

# How economic growth can reduce poverty in Wales: What works and what should be done?



**This briefing sets out the key recommendations for policy and practice drawing on findings from a research project funded by the Economic and Social Research Council titled 'Harnessing Growth Sectors for Poverty Reduction'.**

**It sets out ways of addressing the long-standing challenges of worklessness in Wales as well as the increasingly important phenomenon of in-work poverty.**

Its findings are vitally important for all those involved in the planning and delivery of economic development, sectoral support, employment support, careers information, guidance and advice, and learning and skills provision.

---

## Contents

Poverty and Growth in Wales Today	2
Creating an Inclusive Labour Market	3
What Works: Entry to Employment	4
What Works: Progression	5
What Works: Job Quality	6
What Works: Delivery	7



## Poverty and growth in Wales today

Around 700,000 people live in poverty in Wales, roughly 23 percent of the population after adjusting for housing costs. Living in a household where somebody works cuts the likelihood of being in poverty by a factor of three, so helping people to find and sustain a job is critical to reducing poverty. But working does not eliminate the risk of poverty: more than half of children and adults of working age who are in poverty live in a household where someone is working, so increasing the incomes of people who are in work is vitally important too.

The Welsh Government is strongly committed to achieving prosperity for all. It is developing an 'employability support programme' for implementation from April 2018, to bring together existing provision alongside new approaches to meet the needs of those requiring support to gain, retain, and progress in work. The Welsh Government's new economic strategy is likely to include a focus on some foundational sectors, such as healthcare, transport and food processing, alongside regional sectoral priorities. The UK Government's industrial strategy green paper is an important context, with the proposed 'sector deals' potentially transforming some key economic activities, e.g. in tourism.

Some sectors, including some of those likely to feature in a new economic strategy for Wales, are projected to create thousands of new jobs in the next ten years (in some cases as a result so-called 'replacement demand' as individuals retire, etc.). These growth sectors are:

- wholesale & retail
- accommodation & food services
- administrative & support services
- professional & scientific services
- construction
- health & social work
- finance & insurance.

## Harnessing Growth Sectors

A research project (funded by the Economic and Social Research Council) led by Anne Green at the University of Birmingham (formerly at the University of Warwick), together with Paul Sissons at Coventry University and Neil Lee at the London School of Economics, has explored the most effective ways of harnessing the potential of growth sectors. It has analysed statistics on poverty in growth sectors, reviewed national and international evidence of what works, undertaken case studies and reviewed and tested the findings with employers, government officials and learning providers in Wales.

This briefing sets out the key recommendations for policy and practice drawing on findings from the project. The full reports are published by the Public Policy Institute for Wales.<sup>6, 7, 8, 9, 10</sup>

## Creating an Inclusive Labour Market

Perhaps the most important finding from the research is that participation in work needs to be approached in a holistic way. Employability support, entry into work, in-work progression and job quality must all be considered. The goal should be to create a labour market which is fair and inclusive in all aspects, from recruitment and selection to progression and wages. Some important implications follow from this.

First, employment entry alone is not sufficient to address poverty – retention, progression and the quality of jobs are equally important. A strategy that focuses on job entry without considering progression and job quality risks increasing employment without significantly reducing poverty. At worst, a focus on employability in the short-term may result in people moving frequently between employment and non-employment. **Effective measures to support progression and improve job quality should be included in employability plans to increase prosperity for everyone.**

Second, the research shows that individual characteristics such as age, gender and qualifications are not the only factors shaping employment entry, progression and job quality. The strength of the local labour market makes a significant difference too - the research found that growth in aggregate (rather than sectoral) local employment has a strong and significant relationship with earnings growth. Employer factors, such as recruitment methods and pay rates, matter too. **An effective strategy needs to address the overall strength of the local labour market and employer practices as well as the employability of individuals.**

Third, sectors matter. All economic sectors include some people who live in poverty, but the risks are very much higher in some sectors, such as accommodation and food services, administrative and support services, residential care, wholesale and retail, than others. In other sectors, notably education and manufacturing, the risk of being in poverty is lower but the size of the sectors means that large numbers of employees are affected. There are also striking sectoral differences in the likelihood of people leaving low-paid work, with six out of ten low-paid workers in finance and insurance services moving on compared with less than two out of ten low-paid workers in accommodation and food services. **The sectors with the largest numbers and greatest risks of poverty should be the target of Wales-wide action.**

### Key recommendations

- The overarching goal of Welsh employment and skills policies should be to create an inclusive labour market with high employment levels corresponding with a significant reduction in poverty.
- Action to increase employability should be combined with action to improve progression and job quality.
- A focus on sectors where the risk of poverty is greatest and where there are significant numbers in poverty is important.
- Efforts to increase employability should be complemented by stimulation of total employment, especially in weaker labour markets, and by changes in employer practices.
- The new approach should be piloted in at least one of the 'strategic hubs' identified in the report of the Valleys Taskforce, bringing together stakeholders to develop inclusive local employment and skills policies and to deliver effective services.

## What works: entry to employment

With above-average economic inactivity and unemployment in some areas of Wales, it is not surprising that 'helping people into work' has been a key element in tackling poverty programmes. There is now a plethora of different schemes, from mandatory programmes run by the Department for Work and Pensions to Welsh Government, local authority and third sector schemes. Evidence shows that employment entry is influenced by a range of factors including individual characteristics and circumstances, employer practices, local labour markets and macro-economic conditions. The most effective interventions address all of these factors, rather than one or two in isolation.

In terms of programme design and delivery, the key ingredients of success are:

- effective job search and increasing the self-efficacy of job-seekers;
- personal advisers or key workers who have flexibility to support job-seekers and can understand local employers' requirements and practices;
- combined pre-employment training, work experience placements and a guaranteed job interview;
- employer engagement.

A focus on rapid job entry can work best for people who are some distance from the labour market. For people with formal qualifications or who are recently unemployed a focus on career options, including advice and guidance, along with upskilling is more appropriate.

Sectoral approaches to job entry are also important. At the policy level, it enables the right levers to be deployed - for example in construction, community benefit clauses can help to create job opportunities and stimulate local recruitment. Sectoral approaches enable services to be developed that match sector needs with job-seekers' requirements, for example, where there is a large volume of entry-level jobs, sector-based 'academies' can be effective. Sectoral approaches can also facilitate entry of under-represented groups e.g. women into engineering.

The right balance needs to be struck between government-led action and local programmes. The most effective approaches combine sectoral approaches with local knowledge and employer-provider partnerships.

### Key recommendations

Employability support in Wales should:

- Be based on the 'gold standard' of combined pre-employment training, a work placement and a guaranteed job interview.
- Enable advisors to be flexible and responsive to employers' and job seekers' needs.
- Establish framework agreements with key sector representatives.
- Develop tailored local programmes for entry in job growth sectors, drawing on sector agreements.
- Pilot the use of apprenticeships to widen access to higher-paid roles in growth sectors.
- Enhance the availability of careers information, advice and guidance for adults of all ages re-entering the labour market.
- Ensure support with job entry is linked with support for progression to higher-paid employment.

## What works: Progression

Moving into better paid work can help to reduce the risk of poverty, both at any one time and over the course of someone's life. Progression is a relatively new consideration in public policy although the focus on increasing pay and hours of work for recipients of Universal Credit may increase interest.

The evidence of what works to encourage progression suggests that there are positive benefits from adopting a 'pathway' approach: that is one which set out routes from unemployment through to job entry and onwards into higher-paid roles. Some successful pathways include significant vocational training.

There is also evidence that a sectoral approach can be beneficial, with successes reported in progression in healthcare although supporting progression in other sectors e.g. hospitality can be more challenging. Sectoral approaches need close engagement with employers to understand their needs and tailor provision accordingly. A 'dual customer' approach, which aims to jointly meet worker and employer needs, is one way of achieving this, sometimes driven by skill shortages or high employee turnover. Progression of low-paid workers between sectors – which is how many employees improve their positions – is at least as important as progression within sectors and needs a different approach. Wider institutional changes, such as better labour market information and careers advice and guidance, increased employer investment in workforce development, and a shift away from business models based on low cost - low skill employment work best for progression between sectors.

Based on this evidence, employability policies in Wales should include actions to enhance progression in work. This is a new but very important shift in emphasis. The approach should comprise a combination of generic support for both employees and employers and sector-specific programmes. The right balance needs to be struck between government-led action and local programmes. The most effective approaches combine sectoral approaches with local knowledge and employer-provider partnerships.

### Key recommendations

To enhance employee progression in Wales, employers, the Welsh Government, city deals, learning and skills partnerships, learning providers, local authorities and third sector organisations should:

- Fully integrate support for progression into employability programmes so that support to move on in work is available after job entry.
- Provide tailored, personalised information, advice and guidance for adults that reflect opportunities for progression in the local labour market.
- Include incentives for employer investment in workforce development and skills in the Welsh Government's economic strategy, as well as in regional and local economic development plans.
- Develop at least two sectoral progression programmes, one of which should be in health and social care.
- Ensure that the support provided to employees dovetails that offered by the Department for Work and Pensions for Universal Credit claimants who are working.
- Ensure support with job entry is linked with support for progression to higher-paid employment.

## What works: Job Quality

The nature of work is an important influence on individual well-being, with pay and hours of work affecting household incomes and the risk of poverty. Objective aspects of job quality, such as pay and associated benefits, contractual status and security are most relevant to reducing poverty

Wage levels are a core issue. Minimum wages have an impact on earnings although the link with reducing poverty is indirect because of the interaction with the benefits system and other household members' incomes. There is some evidence that the voluntary Living Wage benefits workers but its adoption is challenging in sectors facing cost pressures e.g. social care.

Improving the quality of part-time work is effective, and requires alignment of flexible working to organisational strategies, commitment by senior management, robust HR policies and training for line managers in implementing them.

Programmes to drive up firm performance through investment in skills and the establishment of occupational standards can also be effective. Unfortunately the evidence on sectoral approaches to improving job quality is limited – what does exist suggests that firm-level interventions when employers are motivated by service quality, productivity and turnover can make progress on job quality.

The research identifies public procurement as a key tool. The Welsh Government's Code of Practice on Ethical Employment in Supply Chains requires organisations who commit to it comply with the letter and spirit of the law on, for example, modern slavery and false self-employment, and also to pay the voluntary Living Wage and avoid unfair zero hours contracts. All organisations that receive funding from Welsh Government, either directly or via grants or contracts, are expected to sign up to the code. With public sector bodies accounting for three out of ten jobs in some areas of Wales, the Code could have a significant impact on job quality.

The holistic approach to reducing poverty in the labour market means that job quality needs to play a key role in future strategies for the economy, skills and employability.

### Key recommendations

The evidence suggests that:

- The Welsh Government's statement on economic priorities, and regional and local economic development strategies should address job quality as well as job creation.
- The Code of Practice on ethical employment should be actively promoted and rigorously enforced by Welsh Government.
- The Code should be coupled with support for employers to move away from low skill/low pay business models.
- A new all-Wales programme to enhance the quality of part-time work should be established, drawing on the experience of Chwarae Teg and others.

## What works: delivery

The research highlights that achieving change requires more than having the right policies – there must be effective delivery on the ground. There are two overarching conclusions.

### Partnership

Collaboration between stakeholders is crucial to effective delivery. There are three key groups of organisations that should be involved in developing an inclusive labour market:

- **Government:** The UK and Welsh Governments have a fundamental, shared role in shaping the labour market in Wales, through regulation e.g. of wages, contractual relationships, and terms of public procurement; provision of funding and incentives to employers, employees and service providers; and setting the strategic direction of the education and training system.
- **Employer and employee bodies:** Employers, their representative bodies and trades unions are also key, with what they do driving labour market conditions including job entry and job quality.
- **Education, skills and advice providers:** colleges, skills providers, employment and careers services, in the public, private and third sectors, have a key role in equipping individuals for work.

All three groups need to work together, with formal joint working, alignment of targets and, where possible, pooling of budgets, proven to improve outcomes compared with informal partnerships.

**The message for Welsh Government, regional and local strategies is that they must formally involve other key stakeholders to maximise their effectiveness. In particular, single agency interventions should be avoided.**

### Geographical scale

The research shows that delivery needs to be at the right spatial scale, with some activities being best located at all-Wales level while others are best undertaken locally.

The setting of frameworks, including funding and regulation, needs to be at all-Wales level. The Code of Practice on Ethical Employment is a good example of the Welsh Government fulfilling its framework and standard-setting role.

City regions are suggested to be best at the level for engagement with major employers and sector bodies, so that they can inform region-wide local economic development and skills planning as well as demonstrate good practice in employment entry, progression and job quality.

At local or community-level, cross-partner delivery works well to adapt provision, especially employability programmes, to reflect the local labour market. Local authorities are especially important, having a convening role because of their scale and wide range of responsibilities and being able to respond to local labour market conditions. They can also use their procurement powers to ring-fence opportunities for local residents and to set local standards, lead by example in job entry, job quality and progression, engage with local employers and support local economic development including the foundational economy and third sector.

**With local labour market activity being relatively modest in Wales, this is an important, new shift in emphasis.**



This briefing has been produced as part of an Economic and Social Research Council project 'Harnessing Growth Sectors for Poverty Reduction: What Works to Reduce Poverty through Sustainable Employment with Opportunities for Progression' Grant reference ES/M007111/1.

For more information please visit <https://www.bevanfoundation.org/current-projects/can-growth-sectors-reduce-poverty/> or email [info@bevanfoundation.org](mailto:info@bevanfoundation.org)

The Bevan Foundation is a registered charity no. 1104191