

# Flexible Working: Status or stigma? - Ingeus' Submission to the All-Party Parliamentary Small Business Group (AAPSBG) Inquiry

## Introduction and summary

1. The international Ingeus group of companies delivers welfare-to-work services in the UK, France, Sweden and Germany. Since 2002, Ingeus UK<sup>1</sup> has helped over 40,000 long-term unemployed individuals, lone parents and people claiming health-related benefits into work. We begin delivery of two Flexible New Deal contracts in October 2009.
2. Many of our clients need flexible working arrangements in order to enter and remain in employment. The reasons for this vary, and include:
  - balancing work with caring or parental responsibilities;
  - accommodating a long-term, recurring or fluctuating health condition;
  - continuing in paid employment whilst engaging in further education or establishing viable self-employment.
3. The ability to work on a flexible basis can assist an individual who has been out of work to build their confidence, regain routine and structure, acquire a recent or more relevant employer reference, and progress to full-time employment if appropriate. It is important that these different functions of part-time work are recognised and valued.
4. The 'right to request' flexible working applies to those who have been working for the same employer for a minimum of 26 weeks. This means these opportunities are not available to people moving from benefits into work.
5. We estimate that over 80% of Ingeus clients in the UK who get jobs go to work for SMEs, which tend to employ more of their staff on a flexible basis<sup>2</sup>. Part-time work is the most widespread form of flexible working, and is therefore the focus of this submission. Part-time jobs are predominantly held by women and tend to be in lower paid occupations. For more information on the distribution of part-time jobs in the UK by occupation and gender, please refer to Annex A.
6. Being financially better off in work is a primary concern for most benefit claimants. Clearly demonstrating to an individual how work will increase their income is an essential element of welfare-to-work provision. While workless individuals may recognise the broader social and developmental benefits of working, they are unlikely to be in a position to accept work that would make them financially worse off.
7. Ingeus is concerned that anomalies in the benefit system can diminish the financial incentive for individuals to accept certain part-time jobs, or to increase their hours of work. Employers need to be aware of in-work benefit eligibility so they can be sensitive to the financial implications for part-time employees and reduce the related potential consequences for their business.

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<sup>1</sup> Ingeus is the new name for WorkDirections.

<sup>2</sup> Unwin, Karuk, Buscha, and Siara. (2008) 'Small Businesses in the UK: New perspectives on evidence and policy'. University of Westminster.

## **In-work benefits and part-time work**

8. The UK Government has made considerable progress on the ‘make work pay’ agenda since the 1990s, including the introduction of Working Tax Credit (WTC). WTC has encouraged individuals into part-time work by supplementing wages. However, in some cases, the eligibility requirements for these benefits can diminish the financial incentive to accept otherwise suitable employment.
9. WTC segments employment into three types, based on the hours of work: under 16 hours-a-week (mini jobs); 16 - 29 hours-a-week (part-time jobs), and 30 or more hours-a-week (full time). Eligibility for WTC payments and premiums are based upon these three definitions of work.
10. There are four main groups of benefit claimants who are eligible for WTC when they enter work: parents, over 50s, people with health conditions and 25-49 year olds on low incomes. Parents, those with health conditions and over 50s, must work at least 16 hours a week to receive some WTC, and receive a premium on this benefit if they work at least 30 hours a week. Low-income workers aged 25-49 must work at least 30 hours a week to receive any WTC. WTC cannot be received by an individual working fewer than 16 hours a week.
11. As income increases, other means-tested in-work benefit payments, such as Housing Benefit and Council Tax Benefit, taper gradually until the claimant is no longer eligible for this support.
12. These eligibility criteria create distinct disincentives for benefit claimants to accept certain types of part-time work. These disincentives include:
  - limited financial incentive for individuals to accept a job of less than 16 hours-a-week;
  - limited financial incentive for individuals to work between 17 hours and 29 hours-a-week; and
  - financial incentives for a couple to prioritise securing one full-time job, rather than two part-time jobs.

## **Limited financial incentive to accept a job of less than 16 hours-a-week**

13. If an individual works less than 16 hours-a-week they remain on benefits, are not eligible for WTC and have their benefits reduced pound-for-pound as their earnings increase over the set earnings disregard. Currently the earnings disregard is £5-a-week for individuals on Jobseeker’s Allowance (£10 for a couple), and £20-a-week for individuals claiming Income Support<sup>3</sup>.
14. If an employer cannot offer 16 hours of work a week, they may have difficulty filling their vacancies, or may miss out on employing the most appropriate person for the job. Due to limited resources, small businesses are arguably the least able to afford to offer additional hours of work to their staff so that all available jobs meet the minimum tax credit eligibility of 16 hours-a-week. If an employer can afford to employ an individual for 16 hours-a-week, but does not understand how this would increase the financial viability of the job; they may assume it is better to offer fewer hours within a more obvious shift pattern<sup>4</sup>.

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<sup>3</sup> Under the ‘Permitted Work’ scheme, individuals claiming Incapacity Benefit and Employment & Support Allowance (ESA) can earn up to £94 for up to 16 hours of work a week, while retaining their full entitlement to benefits for up to one year, or up to £20-a-week indefinitely.

<sup>4</sup> For example: 15 hours a week could easily represent two standard 7.5 hour office days, or a lunchtime rota such as 11am - 2pm, Monday to Friday - both of which should be attractive to those seeking part-time work, but neither of which would qualify an individual to claim WTC.

## Limited financial incentive for individuals to work between 17 and 29 hours-a-week

15. Incremental changes in part-time hours may not correspond to proportional increased earnings for an individual. For parents, those with health conditions and individuals over 50, there is a clear financial incentive to work 16 hours-a-week. However, there is little additional financial return to working more than 16 hours-a-week, unless they are moving to more than 30 hours a week. This is due to the tapering of other in-work benefits such as Housing Benefit. In the example used in Annex B, a lone parent being paid national minimum wage could increase their workload from 16 to 26 hours-a-week, and receive an increase in their weekly income of just £9.43. This is compared to an additional £48.26 paid in net wages by the employer.
16. Accounting for increased costs of work (e.g. transport, childcare) an individual could end up being financially worse off by increasing their part-time hours of work. Individuals seeking part-time work who become aware of this may rationally choose to limit themselves to applying to vacancies of just 16 hours-a-week in order to maximise the financial return of working on a part-time basis.
17. Employing flexible part-time staff can assist small businesses to respond to fluctuations in business needs. Asking existing part-time staff to work extra hours during peak periods can help to increase capacity temporarily whilst containing additional costs. Similarly, small businesses can achieve more permanent growth and increased capacity relatively simply by asking part-time staff to increase their contracted hours, for example, from two to three days-a-week.
18. The marginal tax rates for part-time workers increasing their hours mean that an employer may struggle to provide sufficient financial incentive for an employee to increase their weekly hours. This is particularly true if the increase in hours would temporarily remove the employee's entitlement to other financial assistance, such as Housing Benefit, as it is likely they would have concerns about regaining that entitlement if their hours reduced again.
19. Inability to respond to temporary or permanent increases in demand through use of existing staff would have consequences for the employer: either demand will not be met resulting in lost potential income, or staffing needs will have to be addressed by other means, incurring recruitment and training costs. An employer may not understand why their employees are unwilling to respond to the business needs, resulting in unnecessary tension in the workplace.

## Financial incentives for a couple to prioritise securing one full-time job, rather than two part-time jobs

20. Where a couple does not have children, one partner must be working a minimum of 30 hours a week for the household to receive WTC. As shown in this table, a couple can therefore be better off financially by having one partner work full-time, rather than both partners working part-time:

**In-work income scenarios for a working couple with no children<sup>5</sup>**

Work status of couple	Net Earnings	Housing Benefit	Council Tax Benefit	Working Tax Credit	Net Weekly Income	Amount couple are better-off in work each week
One job: 32 hours a week	£165.09	£0.00	£0.00	£86.87	£251.96	£61.83
Two jobs: 16 hours a week each	£185.60	£21.48	£4.25	£0.00	£211.33	£21.20

21. In this example, while the couple working part-time have greater net earnings, they are around £40-a-week worse off than the couple with one full-time job. This is before considering the costs of work, such as transport and additional clothing, which would have to be covered for both individuals, rather than just one.

22. In this way, workless couples are encouraged by the benefits system to prioritise one full-time job over two part-time jobs. Accordingly, couples in which neither partner works often feel unable to consider part-time work as an option. Regardless of the type of job or level of pay, small businesses offering part-time hours may struggle to attract the best staff for this reason.

23. Many employers have recently used a reduction in hours as a way of retaining valuable staff and avoiding redundancies. This has resulted in an increase in the number of people working part-time. If a couple lose their entitlement to Tax Credits through a reduction in the hours worked by one partner, both may feel they are financially unable to remain in their current employment. This could result in employers losing skilled and experienced staff.

## Conclusion

24. Ingeus welcomes the All-Party Parliamentary Small Business Group's Inquiry into flexible working. Flexible working, including part-time working, has an important role to play in assisting disadvantaged individuals to achieve a suitable work-life balance so they can enter and remain in work.

25. Small businesses tend to employ a greater proportion of their staff on a part-time basis. This means that they are disproportionately affected by individuals being discouraged from accepting part-time jobs. This could result in difficulties in recruitment and reduced ability to increase capacity in response to fluctuations in demand.

26. There are currently anomalies relating to eligibility for in-work benefits which diminish the financial incentive for individuals to accept some part-time jobs, with direct consequences for employers.

<sup>5</sup> For more examples, and the assumptions used in these calculations, please refer to Annex C.

## Annex A: The distribution of part-time jobs in the UK labour market by occupation, and the percentage of those jobs held by women

As shown in the table below, the number of part-time jobs in each occupation varies greatly, from 61.35% of sales occupations, to just 3.09% of jobs in the skilled metal and electronic trades. Across the country, a quarter of jobs are worked on a part-time basis, over three-quarters of which are filled by women. The high proportion of part-time jobs held by female workers means that the lower average pay-rate for part-time workers has a disproportionate affect on women.

The table shows that part-time jobs are more readily available in occupations that traditionally offer lower wages such as care and customer service. In contrast, high-earning occupations, such as corporate management, have less than one in ten jobs worked on a part-time basis. It is therefore likely that the pay differential between part-time workers and full-time workers is due to the higher number of part-time jobs that are available in low-paying occupations, rather than being indicative of like-for-like pay discrimination against part-time workers. Assisting employers to increase the number of high quality part-time jobs may go some way to addressing the pay differential between part-time and full-time workers.

Occupation	Percentage of Jobs that are part-time	Percentage of those jobs that are filled by females
Sales Occupations	61.35%	77.32%
Elementary Administration and Service Occupations	57.44%	72.83%
Secretarial and Related Occupations	44.95%	97.51%
Caring Personal Service Occupations	44.13%	94.57%
Leisure and Other Personal Service Occupations	40.02%	80.97%
Health and Social Welfare Associate Professionals	35.65%	93.40%
Administrative Occupations	33.39%	89.67%
Customer Service Occupations	31.91%	79.95%
Culture, Media and Sports Occupations	27.32%	59.79%
Teaching and Research Professionals	26.84%	78.82%
<b>All Jobs in the UK</b>	<b>25.52%</b>	<b>76.70%</b>
Textiles, Printing and Other Skilled Trades	23.02%	64.50%
Health Professionals	20.74%	77.73%
Skilled Agricultural Trades	17.90%	36.81%
Business and Public Service Associate Professionals	15.62%	71.91%
Managers and Proprietors in Agriculture and Services	14.42%	66.18%
Business and Public Service Professionals	14.41%	65.23%
Elementary Trades, Plant & Storage Related Occupations	14.15%	29.62%
Transport and Mobile Machine Drivers and Operatives	12.15%	16.94%
Science and Technology Associate Professionals	9.55%	58.23%
Corporate Managers	8.34%	71.55%
Process, Plant and Machine Operatives	7.93%	67.28%
Science and Technology Professionals	6.24%	40.78%
Skilled Construction and Building Trades	4.28%	7.89%
Protective Service Occupations	4.16%	61.81%*
Skilled Metal and Electronic Trades	3.09%	6.94%

Source: Annual population survey - workplace analysis - January 2008 - December 2008 ONS Crown Copyright Reserved [from Nomis on 21 September 2009]. 95% confidence interval (+/-)

\*The number of female part-time workers in the Protective Service Occupations was not available in the original data set, and has been estimated for the purposes of this analysis by subtracting the given number of full-time workers from the given number of total workers.

Employers that are able to offer flexible working in occupations where part-time roles are rare, may benefit from increased competition for these jobs, which would increase their ability to attract and retain high-calibre staff.

## Annex B: Estimated incremental earnings for a lone parent with two children

Hours worked	Income Support	Council Tax Benefit	Housing Benefit	Child Benefit	Child Tax Credit	Working Tax Credit*	Earnings	Net Weekly Income	Financial incentive to work	Financial Incentive to work for more than 16 hours a week
Not working	£64.30	£19.18	£70.00	£33.20	£96.32	£0.00	£0.00	£283.00	n/a	n/a
8 per week	£37.90	£19.18	£70.00	£33.20	£96.32	£0.00	£46.40	£303.00	£20.00**	n/a
10 per week	£26.30	£19.18	£70.00	£33.20	£96.32	£0.00	£58.00	£303.00	£20.00**	n/a
12 per week	£14.70	£19.18	£70.00	£33.20	£96.32	£0.00	£69.60	£303.00	£20.00**	n/a
14 per week	£3.10	£19.18	£70.00	£33.20	£96.32	£0.00	£81.20	£303.00	£20.00**	n/a
16 per week	£0.00	<b>£7.46</b>	<b>£31.91</b>	£33.20	£96.32	£71.96	<b>£92.80</b>	£333.65	<b>£50.65</b>	n/a
18 per week	£0.00	<b>£5.14</b>	<b>£24.37</b>	£33.20	£96.32	£71.96	<b>£104.40</b>	£335.39	<b>£52.39</b>	<b>£1.74</b>
20 per week	£0.00	<b>£2.95</b>	<b>£17.26</b>	£33.20	£96.32	£71.96	<b>£115.34</b>	£337.03	<b>£54.03</b>	<b>£3.38</b>
22 per week	£0.00	<b>£1.01</b>	<b>£10.95</b>	£33.20	£96.32	£71.96	<b>£125.04</b>	£338.48	<b>£55.48</b>	<b>£4.83</b>
24 per week	£0.00	<b>£0.00</b>	<b>£5.74</b>	£33.20	£96.32	£71.96	<b>£133.06</b>	£340.28	<b>£57.28</b>	<b>£6.63</b>
26 per week	£0.00	<b>£0.00</b>	<b>£0.54</b>	£33.20	£96.32	£71.96	<b>£141.06</b>	£343.08	<b>£60.08</b>	<b>£9.43</b>
28 per week	£0.00	£0.00	£0.00	£33.20	£96.32	£71.96	£149.08	£350.56	£67.56	£16.91
30 per week	£0.00	£0.00	£0.00	£33.20	£96.32	£86.87	£157.09	£373.48	£90.48	£39.83

Information gathered from Ingeus In-Work Benefit Calculations - based on tax details for April 2009

Assumptions made for the calculations:

- Individual is over 22 and receives gross pay of £5.80 per hour in line with national minimum wage from October 2009
- Individual lives in social housing and pays rent of £70 per week
- Individual is liable for Council Tax of £1000 per year
- Individual was not in work for the duration of the previous financial year
- Children are aged 5 and 7, and no childcare costs are incurred.

\* Working Tax Credit would remain at this level until reassessment at the beginning of the next financial year, at which point it may decrease.

\*\* To promote the value of 'mini-jobs', the Government has announced its intention to raise the disregard on earnings for lone parents so that in the future individuals can earn up to £50 a week on top of their benefits.

## Annex C: Estimated net weekly earnings scenarios for a couple with no children

Working pattern	Jobseeker's Allowance	Council Tax Benefit	Housing Benefit	Working Tax Credit*	Earnings	Net Weekly Income	Financial incentive to work
Neither working	£100.95	£19.18	£70.00	£0.00	£0.00	£190.13	n/a
1 x 8 hours a week job	£64.55	£19.18	£70.00	£0.00	£46.40	£200.13	£10.00
2 x 8 hours a week jobs	£18.15	£19.18	£70.00	£0.00	£92.80	£200.13	£10.00
1 x 16 hours a week job	£18.15	£19.18	£70.00	£0.00	£92.80	£200.13	£10.00
1 x 24 hours a week job	£0.00	£14.76	£55.63	£0.00	£133.06	£203.45	£13.32
1 x 16 hours a week job 1 x 8 hours a week job	£0.00	£13.53	£51.64	£0.00	£139.20	£204.37	£14.24
1 x 24 hours a week job 1 x 8 hours a week job	£0.00	£5.48	£25.47	£0.00	£179.46	£210.41	£20.28
2 x 16 hours a week jobs	£0.00	£4.25	£21.48	£0.00	£185.60	£211.33	£21.20
1 x 24 hours a week job 1 x 16 hours a week job	£0.00	£0.00	£0.00	£0.00	£225.86	£225.86	£35.73
1 x 30 hours a week job	£0.00	£0.00	£0.00	£86.87	£157.09	£243.96	£53.83
2 x 24 hours a week jobs	£0.00	£0.00	£0.00	£0.00	£266.12	£266.12	£75.99
1 x 30 hours a week job 1 x 8 hours a week job	£0.00	£0.00	£0.00	£86.87	£203.49	£290.36	£100.23
1 x 30 hours a week job 1 x 16 hours a week job	£0.00	£0.00	£0.00	£86.87	£249.89	£336.76	£146.63
1 x 30 hours a week job 1 x 24 hours a week job	£0.00	£0.00	£0.00	£86.87	£290.15	£377.02	£186.89
2 x 30 hours a week jobs	£0.00	£0.00	£0.00	£86.87	£314.18	£401.05	£210.92

Information gathered from Ingeus In-Work Benefit Calculations - based on tax details for April 2009

Assumptions made for the calculations:

- Both adults are over 22 and receive gross pay of £5.80 per hour in line with national minimum wage from October 2009
- The live in social housing and pay rent of £70 per week
- The couple are liable for Council Tax of £1000 per year
- Neither partner was in work for the duration of the previous financial year.

\* Working Tax Credit would remain at this level until reassessment at the beginning of the next financial year, at which point it may decrease.