c) women.

Starting with the first panel for all workers, the four largest sectors with the greatest number of workers in January-March 2019 were: Human health and social work (nearly 4.4 million); Wholesale and retail trade (just over 4 million); Education (3.4 million) and Manufacturing (2.9 million). A contraction in employment occurred over the recessionary period (2005-2010) in just over half of the sectors. The largest contractions were in Manufacturing (15%); Construction (8%); Wholesale and retail trade (7.3%) and Transport and storage (4.8%). However, employment grew in some sectors over the recessionary period. For example, the number of

[23] Note that this series is not seasonally adjusted so we compare a single quarter (January-March) across years.

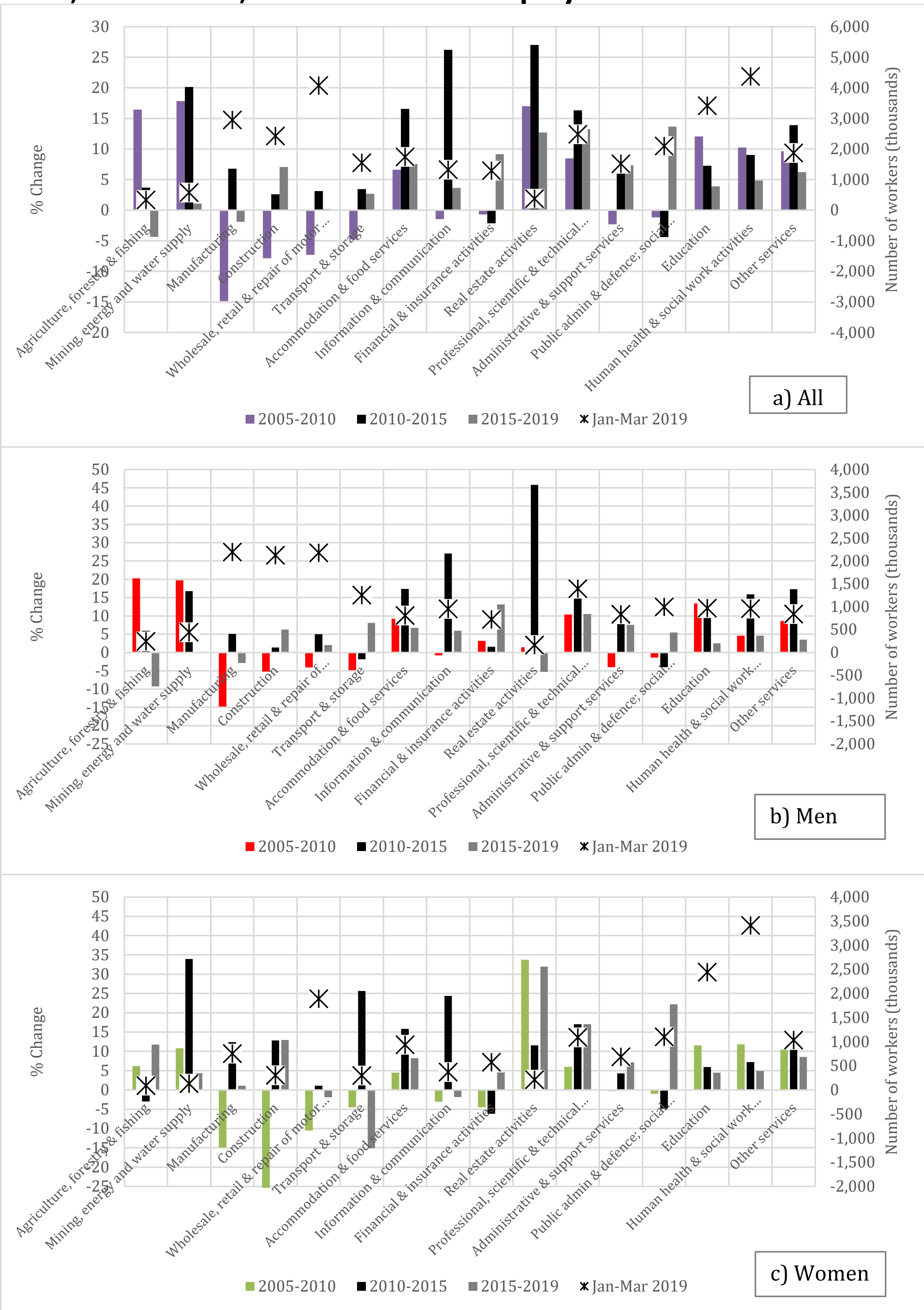
people working in Education grew by 12%, Human health and social work by 10%, Professional, scientific and technical activities by 8.5% and Accommodation and food services by 6.6%. Employment in Mining, energy and water supply; Real estate activities; and Agriculture, forestry and water supply also grew but these sectors are the three smallest (in terms of employment).

Over the recovery period (2010-2015) employment grew in all sectors except for Public administration and defence; social security (down a further 4.4%) – reflecting cuts to public expenditure - and Financial and insurance activities (down a further 2.1%). Under the Conservative governments, in the longer-term recovery period (2015-2019), employment growth was generally lower than in the recovery period (2010-2015). There were a few notable exceptions with the two sectors which had contracted under the Coalition government 2010-2015 - Public administration and defence; social security and Financial and insurance activities – grew in the final period by 13.7% and 12.7%, respectively. Employment in two sectors actually contracted over 2015-2019: Agriculture, forestry and fishing (4.4% but this sector is small) and the much larger Manufacturing sector (nearly 2%).

Comparing the industrial structure of men's employment (panel b) with women's employment (panel c) in 2019, we see that the three largest sectors for women are Human health and social work (3.4 million the largest sectoral concentration of employment across both genders), Education (2.4 million) and Wholesale and retail trade (1.9 million). For men, the largest sectors are Manufacturing (2.2 million), Wholesale and retail trade (2.18 million) and Construction (2.1 million). The patterns of change in employment over the three time periods for men are similar to the overall picture with the exception that employment in Financial and insurance actually increased marginally over the recessionary period 2005-2010 (3.2%) and the recovery period 2010-2015 (1.6%), while employment in this sector declined for women in both periods and grew less strongly in the final period.

The overall decline in employment in the Manufacturing sector over the recessionary period 2005-2010 was driven by a fall in employment for men, and the fall in the Construction sector over this period was greater among women, but this sector is much smaller for women. Growth in employment in Public administration and defence; social security in the final period was much stronger for women (22%) than for men (5.5%).

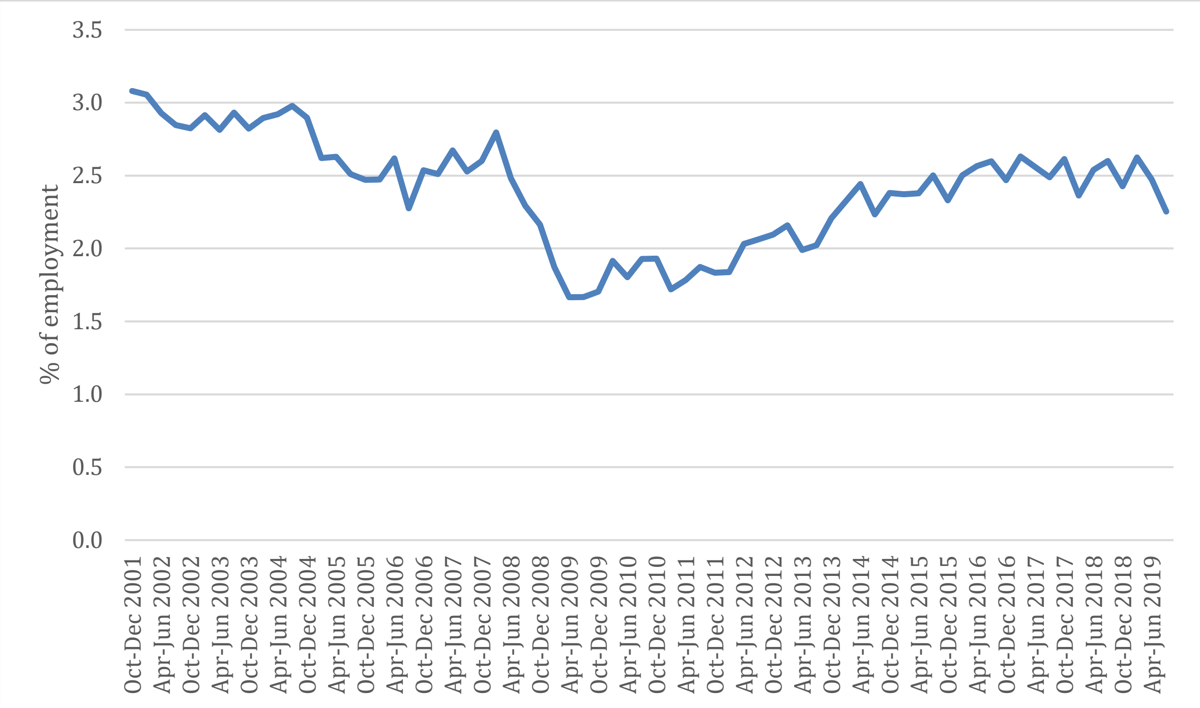
Figure 22: Changing industrial structure of employment 2005-2010, 2010-2015, 2015-2019 and employment levels in 2019



Source: Labour Force Survey; ONS series EMP13: employment by industry (Q Jan-Mar).

The rate of job-to-job moves provides an indication of the health of the labour market, with higher rates found when there are more vacancies. In addition, earnings progression is associated with job-to-job moves. The number of job-to-job moves decreased during the economic downturn (2008 to 2009) (Figure 23), then the rate gradually increased to reach the pre-crisis level by 2016 but still lower than job-to-job flow rates between 2001 and 2004. Between 2016 and 2019, the job-to-job flow rate was relatively stable (around 2.5% of employment) but declined July-September 2019 to the lowest rate since 2014. The Bank of England noted that subdued job-to-job moves alongside low and stable unemployment is "somewhat unusual" and part of a pattern which saw a "softening" in a number of labour market indicators despite record levels of employment (BofE, 2020).

Figure 23: Job-to-Job flow rate, UK (aged 16-69)



Source: ONS X02: Labour Force Survey Flows estimates
https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourforcesurveyflowsestimatesx02

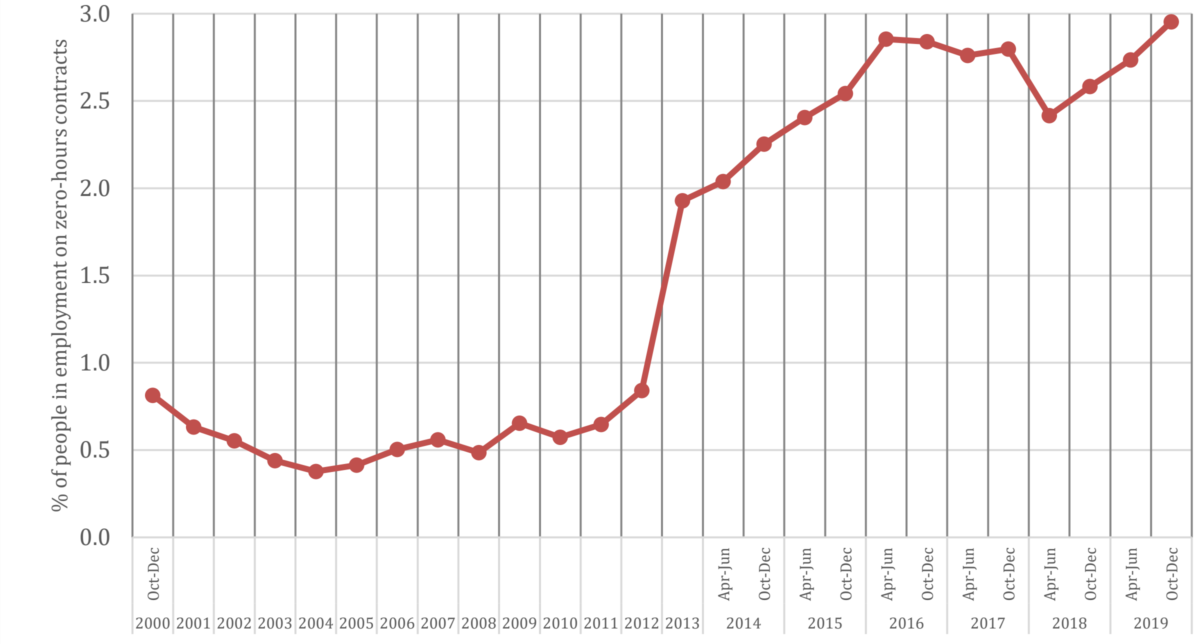
The rise of the 'gig-economy', particularly after the 2007/08 financial crisis, and the associated employment casualisation, has caused some concern. Some have benefitted from this rise, most notably employers who are able to respond flexibly to changes in demand and reduce their wage bills but also those workers who prefer the flexibility as long as hours offered suit their requirements. However, for the large part, the employment and earnings insecurity is unwelcome. The use of zero-hours contracts (ZHCs), where employees are not guaranteed a minimum number of hours work each week, is a key element of the gig-economy. Due to their very nature these contracts are associated with job and earnings insecurity. For most, managing fluctuating levels of earnings week-to-week and month-to-month is very challenging. Although individuals qualifying for Universal Credit should receive higher payments when working hours are lower, the built-in lags mean changes to earnings in one month affect the following months' Universal Credit payment and this also exacerbates fluctuations in earnings.

Accurately measuring levels and trends in zero-hours contracts is hampered by the lack of legal definition of a zero-hours contract, workers often don't know what type of contract they have, and because until fairly recently these types of contracts were not commonly known as zero-hours contracts and were more likely to have been referred to as 'casual jobs'. This means that survey data are likely to underestimate the number of workers who report being employed on a zero-hours contract and the extent to which zero-hours contracts have been underestimated will have changed over time (ONS, 2017).

The ONS publishes information on zero-hours contracts from the LFS, with trends going back to 2000[24]. Between 2000 and 2011, around 0.5% of people in employment were classified as being on a zero-hours contract (Figure 24). Between 2012 and 2013 there was a large jump to around 2% increasing further to 2.85% by October-December 2015. ONS analysis finds that the large increase between 2012 and 2013 appeared to be mainly due to increased recognition of "zero-hours contracts" following greater media coverage of the issue (ONS, 2014). When the share fell after October-December 2015 some thought that this may be the start of a longer-term decline as part of the economic recovery and a tighter labour market (Tomlinson, 2017). After April-June 2018 the share began to increase again and by October-December 2019, reached 2.95% (974,000) of people in employment. It is also worth noting that although the share is small overall, because the number of people in employment has increased to record levels it affects a much larger number of people than in the past.

[24] "The LFS counts people who report that their main employment is a "zero-hours contract"; the estimate from businesses is counting contracts; this will be greater than the number of people as people can have more than one contract; estimates from businesses will include contracts that cover a variety of working arrangements; this will include instances where people in their main employment are working a regular number of hours a week (although these hours are not guaranteed by their contract) as well those who work on an irregular basis due to personal choice, availability of work or to fit in around their main employment; employers are likely to be more aware of their employees' formal contractual arrangements and this may differ from the perception of employees if their normal working hours are relatively stable or if changes in hours are mainly as a result of personal choice; there may be multiple contracts for each job in the business survey." (ONS, 2017).

Figure 24: Percentage of people in employment on a zero-hours contract, UK (aged 16+)

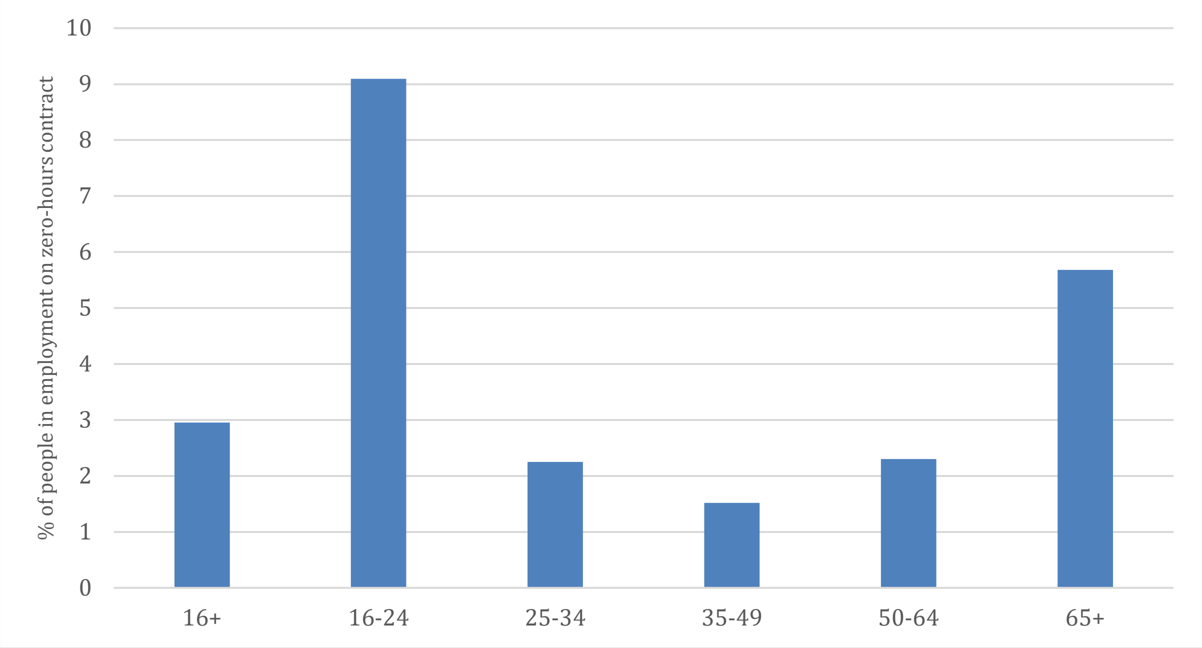


Source: EMP17: Labour Force Survey: zero-hours contracts data tables (February 2020)

The share of employees on zero-hours contracts varies between age groups (Figure 25). The youngest age group (16-24 years), is much more likely to be employed on zero-hours contracts at over 9% of employees in this age group. Although some employees in the youngest age group will be combining work with study and desire the flexibility that zero-hours contracts offer, the fact that this type of employment now affects nearly one-in-ten of all employees in the age group is remarkable. Time will tell whether this is part of a longer-term trend or just a feature of the types of jobs for which it is possible to combine work with studying. The age group with the second highest share employed on zero-hours contracts is aged 65+. Many working members of this age group are likely to be in some form of 'semi-retirement' and these types of contracts may be welcome but for others may cause budgetary problems if work is topping up a meagre pension.

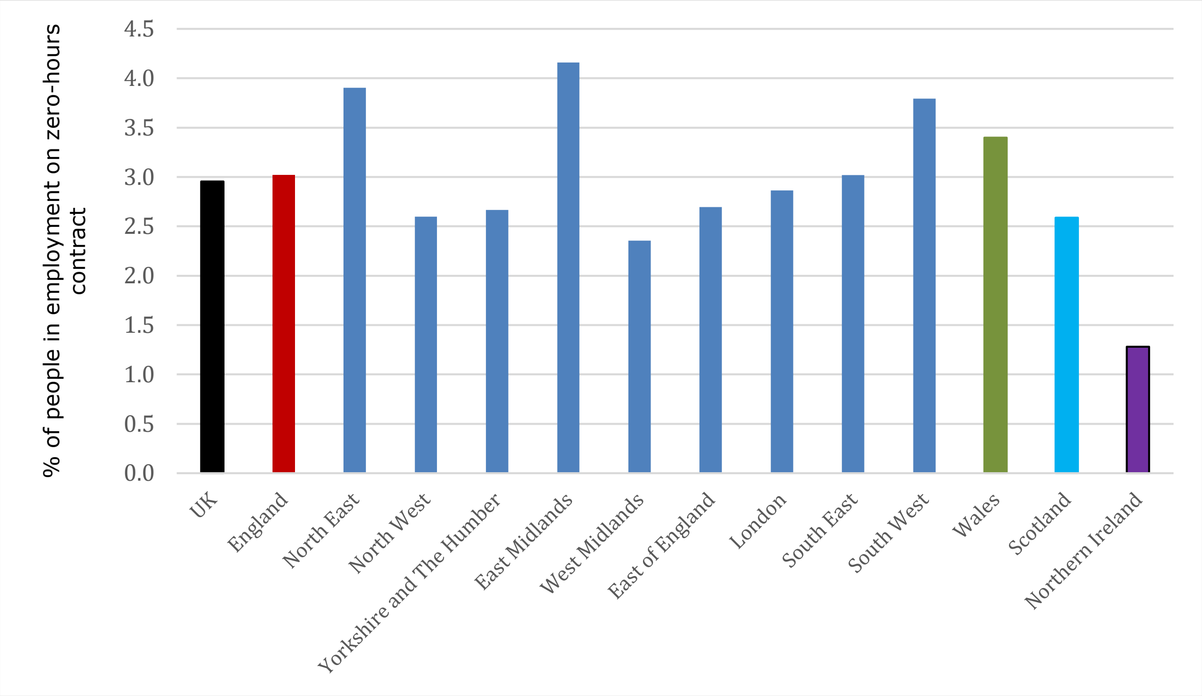
Figure 26 shows how the share of zero-hours contracts varies between UK nations and English regions. Across UK nations, zero-hours contracts are most common in Wales (3.4%) and least common in Northern Ireland (1.3%). Between English regions, zero-hours contracts are most common in the East Midlands (4.2%) and the North East (3.9%), and least common in the West Midlands (2.4%) and the North West (2.6%), highlighting a clear East-West divide in the Midlands and the North of England.

Figure 25: Percentage of people in employment on a zero-hours contract by age, UK (aged 16+)



Source: EMP17: Labour Force Survey: zero-hours contracts data tables (February 2020)

Figure 26: Percentage of people in employment on a zero-hours contract by region, UK (aged 16+)

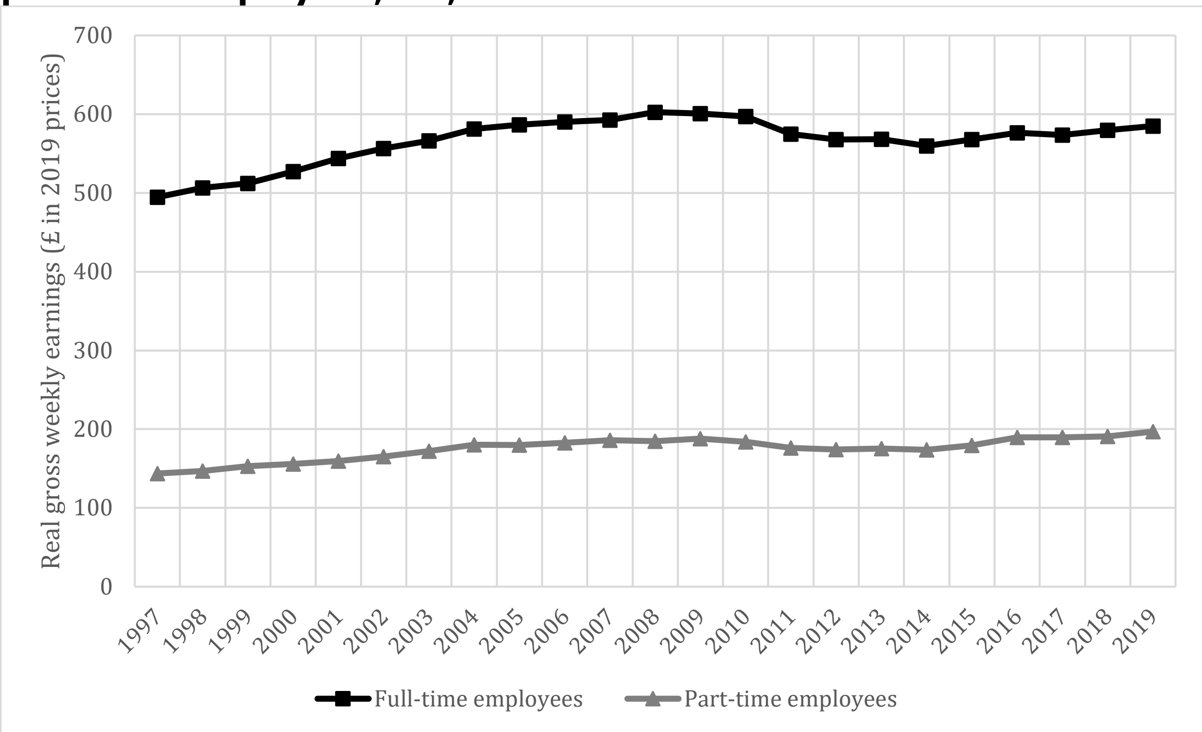


Source: EMP17: Labour Force Survey: zero-hours contracts data tables (February 2020)

Trends in average earnings, wage growth and labour productivity

After the 2007/08 financial crisis average earnings growth in the UK was sluggish with long periods of falling real earnings; a companion paper in this research programme analyses in detail how this sluggish earnings growth has affected different deciles and groups (Obolenskaya and Hills, 2019). There was no growth in real gross weekly earnings at the median between 2008 and 2010, then a fall in 2011 and 2012 and a further fall in 2014 (Figure 27). For full-time employees, average earnings increased between 2014 and 2019 but remained lower than a decade earlier. For part-time employees, by 2019 average earnings reached a new high and the gap between median gross weekly earnings for full- and part-time employees narrowed. This fall could be due to an increase in average hours worked by part-time employees, higher wages due to the introduction of the National Living Wage, as a higher share of part-time, relative to full-time, employees are low paid.

Figure 27: Real median gross weekly earnings for full-time and part-time employees, UK, 1997 to 2019



Source: Annual Survey of Hours and Earnings (ASHE); ONS Employee earnings in the UK: 2019.
Notes: a) Employees on adult rates, whose pay for the survey period was unaffected by absence; b) some discontinuities due to changes in methodology and occupation classification with main changes in 2006 and 2011; c) 2019 data are provisional.

For January 2020, on the eve of the Covid-19 pandemic, ONS estimated that average weekly earnings (excluding bonuses) were £2 a week lower (in real terms) than pre-2008 economic downturn peak of £473 per week for March 2008 (ONS, 2020d). Average weekly earnings (included bonuses) were £19 lower (in real terms).

In Figure 28 we show growth rate trends in real average weekly earnings across the whole economy and separately the private and public sectors[25]. This series includes information on bonuses which are most common in the financial sector. Growth rates started falling after April 2008 and largely remained negative until September 2014, average weekly earnings fell again between January 2017 and July 2018 (Figure 28).

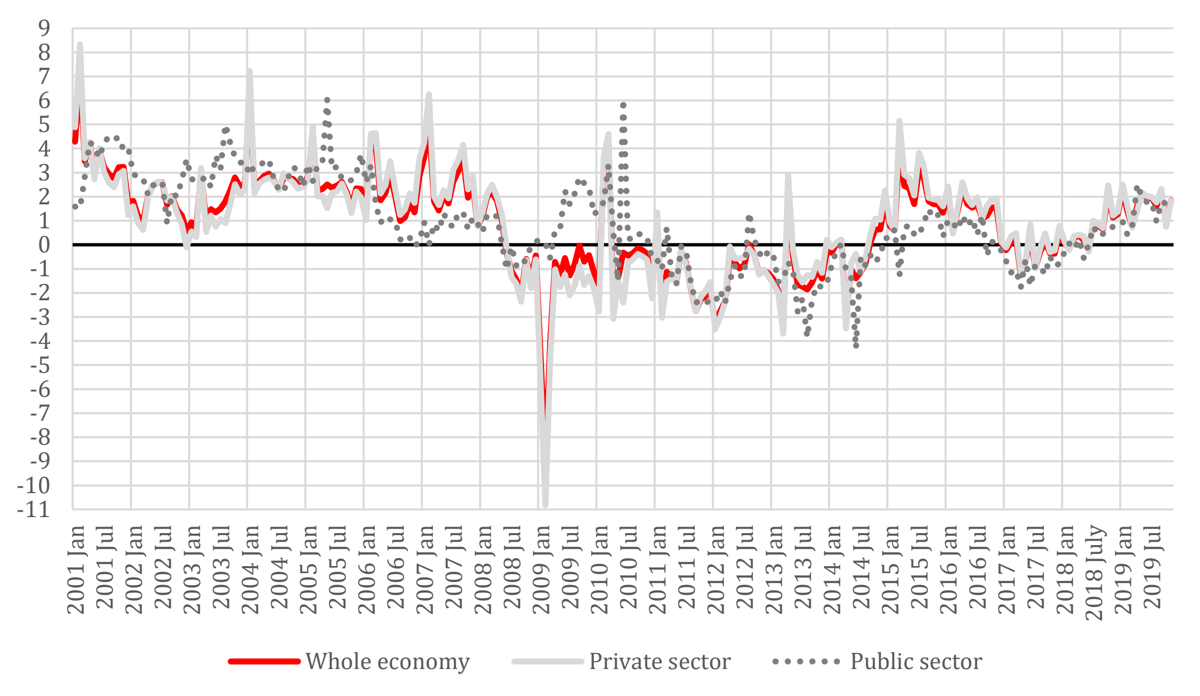
Growth in average earnings in the public sector was mainly above growth in the private sector between 2001 and 2006, after which growth rates in the private sector were higher until the financial crisis. However, changes in the classification of public sector employment, particularly from 2009, make it difficult to interpret trends. The reason for this classification arose from the government bailout of a number of financial institutions at the time of the financial crisis which meant that these institutions were partly or fully publicly owned and, therefore, employees working in them became public sector employees. For example, the higher growth rates in the public sector between 2009 and 2010 are likely to be explained by the fact that Royal Bank of Scotland employees were classified as public sector employees from 2009 and Lloyds Banking Group employees were classified as public sector employees between 2009 and 2014.

As financial sector employees are more likely to receive bonuses than 'typical' public sector employees, this reclassification will also affect the series. Bonuses are typically paid near the start of the year, commonly in the form of a lump sum payment. Figure 29 shows the whole economy earnings growth series including and excluding bonuses, highlighting the role bonuses play in shaping the observed peaks and troughs. Bonuses were hit in early 2009 following the financial crisis, but recovered in 2010. From 2016 growth rates for bonuses became more stable, seen by the lower peaks in Figure 29. One explanation is that bonuses were affected by the EU Capital Requirements Directive IV which, from January 2014, led to cap on bonuses, a requirement that 50% of any variable remuneration be in the form of share-based awards and a requirement that at least 40% of

[25] The public and private sector series are affected by reclassifications between the sectors. In particular: i) From July 2009 Royal Bank of Scotland Group plc is classified to the public sector; for earlier time periods it is classified to the private sector. Between July 2009 and March 2014 Lloyds Banking Group plc is classified to the public sector; it is classified to the private sector for earlier and later time periods. ii) Between June 2010 and May 2012 English Further Education Corporations and Sixth Form College Corporations are classified to the public sector. Before June 2010 and after May 2012 they are classified to the private sector. iii) From October 2013 Royal Mail plc is classified to the private sector; previously it is in the public sector. iv) Network Rail has been classified to the public sector since July 2010; previously it is included in the private sector figures. For further details see: http://www.ons.gov.uk/ons/rel/na-classification/national-accounts-sector-classification/classification-of-network-rail-under-european-system-of-accounts-2010/index.html

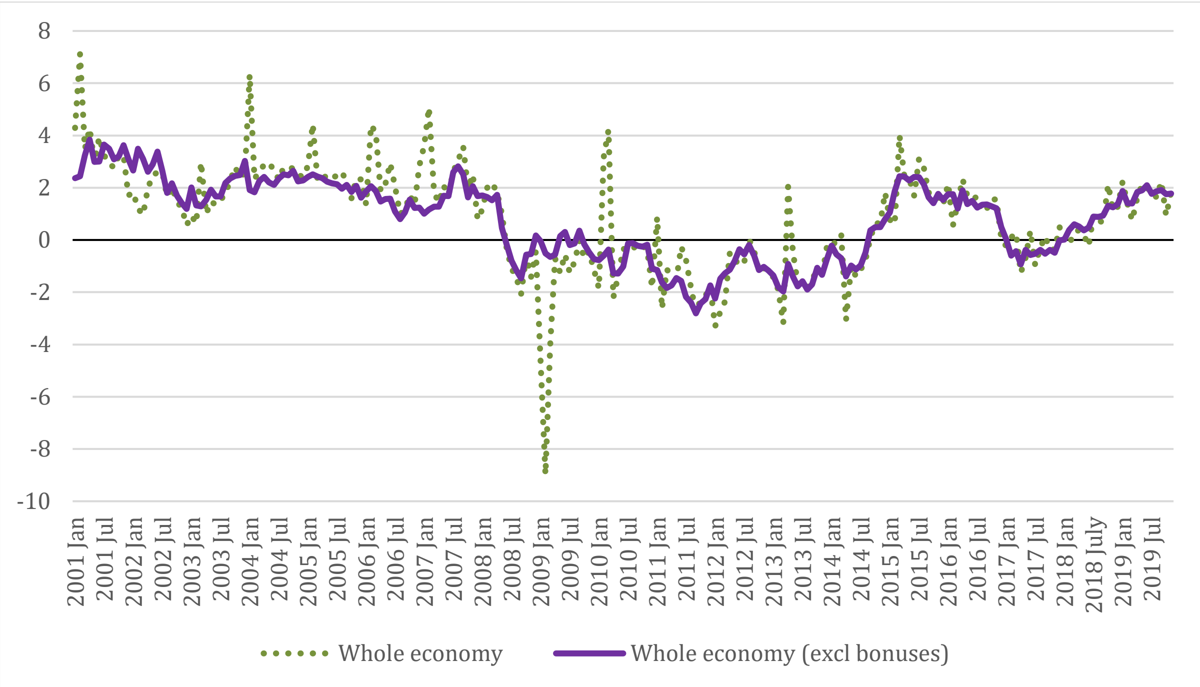
variable remuneration be deferred for not less than 3–5 years (for more information see, McKnight, Duque and Rucci, 2017).

Figure 28: Real average real weekly earnings annual growth rates (including bonuses, excluding arrears) January 2001 – November 2019 - not seasonally adjusted



Source: ONS EARN02: Average Weekly Earnings by sector – ONS Monthly Wages and Salaries Survey.

Figure 29: Real average real weekly earnings annual growth rates – the contribution of bonuses



Source: ONS EARN02: Average Weekly Earnings by sector – ONS Monthly Wages and Salaries Survey.

Changes to average earnings have varied between different age groups, with prime age workers losing out the most (on average). We look at this in more detail by examining how real average earnings at different ages changed between 2005 and 2019. In the next two figures we chart real median gross wages (Figure 30) and real median gross annual earnings (Figure 31) by age group for employees in 2005, 2010, 2015 and 2019. Estimates of annual earnings are for full-time employees who remained in the same job over the previous 12 months. Average annual earnings for some other groups of employees will be lower (e.g. labour market entrants and those who only work for part of the year full-time) but higher for other groups (e.g. employees who change jobs due to promotion either with the same employer or with a different employer).

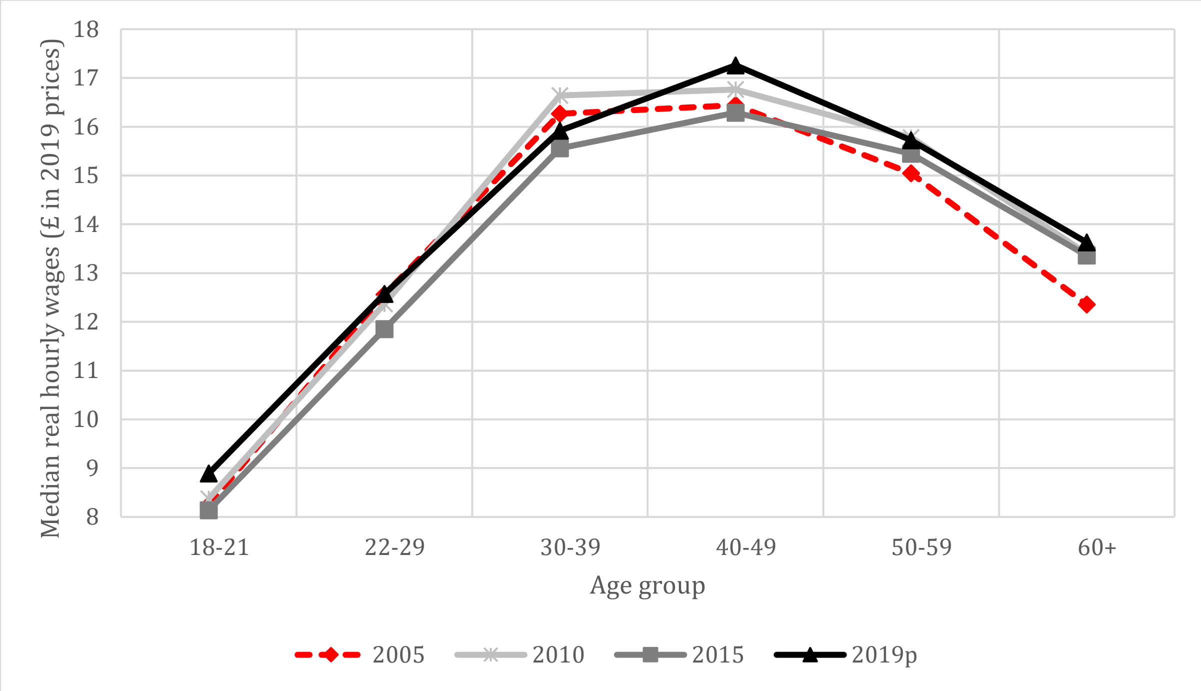
The familiar age-earnings profiles can be seen in these figures with median wage rates and annual earnings first increasing with age and then declining from around the age of 50; both median annual earnings and hourly wages peak in the 40-49 age group. Although in 2005 and 2010 similar median wage rates are observed in the 30-39 and 40-49 age groups.

Turning first to wage rates, there was no real growth in median wages between 2005 and 2010 for full-time employees aged under 30 but real wages did grow at the median for older age groups. Following the 2007/08 financial crisis, median wages fell between 2010 and 2015, except for full-time employees in the 60+ age group. Between 2015 and 2019 real median wages grew for all age groups, more strongly for the 40-49 age group but only very marginally for full-time employees aged 50 and over.

Now turning to real annual earnings among full-time employees, there was little change at the median between 2005 and 2010 for employees aged under 50. Full-time employees aged 60+ experienced the highest real growth in median annual earnings; an increase of nearly £2,000 in real terms. There were falls at the median between 2010 and 2015 for all employees working full-time and the largest falls were for employees aged under 50. Between 2015 and 2019, median annual earnings increased for all age groups, although only very marginally for full-time employees aged 30-39 and aged 50 and over.

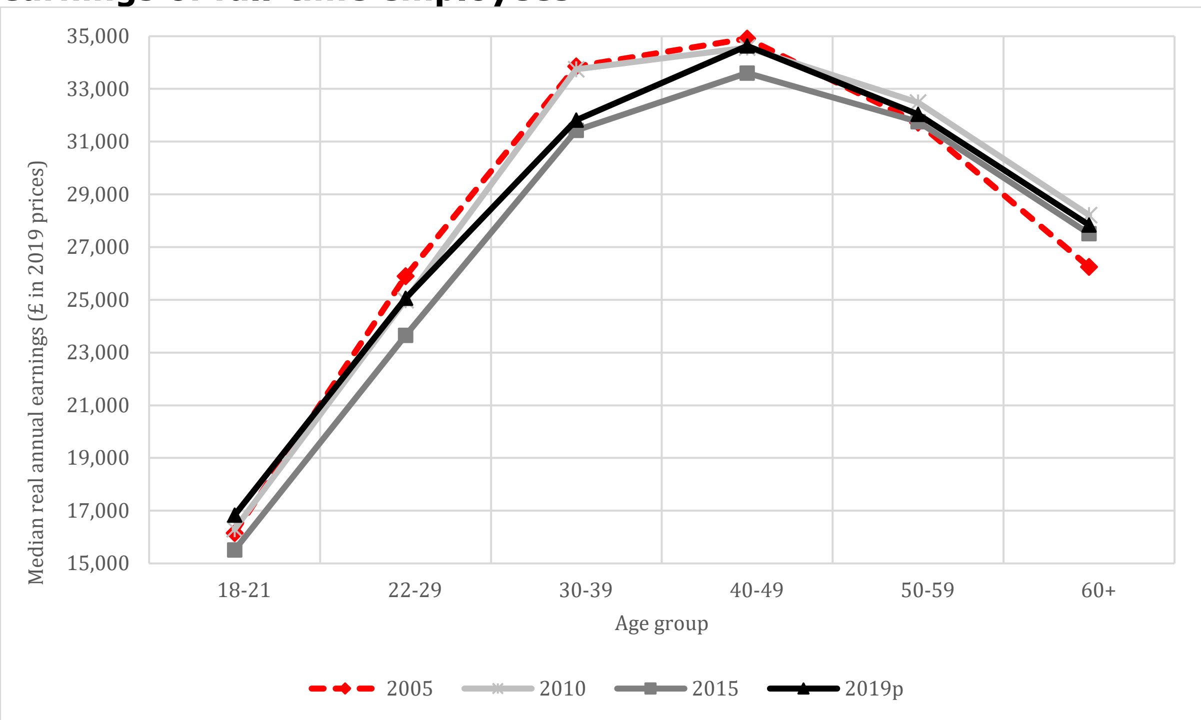
By 2019 full-time employees aged 22-29, 30-39, 40-49 had median annual earnings lower than in 2005. What is striking is that although a recession occurred after the financial crisis, this was a period marked by increasing educational attainment among the younger age groups and, other things being equal, we would expect that this would have led to higher wages for the younger age groups.

Figure 30: Age-wage profiles – median real gross hourly wages of full-time employees



Source: ONS Annual Survey of Hours and Earnings time series of selected estimates (Table 15).
Notes: see Figure 27 notes.

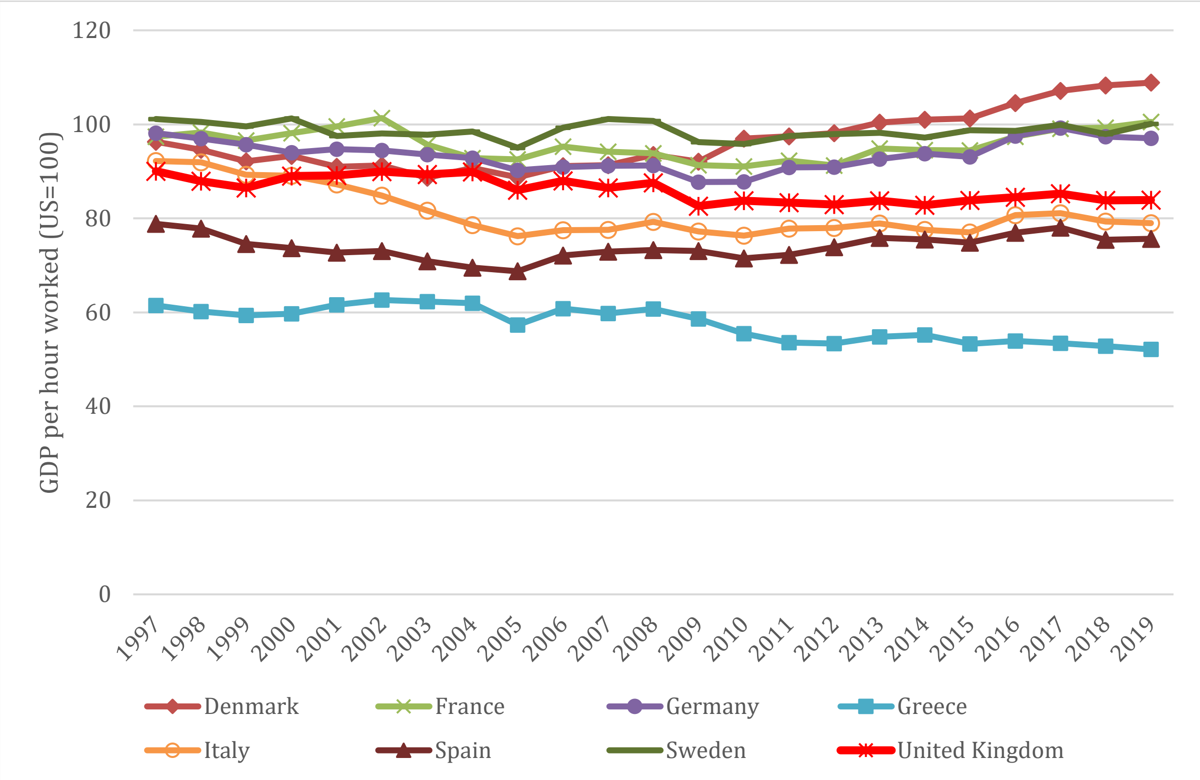
Figure 31: Age-earnings profiles – median real gross annual earnings of full-time employees



Source and Notes – see Figure 27. Additionally, annual earnings estimates relate to employees who have been in the same job for at least 12 months, regardless of whether or not their pay was affected by absence and real earnings are computed using CPIH.

A key factor behind sluggish UK wage growth is labour productivity. Figure 32 shows OECD estimates of labour productivity (GDP per hour worked) in eight European countries relative to the US from 1997 to 2019. Between 1997 and 2008, UK labour productivity remained at around 87-90% of US productivity and in parallel with a group of four countries (Sweden, France, Germany, Denmark). After the 2007/08 financial crisis labour productivity fell in Sweden, France, Germany and the UK relative to the US but there is a clear divergence from 2008 onwards with UK labour productivity remaining low (around 83% US) while productivity in Germany, France and Sweden increased and was on a par with the US labour productivity by 2019; in Denmark labour productivity increased even further and was greater than in the US from 2013. For the other countries considered here, Greece started with the lowest labour productivity at around 60% of US and was also hit hard by the financial crisis ending the period at only 52% of US labour productivity in 2019. Italy started the period with similar relative levels of labour productivity as the UK but productivity fell sharply to 2005 (76% of US) and was not hit particularly hard by the financial crisis, ending the period just below the UK at 79% of US labour productivity. Labour productivity in Spain, relative to the US, also fell between 1997 and 2004, but by less than in Italy, and since then labour productivity has gradually increased to end the period at 76% of US (only a little below the 1997 value).

Figure 32: Labour productivity (GDP per hour worked) 1997-2019 US=100



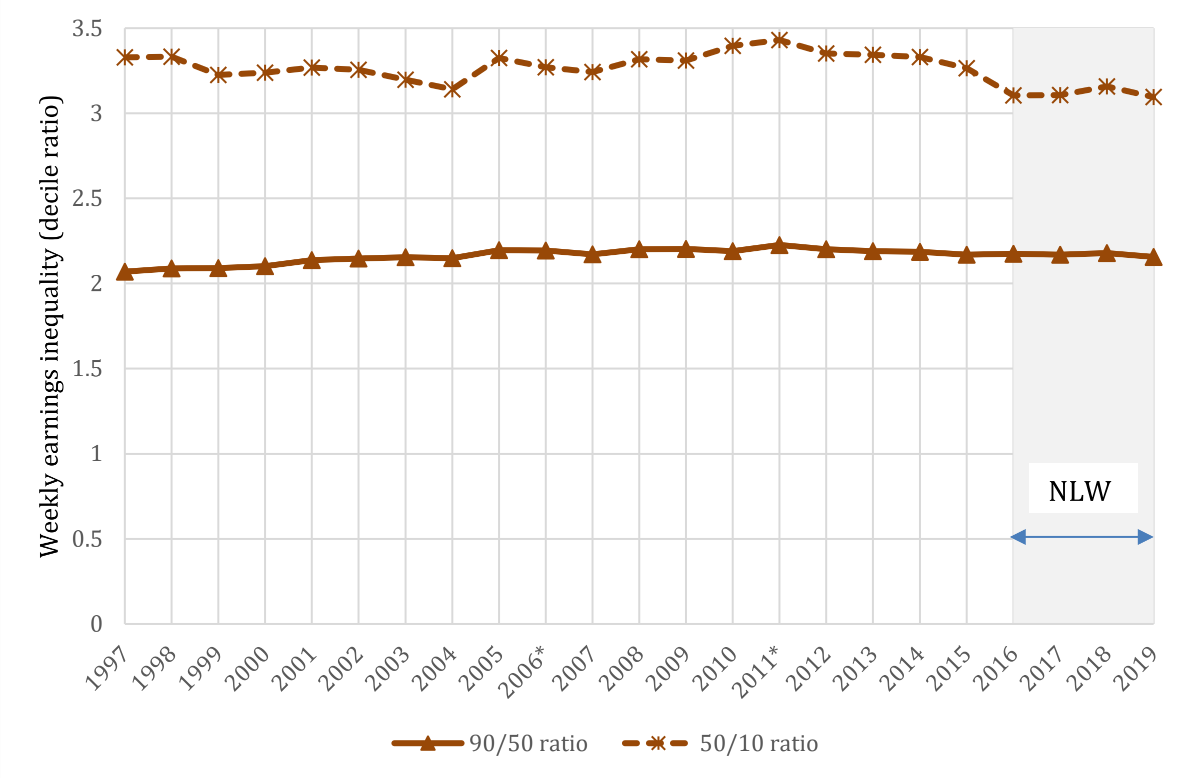
Source: OECD.Stat https://stats.oecd.org/# (accessed October 2020).

These figures for labour productivity suggests that UK wage growth has been curtailed by lack of growth in productivity since the financial crisis. Another theory that has been put forward is that there has been a wage-productivity ‘decoupling’. That is to say that the share of GDP paid to labour through wages has fallen as a result of a decoupling of growth particularly in the lower half of the wage distribution (OECD, 2018). A number of drivers can lead to this decoupling including technological change, trade, declining collective bargaining, increasing non-wage labour costs (for example, pension costs) and policies such as loosening employment protection (OECD, 2018). Whittaker (2019) recently conducted detailed analysis and although he found some evidence of decoupling in the UK he concludes that the effect on wage growth is small and the main reason for sluggish UK wage growth is the lack of growth in labour productivity.

Earnings inequality and the impact of the National Living Wage

So far we have examined trends in average earnings and growth rates but we are also interested in earnings inequality. In Figure 33 we chart trends in decile ratios of gross weekly earnings for all employees, covering the period 1997 to 2019. Two decile ratios are shown: the 90/50 ratio which measures inequality in the top half of the earnings distribution and the 50/10 ratio which measures inequality in the bottom half. Inequality in weekly earnings is higher in the bottom half of the distribution than in the top half and this is due to the fact that part-time employees are not only more likely to be low paid but have lower weekly earnings due to working fewer hours each week. This means that the lower half of the distribution has a fairly long tail and there is a large gap between earnings at the median and earnings at the 10th percentile; median earnings are three times higher than earnings at the 10th percentile (Figure 33). Inequality in weekly earnings among employees was fairly stable until 2015. However, the introduction of the National Living Wage (NLW) in 2016 led to an increase in pay for low paid workers aged 25+ and is associated with a fall in the 50/10 ratio as the higher minimum led to greater compression of earnings in the lower half of the distribution. In contrast, inequality in the top half of the weekly earnings distribution was unchanged over this period.

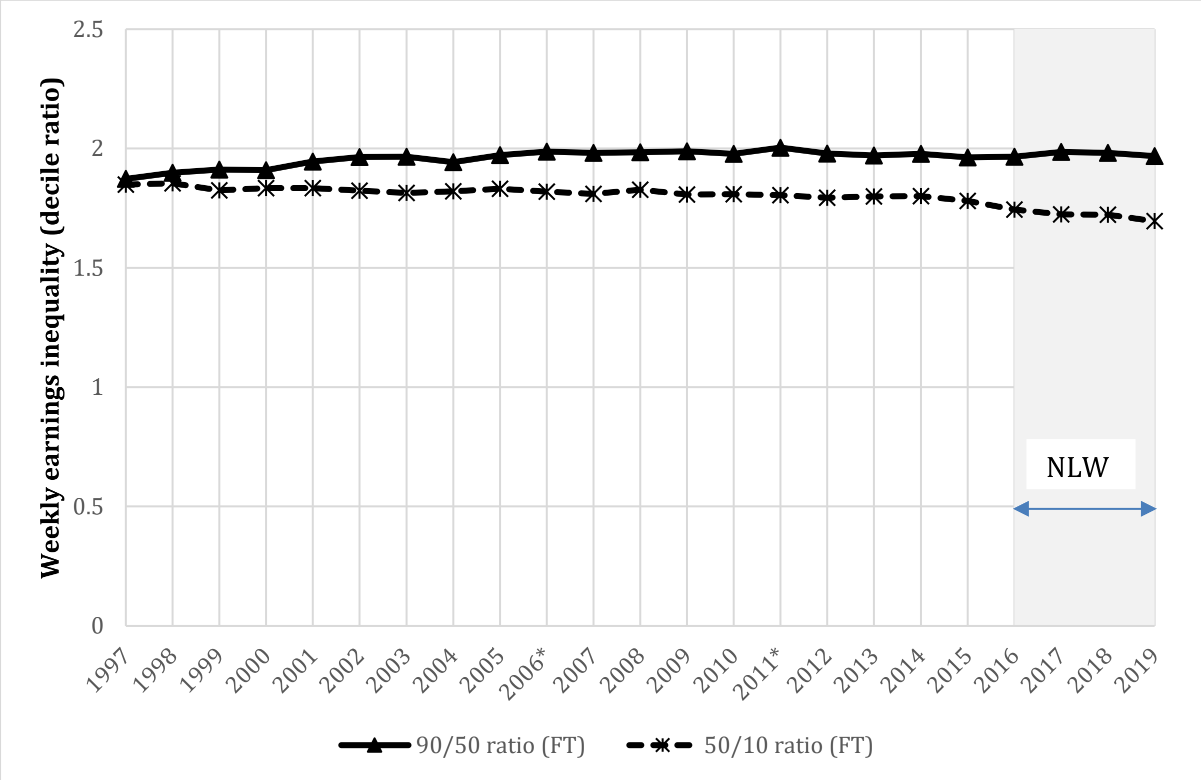
Figure 33: Inequality in gross weekly earnings of all employees 1997-2019



Source: ONS Annual Survey of Hours and Earnings Table 1.5a (1997-2019).
Notes: a) Employees on adult rates, whose pay for the survey period was unaffected by absence; b) * indicates discontinuities: 2011* results on a SOC 2010 basis; 2006* using 2007 methodology; 2004 results reworked to be compatible with 2005 & 2006 results; c) 2019 data are provisional.

Weekly earnings inequality among all employees is affected by the share of part-time employees which can change over time. In Figure 34 we focus on full-time employees only and observe a similar fall in weekly earnings inequality in the lower half of the earnings distribution (50/10 ratio) as we found for all employees. Between 1999 and 2015 there was a gradual fall in the 50/10 ratio (3.8%) (over this period inequality in the top half of the distribution (90/50 ratio) increased by 6%). After the introduction of the NLW inequality in the lower half of the distribution fell further and faster. Between 2015 and 2019 the 50/10 ratio fell by 4.5%. In contrast to inequality estimates for all employees, among full-time employees inequality is higher in the upper half of the weekly earnings distribution than in the lower half.

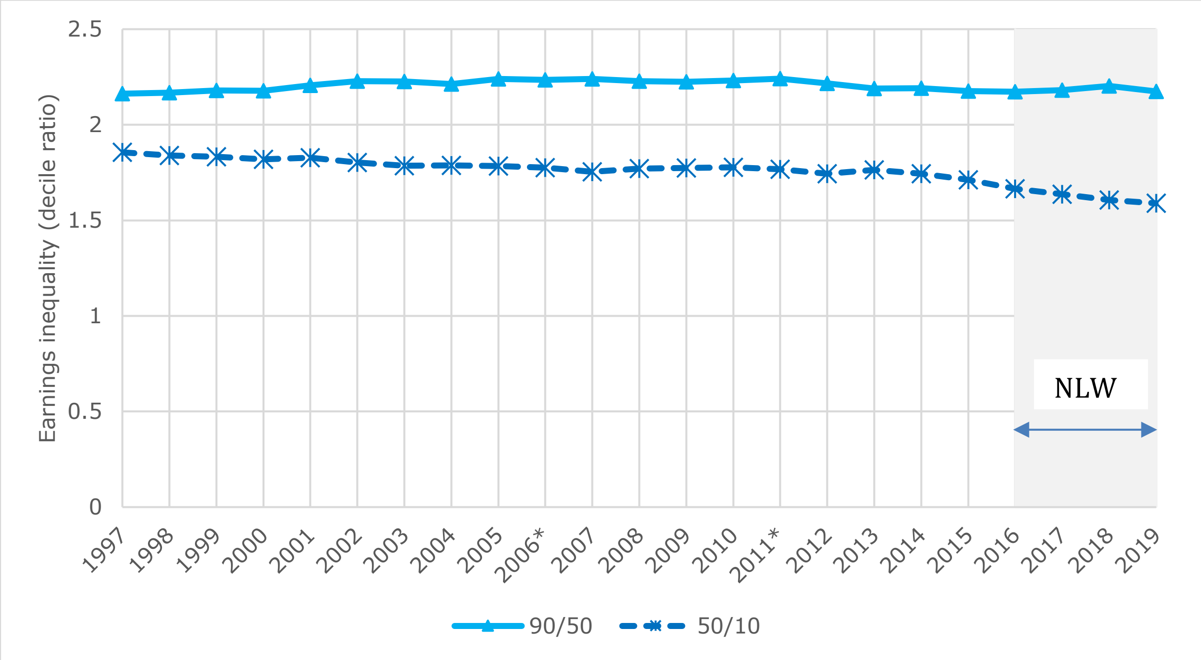
Figure 34: Inequality in gross weekly earnings of full-time employees 1997-2019



Source: ONS Annual Survey of Hours and Earnings time series of selected estimates.
Notes: see Figure 33 notes. Additionally, full-time is defined as employees working more than 30 paid hours per week (or 25 or more for the teaching professions).

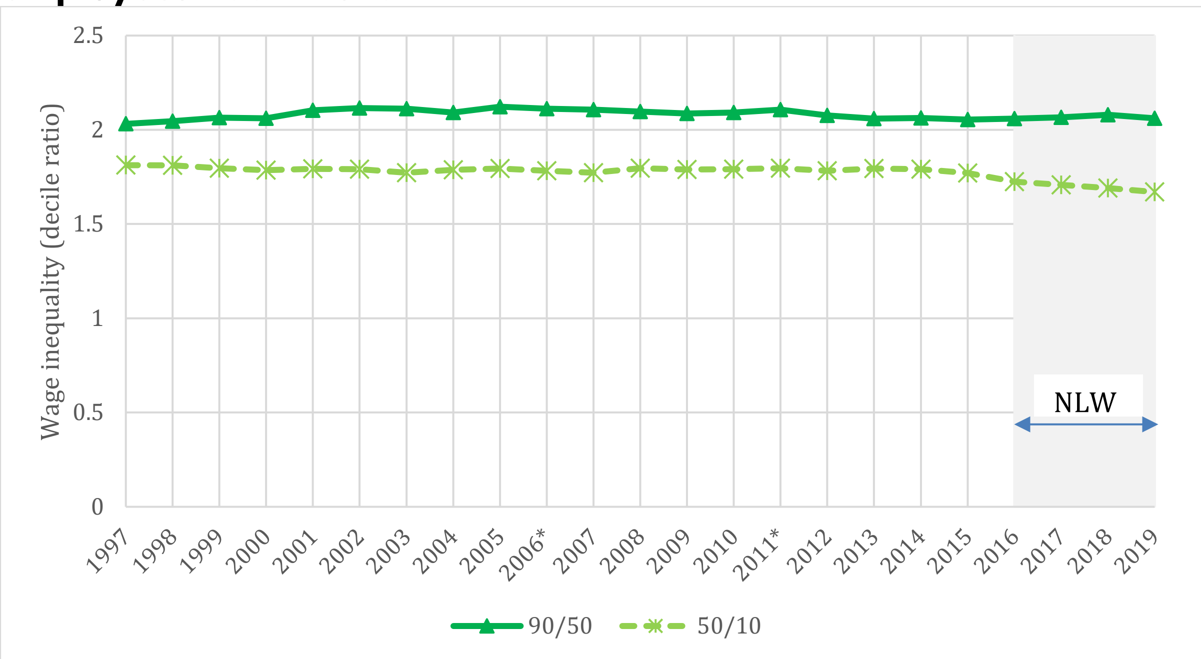
Of course, weekly earnings are determined by wage rates as well as hours of work so it is also informative to examine trends in hourly earnings inequality, particularly because the NLW increased wage rates and employers may have reduced hours of work to limit the impact of this increase on their wage bills. However, wage inequality also fell after the introduction of the NLW in 2016 resulting from a compression in the lower half of the wage distribution (measured by the 50/10 ratio) as lower paid workers' wages increased relative to the median wage. Among all employees wage inequality fell by 7% 2015-2019 (Figure 35(a)) and among full-time employees wage inequality fell by 5.6% over the same period (Figure 35(b)).

Figure 35(a): Inequality in gross hourly earnings of all employees 1997-2019



Source: ONS Annual Survey of Hours and Earnings Table 1.5a (1997-2019).
Notes: see Figure 33 notes.

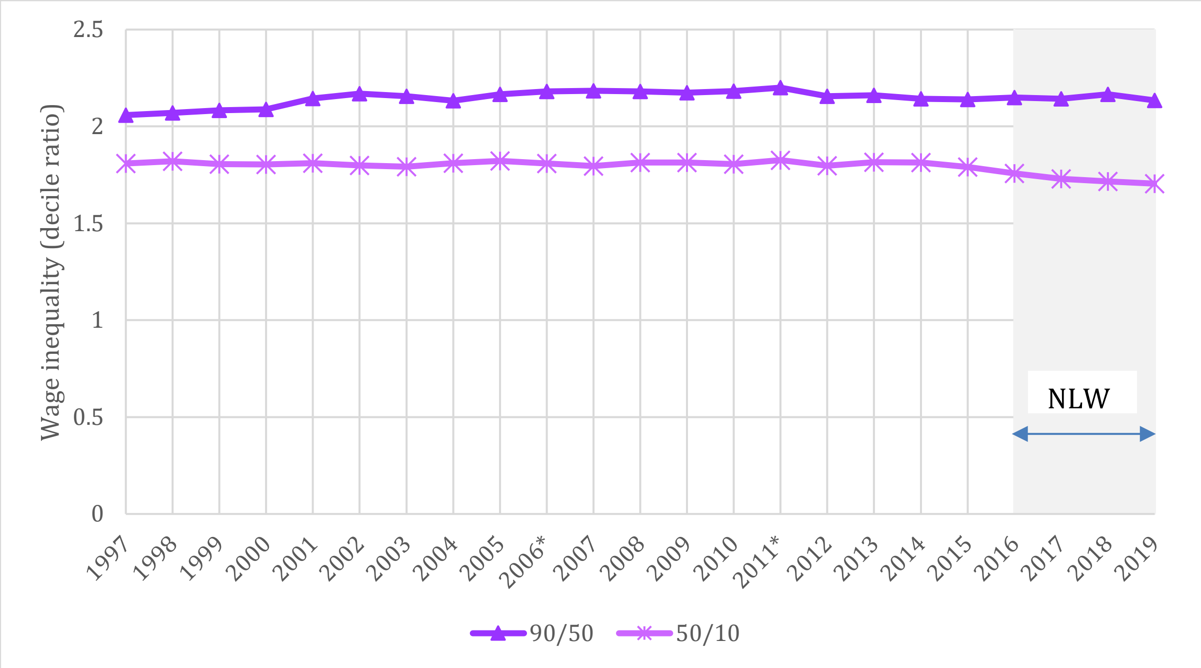
Figure 35(b): Inequality in gross hourly earnings of full-time employees 1997-2019



Source: ONS Annual Survey of Hours and Earnings Table 1.5a (1997-2019).
Notes: see Figure 34 notes.

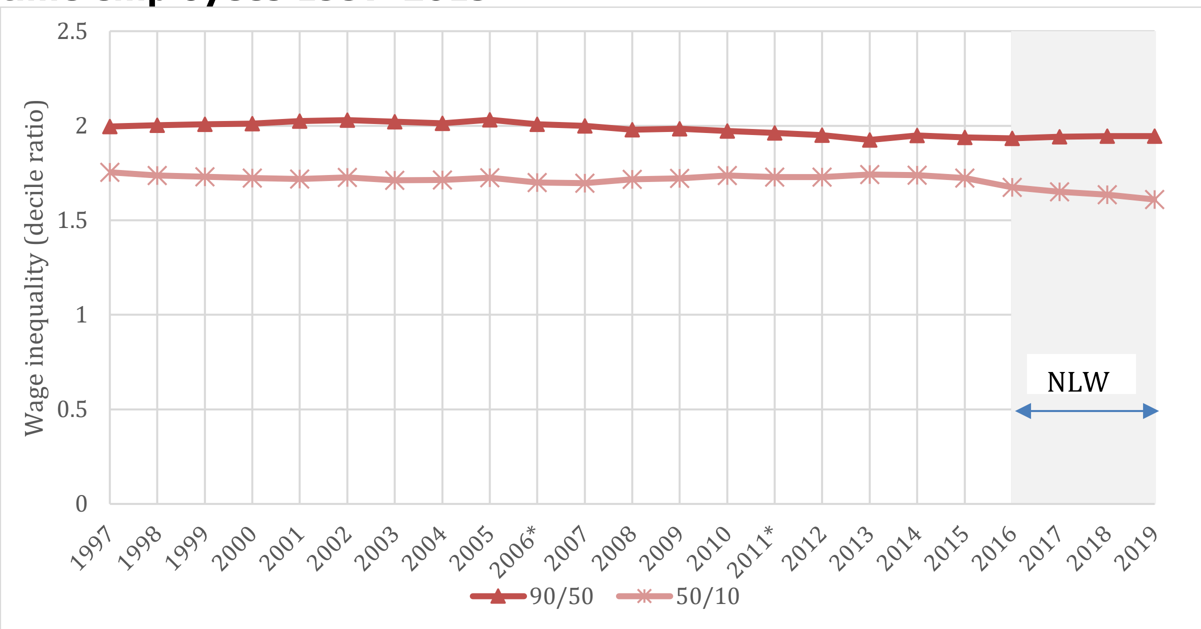
We can also assess if the fall in inequality differed between men (Figure 36(a)) and women (Figure 36(b)). Firstly we note that hourly earnings inequality is higher among male employees than female employees. The introduction of the NLW appears to have compressed the hourly earnings distribution more for women than for men: among women working full-time the 50/10 ratio fell by 7%; among men working full-time the 50/10 ratio fell by 5% between 2015 and 2019. This is consistent with women being more likely than men to be employed in low paid jobs and therefore the NLW raised their earnings further.

Figure 36(a): Inequality in gross hourly earnings of male full-time employees 1997-2019



Source: ONS Annual Survey of Hours and Earnings Table 1.5a (1997-2019).
Notes: see Figure 34 notes.

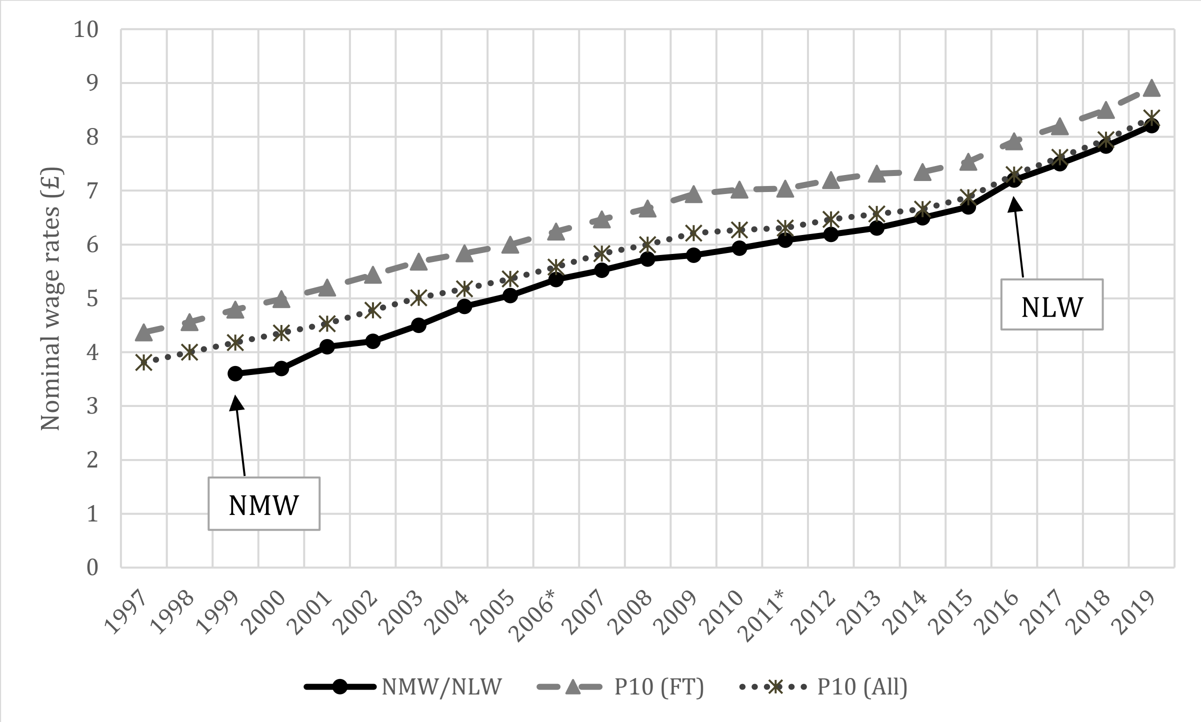
Figure 36(b): Inequality in gross hourly earnings of female full-time employees 1997-2019



Source: ONS Annual Survey of Hours and Earnings Table 1.5a (1997-2019).
Notes: see Figure 34 notes.

The 50/10 decile ratio is the ratio of earnings at the median (average earnings) with earnings at the 10th percentile. It is therefore of interest to understand the relationship between the NMW/NLW and wages at the 10th percentile as a higher minimum relative to the 10th percentile is likely to have a greater impact on this measure of inequality. When the NMW was introduced in April 1999 it was set at around 75% of full-time employees wage at the 10th percentile (P10) and 42% of their median wage. Among all employees it was 86% of their wage at the 10th percentile and 47% of their median wage, the difference highlighting lower wages of part-time employees (Figure 37). As we saw above, the introduction of the NMW had little impact on wage inequality in the lower half of the wage distribution and there doesn't appear to have been any contemporaneous impact on wages at the 10th percentile (for both all and full-time employees). As fewer low paid employees were covered by the NMW than anticipated and as there was no evidence of a significant negative impact on employment following its introduction, the NMW was increased by over 10% in October 2001. This increase led to a narrowing in the gap between the NMW and P10 wages (Figure 37). Between 2008 and 2010 the gap between the NMW and wages at P10 widened due to very modest increases in the NMW following the financial crisis and subsequent wage growth stagnation. The introduction of the NLW in April 2016 saw both a narrowing of the gap between the minimum wage rate and wages at the 10th percentile and growth in P10 wages was most likely due to wage differentials being maintained above the higher minimum. The NLW is around 98% of P10 wages among all employees and although it is below the P10 wage for full-time employees, the knock on effects have been to compress the lower half of the wage distribution as P10 wages have grown faster than median wages.

Figure 37: The nominal value of the NMW/NLW and wage rates at the 10th percentile for full-time (FT) and all (All) employees



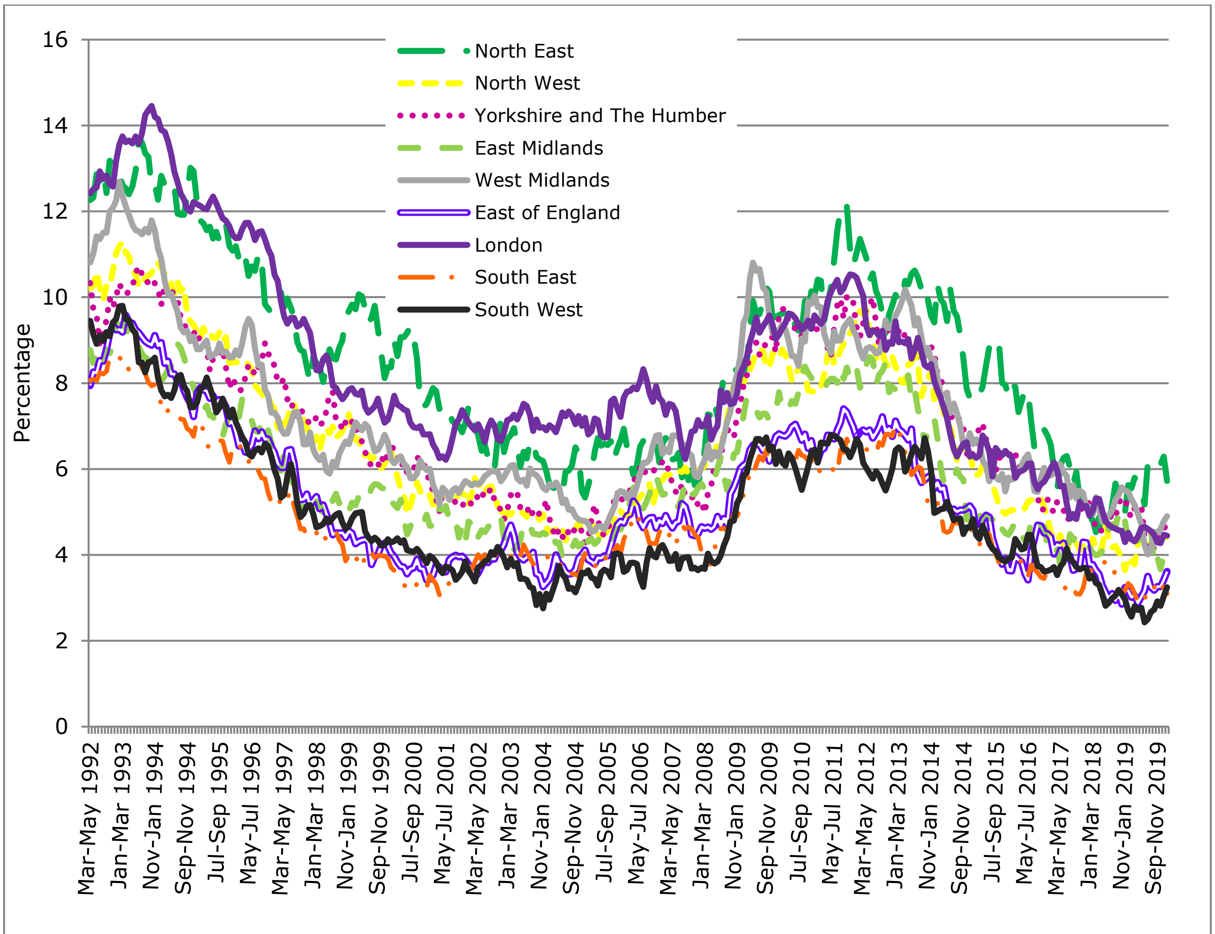
Source: ONS Annual Survey of Hours and Earnings Table 1.5a (1997-2019).
Notes: see Figure 34 notes.

Regional differences in labour market outcomes

Regional inequalities in employment outcomes are a persistent feature of the UK labour market. Although unemployment decreased in all English regions between the early 2010s and the eve of the pandemic, stark regional differences remain with, largely, the same regions characterised by high unemployment rates (e.g., North East) or low unemployment rates (e.g., South West) persisting over many decades (Figure 38). In the December-February 2020 quarter the highest unemployment rate was in the North East, which stood out from all other regions with an unemployment rate of 5.7%. The lowest unemployment rates were in the South East and South West of England, at 3.1% and 3.2% respectively.

Comparing unemployment rates between UK nations (Figure 39), England has the highest rate at 4.1% and Northern Ireland, which had the highest unemployment rate in the early nineties, has the lowest rate at 2.6%. The Treasury's distributional analysis, which accompanied the 2020 Budget, highlighted the downward trend in unemployment; since 2010 unemployment has fallen in every region and nation in the UK with the largest falls in Wales and Yorkshire and the Humber (HM Treasury, 2020). The Treasury analysis also shows that the proportion of jobs that are low-paid[26] also fell in every region and nation, with the largest falls in Scotland and Wales (Ibid). Across UK nations in 2019, Northern Ireland had the highest proportion of low paid jobs, at just over 20% (despite the low unemployment rate in Northern Ireland). Within England it is the North East, followed closely by Yorkshire and Humber, East Midlands and West Midlands with the highest proportion of low-paid jobs at just under 20% (ibid). Again this adds important context to the unemployment figures; the North East has the highest unemployment rate and proportion of low-paid jobs. However, there is a more positive picture for the North East if we focus on earnings growth in the year to April 2019, which enjoyed the joint highest earnings growth rate along with Wales at 5.1% (Figure 40). In terms of earnings levels London stands out as having the highest median gross weekly earnings for full-time employees.

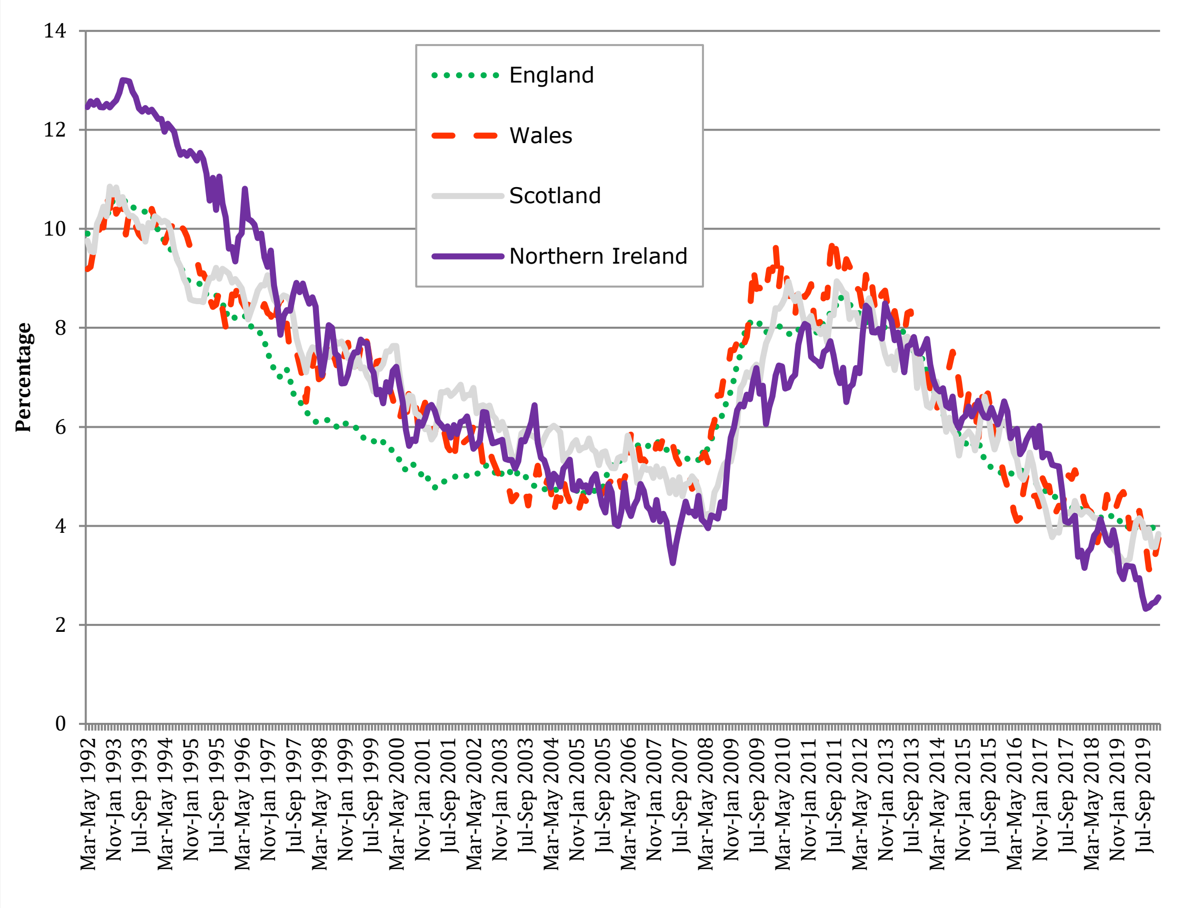
Figure 38: Unemployment rates across English regions, age 16-64, seasonally adjusted, from March-May 1992 to December-February 2020



Source: ONS (21st April 2020) 'HI00 Regional labour market: Headline Labour Force Survey indicators for all regions' dataset available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/headlinelabourforcesurveyindicatorsforallregionshi00 accessed on 24th April 2020

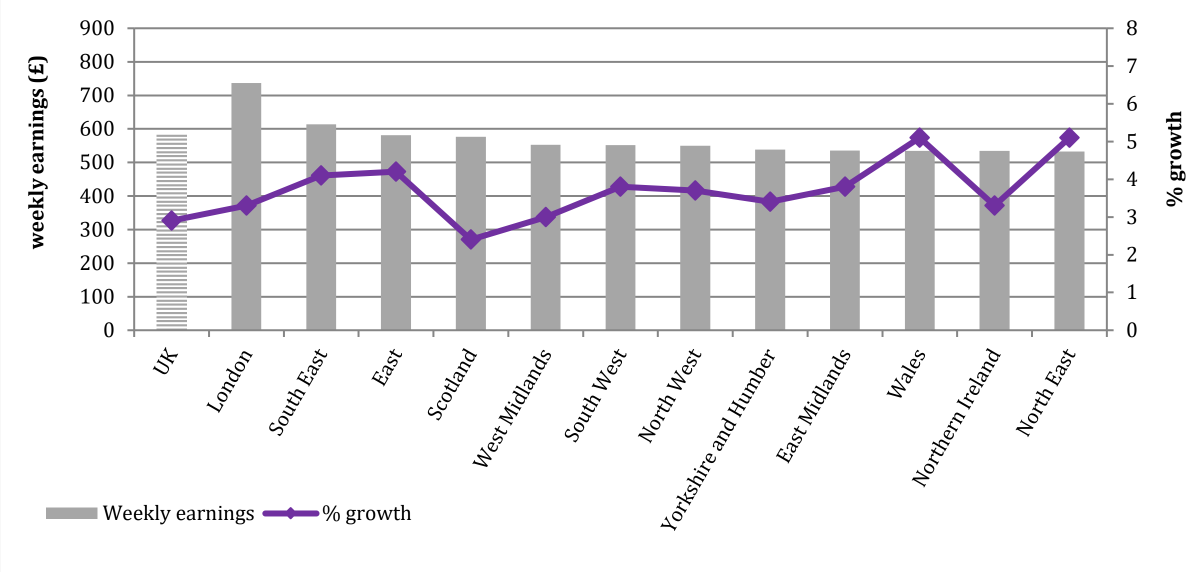
[26] Based on the OECD definition of low pay which is less than two-thirds of hourly median pay.

Figure 39: Unemployment rates across UK nations, age 16-64, seasonally adjusted, from March-May 1992 to December-February 2020



Source: ONS (21st April 2020) 'HI00 Regional labour market: Headline Labour Force Survey indicators for all regions' dataset available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/headlinelabourforcesurveyindicatorsforallregionshi00 accessed on 24th April 2020

Figure 40: Median gross weekly earnings for full-time employees and percentage change from previous year, by English regions and UK nations, April 2019



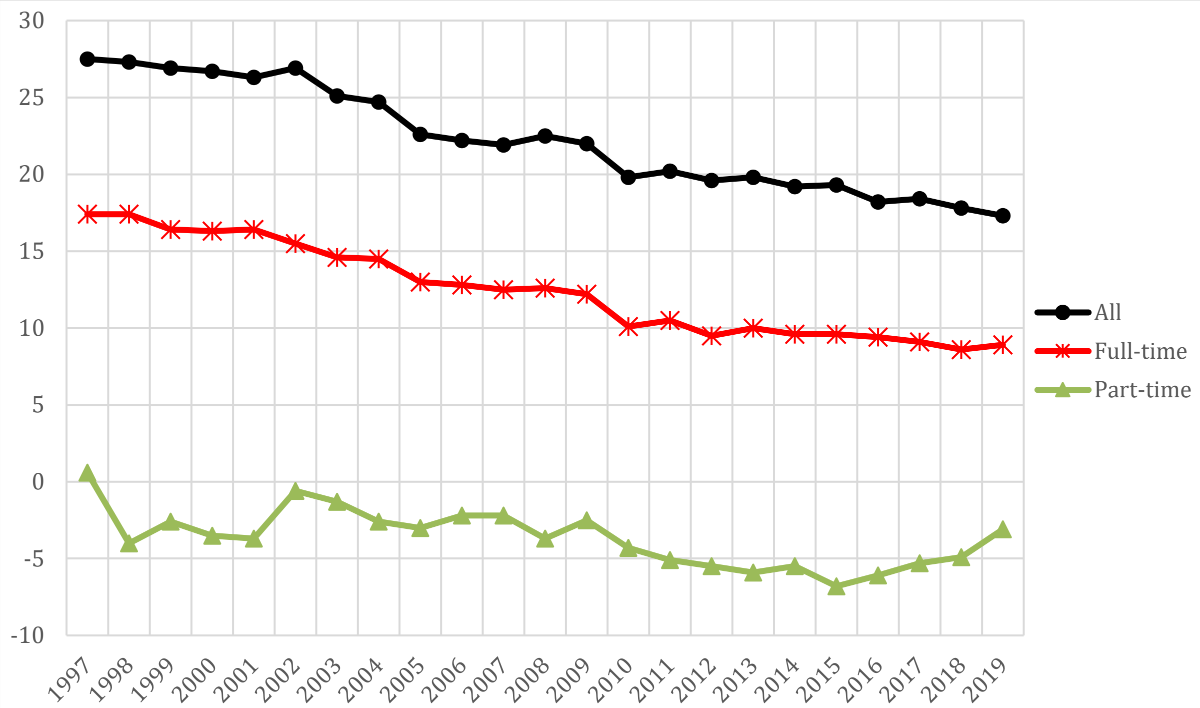
Source: Figure 6 in ONS (29 October 2019) 'Employee earnings in the UK: 2019 Measures of employee earnings, using data from the Annual Survey for Hours and Earnings (ASHE)' accessed on 24th April 2020 at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019

The gender pay gap

The raw gender pay gap is calculated as the difference between average hourly earnings of men and women as a proportion of average earnings of men (excluding overtime pay) (ONS, 2019d). As described in Section 4, since April 2017 it has been compulsory for companies with more than 250 employees to report their gender pay gap at the end of each financial year. Compliance with this requirement has improved since it was first introduced and for the financial year 2018/19 96% of eligible employers had reported their gender pay gap information by the deadline (Murray et al., 2019). Though the gender pay gap narrowed for around half of the companies reporting in 2017/18 and 2018/19, for 44% of companies the gender pay gap *widened* over this time period, for pay gaps calculated for both median and mean pay (Ibid). Furthermore, the vast majority of companies report gender pay gaps just before the deadline which has been suggested to indicate that it is still treated as a tick box exercise, which many companies have not put robust processes in place to accurately record the information; with potential errors in the reporting from a number of employers and as they are only required to report the headline figures there is no way to check the calculations were made correctly (Thomas, 2019). Research into employer perceptions of reporting the gender pay gap found that most employers have engaged reactively, focusing on complying with regulations and explaining their gender pay gap and communicating intentions to reduce it, but there has been little in the way of companies developing 'concrete, measurable and targeted actions' to reduce their gender pay gap (Murray et al., 2019, p. 75).

Looking at trends for the UK as a whole the gender pay gap has been declining since 1997 but the gap was stable between 2010 and 2013 and progress was slow thereafter up to 2019 (Figure 41) – for all employees the gender pay gap was 17.8% in 2018 and 17.3% in 2019 (ONS, 2019a). The pay gap is very different when disaggregated between full and part-time work, with a consistently small negative gap for part-time, women are more likely to work part-time but men working part-time are on average lower paid, but a large positive gap for full-time (Pyper, 2020). Changes in the share of male and female employees working part-time as well as the gap in pay rates between men and women working part-time affects trends in the overall gender pay gap. The overall gender pay gap is a useful indicator, as the reasons why women are more likely to work part-time are important in understanding the gender pay gap (ibid).

Figure 41: Gender pay gap for median gross hourly earnings by full and part-time employment status, UK April 1997 to 2019



Source: Annual Survey of Hours and Earnings (ASHE); data from Figure 1 in ONS, (29 October 2019) 'Gender pay gap in the UK: 2019' available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2019
Note: excludes overtime pay.

The long-term decline in the gender pay gap is related to the increase in women's employment discussed above - as the gender gap narrowed between 1997 and 2019 more women entered full-time employment (an increase from 34% to 38%) (Pyper, 2020). Another significant change that has contributed to closing the overall gender pay gap is that more men have entered part-time employment, which tends to be lower paid: the proportion of part-time employees who are men increased from 16% in 1997 to 26% in 2019 (Ibid).

The decline in the gender pay gap is also related to age. The gender pay gap is wider for employees aged over forty – in April 2019 the gender pay gap for all employees was 7% for those aged 22-29 but 22% for those aged 40-49 (Pyper, 2020). We might therefore expect the pay gap to shrink as younger cohorts age; analysis by the Resolution Foundation has found that the gender pay gap has shrunk for each generation of women at every age of their working lives; for those in their twenties the gender pay gap fell from 16% for 'baby boomers' (born 1946-1965), to 5% for 'millennials' (born 1981-2000) (Gardiner, 2017). This is due to a combination of factors including equalities legislation, maternity rights and increases in female participation in higher education (ibid). However, there are also signs that progress is stalling – the generational decline in the gender pay gap has been much smaller for those aged thirty: the pay gap at age thirty was 21% for 'baby boomers', 10% for 'generation X' (born 1966-1980) and only slightly lower at 9% for 'millennials' (ibid). This is around the age women start to have children and is where the gender pay gap increases as women take time out of work, are more likely to work part-time and job opportunities can also be restricted by commuting distances (Dias et al., 2018).

Analysis by the Institute for Fiscal Studies also highlights that the gender pay gap has not been falling as much amongst graduates and the gap overall has changed little in the last decade (Dias et al., 2018). Whilst we have seen reductions in the gender pay gap, these have not been felt by everybody and the UK is lagging behind other countries - in 2017 the gender pay gap in the UK was the fourth highest in Europe[27]. This suggests that whilst there has been long-term progress, the remainder of the gap may take longer to close. In 2019, the Fawcett Society estimated that at the then rate of decline it would take 60 years to eradicate the gender pay gap[28].

Employment gaps and pay gaps by ethnicity

As discussed in the policy section, the Government has consulted on the issue of asking employers to report their ethnic pay gaps in 2018 (Department for Business, Energy & Industrial Strategy, 2018) but this is still not a requirement. There is concern that although pay differences between people from different ethnic minority backgrounds compared to

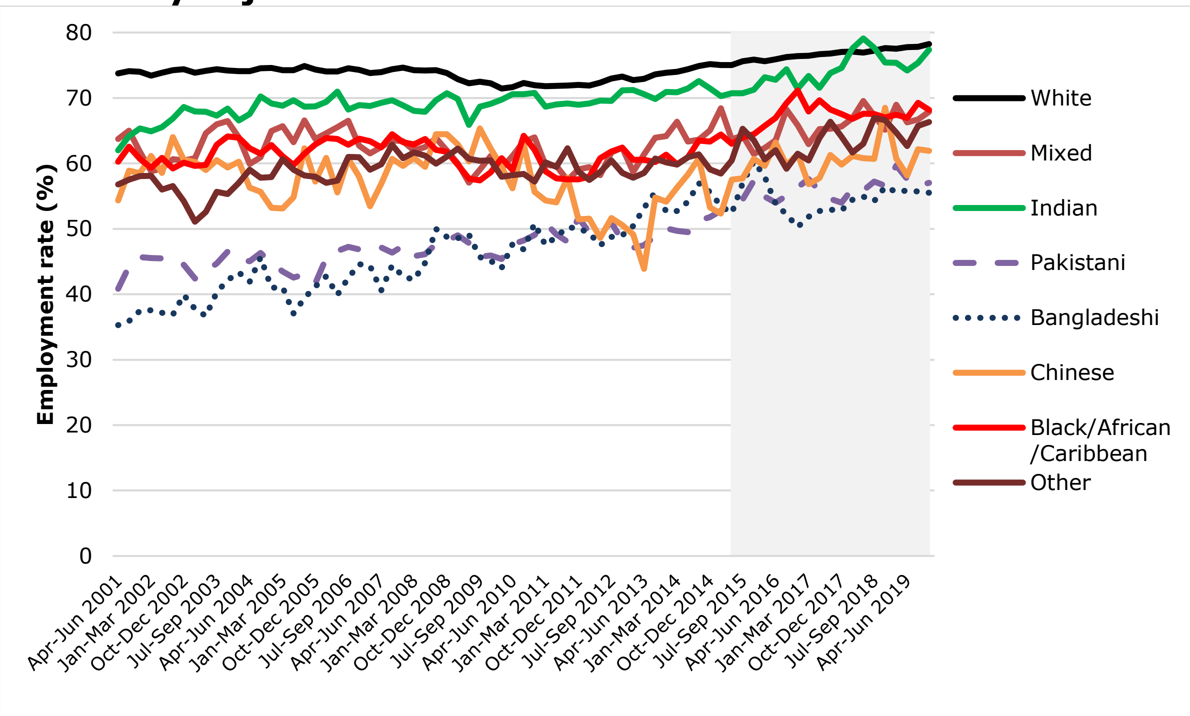
[27] Eurostat Gender Pay Gap Statistics https://ec.europa.eu/eurostat/statistics-explained/index.php/Gender_pay_gap_statistics accessed 27th February 2020
[28] https://www.fawcettsociety.org.uk/news/the-fawcett-society-announces-date-of-equal-pay-day-2019

those from a White British background narrowed between 2004 and 2018, disparities persisted with those from a White background still more likely to be employed compared to other ethnic groups (Race Disparity Unit, 2019).

The Race Disparity Audit, published in October 2017, identified some progress in narrowing ethnic gaps in employment rates: the gap between the employment rates of ethnic minority populations compared to the overall population narrowed by 0.6 percentage points between 2015 and 2016 (Race Disparity Unit, 2017). Despite progress the audit highlighted a range of measures which demonstrated ongoing inequalities between ethnic groups in relation to rates of employment, occupational level and pay gaps (ibid).

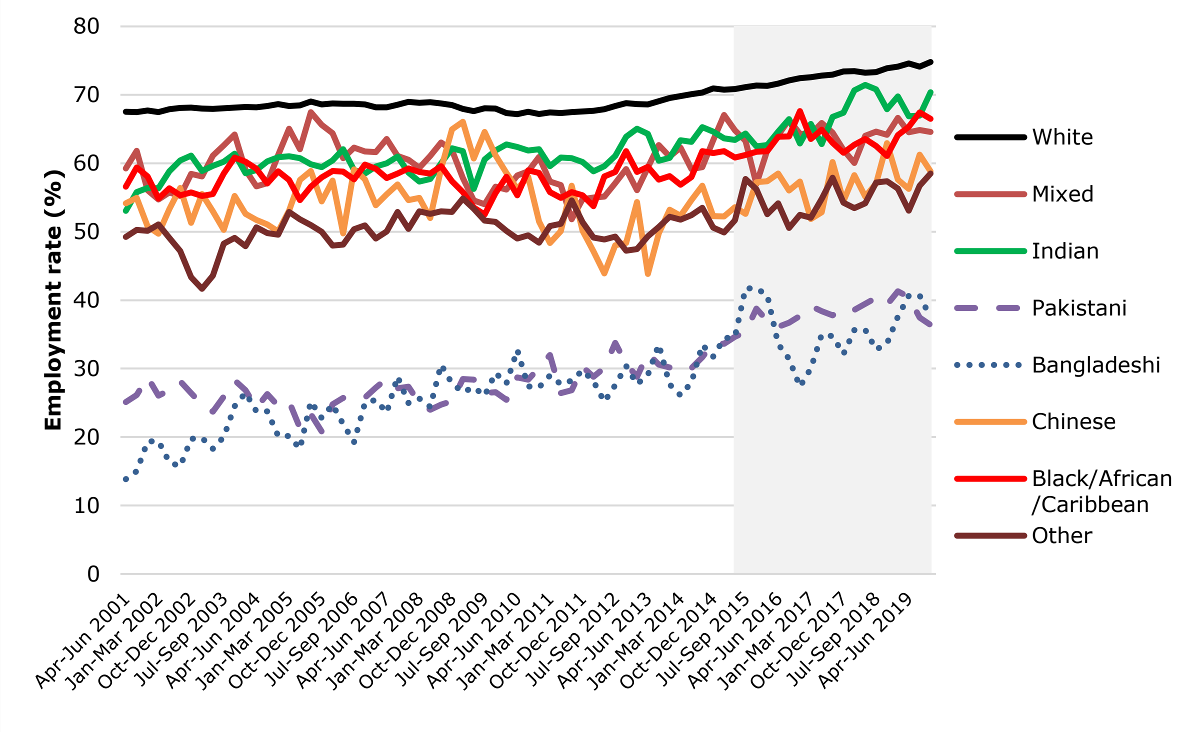
Looking over a longer time period, the narrowing of employment and unemployment gaps since 2001 is clear (Figure 42, Figure 43 and Figure 44). However, whilst the overall gaps have narrowed people form a Pakistani and Bangladeshi background still have the lowest employment rates, with wider employment gaps for women.

Figure 42: Employment rate by ethnicity, UK aged 16-64, not seasonally adjusted



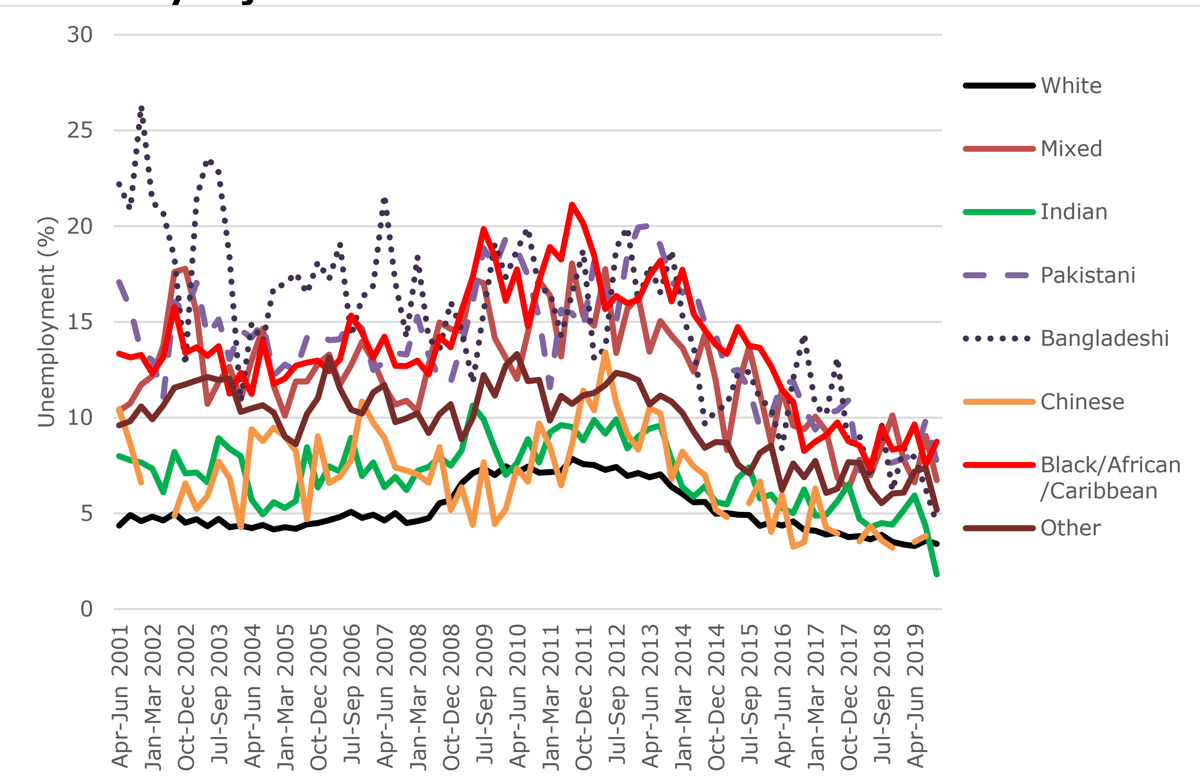
Source: Labour Force Survey; data from ONS (18 February 2019) A09: Labour market status by ethnic group.

Figure 43: Employment rate by ethnicity, UK women aged 16-64, not seasonally adjusted



Source: Labour Force Survey; data from ONS (18 February 2019) A09: Labour market status by ethnic group.

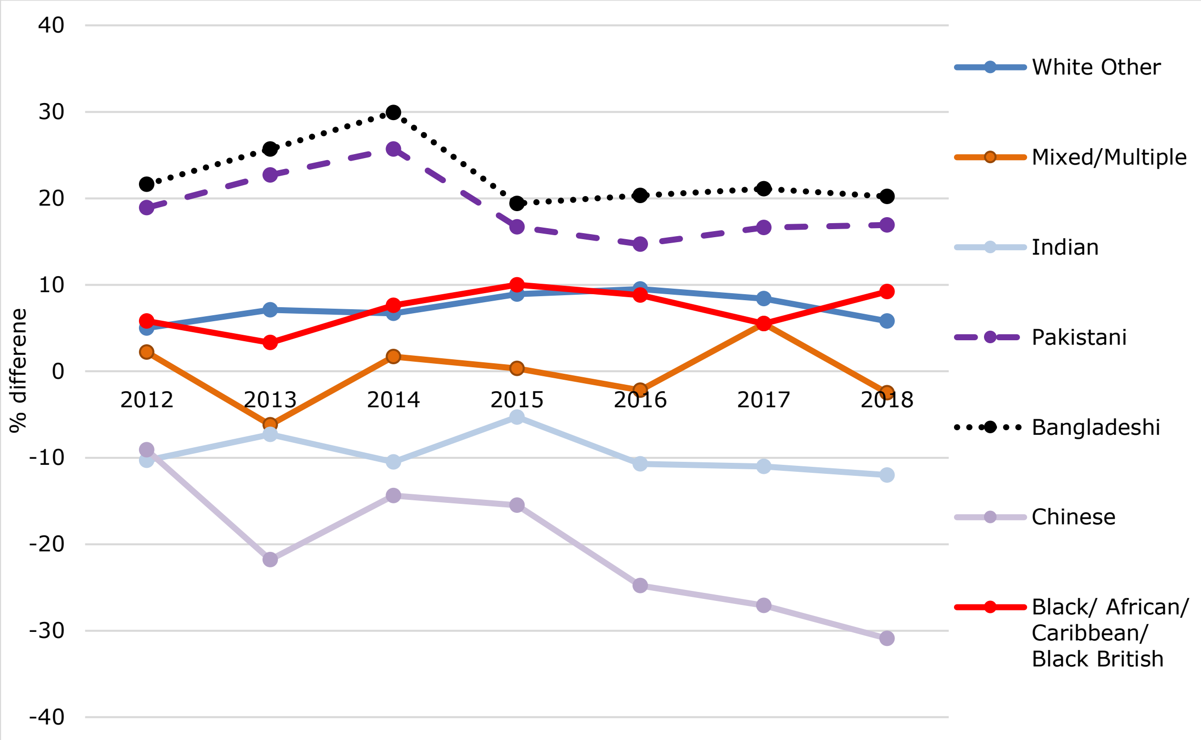
Figure 44: Unemployment rate by ethnicity, UK aged 16+, not seasonally adjusted



Source: Labour Force Survey; data from ONS (20 February 2020) A09: Labour market status by ethnic group

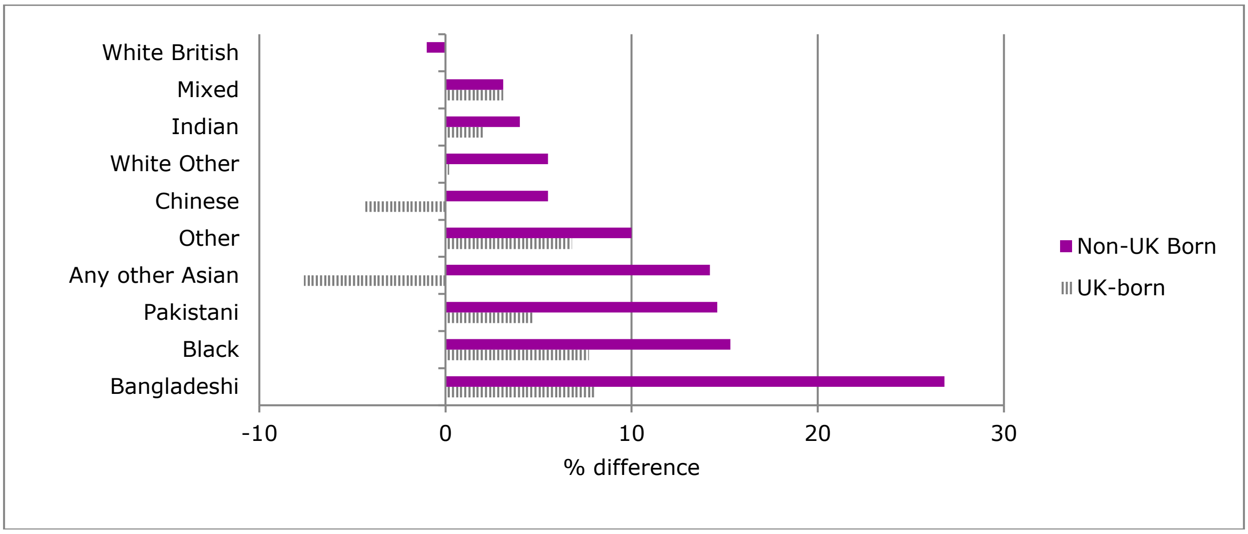
Employees from Pakistani and Bangladeshi backgrounds also face wider pay gaps. The ethnic pay gap is measured as the difference between the average hourly earnings of White British employees and employees from ethnic groups as a proportion of average hourly earnings of White British employees, with positive pay gaps indicating ethnic groups earning less than White British employees and negative gaps indicating they earn more (ONS, 2019a). As can be seen in Figure 45 employees from most ethnic minority groups have a positive pay gap, indicating lower pay compared to White British employees; those from a Bangladeshi or Pakistani background have the largest pay gaps at 20.2% and 16.9% respectively in 2018 (ibid). Employees from a Black, Other or White Other ethnic group also consistently had lower average wages from 2012, with gaps ranging from 5% to 10% (Ibid). By contrast Chinese and Indian employees have consistently earned more than those from a White British background, with the gap between Chinese and White British employees widening to around 30% in 2018 (Ibid). Ethnic pay gaps vary by age with employees aged 30 and over facing larger pay gaps across ethnic groups than those aged 16–29 years and ethnic minorities in London face a larger pay gap compared to other regions in England, as well as Wales and Scotland, with people from an ethnic minority background receiving wages which are, on average, 21.7% less than White employees (Ibid). After controlling for other factors including education and occupation, country of birth is still an important determinant of ethnic pay gaps, with those born outside the UK facing wider ethnic pay gaps compared to people from the same ethnic background but born in the UK (ibid) (Figure 46).

Figure 45: Ethnic pay gaps: the percentage difference between gross hourly earnings (including overtime) for ethnic minority employees and White British employees, Great Britain, 2012-2018



Source: Annual Population Survey; ONS Ethnicity Pap Gap: Reference tables (8 July 2019)

Figure 46: Difference in mean gross hourly pay, controlling for other factors, by ethnic group and country of birth, Great Britain, 2018

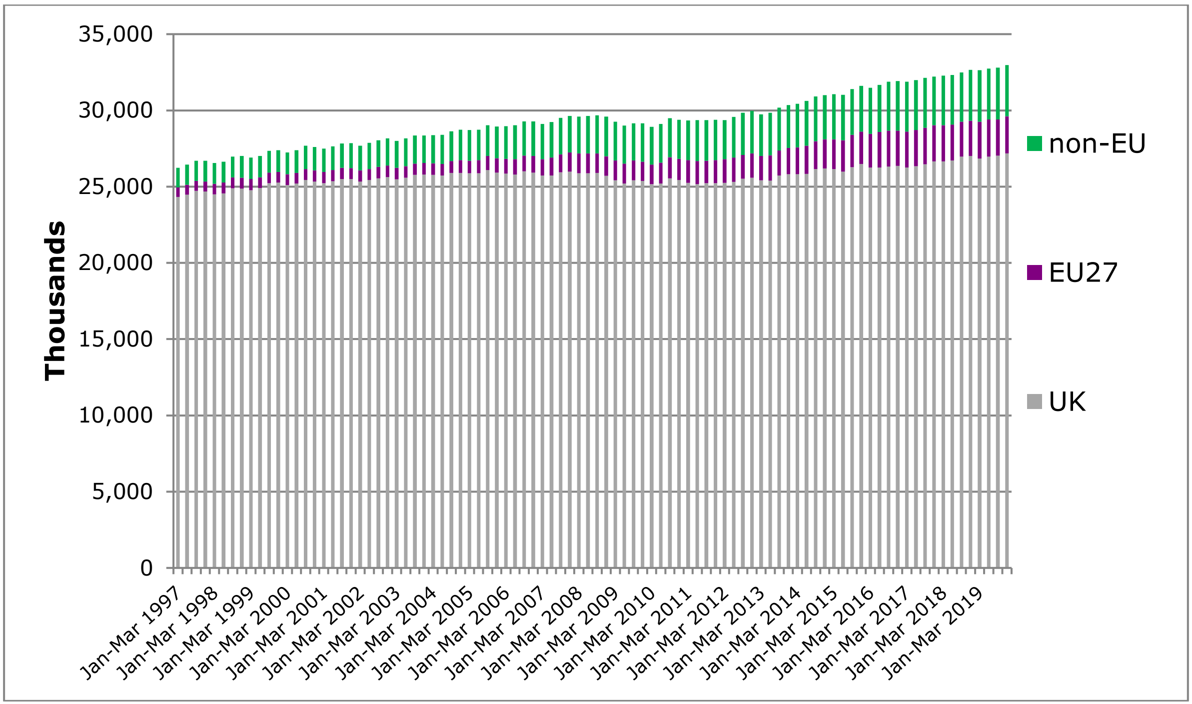


Source: data from Figure 10 in (ONS, 2019a) based on Annual Population Survey Data.
Notes: the following factors are controlled for: age, sex, region, highest qualification, occupation, sector, disability, work pattern.

Employment and nationality

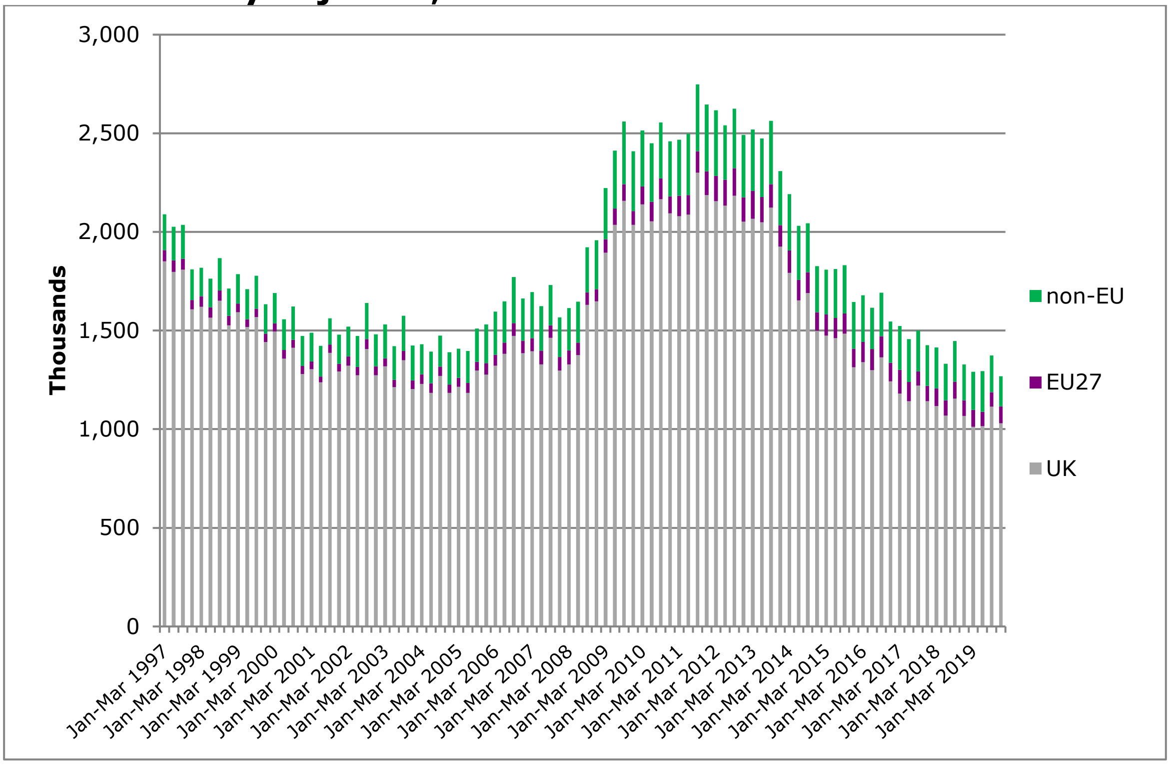
The number of people born outside of the UK in employment has steadily increased since 1997, as employment levels have increased also, though this still represents a minority of workers overall (Figure 47). As can be seen from Figure 48 of those unemployed in the UK a minority were born outside of the UK.

Figure 47: Employment levels by country of birth, aged 16+, UK, not seasonally adjusted, January-March 1997 to October-December 2019



Source: Labour Force Survey; ONS (18 February 2020) A01 Labour Market Statistics Data Summary Tables accessed at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/summaryoflabourmarketstatistics
Notes: EU27 includes all EU member states apart from the UK.

Figure 48: Unemployment levels by country of birth, aged 16+, UK, not seasonally adjusted, Jan-Mar 1997 – Oct-Dec 2019



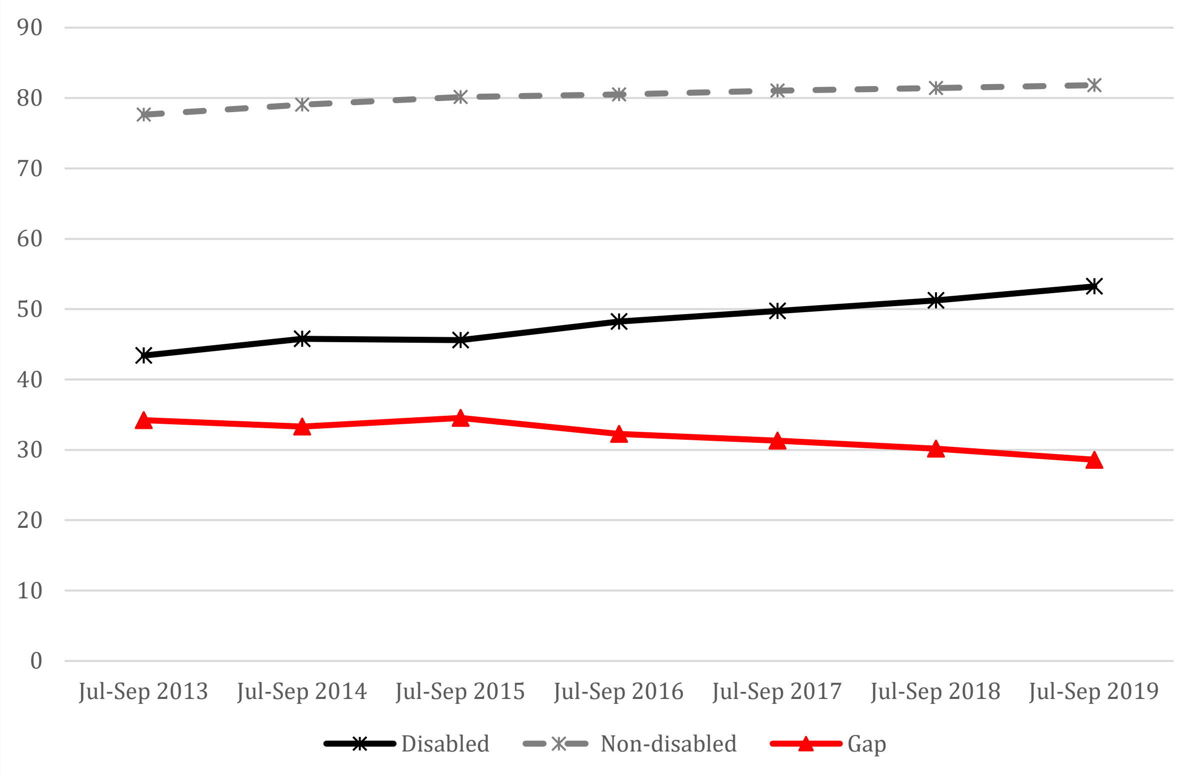
Source: Labour Force Survey; ONS (18 February 2020) A01 Labour Market Statistics Data Summary Tables accessed at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/summaryoflabourmarketstatistics
Notes: EU27 includes all EU member states apart from the UK.

Disability

As discussed in Section 3 there have been a number of government targets related to closing the disability employment gap, which is the gap between the employment rates for disabled people and non-disabled people. The latest target as set out in the White Paper 'Improving Lives: The Future of Work, Health and Disability' (Department for Work and Pensions, 2017) is to increase the number of disabled people in work by one million over the ten year period 2017 to 2027. Though it is not possible to determine at this point whether this target is likely to be met progress has been made, with a narrowing of the employment gap since July-September 2013 due to a steady increase in the employment rate of people with disabilities in the UK of around ten percentage points (Figure 49). In July-September 2019 the employment rate for people in the UK with disabilities was 53.2% and the unemployment rate (proportion of those who are economically active that are unemployed) for people with disabilities was 6.7%, around half the rate in July-September 2013. These statistics are based on the Government Statistical Service (GSS) Harmonised Standard definition which classifies individuals as disabled if they meet the following criteria:

- Current physical or mental health condition(s) or illnesses lasting or expected to last 12 months or more;
- The condition(s) or illness(es) reduce their ability to carry out day-to-day activities.

Figure 49: Employment rate for people with disabilities aged 16 - 64, not seasonally adjusted

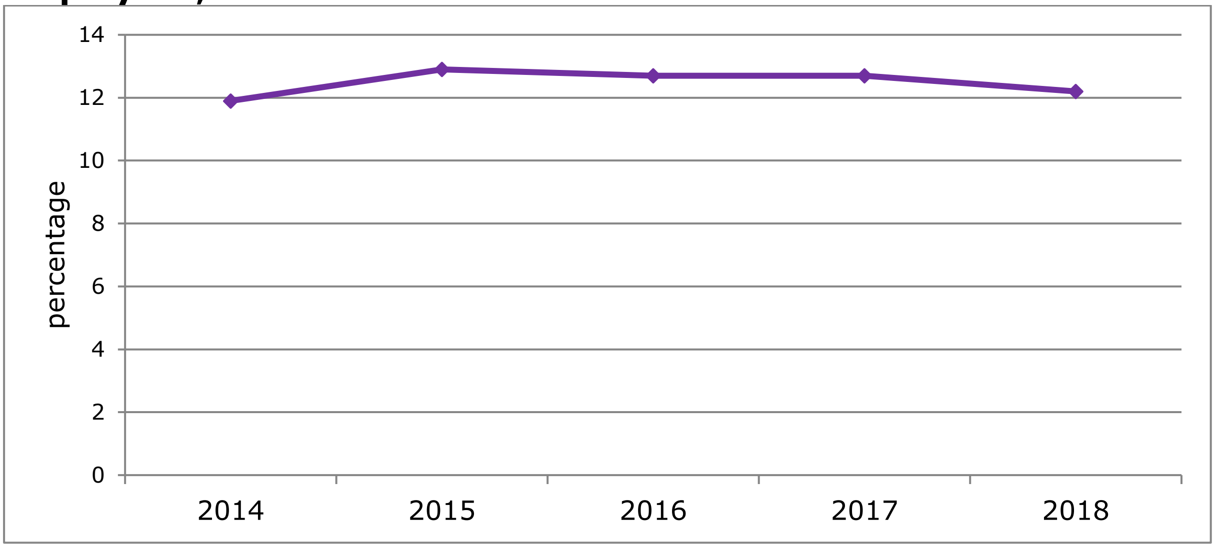


Source: Labour Force Survey; data from ONS, (12 November 2019) A08: Labour market status of disabled people, dataset available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourmarketstatusofdisabledpeoplea08

Notes: 1. These data are not comparable with data from before 2013 due to a change in the wording of the survey questionnaire. 2. 'Disabled' category is based on the GSS harmonized definition. 'Non-disabled' category includes people reporting a health problem but who are not classified as having a long-term health problem or disability under the Government Statistical Service harmonised standard definition of disability. Respondents who did not answer questions on their health situation are excluded from these estimates.

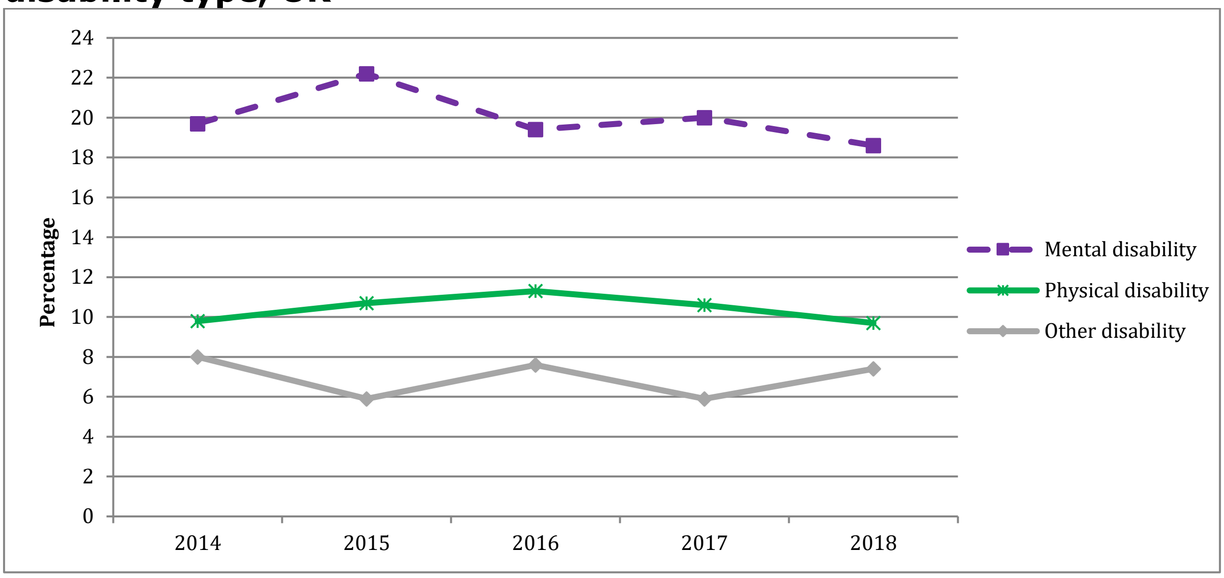
Whilst the narrowing of the disability employment gap is encouraging, when we consider differences in pay between disabled and non-disabled workers this highlights another aspect of inequalities in employment for disabled people. Median gross hourly pay for disabled people was 12.2% less than non-disabled people in 2018, with the disability pay gap having remained relatively stable since 2014 (ONS, 2019c) (Figure 50). The disability pay gap in 2018 was widest for employees with a mental disability at 18.6% and again little change since 2014 (Ibid) (Figure 51). The disability pay gap also differs across regions, with London having the widest disability pay gap of 15.4% and Scotland having the narrowest at 8.3% in 2018 (ibid). When other factors, such as occupation and qualifications are controlled for the disability pay gap narrows as expected, with occupation accounting for most of the difference in pay (Ibid), though, as with measuring the gender pay gap, it is important to not over-control for different factors which may be contributing to the problematic pay gaps and could be viewed as mechanisms of inequality rather than confounding factors.

Figure 50: Disability pay gap: Percentage difference in median gross hourly pay between disabled employees and non-disabled employees, UK



Source: Annual Population Survey; Figure 5 in ONS (2 December 2019) 'Disability pay gaps in the UK: 2018'

Figure 51: Percentage difference in median gross hourly pay between disabled employees and non-disabled employees by disability type, UK



Source: Annual Population Survey; Figure 6 in ONS (2 December 2019) 'Disability pay gaps in the UK: 2018'

Trends in in-work poverty

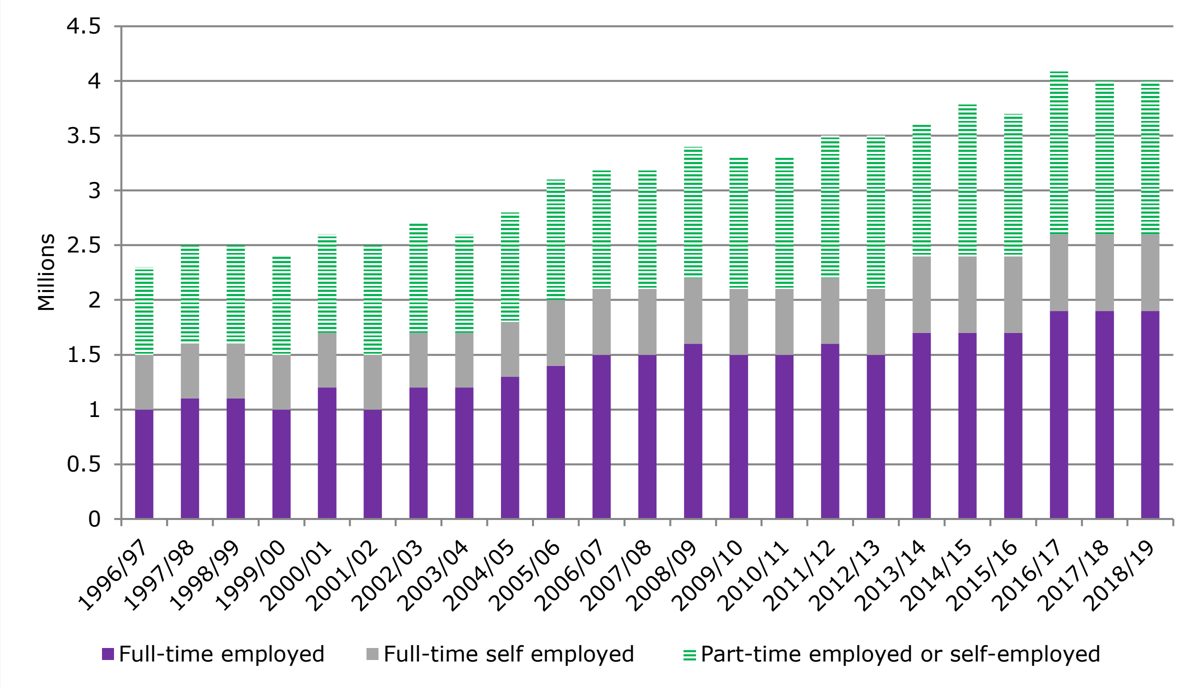
There is an apparent paradox in trends in in-work poverty: though minimum wage rates increased, and earnings inequality fell, in-work poverty has actually increased over recent years (Figure 52). This is problematic as successive governments and in particular the Conservative Government have promoted work as 'the best route out of poverty' (Hick and Lanau, 2017).

Estimates of in-work poverty depend partly on how it is defined (what counts as being in poverty, which poverty measure is used, whether the unit of analysis is individuals, benefit units or families/households) (ibid). The convention in the UK is to define a household as being in in-work poverty if the household is in relative income poverty (with an income below 60% of contemporary median income) and at least one working age adult is in work.

There is also an important distinction between changes in the composition of those in poverty (i.e. the size of the share of those in poverty who are in working households) and the risk of in-work poverty (the probability that those who live in working households experience poverty). Multiple sources of evidence have shown that in-work poverty has risen and this is not only a compositional change (e.g. as pensioners now make up a smaller share of those in poverty) but the risk of being in poverty has risen for in-work households. Hick and Lanau (2017) find that for working age adults living in working age households the risk of being in poverty increased by 27% between 2004/5 and 2014/15. Analysis by Bourquin et al (2019) finds that working households comprised 37% of those below the poverty line in 1994/5 and 58% in 2017/18 – some of this is compositional (due to a decrease in pensioner poverty) but a third is due to an increase in the rate of poverty in households where someone works; this increased by 5 percentage points over the period to reach 18% in 2017/18. This increase in in-work poverty is not unique to the UK and can be seen across the majority of EU member states (McKnight et al., 2016).

Hick and Lanau (2017) find that the risk of being in poverty in the UK is similar for households with some (but not all) members in work and workless households - 33% and 35% respectively; even where all members in the household are in work they still face a 10% risk of poverty. This points to limited capability of reducing in-work poverty by increasing work. It is striking that such a large proportion of those in in-work poverty are working full-time as shown in Figure 52.

Figure 52: The number of workers in poverty by employment status



Source: Joseph Rowntree Foundation (2020) 'Workers in Poverty' data, based on Family Resources Survey, Households Below Average Incomes https://www.jrf.org.uk/data/workers-poverty

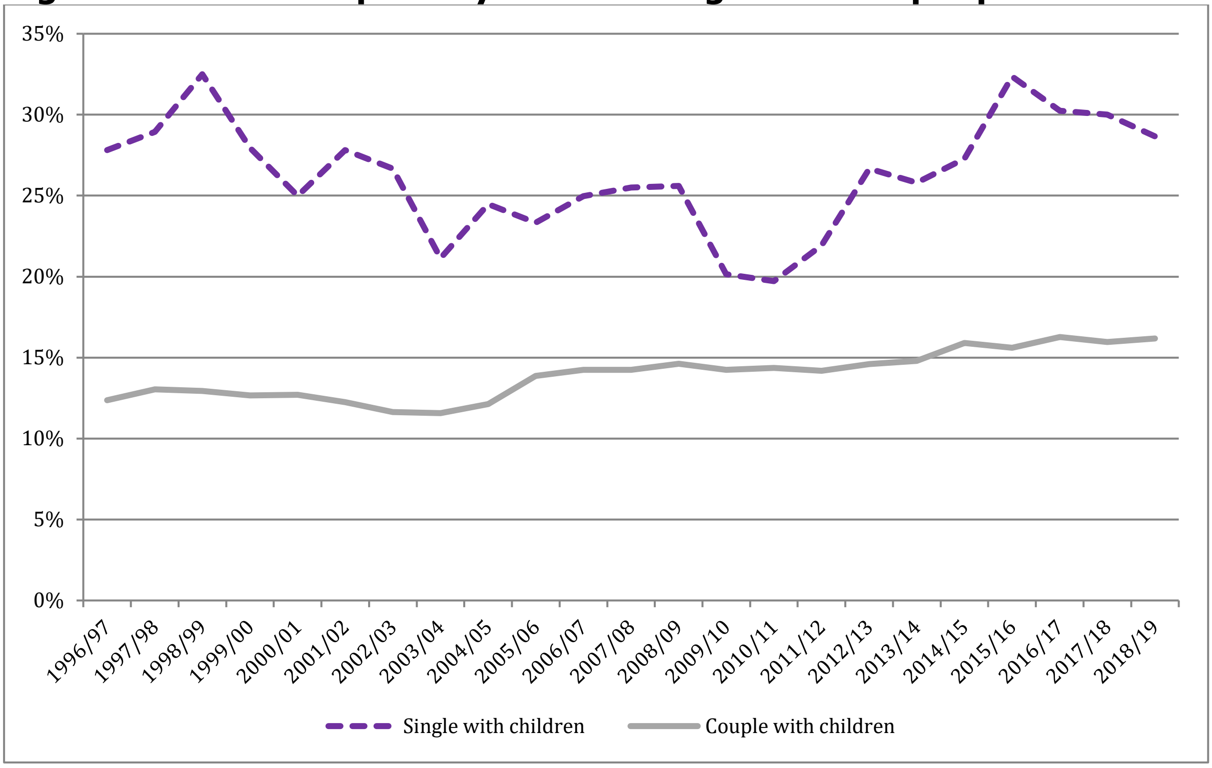
In terms of what has driven this increase in in-work poverty the disproportionate increase in housing costs for those in social and rented accommodation stands out as one of the most important factors (Bourquin et al., 2019; Hick and Lanau, 2017). Bourquin et al (2019) find that the rise in housing costs explains 2.4 percentage points of the 5 percentage point increase in in-work poverty. A further explanation put forward is the increase in employment described above – as more people have moved into employment there are now more households that typically receive low employment income, for example employment rates among single parent households doubled over this period (ibid). At the same time increases in the personal tax allowance has largely benefited households towards the middle of the income distribution (ibid). As employment has increased then earnings inequality amongst working households has increased – this explains a further 1.4 percentage point increase (ibid). The role of tax and benefit changes has also been important and these have reduced in generosity since 2010 (Bourquin et al., 2019; Hick and Lanau, 2017). A companion paper in this research programme focusing on social security policies finds that the reduction in the level of in-work benefits more than off-sets the rise in minimum wage rates (Cooper and Hills, 2021).

Importantly, (and this explains the apparent paradox described above) though low pay is related to in-work poverty it is less important a factor than might be expected (McKnight et al., 2016). This is for a number of reasons: a larger proportion of income for low income households comes from social security benefits, and increases in the NMW are more likely to benefit those higher up the distribution (Hick and Lanau, 2017). Because many households receive income from benefits this also means that as wages increase low income households can gain little in practice as the increase is offset by a reduction in social security entitlement (McKnight et al., 2016). Furthermore even generous increases in wages still may not be enough to meet households needs, for example for households with multiple dependent children or additional costs related to disability, and therefore would not lift such households out of in-work poverty (ibid).

Reducing in-work poverty is therefore an ongoing challenge for government, as increasing pay, without addressing housing costs and the retaining and strengthening the generosity of social security benefits is likely to have only a modest impact on reducing in-work poverty (Hick and Lanau, 2017). This challenge is increased in the context of the rollout of Universal Credit which for many claimants has reduced the value of income from social security.

A number of policy solutions, alongside improving pay, have been proposed. Building more affordable housing or at the least helping to offset housing costs for poorer households would make a significant difference (Bourquin et al., 2019; Hick and Lanau, 2017). The value of in-work benefits but also other types of benefits can also be protected and strengthened (ibid). Aside from housing and social security benefits a number of other initiatives could help reduce in-work poverty. McKnight et al (2016) highlight the importance of affordable childcare and creating good quality jobs that are part-time and flexible for working mothers. This would also go some way towards addressing the gender pay gap discussed above as well as the higher rates of in-work poverty faced by single parents (Figure 53).

Figure 53: In-work poverty rate for single and couple parents



Source: JRF analysis of Households Below Average Income. With thanks to JRF for sharing unpublished data.

9. Discussion and Conclusion

Overall summary and discussion

This paper covers a period of important trends and development in relation to employment and employment related policies. It has applied the analytical schema used throughout the SPDO research programme, evaluating policies - both goals and those actually brought into effect - , resources (spending), inputs and outputs and, where possible, outcomes. It also looks more broadly at long-term trends in key labour market indicators and distributional outcomes. Here we summarise key points in relation to each of these aspects in turn before highlighting some of the main challenges in this policy area, both on the eve of the Covid-19 pandemic and in the future.

Goals

Between 2015 and 2020 the Conservative Party set out their policy goals in three party manifestos under three different Prime Ministers for general elections held in 2015 (David Cameron), 2017 (Theresa May) and 2019 (Boris Johnson). There were some shifts in emphasis but a number of key goals were a common thread across all three manifestos. The first of these is increasing employment, with ambitious targets in the 2015 manifesto to achieve full employment and the 'highest employment rate of any major economy'. Relatedly, in-line with 'making sure work always pays', the party committed to increasing take-home pay, for low paid workers by increasing the minimum wage and raising the personal tax allowance so that employees can keep more of what they earn. A third goal in all three manifestos was to close employment and pay gaps, focusing on the disability employment gap in particular, as well as addressing the gender pay gap and the ethnic pay gap. The party also committed to improving workers' rights, particularly in relation to zero-hours contracts.

Policies

In terms of developments in employment policies that were actually introduced, this paper focused on those related to health and disability, increasing employment, self-employment and the gig economy, and pay and pay gaps in particular. In relation to health and disability the White paper 'Improving lives' set out a ten year strategy to get one million more disabled people into employment, outlining policies across the work, welfare and health settings and including commitments to report on progress each year. A number of the policies have since come into effect such as Personal Support Package which was rolled out in April 2017 to provide tailored support for Employment and Support Allowance claimants in the work-related activity group and Universal Credit claimants with limited capability for work. In late 2019 the Intensive Personalised Support Programme was introduced to support people with disabilities or a long term health condition who are deemed to be at least one year away from moving back into employment.

Policies to increase employment more broadly have also included people with disabilities and long-term limiting health conditions; an active labour market programme the Work and Health Programme was introduced in November 2017 (replacing the Work Programme) to help some groups of people find sustained work. Unemployment benefit claimants are referred to the programme after being out of work for two years but a number of early access groups including people with disabilities are able to participate on a voluntary basis. Another major policy in this period aimed at increasing employment is the introduction of Universal Credit which includes in-work conditionality for the first time, whereby claimants are required to take action to secure more work or better paid work in order to reach an earnings threshold.

In relation to self-employment and the 'gig' economy, following the Taylor Review of Modern Working Practices the government agreed to work towards legislating on clearer definitions of employment status and asked the Low Pay Commission (LPC) to evaluate the impacts of a minimum wage premium on non-guaranteed hours. However, the LPC concluded that there were too many trade-offs to introduce such a policy. There have also been some important legislative changes with exclusivity in zero-hours contracts banned in 2015 and additional protections from unfair dismissal related to this introduced in 2016. There has also been a clampdown on false self-employment, granting HMRC powers to request employment agencies to supply details of workers not paid via PAYE.

There were also significant developments in relation to pay as the National Living Wage (NLW) was introduced in 2016 for employees aged 25+ with a target set for it to reach 60% of the median wage by 2020. The tax-free annual personal allowance was increased to reach £12,500 by 2019/20. Changes to the Equality Act came into effect in April 2017 making it compulsory for employers with 250+ employees to report their gender pay gap at the end of each financial year. The government also launched a consultation into reporting ethnic pay gaps in December 2018, but reporting is still not a requirement.

Spending

Unemployment and employment policy expenditure rose following the 2007/08 financial crisis, then between 2010/11 and 2012/13 expenditure fell sharply but unemployment increased; this is explained by a shift to a deferred payment model under the Work Programme. Since 2015/16 spending has been stable at a low level of around 0.12% of GDP (£2.7 billion) despite falling unemployment.

Inputs and outputs

During the first two years of the Conservative government the Work Programme was the main active labour market programme for long-term unemployed job seekers and other groups facing barriers to work. In 2017 it was replaced by the Work and Health Programme which has a greater focus on the very long-term unemployed and people with disabilities or health conditions claiming out-of-work benefits. No impact evaluation evidence is currently available to assess the effectiveness of the Work and Health Programme at helping job seekers find secure employment but descriptive statistics show that the vast majority of participants have not secured a sustained job outcome by the end of their time on the programme. There is some evaluation evidence from the two English city regions in London and Manchester where funding and commissioning has been devolved. This evidence suggests that providers are struggling to meet job start targets due to a higher than expected proportion of participants facing significant barriers to employment.

Outcomes

There have been some positive trends in employment outcomes, most notably record high levels of employment, falling unemployment and the employment rate for people with disabilities increasing faster than for people without disabilities. The UK performed comparably well to other European countries and the US in terms of overall employment rates and female employment rates by 2019; if not quite meeting the 2015 manifesto target of 'the highest employment rate of any major economy'. In addition, finally it seemed that earnings growth was starting to improve after a decade of lost earnings growth following the 2007/08 financial crisis. One clear positive policy impact is the reduction in wage and weekly earnings inequality after the introduction of the NLW in April 2016. Earnings inequality in the lower half of the distribution fell further and faster than at any time since at least the late 1970s. Although this was not the explicit aim of the policy, it is nevertheless a welcome development.

Despite some positive developments, challenges remain and there is evidence that on the eve of the Covid-19 pandemic progress had stalled in a number of areas. Labour productivity remained low in the UK and fell behind the US, France, Germany, Sweden and Denmark after the 2007/08 financial crisis. Falls in unemployment levelled off over the year leading up to the start of the pandemic, reductions in young people not in employment, education or training (NEET) levelled off after 2016, underemployment has been flat since 2018 and the number of vacancies fell after 2018 after a period of growth from 2010. Ethnic employment and pay gaps remain, and progress in decreasing the gender pay gap has been slow in the last decade, with little change in the final year and no narrowing of the gap in recent years amongst graduates. In the Bank of England's January 2020 Monetary Policy Report they note that subdued job-to-job moves alongside low and stable unemployment is "somewhat unusual" and part of a pattern which saw a "softening" in a number of labour market indicators despite record levels of employment (BofE, 2020). It is important that this slowing in the labour market prior to Covid-19 is not overlooked.

Perhaps the most concerning of all is the fact that in-work poverty continued to rise even among full-time workers. Evidence suggests that in order to reduce in-work poverty, high housing costs among lower income households will need to be addressed, along with the adequacy of in-work benefits.

Future challenges

Progress, as described above, has been made in a number of areas, including the decline in wage inequality, following the introduction of the National Living Wage, record high levels of employment, and a reduced employment gap between people with disabilities and people without disabilities. Nevertheless, there are a number of future challenges for employment policy over the next decade. These are highlighted briefly below.

Reducing in-work poverty

Despite record levels of employment, increases in minimum wages and a reduction in hourly and weekly earnings inequality, in-work poverty continued to rise. This poses a huge challenge, not least because it undermines the notion that work is the best route out of poverty. In 2017/18 58% of those below the relative income poverty line were working households (Bourquin et al., 2019) and a significant proportion contain employees working full-time (Joseph Rowntree Foundation, 2020). Increases in minimum wages have been unable to successfully address this issue and this is due to the position of minimum wage workers in the household income distribution and differences in hours worked at the household level (McKnight et al., 2016). To reduce in-work poverty rising housing costs must also be addressed (Bourquin et al., 2019; Hick and Lanau, 2017) either through building more affordable housing or increasing or at least helping offset housing costs through more generous housing benefit and Local Housing Allowance. Increasing the generosity of other in-work social security benefits might also go some way towards reducing in-work poverty (Hick and Lanau, 2017), though as housing costs in the private and social rented sector continue to rise, any gains from increased cash benefits could be undermined. Finally, providing more free and affordable childcare would also help address in-work poverty by enabling more families with children to work (Hick and Lanau, 2017; McKnight et al., 2016), and would likely contribute to also reducing the gender pay gap at the same time.

Closing pay gaps related to gender, ethnicity and disability

As discussed above stubborn pay gaps remain with employees from most ethnic minority backgrounds earning, on average, less than White employees, and disabled employees, on average, earning less than non-disabled employees. The rate of decline in the gender pay gap decreased in the last ten years, and the gender pay gap has not been falling amongst graduates (Dias et al., 2018). The remainder of the gender pay gap might prove more difficult to close as comparing the gender pay gap for women from different generations suggests that it has been closing more slowly for women in their thirties (Gardiner, 2017); around the time women have children; employment factors associated with this such as taking time out of work or working part-time, are even more challenging to address.

Protecting precarious workers

Whilst important legal changes have addressed the issue of exclusivity for workers on zero-hours contracts, addressing inequalities experienced by those working in the 'gig' economy is more difficult. Protection from one-sided flexibility, providing equal contracts, and protecting workers' rights remain important areas to focus on and may become more critical in a post-Brexit context discussed below.

Upskilling

The combination of increased digitalisation, globalisation and an ageing population is having a significant impact on the jobs that are available and the skills needed for them (OECD, 2019b). Despite the high level of employment, labour productivity growth which is related to use of skills remains low (OECD, 2017). Compared to other OECD countries the UK has a high share of university educated adults with low basic skills (defined as functional literacy or level 1 on the OECD Programme for International Student Assessment (PISA)) and more than a quarter of working-age adults have low levels of literacy and/or numeracy (OECD, 2019a). It is also a concern that skill levels of young adults do not exceed those of older adults despite their higher levels of education (OECD, 2019b). There are skills shortage in a number of areas including knowledge related to technology and engineering, education and training, medicine and dentistry, quantitative skills, complex problem solving, reasoning, verbal abilities and social skills. Furthermore, Brexit, discussed further below, could further increase these shortage pressures (OECD, 2019a, 2017). By contrast supply outweighs demand for manual and physical skills (OECD, 2017). The OECD highlight a number of challenges that impede the matching of skill supply with skill demand in the UK, including poor literacy and numeracy of young adults, weak engagement of career guidance services with employers and failure to promote information about vocational pathways for students (ibid). They also highlight that training opportunities for unemployed people could be better tied to the skills needed and that the adult learning system should enable adults to have more and better access to upskilling and reskilling opportunities (OECD, 2019b, 2017). There is a lack of flexible training opportunities in the UK, a poor match between the skills employers report as development priorities and the skills targeted in their training activities, and workers who face the largest risk of skills obsolescence participate in training less than other workers (OECD, 2019b). The OECD suggests that there is space to improve skills utilisation and stimulate innovation and growth in knowledge sectors as demand is lower than supply of some higher-level skills (OECD, 2017). Addressing skills mismatches and upskilling low-skilled workers is an important factor in addressing labour productivity as well as inequality.

Pre-distribution as well as redistribution

As Blundell (2019) argues in order to address inequalities in the labour market a range of pre-distribution measures will be necessary alongside redistribution via the tax and benefits system. These pre-market interventions will need to go beyond the setting of minimum wages to include a range of different interventions. For example, in relation to in-work poverty the issue of the cost of housing has already been highlighted as a necessary factor to address. Inequalities legislation could be strengthened in order to address persistent pay gaps. Upskilling and re-skilling through education and training can be a route to addressing the UK's comparatively low productivity. In order to empower and strengthen the rights of workers, including those who are self-employed or working in the 'gig' economy, measures can be taken to strengthen unions and worker's rights can be protected through the regulation of contracts.

Brexit

As discussed above, the main consequences of the UK leaving the EU on employment relate to three key areas (Stewart et al., 2019). First, the size of the economy: there is broad consensus across a range of economic forecasts that the UK's departure from the EU will result in reduced economic growth relative to if the UK had remained. This will lead to negative impacts on the labour market as economic growth drives employment and wage rates. Second, reduction in migration from EU countries will also likely have a negative impact on economic growth as well as labour supply, which is particularly important for some industries, and public services including the NHS and social care which employed a significant proportion of EU workers pre-Brexit. There is little evidence of associated positive effects on employment and wages of UK-born workers from lower migration via reduced competition and less downward pressure on wages. Finally, Brexit also has important implications for workers' rights; as the UK is no longer subject to EU law there is concern that the UK will no longer keep pace with progress in workers' rights at EU level and there may even be pressure to 'water down' existing rights in order to create a business friendly environment and secure trade deals to make up for lost economic growth.

The state of employment policy on the eve of the Covid-19 pandemic

On the eve of the Covid-19 pandemic, in addition to the tragic impact on people's lives, health and well-being, the pandemic was set to have a severe negative impact on the economy and employment for some years to come. While rescue packages for employees and employers limit the impact of the pandemic on people's livelihoods, to some extent, longer-term damage to the economy and the labour market takes longer to be revealed. As reported earlier, progress on a number of key labour market outcomes had already started to falter by the eve of the pandemic. Whether this was due to Brexit concerns among employers or the UK teetering on the edge of an economic recession will never be known but fault lines were present.

Conclusion

Overall there have been some important developments in relation to employment in the period 2015 to early 2020. Record levels of employment and a marked reduction in earnings inequalities following the introduction of the National Living Wage are two headline positive trends. However, significant challenges remain including increasing in-work poverty, persistent pay gaps in relation to gender, disability and ethnicity, a decade of lost pay growth which particularly affected young people, and continued challenges to protect precarious workers. The need to re-skill and upskill the workforce in the face of technological change requires some attention also and is related to addressing the UK's comparatively low productivity as well as employment inequalities. Brexit presents a number of challenges through the impact on economic growth, lower migration affecting labour supply in particular industries and also posing a threat to the maintenance and progress of workers' rights.

Finally, this paper focuses on the period up until the eve of the Covid-19 pandemic. According to some labour market indicators, the UK entered the pandemic in a stronger position than on the eve of the 2007/08 financial crisis with higher levels of employment, more vacancies and lower unemployment but progress had already started levelling-off for a number of indicators. In addition, aspects of the 2019 labour market meant that some workers were in an even more precarious position on the eve of the Covid-19 crisis with more people in self-employment, on zero-hours contracts and young people left further behind. Workers at the bottom end of the labour market had been managing on less generous cash transfers than prior to the financial crisis, making their financial circumstances more vulnerable.

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