Capital concerns

Poverty in London and the role of business in helping tackle it

Richard Hyde
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SMF Social Market Foundation

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ABOUT THIS REPORT

This report is part of a three-year project – supported by Trust for London – which examines perceptions about and experiences of poverty among London's business community. Ultimately, it aims to develop interventions to help businesses take effective action against poverty. The evidence presented in this report comes from a wide range of sources. These include:

- A series of stakeholder interviews in late 2020 and early 2021 and two roundtables – one held in the summer of 2021 and the second in the autumn of 2021 – with relevant expert academics, business representatives, business leaders, investors, and charities. The interviews and roundtables were invaluable for providing the authors with a deeper understanding of the issue of poverty and business's potential role in helping tackle it; the usefulness of metrics such as benchmarks, as well as informing the scope of the literature review and the design of the business survey.
- The existing body of open-source literature about poverty and in-work poverty in particular, business ethics and ethical business activities, and the commercial benefits and dis-benefits of particular employment practices.
- A survey of 500 London businesses conducted by Opinium, in February 2021. The businesses surveyed were from all sectors of the London economy and were all employers (employing two or more staff).

EXECUTIVE SUMMARY

This paper calls attention to the scale of in-work poverty in the UK and London today, what drives it, and the impact it has. Through a survey of London-based employers, it also explores the extent of business awareness of the issue – and what firms are willing to do about it. In order to help London businesses that want to take action and encourage more businesses to take similar actions, we argue for the development of a new metric that can help incentivise firms to engage in better business practices, which in-turn, can help tackle poverty in the capital.

Poverty in the UK

- There were estimated to be 14.4 million people – including 8.5 million working-age adults and 4.5 million children – in poverty in the UK before the COVID-19 pandemic.
- The events of 2020 and 2021 are expected to have added more than 600,000 working-age adults to the poverty total.

Drivers of in-work poverty in the UK and London

- The phenomenon of in-work poverty has increased significantly in recent years. The percentage of working-age adults in working families in poverty grew from 11.2% in 1996-97 to 14.7% in 2017-18.
- In-work poverty has become particularly acute in London where, for example, the proportion of London households in poverty – where at least one adult works full-time – has risen by 50% in a decade. The data suggests that three-quarters of the children in poverty in the capital – more than half a million – are living in working households.
- This growth has been driven by a range of factors including:
    - Slower wage growth for poorer workers in the capital compared to those in other parts of the country.
    - Substantial numbers of the London workforce being employed in low-wage, low skill occupations, which pay below the "London Living Wage"; many working insufficient and uncertain hours, which makes it harder for families to sustainably "make ends meet".
    - Poor terms and conditions of employment, including inadequate protections and limited access to additional "workplace benefits" such as occupational sick pay, training and progression opportunities, and the availability of support for mental, physical, and financial well-being, which are associated with an increased risk of poverty.
    - A high cost of living due – in no small part – to housing costs, although transport and other financial factors linked to being in London contribute, too.

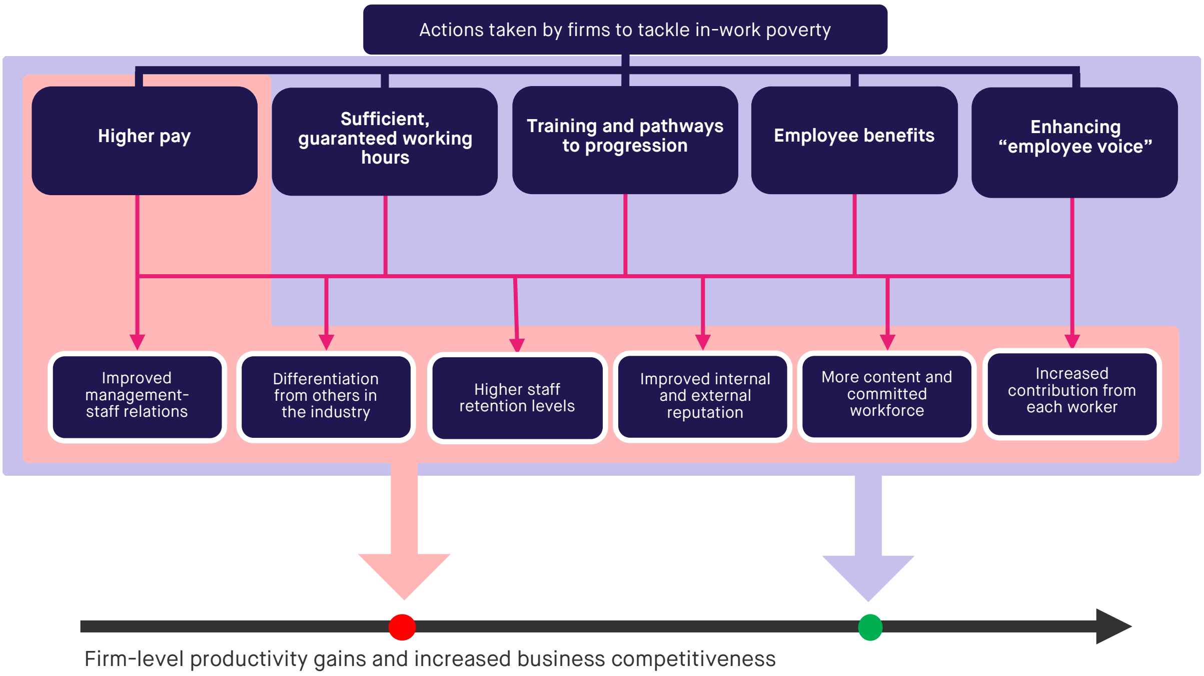
The centrality of the employer

- Much of the debate over poverty in the UK and the best way to tackle it has focused on the role of Government. However, one of the unique facets of in-work poverty is the central role of employers, who have a direct influence over key factors that cause or deepen the poverty experienced by poorer working households.
- The most obvious of these factors is wages. However, employers have a degree of control over a number of other determinants such as the quantity and security of the hours their employees work, the in-work benefits available to staff (including sick pay and support for mental and physical health and financial well-being), and the opportunities for training and progression that are offered.
- Importantly, London-based businesses recognise that there is a good deal of poverty in the capital, and that they have a role to play in tackling it:
  - 79% of London employers agree that "poverty is an issue that impacts the people in the capital".
  - 39% estimate that half or more of their workforce are “directly affected” by poverty.
  - 84% say that “in-work poverty (among their own workforces) should be a ("major" or "minor") concern to London businesses”.
- Many London employers (70%) say they are motived to help tackle in-work poverty by taking voluntary measures above and beyond legal minimums – such as paying the National Living Wage.

The reasons why firms should care about in-work poverty

- Among those London businesses that said they were willing to take "voluntary steps above and beyond their leal obligations" to help tackle poverty in the capital, 47% were motivated to do so because it was “right thing to do” i.e. many are “values driven” in their concern for the topic of poverty.
- Although the main motivation for many companies is moral, there are also multiple commercial benefits that accrue to enterprises which take measures that aim to reduce the number of employees that suffer from poverty. The kinds of business gains that can accumulate from different types of measures that employers can implement, are illustrated in Diagram 1.

Diagram 1: Commercial benefits from tackling in-work poverty[i]



Source: SMF

Public opinion on how business should treat workers

- The public tends to prize companies that look after their workers. For example, 65% of the public said that "poor treatment of employees" was the kind of business behaviour that "concerned them".
- The same proportion of the public said that "staff pay and conditions" should be a key priority for managers in big companies.

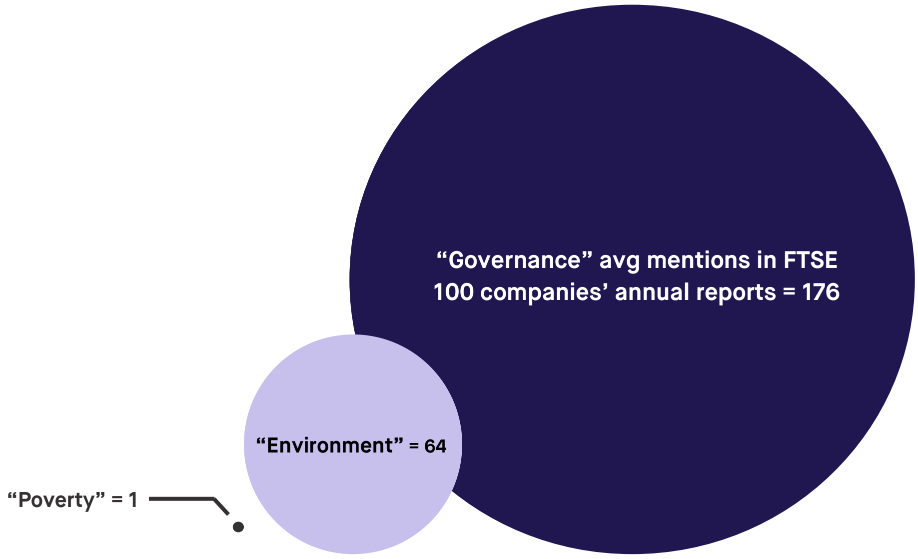
The main ESG focus of businesses in the capital

- Despite the concern among many enterprises – of all sizes – about poverty and a professed interest in "taking voluntary steps" to help tackle poverty in the capital (whether that be to help deal with poverty among a company's own workforce, in areas around their main business operations or in their local supply chain) London employers who are active on Environmental, Social and Governance (ESG) issues tend to prioritise governance and the environment:
  - 97% of larger businesses in the capital say that ESG issues are "important" to their business.
  - 61% of those who say ESG is "important" report that the "environment" is a "focus of their current ESG efforts".
- The salience of the environment to businesses is reflected in the extensive reporting that firms do, in their annual reports, about environmental matters.

[i] This diagram is replicated in the main body of the report as Diagram 8.

Primary research carried out for this report has shown that references to "governance" appear 176 times on average in the most recent annual reports of the FTSE 100 companies, while the "environment" is found – on average – 64 times. Both make far more frequent appearances than the term "poverty", which is typically mentioned only once in the 2019-20 reports of the UK's largest companies.

Diagram 2: Average number of mentions of key ESG terms, in FTSE 100 annual reports[ii]



Source: SMF

Analysis by the University of Lancaster found that around half of FTSE 100 companies did not disclose data on "employee satisfaction" in their annual reports, while more than 8 in 10 failed to publish details of workforce turnover rates and more than 9 in 10 firms did not provide information on the employment status of their workers. The lack of disclosure around workforce issues is further evidence of many larger firms' disinterest in such topics.

Standards, benchmarks, and accreditations can be valuable tools for firms and investors

- Standards, accreditations, kitemarks, and benchmarks are widely used by London businesses, with just over two-thirds (68%) adhering to at least one ESG related accreditation, kitemark, standard, or benchmark.
- Many of the ESG standards, accreditations, kitemarks and benchmarks that are used, are valued by London businesses. Of the firms adhering to at least one, more than 90% described them as providing at least "some degree of value" to the business.

[ii] This diagram is replicated in the main body of the report as Diagram 5.

A new benchmark can help incentivise London businesses – and investors – to prioritise poverty

- One reason why workforce poverty isn't a topic many businesses focus on – as part of their ESG activities – is because the incentives to encourage that interest are not in-place. External pressure from investors and other stakeholders can help drive the uptake of ethical business practices, but investors for example, also tend to be primarily focused on issues such as the environment. Therefore, its unsurprising that businesses do too.
- Equally, the business case for implementing measures which can directly help reduce in-work poverty, has not always been clear and widely understood. Therefore, the commercial incentives for employers to take action have not played a prominent role in motivating efforts.
- The popularity, among London businesses, of tools such as benchmarks and their acknowledged usefulness makes the development of a poverty-focused one a potentially useful tool that can help encourage business to convert the high degree of interest (among London-based employers) in poverty and the willingness of many to take voluntary steps, into actions.
- Such a tool could help shift the current ESG focus of many businesses towards poverty, by assisting those London firms who say they want to take voluntary steps to help reduce deprivation in the capital, to:
  - Understand specifically, what they can do to help
  - Compare their efforts to those of their peers and identify ways in which they can do more
- Further, such a tool will "throw light" on the attitudes and actions of individual businesses towards issues of poverty, which investors can utilise when making their investment decisions. Metrics with which investors can make informed decisions will additionally strengthen the incentives for businesses to take action.
- In addition, a metric will help businesses demonstrate to the wider community of stakeholders (e.g. customers) what they are doing to help their own workforces, local areas, and networks of local suppliers.

Towards a new business standard

The SMF is looking to design a new poverty benchmark that will enable businesses to demonstrate what measures they are taking to help reduce poverty among their own workforces, in the communities around their main London business operations and by those working in their local supply chains. Equally importantly, it will help provide investors with a clearer picture of what efforts businesses are making.

To do this, we will be convening experts from across business and civil society to identify what companies can do to help reduce poverty, and how such actions might best be measured and communicated. We have already recruited an expert advisory group to help guide the project through its next steps.

The SMF welcomes the ideas and observations of businesses, relevant civil society groups, academics, practitioners, and others on this research, the wider project, and its objectives. We encourage those who are interested in this issue to contact us via director@smf.co.uk to be part of this conversation.

CHAPTER ONE – INTRODUCTION

In-work poverty has increased significantly in recent years. Most households in poverty are working households. Further, the problem is notably worse in London, where some of the key factors driving in-work poverty across the country are exacerbated by the capital's particular circumstances.

One of the unique elements of in-work poverty is the position of employers and their influence over a range of factors which – to varying degrees – determine whether people and their households are likely to be in poverty. The most obvious of these being wages, but the employer also has a degree of control over a number of other factors which are linked to in-work poverty and which, if improved, could help more workers (and in-turn their families) rise above the poverty line.

The case for employer action is not just a "moral" one, although this is a key motivation for many of those businesses who already do take steps to tackle poverty among their own workforce. In addition to the morality, there are a range of direct and indirect benefits that can accrue to those firms that make efforts to help their workers who are in poverty, to escape it. These benefits range from more committed employees, through employees being both physically and mentally healthier and consequently taking less time off, to higher productivity.

Employers taking such steps chimes with public opinion, who expect to see businesses treat their employees ethically. Investors are currently more interested in environmental issues than workforce wellbeing and in-work poverty. However, the trend among investors of making ESG issues more salient in their investment decision-making and businesses taking more of an interest in ESG, provides an opportunity to put in-work poverty, "on the agenda" of more businesses. Consumers too are taking more interest in what companies do beyond their "core mission" of producing products and services.

One way that businesses and investors can be encouraged to take domestic poverty issues more seriously, is through utilising the incentive and signalling power of standards, benchmarks, or accreditations. The plethora of existing standards, benchmarks and accreditations applicable to the business community offer lessons for those interested in exploring the possible use of such tools for helping encourage businesses to play a bigger role in tackling growing problems such as in-work poverty.

Benchmarks in particular, allow the performances of individual businesses to be measured against both their past record and with those of other companies'. Investors and civil society can use such tools to hold businesses to account for their actions (or inaction) towards poverty. If the benchmark is robust and the auditing rigorous, they can be a powerful assurance tool for investors and consumers.

CHAPTER TWO – THE SCALE OF IN-WORK POVERTY IN THE UK AND LONDON

Poverty in the UK

Prior to the COVID-19 pandemic, the proportion of the UK population estimated to be in poverty was 22%, or 14.4 million people, including 8.5 million working-age adults and 4.5 million children.[1]

These figures grew further across 2020, as a result of the impact of COVID-19. One estimate suggested that, by the winter of 2020 there were an additional 640,000 working-age adults in poverty.[2] Findings published by the Institute for Fiscal Studies (IFS) illustrated how the pandemic had made life harder for many of the poorest. It suggested that by March 2021, the proportion of poor households in arrears, with household bills for example, had risen to 20%, compared to 15% in 2018-19.[3]

Evidence from the Social Metrics Commission highlighted how 27% of households in poverty reported difficulties paying their bills, while only 7% of households not in poverty reported facing this challenge.[4] Underlining the financial precariousness of many of those in poverty in the UK, the same research found that around 7 in 10 households in poverty reported having "no savings", compared to 38% of household who were not in poverty.[5]

The rise of in-work poverty

In recent decades, absolute poverty has declined across Britain – a result of reductions in pensioner poverty, growth in employment, and falls in the number of workless households. However, relative household poverty has declined much less significantly[6] And the poverty picture has become more complicated. One of the main reasons why relative poverty has remained stubbornly high is the growth of in-work poverty.

Prior to the start of the pandemic in 2020, growth in employment rates meant that the proportion of working-age families with no one in work had fallen, while the share of working-age adults in families with two earners had increased. However, there has been a concomitant growth in the *risk* of poverty in working families, and a rising share of working people have been pulled into poverty.[7]

Research by the Social Metrics Commission suggests that the proportion of poorer households reporting no-one in that household working fell 17 percentage points between 2000-01 and 2018-19.[8]

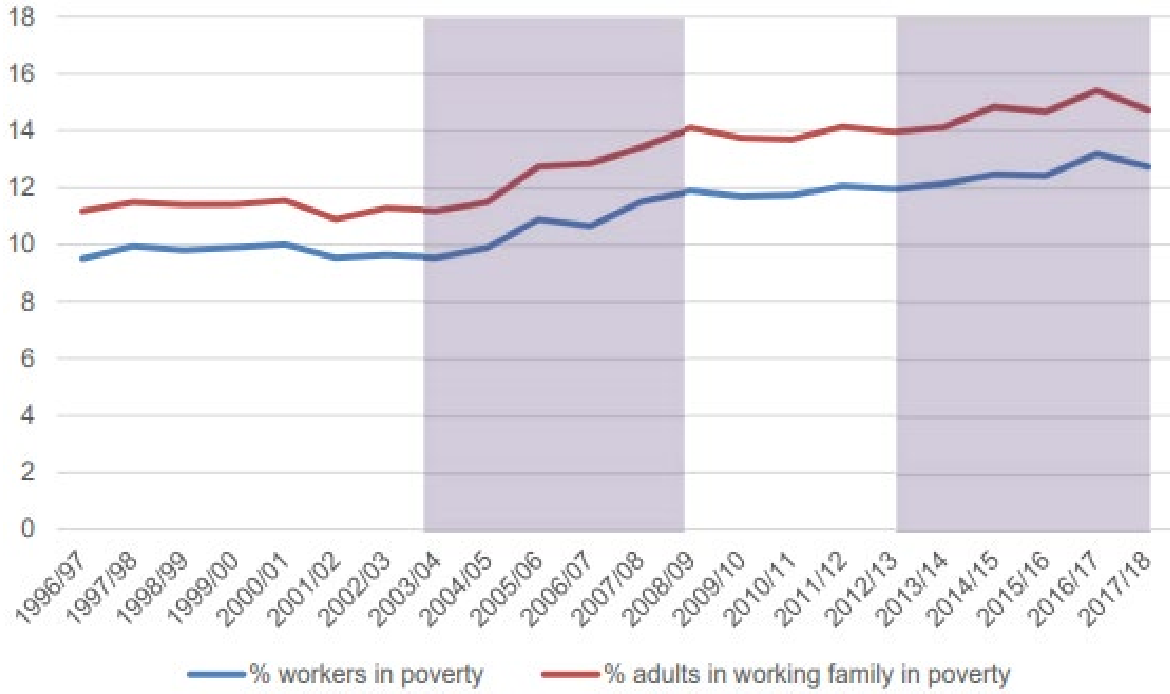
Table 1: Proportion of working-age adults in poverty in the UK in different types of working families, 2018-19

Circumstances	Proportion of the total number of working-age adults in the UK
Working-age adults in poverty that are living in full-time work families	8%
Working-age adults in poverty living in part-time work families	55%
Working-age adults living poverty in full/part-time work families	26%

Source: Social Metrics Commission

Figure 1 shows that the percentage of working-age adults in working families in poverty grew, from 11.2% in 1996-97 to 14.7% in 2017-18.[9]

Figure 1: The rise of in-work poverty



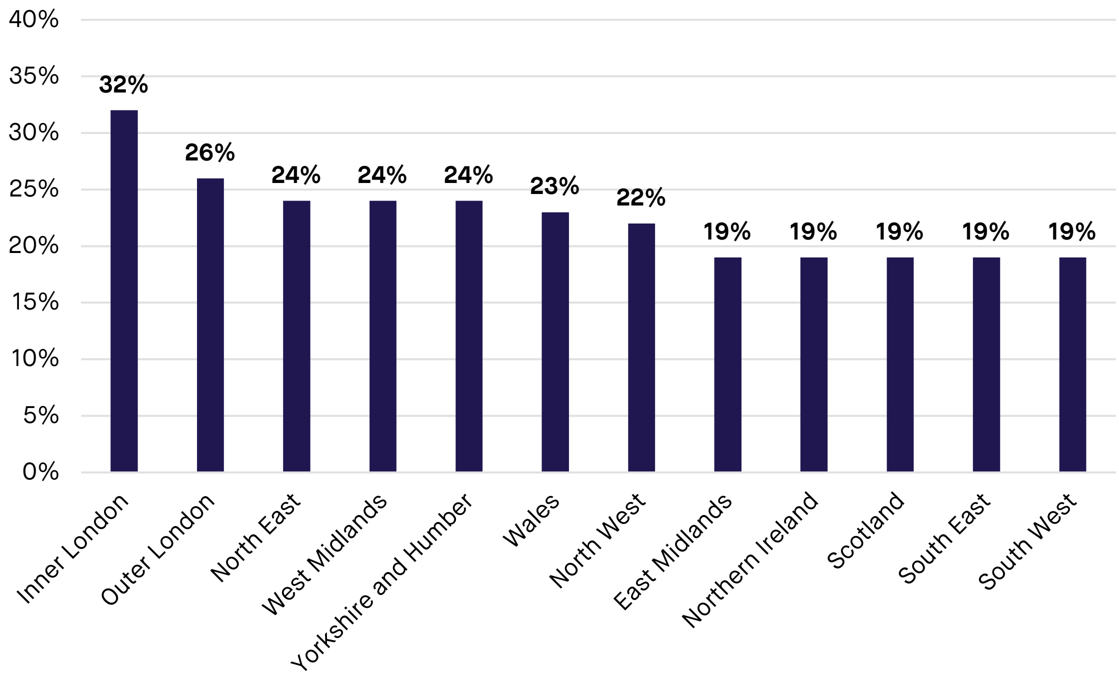
The IFS has estimated that the percentage of people in relative poverty living in a household with one or more adults in paid work has risen from 37% to 58% since 1994.[10] Other analyses have highlighted similar trends which, together, paint a clear picture of work failing to be a route out of poverty for growing numbers of individuals and families:

- The University of Cardiff found that, between 2004-5 and 2014-15, the proportion of working households in poverty rose from 12.4% to 15.7%.[11]
- The IFS, estimated that the in-work relative poverty rate had increased to 18% in 2017-18, almost five percentage points higher than what it was 25 years previously.[12]
- The Joseph Rowntree Foundation estimated that 72% of children living in poverty have at least one working parent.[13]

Poverty profile: How does London compare with the rest of the UK?

Despite being the wealthiest region in the UK, poverty is more prevalent in London than anywhere else in the country.[14] Poverty has been higher in London than the rest of England for 20 years[15] with inequality within London greater than it is within any other part of England. In a recent analysis of poverty in the capital, WPI Economics highlighted that Londoners are economically worse off across a number of indicators when compared to the populations of other regions of the UK. Further, these trends have been worsening.

Figure 2: Poverty rates in London compared with the rest of the UK, 2018/19



Source: Trust for London and WPI Economics

The report identified a number of notable changes over time in London:

- The proportion of London households in poverty, where all adults work full time, was estimated to be 9%. This is in contrast to 6% a decade earlier.
- Among London households where one or more family members work part-time, the proportion in poverty was 49%. This was up from 41% a decade earlier.[16]

Further, over the period 2015-20:

- The proportion of Londoners in poverty grew from 27% of Londoners (2.3 million people) to 28% of Londoners (2.5 million people).
- More than three quarters (76%) of the children in poverty were in working families (555,000), up from 68% (470,000).

In addition, the same analysis noted that:

- The poorest 10% of Londoners only earned 1.8% of the city's net income.
- Poverty is not distributed evenly across the city's boroughs.[17]

CHAPTER THREE – THE DRIVERS OF IN-WORK POVERTY IN THE UK

Drivers of in-work poverty

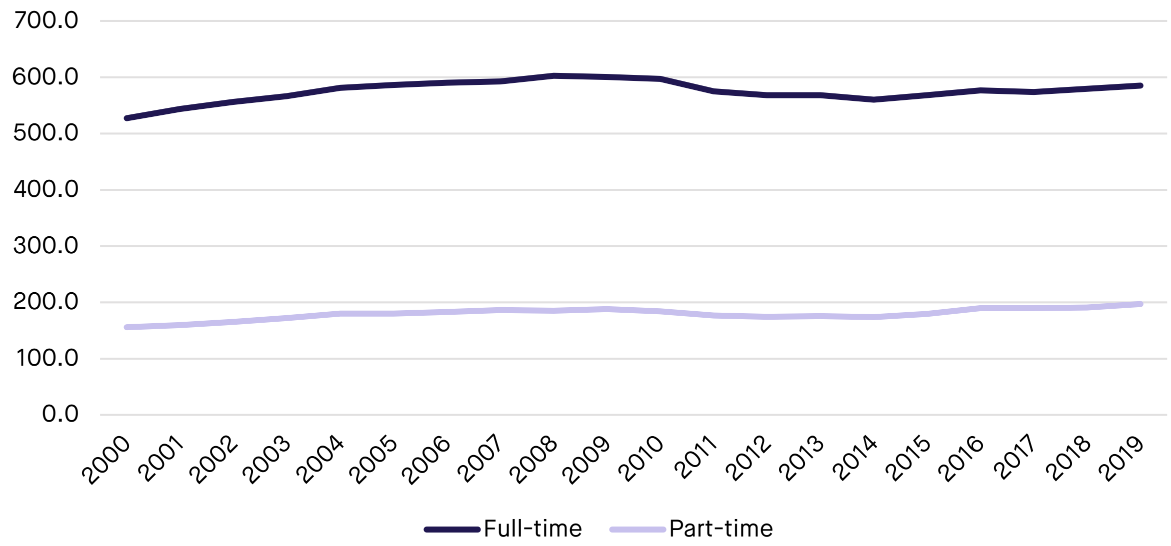
Employment does not always guarantee an adequate standard of living.[18] Poor pay is the most obvious driver of in-work poverty.[19] However, the causes of in-work poverty are more complex than pay.

Other factors driving hardship and insecurity such as precarious work, and high living costs[20], also contribute to in-work poverty. Research by the Joseph Rowntree Foundation identified slow earnings growth, benefit cuts, rising housing costs, and the reduced availability of jobs offering full-time hours as underlying causes of the increase in in-work poverty across the country in recent years.[21] Similar conclusions have been drawn by the IFS about the expansion in the numbers of people and households experiencing in-work poverty.[22]

Wages

Figure 3 shows the trend in median earnings among UK full-time and part-time workers, between 2000 and 2019.

Figure 3: Median weekly earnings for employees (£; 2019 prices)



Source: Office for National Statistics

Figure 4 shows the trends, over the period 1999 to 2017, in the growth of:

- The "National Minimum (latterly "Living") Wage" (NLW).
- The "London Living Wage"
- The "UK (sometimes referred to as the "Real") Living Wage
- Median hourly pay in the UK

Figure 4: Comparing trends in the level of median hourly pay in the UK, the National Living Wage, the UK Living wage, the London Living Wage, between 1999 and 2017. £'s

Source: Office for National Statistics

Since its introduction (as the National Minimum Wage) in 1999 the National Living Wage (NLW) has improved the position of lower-paid workers. However, the level of the National Living Wage has been between 17% and 23% lower than the amount the Living Wage Foundation consider necessary to meet the minimum needs of a family i.e., being able to afford a basket of basic goods and services.[23] The "UK Living wage" (or "Real Living Wage") is calibrated to meet that minimum.

Further, low pay is found more frequently among:

- Some parts of the working population than others (e.g. young people and women)
- Certain job-types (e.g. temporary workers compared to full-time employed)
- Particular industries in contrast to others (e.g. hotel and restaurants more than manufacturing).

Table 2 reproduces some of the analysis by the Resolution Foundation in their "Low Pay Britain 2021" report. It provides a selective overview of how low pay is distributed across different demographic groups, types of employment status and sectors in the UK economy.

Table 2: Demographic, employment status, business size, and sector breakdown of low-paid employment in the UK, 2021

	Paid below two-thirds of median hourly pay		Paid below "Real Living Wage"	
	% of employees in the category below the pay threshold	% of all employees below the pay threshold	% of total employees in the category below the pay threshold	% of all employees below the pay threshold
Gender				
Male	12%	43%	18%	41%
Female	16%	57%	25%	59%
Selected age cohorts				
21-24	27%	13%	39%	12%
25-30	13%	12%	20%	13%
36-40	10%	8%	15%	8%
41-45	9%	7%	15%	8%
46-50	9%	7%	15%	8%
51-55	14%	8%	16%	9%
Employment status				
Temporary/ casual	20%	11%	29%	11%
Permanent	14%	89%	21%	89%
Full-time	10%	49%	15%	49%
Part-time	25%	51%	37%	51%
Business size				
Micro	29%	19%	37%	16%
Small	24%	25%	30%	22%
Medium-sized	18%	17%	24%	15%
Large	14%	21%	20%	20%
Very large	12%	14%	24%	19%
Selected sectors				
Hotels and restaurants	58%	18%	68%	14%
Wholesale and retail	23%	24%	39%	26%
Agriculture	29%	1%	37%	1%
Arts and recreation	28%	4%	36%	3%
Health and social work	11%	12%	19%	14%
Manufacturing	14%	10%	19%	8%
Construction	13%	4%	17%	3%

Source: Resolution Foundation

Table 2 shows that 16% of female employees earn less than two-thirds of the median-wage, compared to 14% of men. Of all those employed workers earning two-thirds below the UK median hourly pay, 57% are female and 43% are male. Women are also more likely to be found among those earning less than the "Real Living Wage" too.

Further, the data in the table show that the younger a worker is, the more likely they are to be suffering from low pay issues, with 27% of those in the 21-24 age range earning less than two-thirds of the UK's median-hourly wage and 39% earning below the "Real Living wage" rate.

Table 2 also shows that employment status, e.g. whether a worker is "permanently employed" or "temporary/ casual", is associated with poverty pay. For example, 20% of "temporary/ casual workers" earn less than two-thirds the UK median-hourly pay, compared to 14% of "permanent" staff.

The sector in which someone works is similarly linked to pay levels with, for example, 24% of employees earning below two-thirds the UK's median hourly wage are in the "Wholesale and retail" sector. Further, more than half of those working in the "Hotels and restaurants" business earn less than two-thirds of the UK's median hourly wage.

Terms and conditions of employment

The terms and conditions of employment are key factors determining the quality of employment which, in-turn, is linked to the likelihood of experiencing in-work poverty.[24] Workers who do not have sufficient work, or are in insecure jobs and who cannot rely on important benefits associated with being employed, are often described as having "atypical employment status".[iii]

The most salient of the terms and conditions associated with "atypical employment" are highly variable, often temporary and frequently insufficient hours of work. Low pay and precarious work are closely linked to each other. One study found that, among those paid less than the "Real Living Wage", 55% of workers tended to get "less than a week's notice" about their upcoming work hours, while 15% got less than 24 hours' notice.[25]

Figure 5 illustrates how the median gross hourly (equivalent) pay, of those in different kinds of insecure employment fall short of the wages paid to those employed on full-time contracts.

[iii] In the UK, employment law dictates that some people are not classified as "employees", only as "workers". And, particularly because of the rise of the gig economy and gig work, some are being incorrectly classified as 'self-employed', even if their role is similar to that of people who are categorised as workers. People in these groups may also be described as having 'atypical employment status'.

Figure 5: estimate of median gross hourly pay for between different forms of employment in 2019, £

Source: TUC

As Figure 5 demonstrates:[26]

- In 2019, the median gross hourly wage of a "casually employed" worker was £4.22 less than that of UK employees as-a-whole.
- The median gross hourly earnings in 2019 of a "seasonal worker" was £4.15 less than the median wage of UK employees overall.
- The median gross hourly pay of someone on a "Zero-hour contract" was found to be typically £4.08 below that of UK employees as-a-whole.
- The median gross hourly salary of those working through agencies in 2019 was typically £2.56 less than UK workers on average.

A similar picture is reflected in cross-country OECD analysis, which found that, on average, those workers on temporary contracts tend to earn 25% less than those on permanent contracts, even when the overall hours are similar.[27] Further, a study by academics at the London School of Economics argued that, for those in temporary work:

> *"The income penalty is particularly high at the bottom of the income distribution, while the incomes of high-income employees are less dependent on the type of work contract..."*

Box 1: UK employers and "one-sided flexibility"

A survey of 500 employers by the Chartered Institute of Personnel and Development (CIPD) found that:[28]

> *"28% of employers provide notice periods to variable hours workers of their work schedules of one week or less. Of these, 6% say they provide a minimum notice period of 24 hours, 7% say they provide notice of 1-3 days and 4% report a notice period of 4-6 days. In all, 6% of employers provide notice period of work schedules to variable hours workers of 2 weeks, while 10% say they provide notice periods of more than two weeks".*

- A third of businesses have "no formally agreed notice periods for variable hours workers".
- 4% of respondents said managers decide on an "ad hoc" basis.
- Micro, small and medium sized employers were much more likely to say they had "no formally agreed minimum notice periods" compared to larger employers. As many as two-thirds of micro-businesses had no formal arrangements for notice, just under half (48%) of smaller firms did not and more than third (36%) of medium-sized enterprises had no policy.

Data from a Chartered Institute of Personnel and Development survey of the working population found:[29]

- 37% of UK workers in full or part-time employment were "given less than a week's notice of their shifts or work patterns".
- Among the 59% of workers whose jobs involved uncertainty over hours or shift work, 62% received "less than a week's notice" of their forthcoming work schedules.
- 12% of that group (estimated to be around 7% of the UK workforce) were only getting 24 hours' notice of their next shift.
- Problems are particularly acute in London, where 48% of all workers surveyed "received less than a week's notice of work schedules".

Source: Chartered Institute of Personnel and Development

"Atypical employment" is the consequence of what the Chartered Institute of Personnel and Development have called "one-sided flexibility" (see Box 1). "Atypical employment" can often act as a "trap" for many workers. For example, international evidence suggests that the longer a person works in "atypical employment" the more difficult they are likely to find it to obtain regular, full-time employment.[30] The "churn" associated with being in a cycle of one insecure job after another helps keep those same workers "trapped" in low-paid insecure work, with little security and few opportunities for improvements, e.g. through progression.[31]

In addition to the insecure hours and temporary duration, another element that makes such jobs "low quality" is that they frequently fail to provide access to the benefits commonly available to those with "typical employment" status, such as sick pay and pensions.[32] It has been observed that quality jobs are a protection against poverty, not least because of the terms and conditions under which such jobs are provided.[33] The evidence suggests the opposite is also true i.e. poor quality employment is synonymous with labour market marginalisation and poverty.[34]

Skills, training, progression and in-work poverty

The Social Mobility Commission has suggested that low pay is strongly connected with low skill levels.[35] Analysis by the London school of economics found that:

> "*…the distribution of skills among workers are critical determinants of low wage employment…in general higher skilled workers are less likely to be low paid and less likely to become trapped in low wage jobs*".

An estimate produced by the Centre for Economic and Social Inclusion suggested that "on the job" training received by low-paid workers resulted – on average – in 13% higher pay. This was two-thirds greater than the typical wage growth seen by those who did not receive such training, over a similar period.[36]

Low skill level are linked to a nexus of other employment related problems, as the Joseph Rowntree Foundation noted. In a 2012 report is argued that low skills and inadequate training are bound up with other employment issues such as precarious work.[37]

Closely linked to the issue of skills and training is progression. While the latter may not be as prominent as wages and terms and conditions in the debate over in-work poverty, a lack of opportunities for progression in a role or organisation has been identified as a contributing factor to in-work poverty.[38] As noted above, many people in poverty remain in trapped in it. If they escape at all, it is often only temporarily before they fall back below the poverty line.

Data from the Social Mobility Commission and the Resolution Foundation illustrates how "sticky" in-work poverty can be because of how difficult it is for low-paid workers to progress out of low wages.[iv] A 2017 report found that:

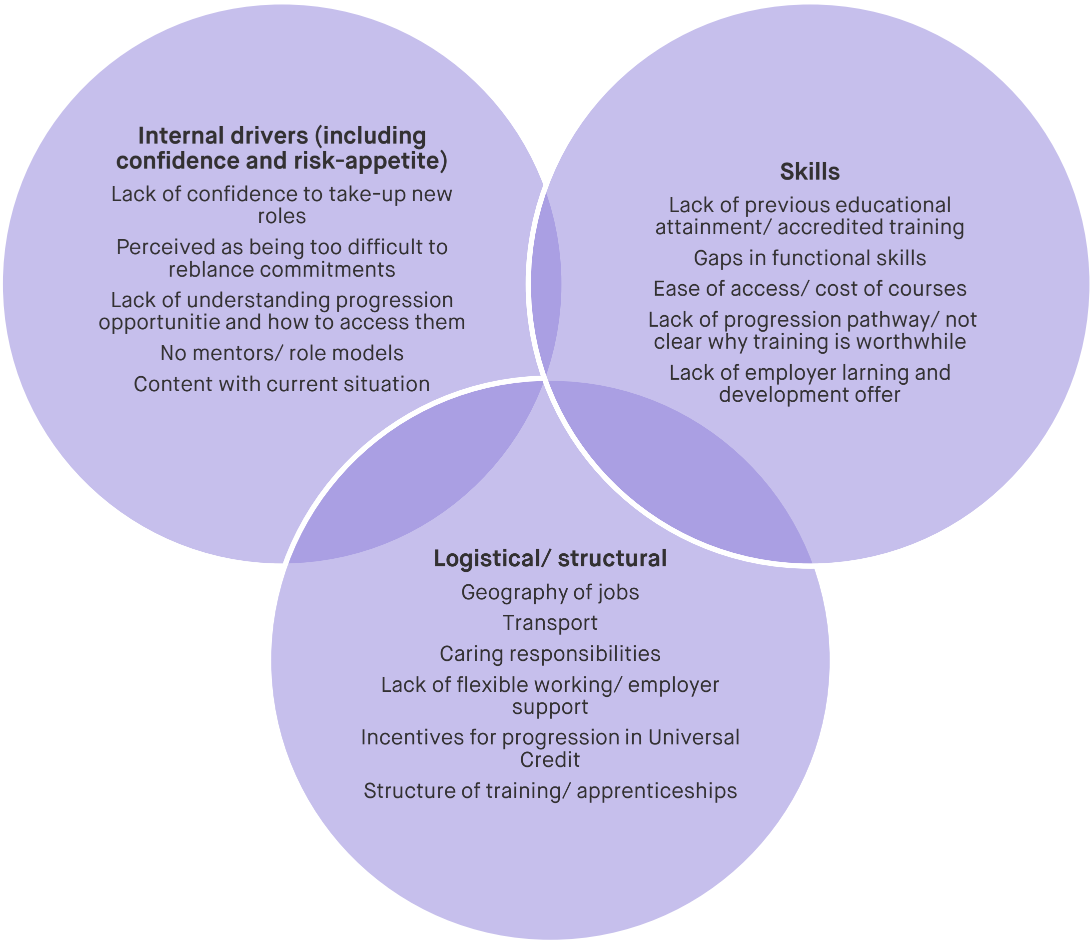
- Between 2006 and 2016, only one in six workers in low pay at the beginning of the period had "escaped" into higher-paying work a decade later.[39]
- One in four remained where they were and nearly half "cycled" in and out of higher and low-paying work, periodically.[40]

Progression is associated with gaining experience building up skills, and as a result of these improvements in human capital, moving into better paid jobs, which also tend to come with better terms and conditions, e.g. more secure hours,[41] sick pay, and other benefits.

[iv] It should be noted that progression at work is not something that everybody wants. It is influenced by a range of factors such as trade-offs with other aspirations and motivations.

In July 2021, the Department for Work and Pensions' In-Work Progression Commission, which was set up to look at the barriers to progression in low-paid jobs, published the findings of its independent review into how to better support people to progress at work and increase their earnings. The conclusions recognise that there is no single pathway for in-work progression. Consequently, the Commission identified the barriers to progression were multi-pronged and divided them into three categories: "skills", "internal barriers" and "logistical or structural" issues (see Diagram 3).[42]

Diagram 3: Barriers to progression at work



Source: Department for Work and Pensions

The Commission considered ways in which employers could support their own workforce in overcoming the numerous barriers to progression. It pointed out that employers are best placed to engage with their workers, noting the returns that added support can create for business, and that the development of skills and continual learning are key.

To become more progression-focused, the report provides a “checklist” that employers can use in order to embed progression into their organisational operations and structures:

- Individualised learning plans
- Mentoring
- Flexibility
- Shadowing and work experience
- Supporting professional skills development

The report argued that adopting such measures would help ensure that as many people as possible had the opportunity to progress in work and move out of low pay, regardless of their background.[43]

“Employee voice”, representation, and effective human resource management

Union representation has been linked to better employment conditions.[44] One way unionisation helps ensure better working conditions is by increasing “employee voice” in the workplace. This occurs in two ways:

- Increasing the bargaining power of workers
- Acting as an institutional conduit for employees to express their views to managers

The bargaining power and the conduit role deliver several practical benefits for workers, including:

- Safer workplaces with lower rates of work-related injury and illness[45]
- Sick pay policies that tend to be above the statutory minimum[46]
- Enhanced leave entitlements and more flexible working patterns[47]

Increased engagement by employers, with employees, and efforts to better performance manage staff have also been identified as helping to improve the quality of the employment of those in low paid roles,[48] and in-turn help employees in poverty escape their difficult economic circumstances.

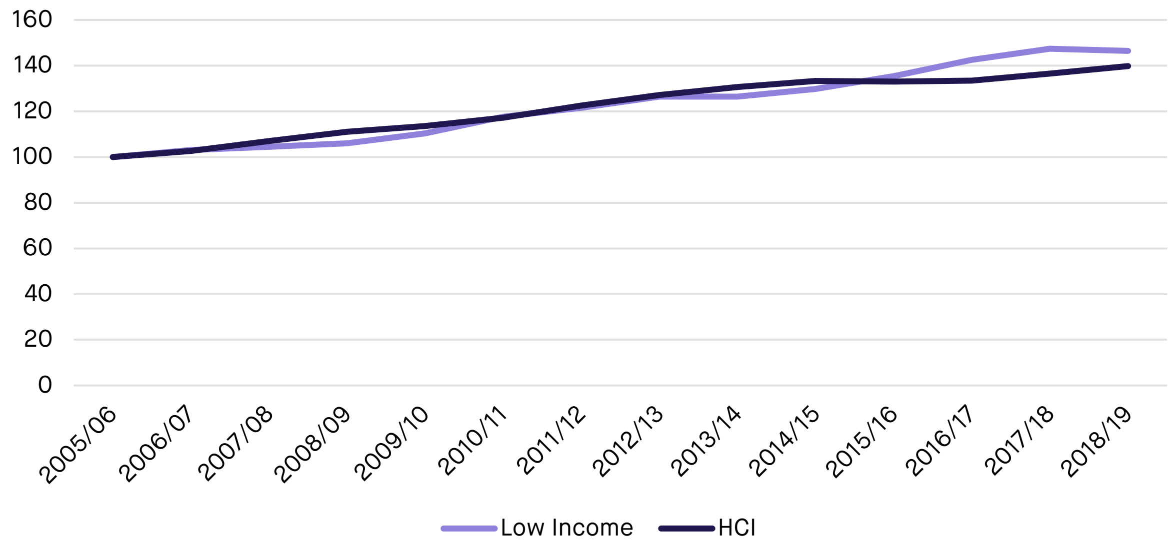
However, the significant of the role of better Human Resource Management (HRM) is sensitive to a set of factors, which includes the business model of the organisation.[49] Consequently, while playing a role, such factors are likely to be secondary in importance compared to measures that improve pay (and benefits), hours, skills, and representation.

The cost of living

The rising cost of living plays a significant role in determining poverty levels. As Figure 6 shows, the growth in the cost of living has moved in “lock-step” the growth in the disposable income of the lowest paid, since 2005/6. Figure 6 shows that, while the mean equivalised disposable income of low-income households grew by 47 percentage points between 2005-06 and 2018-19, the cost of living rose by 40 percentage points.[50] Among higher income households, the mean equivalized disposable income grew by 45 percentage points, yet their cost of living only increased by 34 percentage points.[51]

Among single-parent households the financial difficulties have been even greater. In 2018, a single parent working full-time on the minimum wage was estimated to be 20% short of a "minimum standard of income" – the amount needed to reach a decent standard of living, covering the costs of essentials. The "gap", ten years earlier, was estimated to be 3.5%.[52]

Figure 6: Mean equivalised household disposable income and Household Cost Indices growth, 2005/06-2018/19



Source: Office for National Statistics

Debt

Debt is a significant problem

Debt is also an important driver of poverty in general and of the in-work poverty. Debts encompass a number of different obligations that pervade the modern economy.[53] Debt becomes a problem for those on lower incomes because of its impact on disposable income and living standard, and therefore its unsustainability.[54] One analysis suggested that over half the people in debt in the UK are working.[55] Yet, despite its importance, debt is frequently excluded from considerations of poverty.[56]

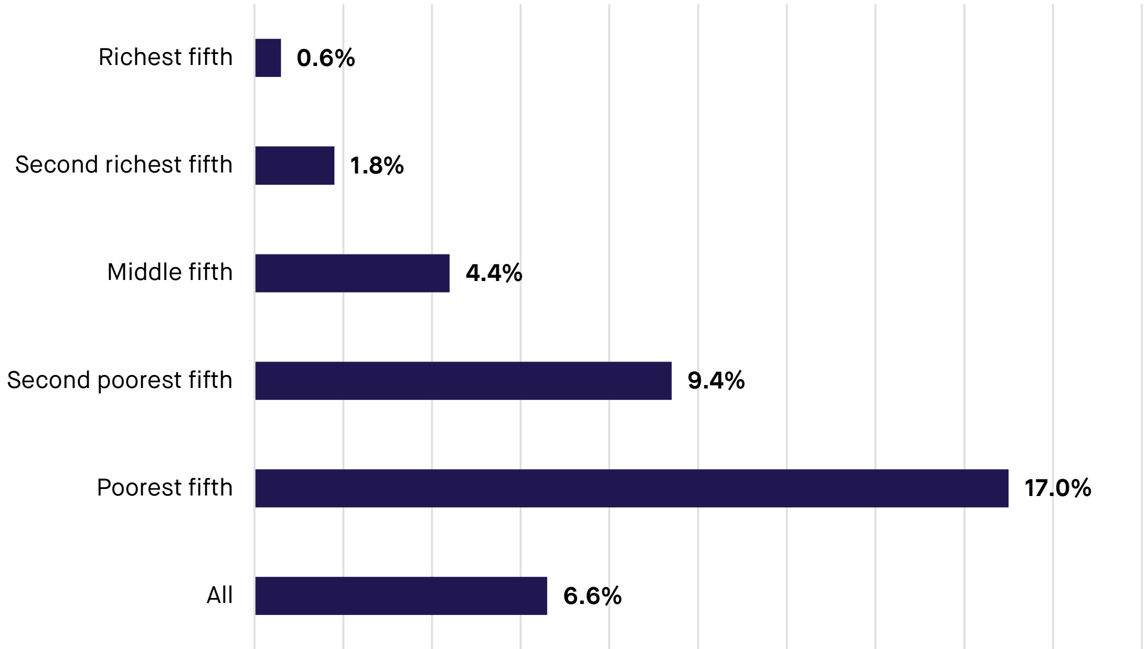
The poorest in debt are the least financially resilient

Those on lower incomes, especially those receiving income-related benefits, are more likely to have fewer savings (if any) and tend to rely on debt to deal with unexpected bills or other financial "shocks".[57] Further, those in debt but working are often penalised by creditors, with pressure to pay back debts more quickly.[58] More recently, the pandemic and its impact – especially on sectors such as hospitality where there are considerable numbers of lower paid workers – has made the debt situation of many worse than it already was, due to redundancy, reduced hours of work, or being furloughed.[59]

Problem debt is most often found amongst the poorest

There are as many as three million people in the UK experiencing "problem debt".[60] As Figure 7 shows, "problem debt" is heavily concentrated in the lowest two income quintile groups in the UK.

Figure 7: Proportion of households with problem debt by income quintile, 2018-19



Source: Joseph Rowntree Foundation

"Problem debt" is sometimes linked to a "life shock" (with additional "shocks" compounding the original difficulties) and, for those who are less financially resilient (i.e. those in poverty) the negative effects are often considerable. Further, debt problems can be made worse for many poorer borrowers by the high interest rates they often face, which make the challenge of repaying debts even more difficult.[61]

Regular and sustained work is particularly important for getting families into a stable financial position.[62] Consequently, insufficient and insecure working hours are linked to debt and difficulty in repaying it. Periods between work are typically the times when debts accrue because debt is undertaken to cover living costs. Ultimately, a repeated cycle of insufficient and insecure work, low wages and debts (often taken on to make up for the insufficient hours and wages) reduce any gains from working, as income is swallowed up by servicing debts.[63] [64]

CHAPTER FOUR – THE DRIVERS OF IN-WORK POVERTY IN LONDON

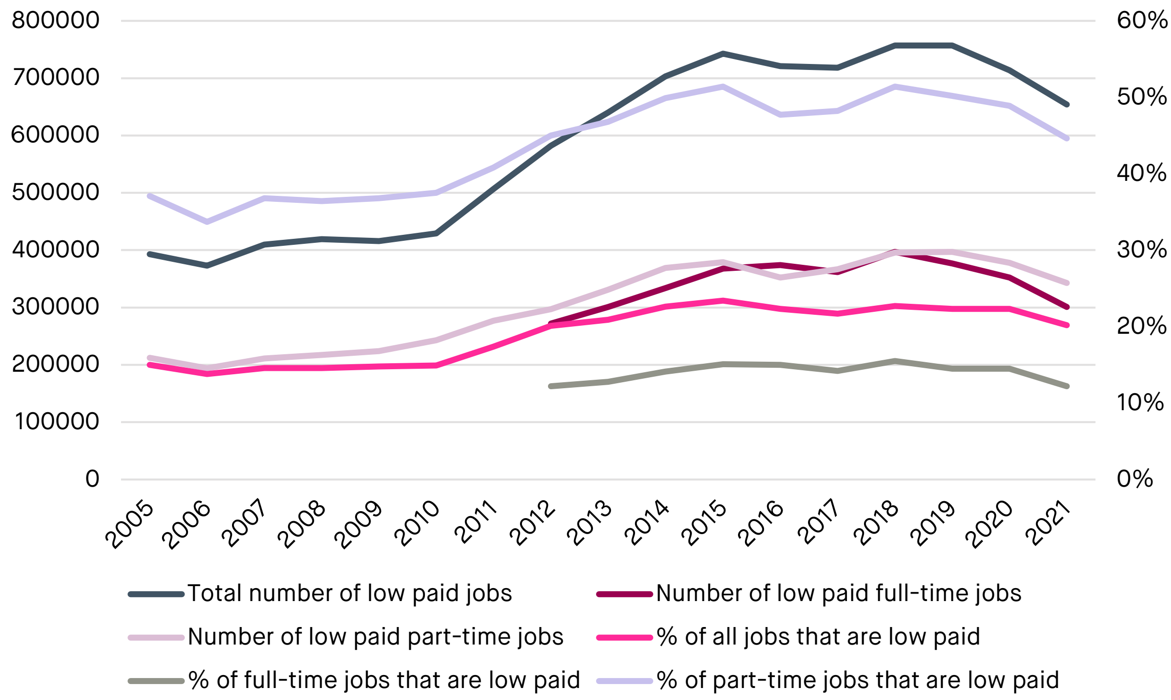
London is a "job rich" economy

London's economy supports 6.1 million jobs. That is 20% of all the jobs in England. Nevertheless, many Londoners are not employed in what is often termed "decent work" i.e. work that is sufficient to pull them and keep them and their families above the poverty line.

Pay in London

The "pay problem" in London is acute and the scale of it is revealed in the latest London Poverty Profile.[65] Figure 8 shows the trend in the total number of low-paid jobs across London and the proportion of jobs held by London residents that are low-paid.

Figure 8: Number of jobs and percentage of different categories of jobs in London that are low paid (% of residents with jobs), 2005-2021

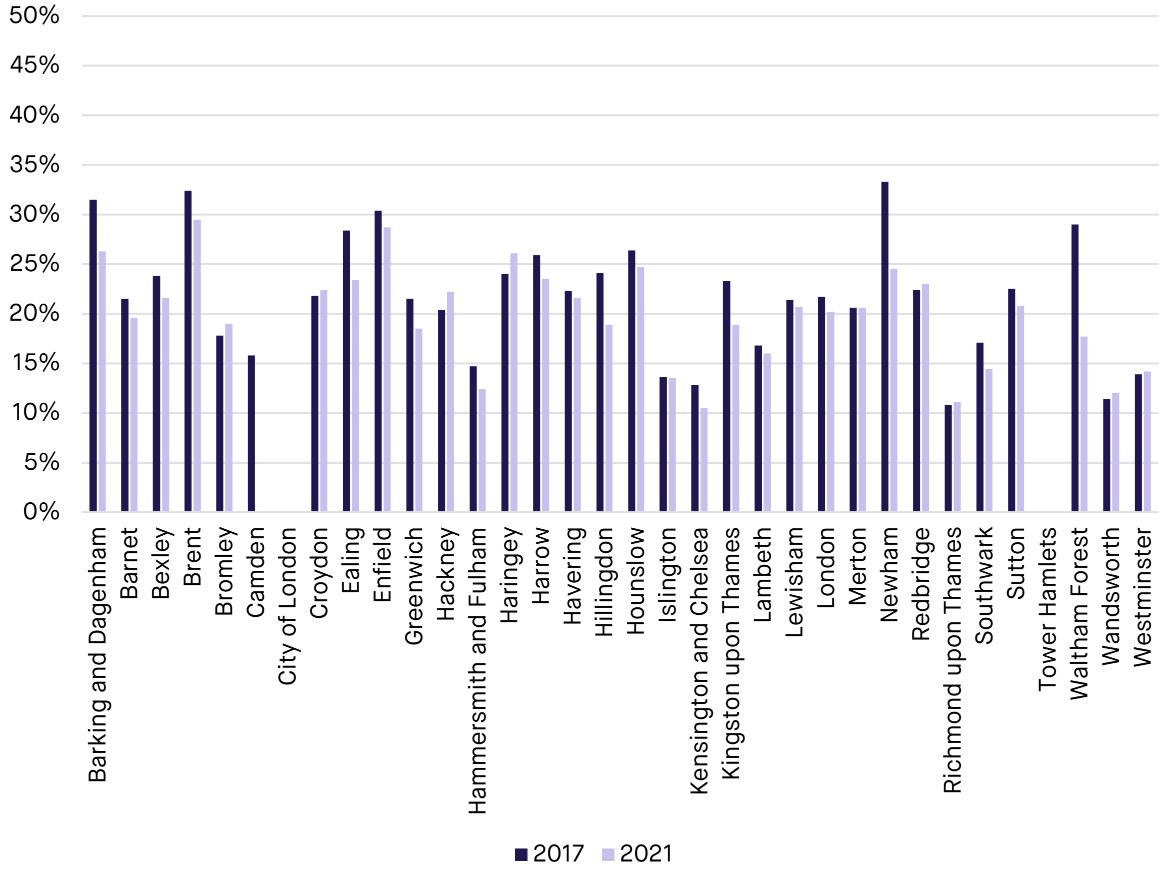


Source: London Poverty Profile 2021

In 2021, the London Poverty Profile suggested that there were more than 650,000 low-paid workers residing in London. This number had grown from just over 390,000 in 2005. Figure 8 also shows that the 650,000 figure equates to around one in five of all roles occupied by London residents with jobs. The proportion of the total number of jobs, held by London residents, that are low paid grew by 6 percentage points on between 2005 and 2021 (from 14% to 20%).

Figure 9 illustrates how low-paid work is distributed across the boroughs of the capital. It shows, for the years 2017 and 2021, the proportion of residents in each borough that are in-work and who are also in poverty.[v]

Figure 9: In-work poverty by London Borough (% of residents with jobs)



Source: London Poverty Profile 2021

The challenges associated with pay levels experienced by many in the capital, in-part stems from weaker wage growth for workers in London compared to the UK average (across all income deciles apart from the 7th).[66] The comparatively low wage growth has been particularly pronounced at the bottom end of the income distribution.[67] For younger workers in London the "lag" in wage growth – compared to the rest of the country – has been particularly notable. Research by the Centre for Economic and Social Inclusion has suggested that young low-paid workers in London in particular, were more than twice as likely to have their pay rise by less than the average (for their respective age cohorts) compared to similar workers in other parts of the UK.[68]

In London, the "wage problem" is not helped by the size of the gap between the statutory minimum (the National Living Wage) and the kind of wage that people are able to live on (the "London Living Wage"). The "gap" between the former and the latter has hovered between 35% and 41%.[69] Figure 4 (above) illustrated the persistent

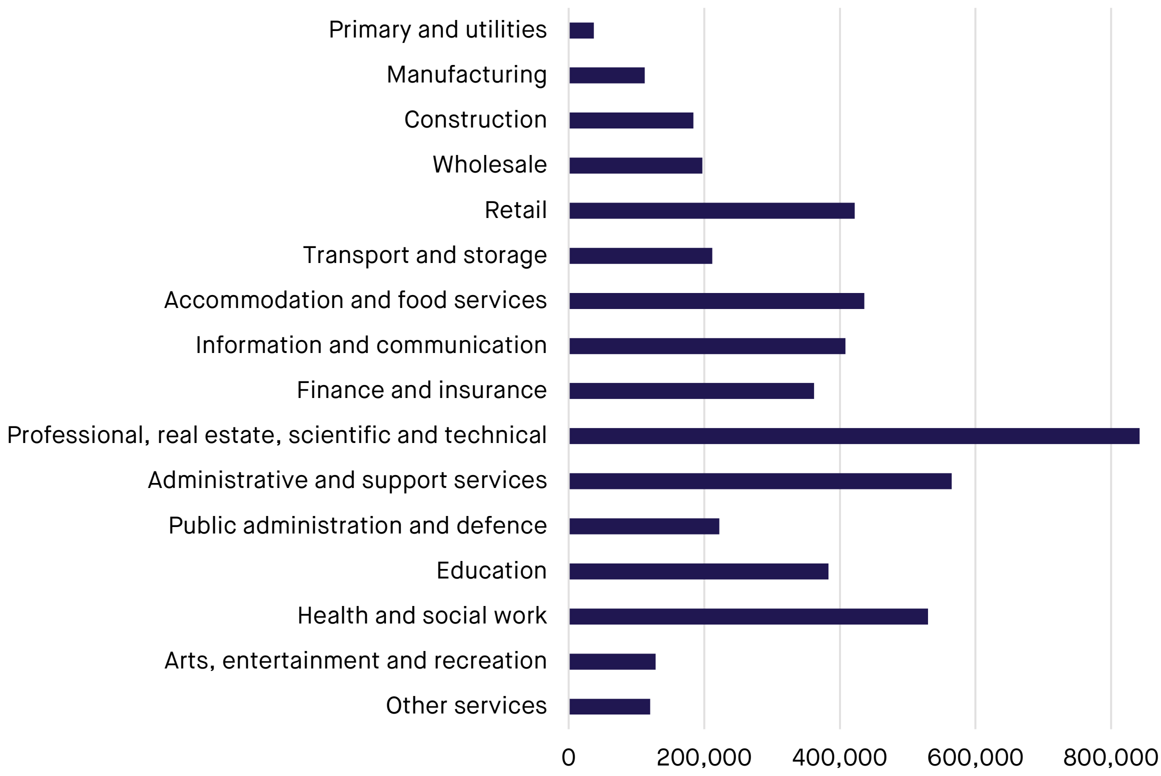
[v] Please note that data is not provided for Tower Hamlets and the City of London.

gaps between the "National Living Wage", the "UK Living Wage" (i.e. the "Real Living Wage") and the "London Living Wage".

Employment patterns in the capital

A key reason why low pay is a particular problem in London is the distribution of job-types in the capital. Large numbers of people in low-pay sectors such as hospitality and retail among others, mean considerable proportions of the London workforce work at the lower end of the wage spectrum.[70] Figure 10 illustrates the sectoral distribution of employment across the London economy in 2018.

Figure 10: Number of people employed in difference sectors of the London economy, 2018

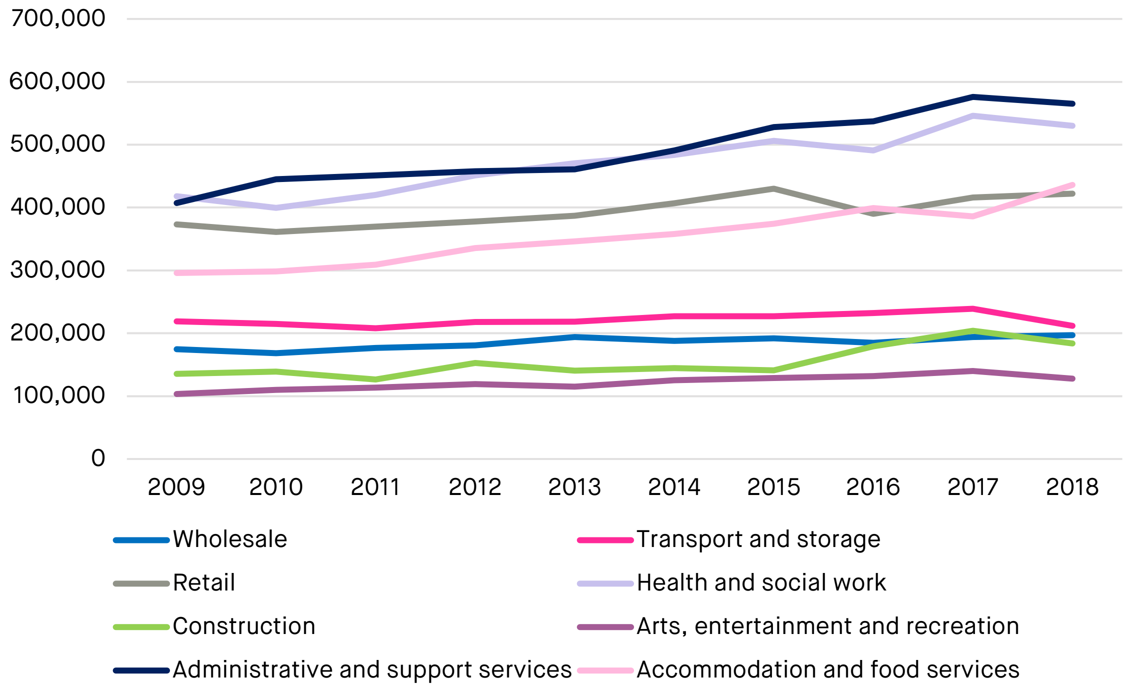


Source: Office for National Statistics

In 2018, for example, 8% of employees in London worked in "Retail". A similar proportion were found in the "Accommodation and food services" sectors, while 10% were employed in "Health and social work" and 2% in the "Arts, entertainment and recreation" industries. Low-wage work is not exclusive to these sectors but is common in them and together they accounted for more than a quarter of the employment in London, in 2018.

Further, as observed by the Centre for Economic and Social Inclusion, employment growth has been substantial in many of the lower-paid sectors.[71] The data presented in Figure 11 illustrates that growth.

Figure 11: trends in the number of employees working in selected sectors in London, 2009 - 2018



Source: Office for National Statistics

Figure 11 shows that, over the period 2009-2018:

- The "Retail" sector in London saw the number of people employed in that industry grow by 13%.
- The number of people employed in the "Accommodation and food services" sectors in the capital, grew by 47% over the same period.
- Those employed in "Health and social work" activities grew by 26% between 2009 and 2018.

Skills, terms and conditions of employment and progression in London

As noted earlier, factors like skills and training are associated with in-work poverty, and this is no different in the capital.[72] The problems are not limited to vocational skills and training, however. Standards of more general education are a problem for a substantial proportion of London's workers, too. One analysis suggested that:

- 2 million Londoners do not have a Level 3 qualifications (i.e. equivalent to A-Levels)
- 1.3 million don't have a Level 2 (or GCSE-level) qualifications
- 400,000 have no qualifications at all[73]

Other data suggests that London has the lowest levels of adult literacy of any region in the UK, and lower levels of IT skills than the national average.[74]

In addition, according to the London Assembly's Economic Affairs Committee, other causes of in-work poverty rates in London include:[75]

- A rising number of employers not paying the National Minimum Wage (NMW)
- Workers being in roles without employment benefits
- Poorly monitored conditions due to a lack of transparency in procurement and outsourcing

Research by the SMF has noted that a lack of opportunities for career progression for many workers played a role in sustaining in-work poverty. More progression would, as noted earlier in this report, help more low paid people in London escape poverty in the longer-term, even if the effects take time to emerge.[76] These findings are consistent with research commissioned by Trust for London, which similarly found that progression through better career structures within industries can be helpful in tackling low pay and poverty in the capital city.[77]

The cost of living in London

London is, infamously, an expensive place to live. Analysis by WPI Economics, conducted for Trust for London, estimated that the cost of living in London is between 15% and 58% higher than the cost of living elsewhere in the UK.[78] Housing costs are a key part of that difference between the capital and the rest of the country.

Housing is a key driver of differences in the costs of living

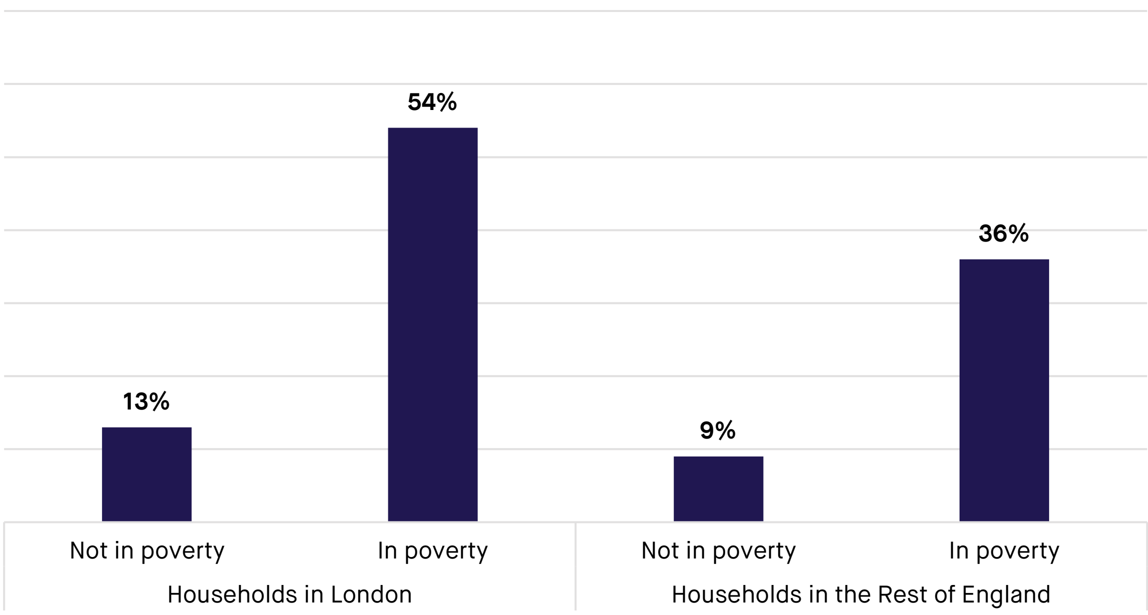
The impact of expensive housing is particularly acute for those on lower incomes living and working in London, as Figure 12 demonstrates. In the capital, poverty rates are twice as high "after housing costs", compared to the poverty rate before they are accounted for.[79] Further, as such, housing has been identified as a key driver of in-work poverty in the capital.

Figure 12 reveals that – over the period 1996-97 to 2019-20 – the poverty rate in London has remained broadly similar to that in the rest of England, if housing costs are not taken into account. However, after they are accounted for, the poverty rate in London has remained persistently above that in the rest of England over the period. In 1996-97 for example, the post-housing costs poverty rate gap between London and the rest of England was five percentage points. In 2019-20 the gap was six percentage points.

Figure 12: proportions of people in poverty before and after housing costs, 1996-97 – 2019-20

Source: London Poverty Profile 2021

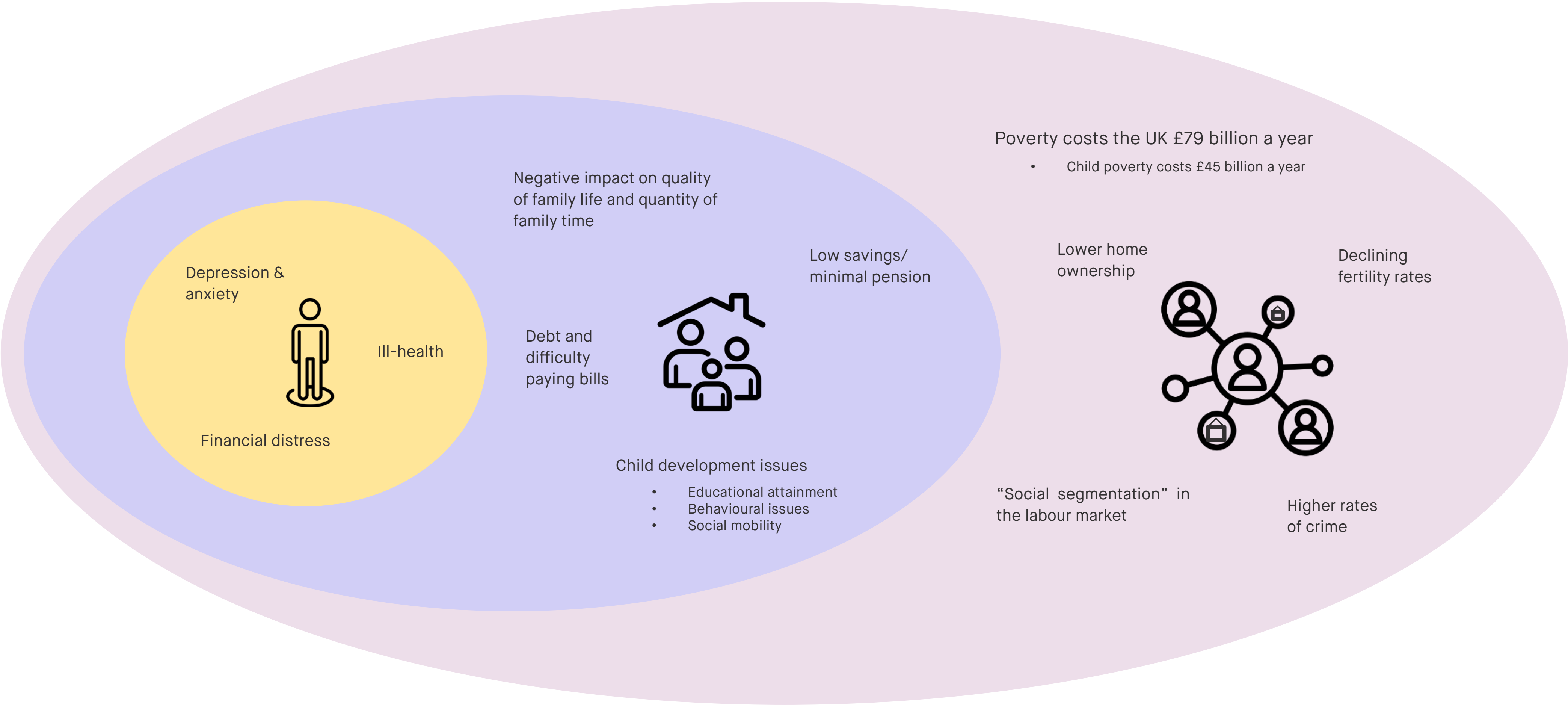
Figure 13: housing costs as a proportion of net income for households in poverty in London and England, 2019-20



Source: London Poverty Profile 2021

Figure 13 highlights the proportion of net household income that is accounted for by housing costs for households below the poverty and line and those above it, in London and the rest of England. For those London households classified as poor, housing costs typically account for more than half of their net income, compared to just over a third of net income of poorer households in the rest of England.

Diagram 4: summary of the key impacts that poverty has on individuals, families, and communities



Source: SMF

CHAPTER FIVE – THE IMPACT OF POVERTY ON INDIVIDUALS, FAMILIES AND COMMUNITIES

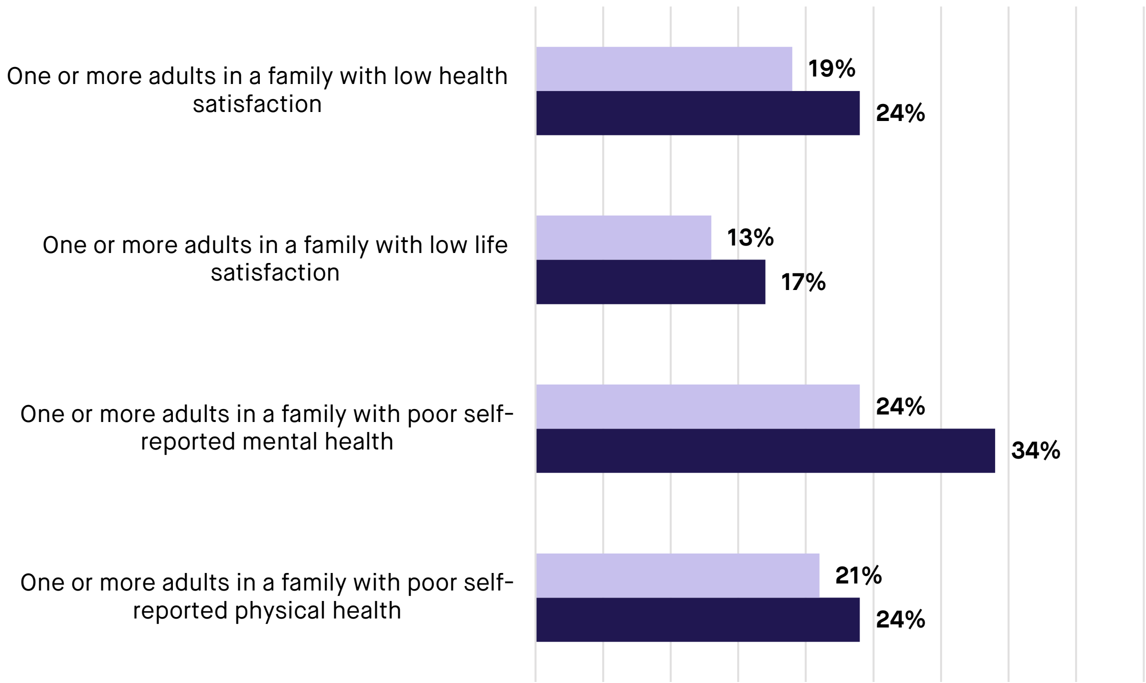
The impact of poverty on individuals and their families

Poverty is linked to numerous pathologies

Poverty is linked to a number of pathologies, such as family dysfunction, including damaged relationships between parents and their children.[80] One way parent-child relationships are impaired is through the effect of poverty on parenting[81,82] which is, in-part, a result of the way poverty impacts the intensity of the "work-life conflict"[vi] of those on lower incomes. While everyone in work experiences the conflict to some degree, the conflict can be particularly severe for those on lower incomes.[83] [84]

Further, poverty is also connected to a number of health problems (e.g. obesity and high blood pressure) and – more broadly – low levels of well-being, Figure 14 shows the differences, among those of the population that are in poverty and those that are not, in the prevalence of various health and well-being related problems.

Figure 14: Proportion of households in poverty and not in poverty reporting various health and wellbeing problems, 2020



Source: Social Metrics Commission

[vi] The "work-life conflict" describes the nexus where work and the other parts of a person's life such as parenting intersect, influence and can be in tension with one another. While everyone in work experiences the conflict to some degree, the conflict can be particularly severe for those on lower incomes. Sources: Ahmad, A. (2008). Direct and Indirect Effects of Work-Family Conflict on Job Performance. The Journal of International Management Studies. Vol 3. No 2 and Chaudry, A and Wimer, C. (2016). Poverty is not just an indicator: the relationship between income, poverty and child well-being. Academic Paediatrics. Vol 16. No 3.

The intergenerational consequences of poverty

The costs of poverty are not just limited to those in poverty at any particular moment in time. It can have inter-generational impacts. For example, poverty is frequently reproduced across generations because a family's poverty can influence the life chances of the children of that family. Specifically, poverty shapes the cognitive, social, and physical (health) development of children. These, in-turn, have consequences for educational achievement and on behavioural patterns through life,[85] which feed through into a precarious work-life in adulthood and constraints on the opportunities for moving up the socio-economic ladder.[86]

The psychological, physical, and familial problems associated with precarious work

Precarious work breeds psychological detriment, which stems from the "dissatisfaction" that those in insecure or with insufficient work often feel about their working lives. The lack of certainty and control over hours, for example, and the ability to plan for the future[87] lead to higher proportions of those in such situations suffering from anxiety, depression[88] and distress,[89,90] compared to workers with more secure employment arrangements.

Some of the consequences of such problems – for businesses and the economy – are revealed in Health and Safety Executive (HSE) estimates of the number of working days lost to work-related stress, depression, or anxiety. The HSE identified that 15.4 million working days were lost as a result of the conditions, in 2017-18.[91]

In addition, there is often a negative association between physical wellbeing and insecure forms of work. Casual workers, for example, experience more workplace injuries and ill-health, fatigue, and exhaustion and have higher rates of sickness absence.[92] [93] [94]

There are significant "knock-on" consequences for the families of those in insecure work too, as a result of the way it affects the work–life balance of those in such roles.[95] Poor work-life balance means high levels of "work-life conflict" and subsequent negative impacts on, for example, family life.[96]

The impact of poverty on financial well-being

Poverty has a direct impact on the "financial well-being" and resilience of individuals and families – see Box 2. Research conducted in 2019 found that 1 in 5 adults in the UK described their financial well-being as "poor" or "very poor".[97] The same survey reported that "money" was the most frequently reported (61%) source of "stress" by UK workers.[98] These findings are echoed in work conducted by the Chartered Institute of Personnel and Development.[99] Further, more than a quarter (27%) of adults reported suffering "financial stress" on a "daily basis" in 2019, while 20% said they suffered it "weekly".[100] Analysis published in 2017 identified that just under 1 in 5 (19%) employees said that they had "lost sleep" worrying about their finances.[101] Survey work carried out in 2019 discovered that the health of 34% of adults in the UK had suffered because of "financial worries".[102]

Box 2: defining financial well-being

Financial well-being is a term that encompasses a number of factors. These include:

- The gross and net financial position of individuals and families i.e. the total and balance of income, outgoings, assets, and debts.
- The subjective perspective of individuals or families about their financial situation, including financial concerns or "distress" (i.e. the frequency and intensity of concerns).
- The broader attitudes of individuals and families towards finance and risk and the knowledge of people about financial products.
- The management (i.e. extent of effective control) of individual or family finances e.g. saving habits, paying bills and dealing with other regular and one-off costs including the approach towards taking on and paying off debt.

Source: Chartered Institute of Personnel and Development

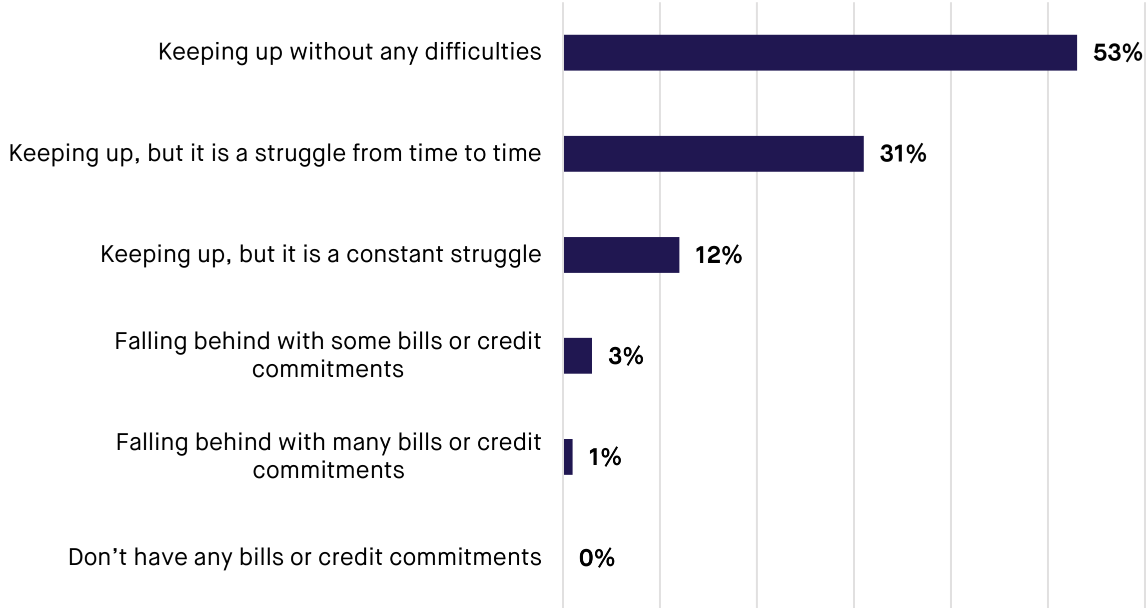
Financial resilience is important in helping ameliorate "financial distress" and in-turn in enhancing financial well-being. Poorer households suffer the highest incidence of "financial distress". Evidence from the Social Metrics Commission found that more than quarter of households in poverty (27%) reported "difficulties paying their bills", compared to only 7% of households not in poverty.[103]

Low-income households are the least well-positioned to build up financial resilience, relieve financial distress, and enhance their financial well-being, as the Social Metrics Commission illustrated when it found that around 7 in 10 households in poverty reported having no savings, compared to 38% of household saying the same, who were not in poverty.[104]

Nevertheless, the challenges of financial resilience and well-being are not limited to the poorest in society. High levels of financial "distress" among UK working households was found in Chartered Institute for Personnel and Development commissioned YouGov poling in 2018. Data published by the Money Advice Service (MAS) in 2015 for example, revealed that:

- Around half of people of working-age were neither paying into a pension nor had a pension they'd previously paid into[105]
- Just over a quarter of working-age people (28%) agreed that they had savings equivalent to three months' worth of earnings[106]
- 4 in 10 respondents considered that they "did not manage their money well"[107]

Figure 15: Financial stability of UK employees, 2018

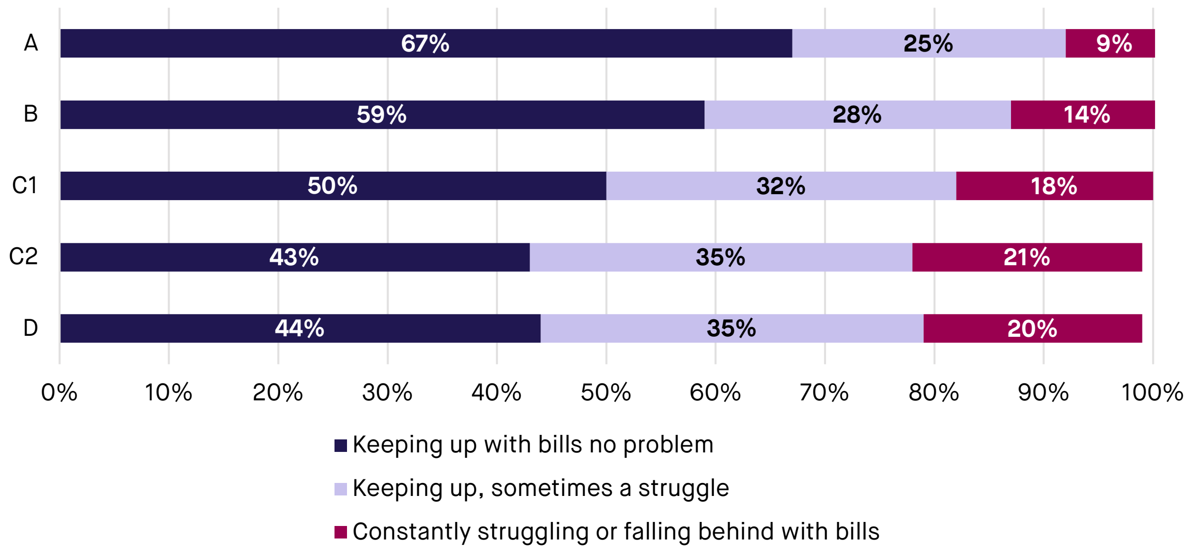


Source: Chartered Institute of Personnel and Development

Figure 15 shows the results of a 2018 survey, which found that 16% of employees in the UK, in that year, were regularly "struggling with bills and debt" or were in arrears. The same research revealed that a further 31% "struggled" with such problems from "time to time".

A breakdown of financial distress across socio-economic classes (Figure 16) identified that UK workers in socio-economic classes C2 and D were more likely to report either "sometimes struggling" or "constantly struggling" to pay bills or "falling behind" with bills, than those in higher socio-economic classes.

Figure 16: Financial well-being across different socio-economic groups in the UK, 2018



Source: Chartered Institute of Personnel and Development

The impacts of poor financial well-being on employers

The challenging financial position of many workers in the UK brings with it a number of negative consequences for employers which, as the Financial Conduct Authority (FCA) has highlighted, an overwhelming majority of businesses (90%) acknowledge.[108] Specifically:

- Research published in 2017 suggested that "money worries" have affected the ability of 1 in 4 workers to "do their job" and that 1 in 3 younger workers believe that "money worries" have impacted their work.[109]
- Analysis from 2016 found that 55% of UK employees reported "financial pressures" affected their "behaviour at work" and consequently their "ability to carry out their job".[110]
- A survey conducted in 2019 discovered that 24% of those in jobs reported their productivity had been "impaired by financial worries" and 12% of adults had seen their "relationships at work suffer" because of "financial worries", and 9% said their "attendance at work" had declined because of financial problems.[111]

The impact of poverty on society

The aggregate financial cost of poverty

Poverty generates significant aggregate costs to society. One estimate suggested that poverty costs the UK £79bn a year,[112] while child poverty specifically, has been calculated to cost in the region of £45bn a year.[113] In welfare benefits alone, the ONS shows that –annually – the UK government pays out £46bn to families, to support the income of those in poverty and in tax credits. [114]

Other societal costs associated with poverty

Poverty plays a role in increasing and perpetuating crime. Although the relationship is more nuanced than often supposed,[115] there is nonetheless, a link between deprivation and crime levels. Consequently, reducing the former will likely reduce levels of the latter.[116]

Poverty has also been linked to:

- The polarisation of some parts of the labour market, with low-pay and precarious work leading to the "social segmentation" along education and skills, age, sex, and ethnicity lines[117]
- Declining fertility rates[118] and lower home ownership[119]

The societal benefits of reducing deprivation

Given the individual, familial, and societal costs associated with poverty, reducing it would inevitably bring about considerable financial savings for taxpayers. As well as the more obvious gains from lower welfare payments and higher tax revenues, reducing the health, social, and psychological problems that afflict many of those in poverty will mean better physical health for more people and lower incidents of mental health problems, saving the health service money.[120] [121] Cumulatively, such gains will generate considerable intangible improvements too, due to reduced levels of misery and conflict inside and outside the home. Longer-term benefits for lower levels of poverty include better developmental and educational outcomes for children and the opportunity to “break” the reproduction of poverty across generations.[122]

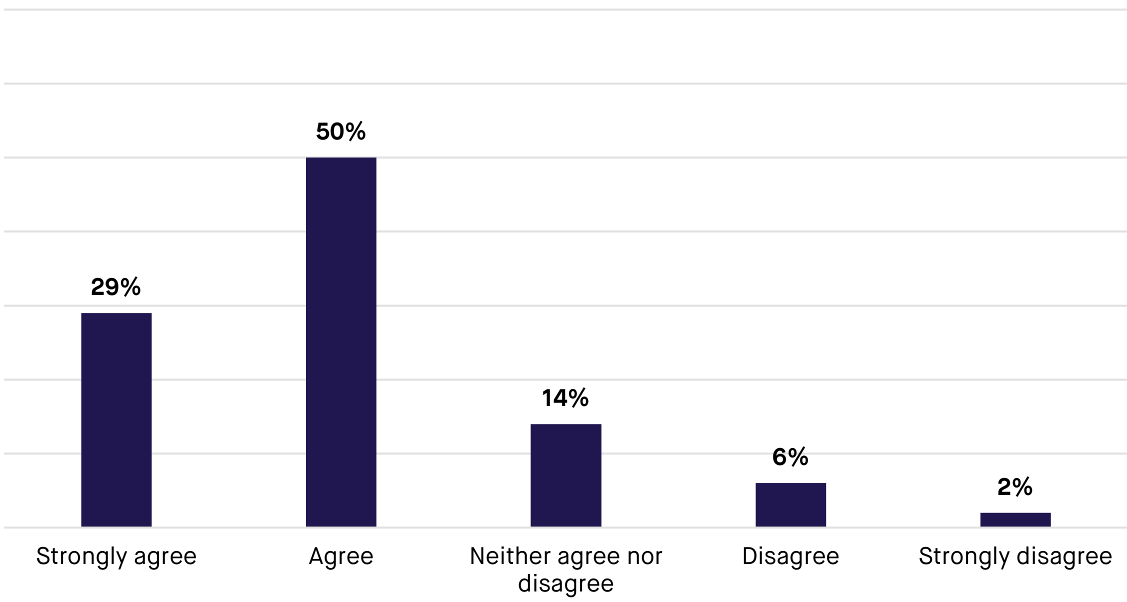
CHAPTER SIX – POVERTY IN LONDON: THE EMPLOYER PERSPECTIVE

Most London-based businesses with employees are aware that there is considerable poverty in the capital city. Further, many are of the view that poverty, such as poverty that affects their own employees, brings with it several negative consequences for their business.

Business perceptions of the prevalence and nature of poverty in London

The extent to which businesses are conscious of the poverty in London is reflected in the survey findings set out in Figure 17. The data shows that nearly 8 in 10 of London's employer community "strongly agreed" or "agreed" with the statement that "poverty is an issue that impacts people in London".

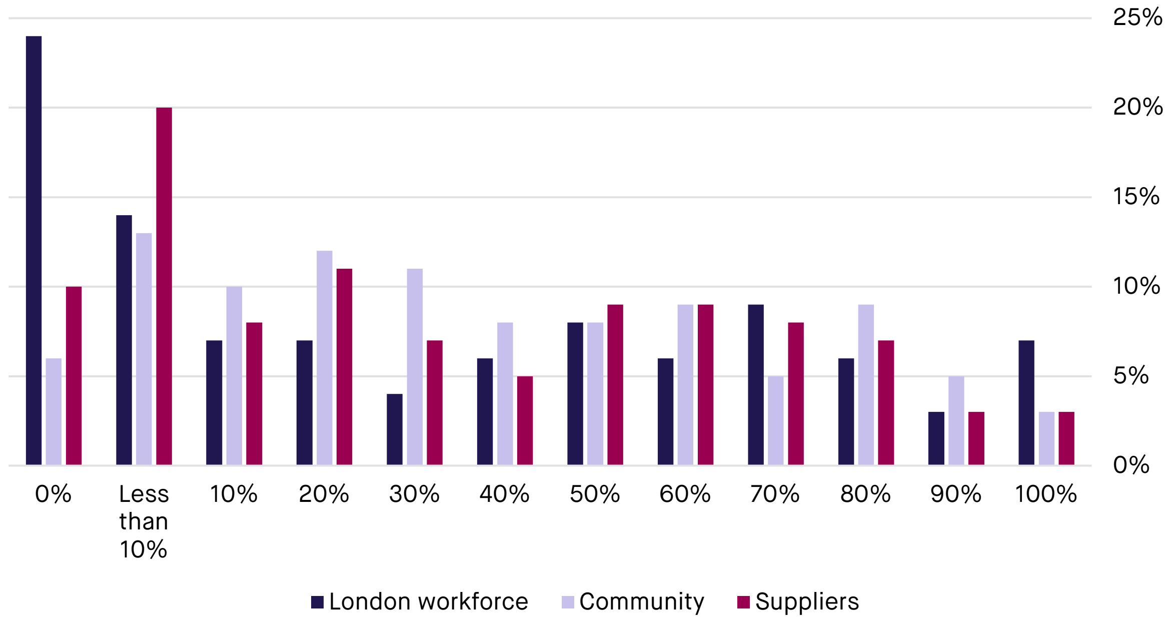
Figure 17: The extent to which London businesses agree that poverty is an issue that impacts people in the capital



Source: Opinium survey of London businesses, 2021

Further, as Figure 18 highlights, many London employers recognise that sizeable portions of their own workers are "directly affected" by poverty. Significant proportions are also aware that the communities where their main London business operations are based are affected by poverty, too. Finally, substantial percentages of firms in the capital are also cognisant that many of those who work in London-based enterprises supplying their business with goods or services are also directly affected by poverty.

Figure 18: London businesses' estimates of the proportion of people in their workforce, the areas local to their main London business operations and among those who work for their local suppliers, that are directly affected by poverty



Source: Opinium survey of London businesses, 2021

Figure 18 shows that:

- 76% of employers believe that at least some members of their London workforce are "directly affected" by poverty. Further, 39% of London businesses estimated that more than half of their workforce are "directly affected" by poverty and 7% of London businesses estimated that all of their workforce is similarly affected by poverty.
- 94% of respondents believed that the community where their main London operations took place are "directly affected" by poverty.
- 9 in 10 employers said that they considered it to be the case that at least a proportion of the people who worked for their local (i.e., London-based) suppliers are directly affected by poverty.

Box 3: Business characteristics associated with low pay

Characteristics such as business size and sector are linked to the prevalence of low-waged work. Low-paying jobs are more common amongst smaller businesses than larger ones for example, and tend to be found more frequently in labour-intensive, low-barrier-to-entry sectors. Table 2 illustrated some of these relationships using analysis by the Resolution Foundation. Other sources reinforce the picture of an association between low-paid employment and particular business characteristics. 2019 data published by the Low Pay Commission (LPC) in early 2020, revealed that:[123] [vii]

- 16% of workers aged 25 or over[viii] in micro-businesses (10 or fewer employees) were estimated to be receiving the "National Living Wage".
- 12% of staff that were 25 or older in smaller firms (11 to 49 employees) were being paid the "National Living Wage".
- 7% of those that were 25 or more in medium-sized (50 to 249 employees) enterprises and 5% of those in large companies (250 or more employees) were earning the "National Living Wage".

The same report revealed the sectors where employees receiving the "National Living Wage" predominate:

- In "Hair and beauty" businesses, 35% of workers 25 and over were being paid the "National Living Wage".
- In the "Cleaning and maintenance" sector, 30% of workers 25 and over were earning the "National Living Wage".
- 29% of people 25 and over working in "Hospitality", 25% in "Textiles" businesses and 21% in "Food processing" are paid the "National Living Wage".

In a 2019 published analysis of the "National Minimum Wage" i.e. the statutory minimums paid to the under-25s, research for the LPC showed that:[124]

- 18% of those under 25 and who were employed in micro-businesses were paid the statutory age-appropriate minimum wage. Although, this overall figure disguises considerable variation. For example, in 2018, 30% of 18 year olds employed in micro businesses were paid at the 18-20 Year Old Rate.
- 16% of those who were below 25 years of age and employed by small businesses earnt the age-appropriate minimum wage.
- 14% of employees 24 years of age and under and working in medium-sized enterprises were on age-appropriate "National Minimum Wage" rates, while in larger companies 8% of those employed and under 25 were being paid "National Minimum Wage" appropriate to their age.

[vii] Between April 2019 and March 2020, the "National Living Wage" rate - for those aged 25 and over - was £8.72. For those aged between 21 and 24, the "National Minimum Wage" rate was £7.70. The wage for workers aged 18 to 20 was £6.15. For those employed who were under 18 the rate was £4.35 and the apprenticeship level was £3.90. Source: National Minimum Wage and National Living Wage rates - GOV.UK (www.gov.uk)

[viii] Until April 2021, when the age at which the "National Living Wage" qualifying age was reduced from 25 to 23, under-25s were subject to a number of different age-dependent "National Minimum Wage" rates different to the "National Living Wage", applicable to all those employees that were 25 or older. For example, between April 2018 and March 2019, workers 25 and older the statutory minimum was £7.83. For those aged between 21 and 24, the "National Minimum Wage" rate was £7.38. The wage for workers aged 18 to 20 was £5.90 For those employed who were under 18 the rate was £4.20 and the apprenticeship level was £3.70. Source: National Minimum Wage and National Living Wage rates - GOV.UK (www.gov.uk)

The analysis showed that younger people tend to be concentrated in low paying sectors of the economy. For example:

- 86% of 18-year-olds in 2018 were found to be in low paying jobs. With 34% working in the “Hospitality” industry and 32% in the “Retail” sector.
- 63% of 21-year-old workers were in low paid employment. 15% were working in the “Hospitality” sector and 19% in the “Retail” industry.
- Among those who were age 23 in 2018, 42% worked in low paying roles, and among the 24 years old, 38% were in low wage occupations.

Source: Low Pay Commission

Reasons why poverty is important to London businesses

London employers that acknowledge that there is poverty among their own workforces, the communities their main business activity is based in, and among those who work for their local suppliers, recognise that poverty can have negative consequences for their business. These include impacts on:

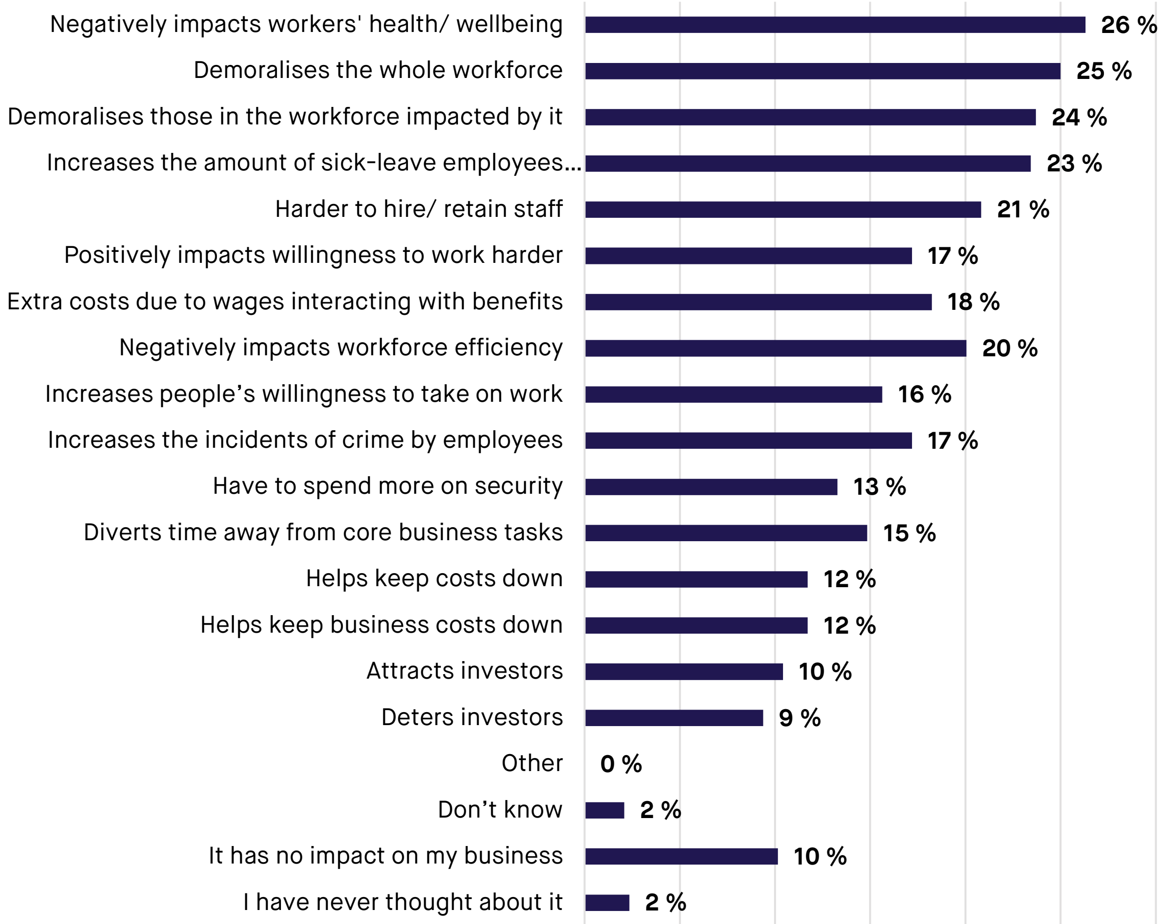
- The quality of the workers that employers have access to
- The security of the staff that work for companies that have operations in areas of deprivation
- The reputation of a business who, for example, deals with local suppliers that pay their staff low wage

How workforce poverty impacts London employers

Figure 19 shows the ways in which poverty among the workers in a firm, can impact that company’s activities. The eight most frequently cited impacts identified by respondent London employers were negative ones.

Amongst firms who agreed that at least some of their workforce are "directly affected by poverty", the most commonly reported impact was the effect it had on the “health and wellbeing of workers” (26%) in the business. The second most frequently cited answer was that poverty “demoralises the whole workforce” (25%). The third most frequently given answers was the “demoralisation of those in the workforce who are in poverty” (24%) and the fourth was that poverty among workers increased the amount of sick-leave workers take (23%).

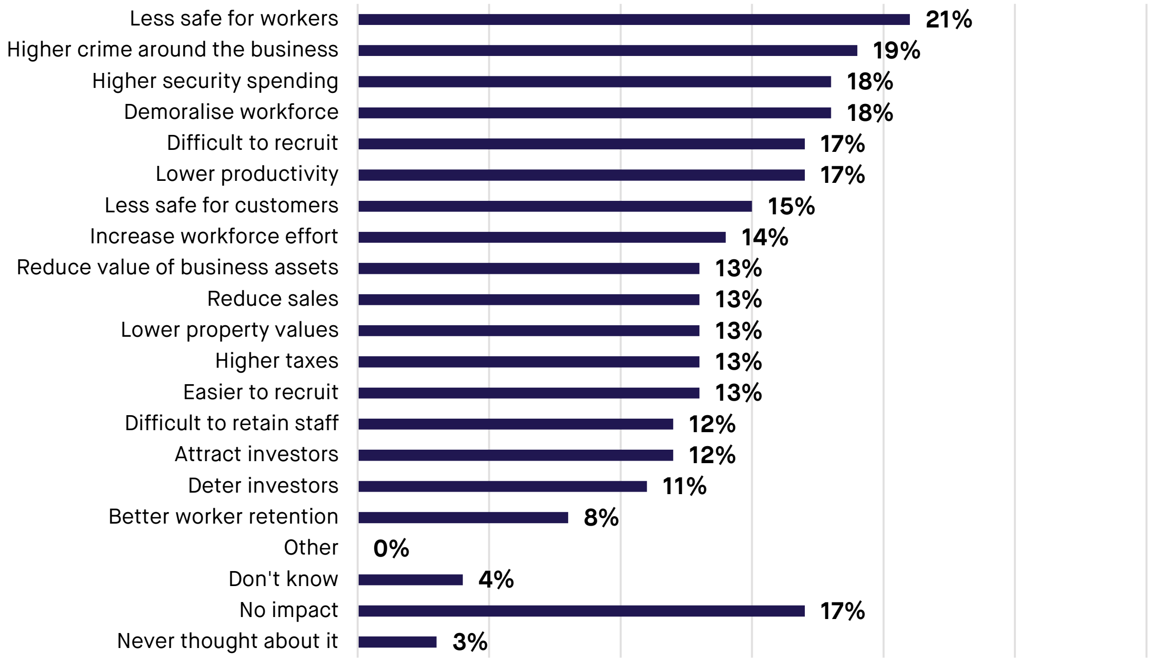
Figure 19: Ways in which workforce poverty impacts London employers



Source: Opinium survey of London businesses, 2021

How poverty in the community impacts London employers

Figure 20: Ways in which poverty in the community local to London employers impacts business



Source: Opinium survey of London businesses, 2021

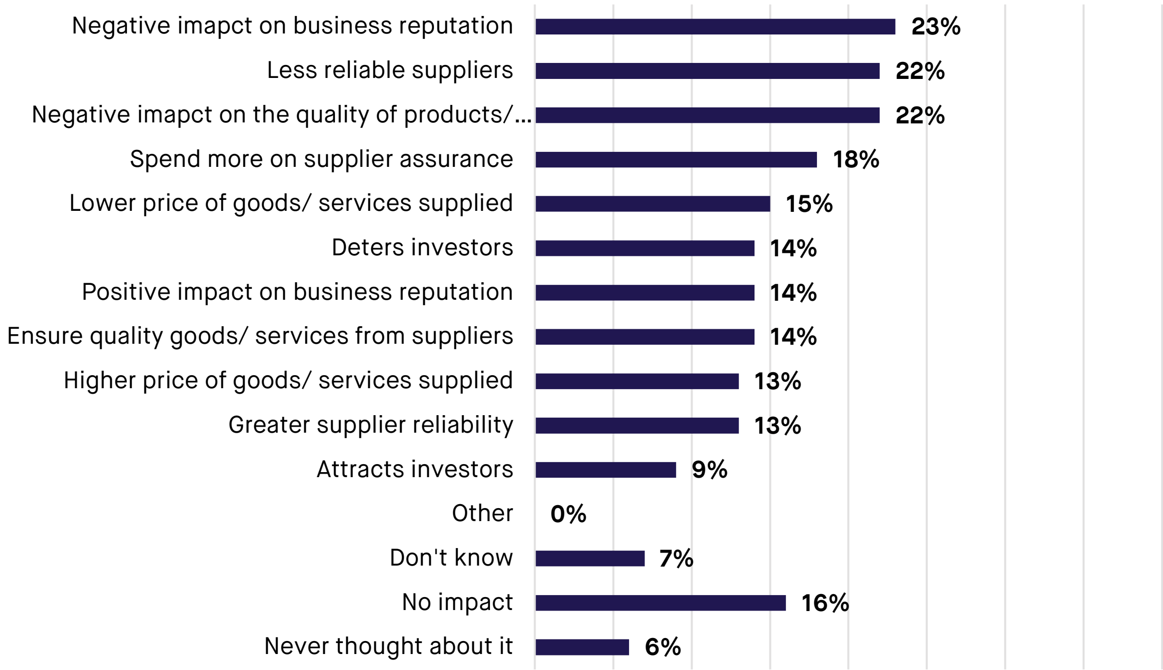
Figure 20 shows the ways in which poverty in the communities local to where London businesses have their main operations, impacts those companies. The seven most frequently cited impacts, by respondent employers, were negative ones.

In particular, among those respondents that agreed at least some of "the community local to their main London business operations are directly affected by poverty", the most often cited way that such poverty impacted the respondent business was through the "risk to the security of staff" (21%), which is no doubt, in-part, a consequence of the link between deprivation and crime. Close behind, among the reported impacts, were concerns about crime – more generally – committed against the business (19%), "spending more on security" (18%) and the "demoralisation of staff" (18%) as a result of the poverty in the surrounding area.

How poverty among those working for local suppliers impacts London employers

Figure 21 illustrates how poverty among the workforces of local suppliers, can impact the purchasing company. The impacts identified by respondent employers were primarily negative, with the four most frequently cited consequences all being detrimental ones.

Figure 21: Ways in which poverty among the workforces of local suppliers impact London employers



Source: Opinium survey of London businesses, 2021

As Figure 21 highlights, the most commonly reported way that “poverty among the workforces of local suppliers” impacts employers is through it having a negative effect on the "reputation" of the procuring company (23%). This was followed by the way poorly paid workers working for suppliers can feed through into issues of “supplier reliability” (22%) and the “quality of the products or services provided by suppliers” to the purchasing firm (22%).

CHAPTER SEVEN – THE PIVOTAL POSITION OF EMPLOYERS

As has been described in previous chapters, in-work poverty is in-part, the consequence of factors such as low pay, precarious and insufficient hours, other terms and conditions of employment, and workplace issues. This makes alleviating in-work poverty something that employers can have an influence over. As noted by the director of the Webb Memorial Trust:[125]

> *"…if we are to see long-term improvements on tackling in-work poverty, employers must be part of the solution, not viewed as some sort of outsider who gets a kicking every so often…"*

Why employers?

Employers are not a "silver bullet" for solving poverty of any kind, and in-work poverty in particular. However, their potential role in helping somewhat ameliorate the latter is being recognised. The Joseph Rowntree Foundation has offered a balanced view of the position:[126]

> *"[W]hile employers and businesses may not control markets, the wider business environment or institutional infrastructure, they do make real choices over how they use labour, for example in relation to who they recruit and train, the terms and conditions they offer and the priorities they accord to human capital investment and development in both company specific and transferable skills. These choices have…consequences…".*

Box 4: What employees want employers to do to help tackle in-work poverty

Focus group research that asked low-paid workers across the retail, care and hospitality sectors about their experience of work and what steps they would welcome being taken by employers, which would help improve their economic position, found that most low-paid workers believed better pay was the best way that employers could help.[127] Other improvements focus group participants said they would like to see because they believed they would help their economic position, included other aspects of their terms and conditions of employment, such as paid leave and sick pay, recognition of training and support for childcare.[128]

Certainly, better pay is the most obvious way that employers can help their members of staff who are living below the poverty line. More take-home pay would ease the financial difficulties faced by those in poverty.

In addition to pay, employers have considerable influence over the number of hours of work that they offer to employees and the basis on which they offer them e.g., their regularity. More certainty over working hours and ensuring that employees are not "under-employed" would also help improve the financial position of low paid workers.

Better pay and more secure hours would be likely to make a substantial difference in reducing some of the problems associated with insecure work, such as physical and mental health problems as well as lessening the intensity of the "work-life conflict"[129] that many on low incomes experience.

More opportunities for progression are another way that employers can help their workers get out of poverty. However, offering employees the chance to progress and increase their pay and improve their other employment terms and conditions as a result, is likely to prove to be one of the more difficult options for some employers. Not least because many of the factors which might make progression possible could be disruptive to existing business models.[130] The chance for progression also depends on way the business is organised (e.g. if the firm has a flat hierarchy and therefore the likely availability of "internal ladders" to ascend) and the wider structure of the industry and industry practice.[131] Some industries for example, do not have well established career paths, which is then reflected in most businesses in that particular industry. Further, other aspects associated with progression, such as improving skills through training, can be expensive, especially for SMEs.[132]

Sources: Ahmad, A (2008); Hay, C (2015); SMF and Wales Centre for Public Policy

Direct or indirect influence over a number of causes of in-work poverty

The Joseph Rowntree Foundation identified six factors that employers have varying degrees of control over, and which have a direct or indirect bearing on the prevalence of in-work poverty among the workforce. These include:

- Employment levels and workforce composition
- Pay and benefits (including measures such as pensions, staff discounts, workplace savings, and salary finance e.g., pay advances)
- Contractual forms
- Working hours
- Work organisation
- Training, learning, development and career progression

Others have suggested additional factors can be added to the six listed above. These include:

- Greater “employee voice”[133]
- Flexibility that is not “one-sided” i.e. the kind of flexibility that suits employees as well as employers[134]

Other examples of where employers have helped to tackle social problems

There are a number of examples where employers have – slowly – begun to take a more prominent role in helping improve the position of those in society who suffer from conditions or find themselves in challenging circumstances, which make it harder for them to participate in society. Boxes 5, 6 and 7 briefly explore some examples of this. One implication of these examples is that employers can play a role in helping tackle social problems in general, and that this growing set of examples suggest employers could do the same with poverty.

Box 5: Why employers? Taking responsibility for mental health

Mental health is a growing public health concern.[135] In recent years, the overall number of people reporting mental health issues has increased[136] but, at the same time, so has society's awareness and understanding of it. There has been a significant shift in the public's attitudes towards supporting people with mental health problems, and people are much more willing to speak to others and seek treatment for it, than just a decade ago.[137]

In employment, work-related stress can either cause or aggravate mental health issues. Increasingly, businesses are encouraged to support individuals with their mental health in the workplace, and new standards have been set to help guide employers to better support their staff.

Findings published by the British Chambers of Commerce in 2018 suggested that 30% of businesses had seen more staff taking sick leave because of mental health issues, while 33% said the amount of time being taken off was increasing as a result of mental health issues.[138]

As well as increased Government commitment to mental health, such as pledging to increase funding by at least £2.3 billion per year[139] and encouraging employers to provide formal mechanisms to tackle – and "dramatically reduce" mental health and work-related stress in the workplace[140] – there has also been increased interest in workplace accreditations that demonstrate employers are supporting their employees' mental health, such as the Workplace Wellbeing Charter.[141]

In the UK, there has been a major change in how mental health is perceived. It is often seen as a workplace priority, and employers not only recognise that looking to improve the wellbeing of their staff is the right thing to do, but that it is good for business. The British Chambers of Commerce reported that, in 2018, 36% of businesses had or were reviewing the workloads of their staff in light of mental health concerns; 35% were reviewing "flexible working options"; 20% were "organising counselling for staff", and 18% of businesses said they were providing training to managers so that they "better support staff".[142] Further, research shows that looking after the mental wellbeing of staff can significantly improve employee engagement and overall productivity.[143] [144] [145]

It has been suggested that the recent history of mental health in the workplace has becoming much more of a priority for employers offers an example of how in-work poverty in particular might also become a priority for firms.

Sources: British Chambers of Commerce; Robert Walters Group; Mental Health Foundation and Oswold, A J (2015)

Box 6 offers a brief overview of the position of disabled people in the labour market in the UK. It describes some of the benefits that can accrue to a business from employing disabled people and provides an indication of the evidence about the enthusiasm among businesses for doing so.

Box 6: Why employers? Taking responsibility for disability

According to Government data, 14.1 million (22% of) people in the UK are disabled. 19% of that population are working-age adults,[146] and 4.4 million disabled people are in work.[147] The proportion of working-aged disabled people (27%) living in poverty is higher than that of non-disabled people (19%).[148]

There is a significant gap between the proportion of disabled people that are employed in comparison with non-disabled people[149]. While discrimination does still exist, attitudes towards disabled people are changing: data from the British Social Attitudes Survey in 2017 found that 83% of respondents thought of disabled people as the "same as everyone else", compared with 77% in 2005.[150]

The proportion of disabled people in the UK in employment increased by 1.41 million i.e., from 44% of disabled people in 2013 to 52% in 2020.[151] Further, the "disability employment gap"[ix] shrank by 4.9 percentage points between late 2013 and late 2020.[152]

The trends in employment figures reflect, at least in-part, changes in the workplace, and businesses are increasingly encouraged to attract and employ disabled talent. Not just because it is the right thing to do, but also because it makes good businesses sense. According to Government guidance, recruiting disabled people can help to:[153]

- Increase the number of high-quality applicants available
- Create a workforce that reflects the diverse range of customers it serves and the community in which it is based
- Bring additional skills to the business, such as the ability to use British Sign Language (BSL), which could result in large savings

In 2016, the Department for Work and Pensions launched the Disability Confident employer scheme. The scheme encourages employers to change workplace attitudes to disability and to take action about how they recruit, retain, and develop disabled people. It also helps customers and other businesses to identify which workers are committed to equality in the workplace. Over 20,000 organisations have signed up.[154]

Sources: Department for Work and Pensions; House of Commons Library and Office for National Statistics

[ix] The 'disability employment gap' is the difference in the employment rate of disabled people and those who are not disabled. Source: Disabled people in employment (parliament.uk)

Box 7 sets out how employers have become the “frontline” in tackling modern slavery. It also notes that many investors have taken up the issue and some have made taking steps to minimise slavery in supply chains part of their criteria for evaluating the suitability of firms for investment.

Box 7: Why employers? Taking responsibility for modern slavery

According to the latest Global Slavery Index, it was estimated that there are 136,000 victims of modern slavery – people that are forced to work against their will in the UK.[155] This includes British nationals,[156] and forced labour in the UK can be found in a range of sectors, such as food packaging, car washes, nail bars, construction, agriculture, and food processing.[157]

In response, the Transparency in Supply Chains legislation in the Modern Slavery Act, introduced in 2015, requires businesses with a global turnover of more than £36 million a year to disclose the steps they have taken to prevent modern slavery within their business and supply chain.[158] But slavery, though more prevalent than many might than expect, remains largely hidden – concealed from the view of consumers.[159]

Pointing to the need for strengthened business practices, campaigners are also looking to implement policies to help reduce exploitative practices in the workplace, such as inspections by regulators and more protective labour laws.[160] At the same time, the BEIS Committee has opened an inquiry into forced labour in UK value chains.[161] The 2020 Report on Modern Slavery has detailed the Government’s wider efforts to combat modern slavery.[162] Away from government policy, training and accreditation such as that provided by the Unseen charity helps businesses and local service providers to identify signs of exploitation.[163]

Additionally, there have been reports of investment firms applying pressure to large companies that have been revealed as not complying with legislation, which also helps send a strong message to the rest of the business community. Ultimately, a failure to meet standards that in-turn negatively impacts a business’s reputation can result in a loss of customers or investor confidence and access to financing for businesses.[164]

Sources: Anti-slavery International; BEIS Select Committee; Financial Times; Global Slavery Index; Responsible Investor and Unseen

Factors outside an employer's control

Inevitably, despite their centrality, employers can only do so much. They have differing degrees of influence over a number of levers that can help improve the lives of their employees and more indirectly, those working in their supply chains or living in the communities in which they operate. There are a range of other economic influences on poverty in general and in-work poverty in particular, which are outside an employer's control. These "other influences" include:

- The "poverty premium" that many poor people pay for goods and services, which compound the precarious financial position of those already on relatively low incomes.[165]
- The structure of the labour market and its dynamics, which dictate – to some degree – the "going rate" for particular kinds of work and the availability and the quality of labour.
- The interaction of the tax and benefits system and the incentive structures it creates.
- The supply and demand dynamics of the sector in which any particular employer operates.
- The cost of living faced by workers.

Therefore, efforts to encourage employers to "do more" on poverty need to be mindful of these constraints and avoid expecting too much from businesses. At the same time, the idea that business has no role and that they cannot make any notable difference seems equally wrong.

CHAPTER EIGHT – PUBLIC OPINION

Research into the opinion of the British public on the role of business in reducing poverty or on how firms should treat their employees appears to be relatively rare. However, what research there is shows the public have a clear perspective on what role business can play towards topics such as employee wellbeing and poverty reduction.

Public opinion on what businesses can do to help ameliorate poverty and how they should treat their workers

Qualitative evidence shows that the public think businesses can help tackle poverty

Detailed qualitative research conducted by Ipsos MORI in 2014, revealed what the British public think about poverty and the potential role business can play in helping tackle it.[166]

The focus groups were clear that a fairer economy where people were paid sufficiently to live was important and that only collaborative solutions between government and employers can solve poverty.[167]

The main tools that the public believed businesses have at their disposal was wages. Contributors to the research were clear that:[168]

- Making work pay is likely to have the biggest impact on poverty.
- Employers should provide fair opportunities and pay a fair wage to those who work.

The focus group participants also outlined their views on how business should be encouraged to help tackle poverty. It was believed that "carrots" rather than "sticks" would prove a better way of encouraging businesses to offer fair opportunities and rewards to those who are in poverty.[169] There was concern raised about directly mandating increases in wages through higher minimum wages, because of a fear such an approach could either reduce hiring or increase prices.[170]

One participant in the qualitative research summed up the over-arching view of most people who took part in the focus groups, when they stated that:[171]

> "*This is not a business; it's a society…the morals have to drive the economics. If you have a moral imperative, you're fairer, everything's fairer…it has to be that way round [and] the morals have to be the driver*".

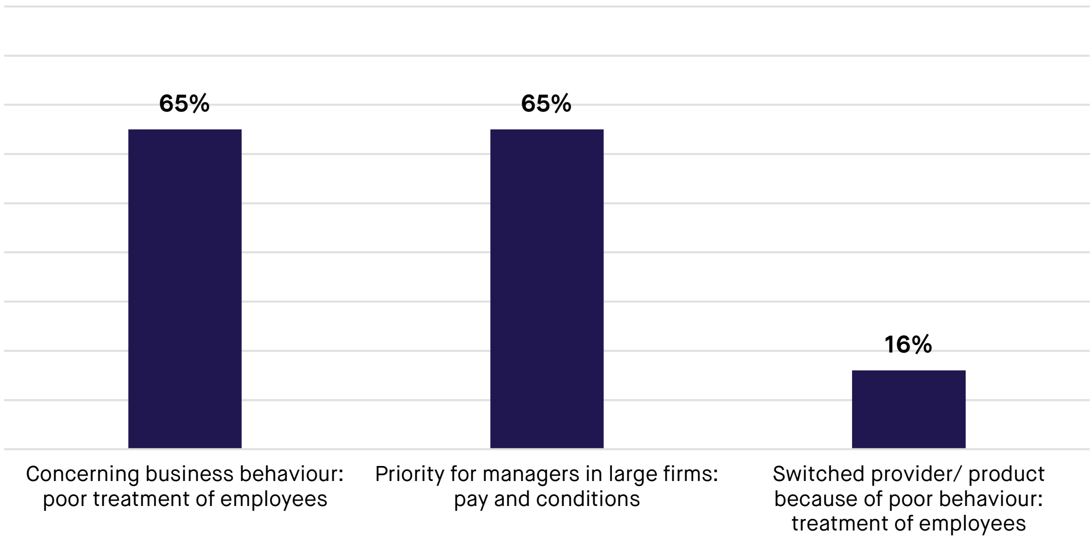
Survey evidence reveals the importance of businesses looking after their workers to the British public

Businesses treating their staff "fairly" is important to the UK public. This is reflected in survey evidence published by the Confederation of British Industry (CBI). When a representative sample of the public were asked what actions – if any – could improve the reputation of UK businesses, "treating employees well" was the most frequently cited response (60%) from participants.[172]

More than 4 in 10 respondents to the same survey said that businesses needed to "follow ethical practices" to improve their reputation.[173] Illustrating the relative prioritisation among the public of "workforce" issues over "environmental" issues, the survey found that providing public information on a firm's "environmental impact" was supported by just under 1 in 3 of those surveyed.[174] Further, when the public were asked about what business leaders needed "to do more of" to be "less remote", "engage with employees more" (49%) was the most popular response.[175]

YouGov research similarly found that the public expects businesses to treat their employees well and prioritise issues like "pay and conditions".

Figure 22: Public opinion prioritises employee welfare, 2020



Source: YouGov

Figure 22 illustrates some of the findings from YouGov research that was published in early 2020, which found that:

- 65% of the public said that "poor treatment of employees" was the kind of behaviour by businesses that "concerned them". This was the third most cited "concerning behaviour", just behind "making excessive profits" (68%) and "lying about products" (67%). It was ahead, in the public's view, of "poor environmental record" (58%) and "generally ignoring the spirit of the law" (53%) among others.
- 65% of people said that "staff pay and conditions" should be the most important priority for managers in big companies. It came out ahead of other issues the public said managers should also "have a focus on", including "paying fair tax" (63%), "reducing carbon footprint" (47%) and "fair treatment of suppliers" (44%).
- The most popular reason given to YouGov, by consumers, for actively changing the provider of a service they buy, not purchasing a product, or changing the brand of product they buy was workforce-related too. 16% said they had made such a change because a firm had "treated their workers poorly". The second most frequently given reason was a company's "environmental record" (14%)

and the third because a business had taken "extreme measures to reduce their corporate tax bill" (14%).

The business behaviours most of the public want to see

Efforts by firms to treat their employees "fairly", i.e. paying wages that people can live on, offering secure and sufficient hours of work along with other decent terms and conditions, as well as progression opportunities and more of a "voice" in their workplace, would put those businesses squarely in-line with what the majority of the public expect companies to be doing.

An example: What the public believe care sector businesses should do for their staff

A good example of the public's support for tackling low pay applied to a specific sector notorious for its low-pay and insecure work, is what they say about the care sector. Polling revealed that three-quarters of the public support much better wages and terms and conditions for care workers. Box 8 summarises the data.

Box 8: public opinion about poverty pay in the care sector

Data from the Kings Fund shows that:[176]

- 1.52 million people work in adult social care in the UK.
- The median hourly pay for someone working in the care sector, in 2020, was £8.20.
- The average turnover rate in 2019-20 was 30.4%.
- The average vacancy rate in England in 2019-20 was 7% and in London it was 9.5%.
- 24% of jobs in 2019-20 in social care were zero-hour contract jobs.

Research into public views on the terms and condition of employment (including pay) in the care sector, found that:[177]

- 72% of people considered care workers to be underpaid.
- 76% said carers should get paid at least the "Real Living Wage" of £9.30 per hour (£10.75 in London) for their work.
- 79% agreed that carers should get "decent terms and conditions".
- 69% of the public agreed that those who help people in their homes should get paid for travel between visits.

Source: The Kings Fund; Savanta ComRes and The Fawcett Society

CHAPTER NINE – POVERTY AS A BUSINESS PRIORITY

A growing number of businesses are paying attention to the issue of poverty in general and more particularly are aware that some of those in their employ are suffering from it. This is most obvious among the more than 5,000 firms, of all sizes and across many sectors, that pay the "Real Living Wage" to their staff and have become accredited by the Living Wage Foundation for doing so. However, for many other firms, their Economic, Social and Governance (ESG) focus is not on poverty "close to home" but is directed towards other issues such as the "environment" and frequently has an international, rather than domestic, focus.

The role of ESG in driving business behaviour

There are three factors that drive interest in ESG issues

Scholars have identified three categories of "motivation" that drive the adoption of ESG measures by businesses. These are:[178]

- "Values driven" motivations, whereby "ethical" practices are implemented because doing so is seen as an important part of the organisation fulfilling its "mission" i.e. "ethical" practices are part of the organisation's aims and consistent with its "values".
- "Performance driven" motivations, which stress the benefits (e.g. productivity gains or sales growth, etc.) to the organisation of adopting "ethical" practices.
- "Stakeholder driven" motivations, a term that describes the role of external pressure to adopt "ethical" practices, whether the sources of that pressure are investors, customers, civil society activity or industry practices.

Box 9: The rise of the importance of ESG

ESG issues have become much more important to businesses in recent years. This is particularly true of larger firms, where institutional and other investors have played a role in influencing corporate decisions. Illustrating the importance of some ESG issues, one survey of FTSE 100 firms found that:

- 45% of the executive pay plans of FTSE 100 companies are "linked" in some way to ESG goals, as well as more traditional business objectives.[179]
- Just over a third (37%) of the largest 100 companies had an "ESG measure" in their executive bonus plans.
- 19% included ESG metrics in their Long-term Investment Plans (LTIP).[180]

Results from a recent analysis of institutional investors in six countries (including the UK) demonstrate the importance of ESG to investors. It found that:[181]

- Investor trust in a company and ESG efforts by firms is strongly intertwined.
- Many of the institutional investors surveyed actively promoted ESG through the power they had as owners of companies.
- 61% of investors said that they "*increased*…*investment allocation to companies that excel when it comes to ESG factors*".
- 57% said that they used their shares to "*vote*…*more often for board candidates that we believe will increase the company's attention to ESG issues*".
- 53% stated that they "*vote*…[their]…*shares more often to support ESG-related policy initiatives*".[182]

A belief in a strong correlation between ESG and company performance was widely held by those investors surveyed:

- When presented with the statement, 58% agreed with .
- 54% said that ESG was "important" for company growth.
- It was important for both "reputation" and "return on investment", according to 47% of surveyed investors.[183]

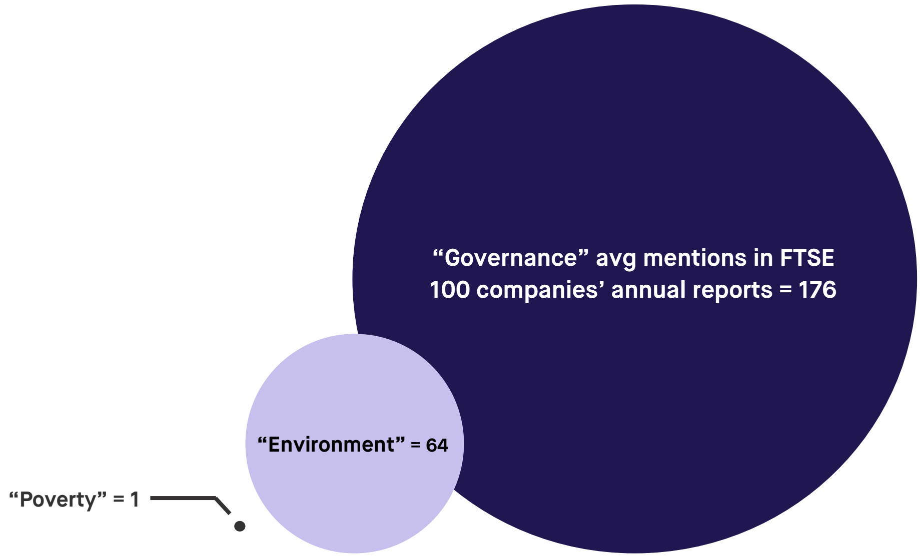
Sources: Edelman; Federated Hermes and London Stock Exchange

The ESG priorities of larger businesses

FTSE 100 firms prioritise environmental concerns

The importance of environmental issues to larger companies is further reflected in the contents of the most recent annual reports produced by FTSE 100 firms, where the issue features heavily. Whereas topics such as in-work or community poverty, or low pay in local supply chains are, comparatively, rarely mentioned. Employment (or workforce) related topics, which are closely connected to the poverty issue e.g. pay levels and structures, employment practices, progression, benefits and skills and training – are notable by their scarcity in many of the annual reports of FTSE 100 companies.

Diagram 5: Comparative average number of mentions in FTSE 100 company annual reports of "governance", "environment" and "poverty", 2019-20



Source: SMF

Table 3, for example, shows the results of a keyword analysis of the text of the most recent annual reports of the FTSE 100 companies. The imbalance in the number of references to terms associated with the "environment", compared to those related to "poverty" and "employment" is stark.

Table 3: Keyword analysis of the ESG issues referenced in the annual reports of FTSE 100 companies, 2019-20

Keyword	Average number of mentions/ references per report	Total number of mentions/ references across all reports
Accountability	5	445
Audit	236	23601
Charity	5	505
Climate	56	5589
Community	26	2551
Consultation	7	705
Disclosure	28	2816
Education	10	970
Environment	64	6300
Environmental	48	4781
Exploitation	0.4	41
Governance	176	17621
Local	49	4868
Poverty	1	101
Oversight	24	2399
Stakeholder	22	2163
Sustainability	67	6656
Training	34	3392
Transparency	11	1133
Trust	30	3004
Vote	11	1126

Source: WPI Economics analysis

Table 3 shows that, across the annual reports of the FTSE 100 companies:

- "Audit" appears more than 23,600 times in the most recent annual reports of the FTSE 100 firms, and 236 times on average, in each report.
- "Governance" is mentioned more than 17,600 times across the sample, and typically 176 times in each report examined.
- "Sustainability" is mentioned 6,656 times and, on average, 67 times per report.
- "Environment" is mentioned 6,300 times. And 64 times on average, per report.
- "Climate" is mentioned 5,589 times and 56 times on average in each report.
- "Environmental" is mentioned 4,781 times, and 48 times on average, in each report.
- "Poverty" is mentioned 101 times in total across all FTSE 100 annual reports analysed, and on average once per report. Exploitation is mentioned even less frequently. Only 0.4 times per report.

Box 10: The salience of environmental issues to investors compared to social issues

A 2020 survey of UK Independent Financial Advisors (IFA) serving High Net Worth (HNW) investors, found that 85% reported a significant increase in the number of clients wanting to allocate capital to "ESG-integrated funds".[184] The dominant ESG themes for such investors were reported to be the "environment", "human rights" and "diversity". The same survey saw 82% of IFAs reporting their HNW clients wanted investments to specifically support efforts to tackle climate change, enhance governance and improve human rights.[185]

The picture painted by the IFA survey data, of the relative prominence of the environment in ESG concerns – especially among larger, publicly owned companies - and the relative neglect of "social" (the "S") issues has been reflected in a recent assessment of the trends in the ESG activities of quoted companies by the London Stock Exchange. It noted that:[186]

> *"…it remains the component that is most likely to be neglected by issuers in their disclosures. Across all sectors, it is the social element where ESG scores are lowest…it is evident that issuers could improve their overall ESG scores by disclosing further information on social factors such as labour standards…".*

However, the Stock exchange also noted that "S" issues are likely to become the focus of more interest from investors in the coming years:[187]

> *"…Requests for information from investors and regulators will grow. The…demand for ESG products…will escalate further".*

Sources: Federated Hermes and London Stock Exchange

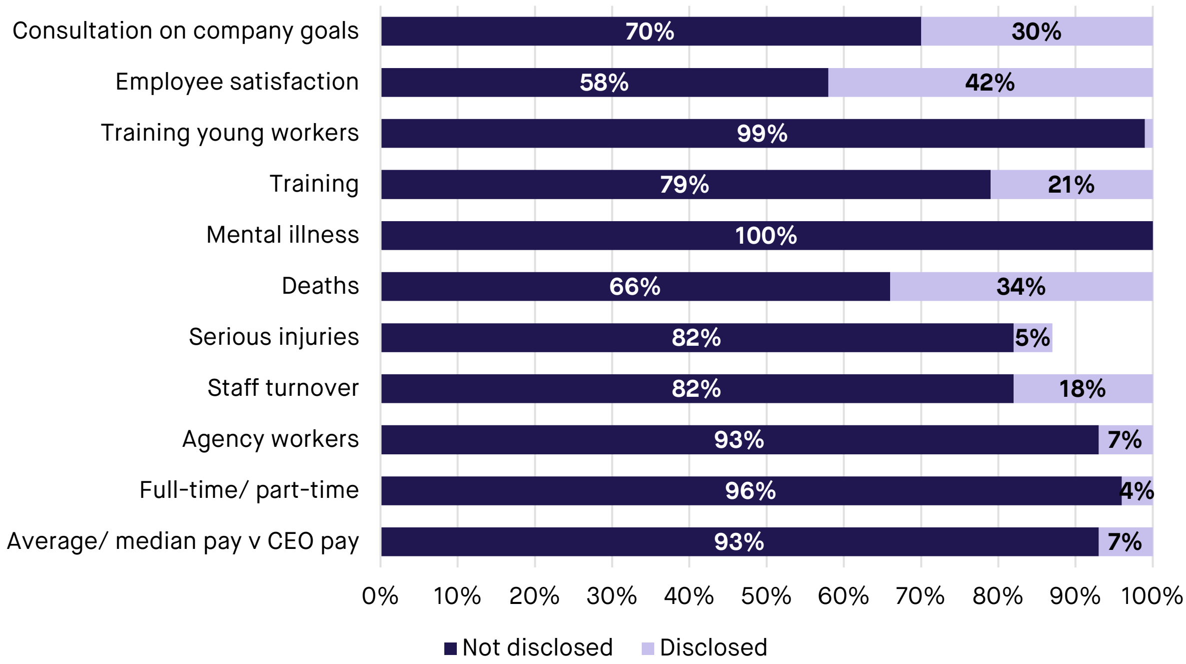
Low levels of disclosure about employment related issues among FTSE 100 firms

The relative unimportance of poverty and training illustrated in Table 3 is reflected in other analysis, which found that employment related factors – with a bearing on in-work poverty such as pay and hours, other terms and conditions and "employee voice" and representation – tend to be less of a priority for many FTSE firms.[188] Many key workforce-related topics were barely reported on by many (often most) FTSE 100 businesses. One analysis found that:[189]

> *"…[there]…are still substantial variations in the quality of reporting of workforce-related issues. Most reports do not comprehensively detail the composition, stability, skills and capabilities and engagement levels of their workforce…".*

Some of the key data points from that research are illustrated in Figure 23.

Figure 23: Disclosure about workforce related topics in FTSE 100 annual reports, 2017



Source: Pensions and Lifetime Savings Association and Lancaster University

As Figure 23 shows, across all categories of employment related issues that were examined, more than half of FTSE 100 firms were failing to report on them at all, in their annual reports:

- 93% did not disclose details of the pay differentials between what the average employees in FTSE firms earnt and the CEO.
- 96% did not disclose the balance between full and part-time workers within their workforce, nor the proportion of the workforce that were agency employees (93%).
- 99% of FTSE 100 companies did not disclose what they did to train younger workers. While only 21% outlined in their annual reports what training they provided to staff more generally.

Moves towards more reporting about workforce issues

While current levels of interest among businesses are comparatively low, there are indications that employment issues might begin to become more important among the plethora of ESG issues that companies prioritise, over the next few years.

Employment topics such as pay and hours, are included in some of the ESG frameworks that are available and which are aimed at helping businesses report on ESG performance and investors to identify and evaluate the progress on EGS topics, of the businesses that they invest in. The FTSE Group's "FTSE ESG Ratings" framework, for example, includes employment-related criteria within its "labour standards" category.[190] Share Action's Regular Workforce Disclosure report looks at workforce related issues in order to help investors better understand how well companies are doing in such areas.[191] However, the latter's focus is primarily international and not the UK. In addition, there has been ad-hoc research undertaken, which "sheds light" on practices in particular sectors. An example of this is Share Action's research (for interested investors) into insecure work in the retail sector.[192]

To encourage more wider interest in "S" issues and employment-related topics in particular, among both companies and investors, there appears to be a need for better tools (i.e., sufficiently detailed and robust, cross-sector, consistent and comparable over time) to help build a more accurate picture of what firms are doing across the plethora of employment-related topics that impact poverty in general and in-work poverty specifically.

Such tools would not only help firms understand what good practice was, but equally importantly it would enable firms to compare their efforts to those of their peers and assist investors who want to make issues such as in-work poverty key aspects of their investment criteria.

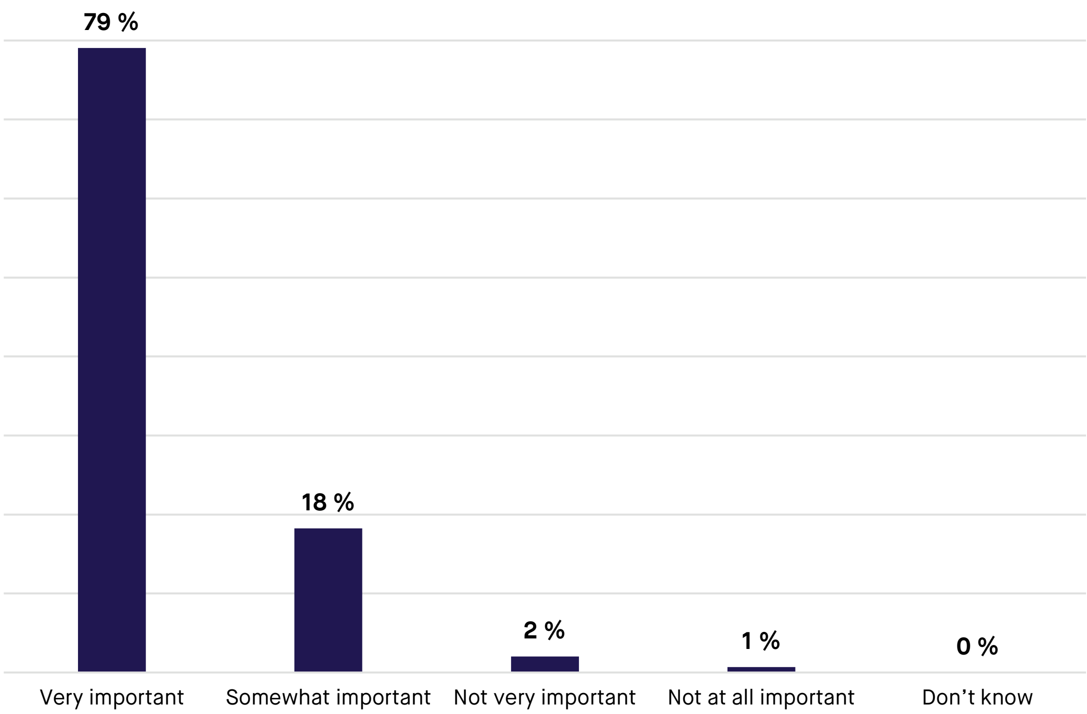
The current ESG focus of London businesses

London businesses – of all sizes – consider ESG activities to be important. However, reflective of the national picture, they tend to prioritise issues like the environment. In-work poverty for example, is currently much less important to them

Most large London businesses believe ESG activity is important

A large proportion (97%) of larger London employers say that ESG activities are, to some degree, "important" to their business.

Figure 24: The importance of ESG issues to large London businesses



Source: Opinium survey of London businesses, 2021

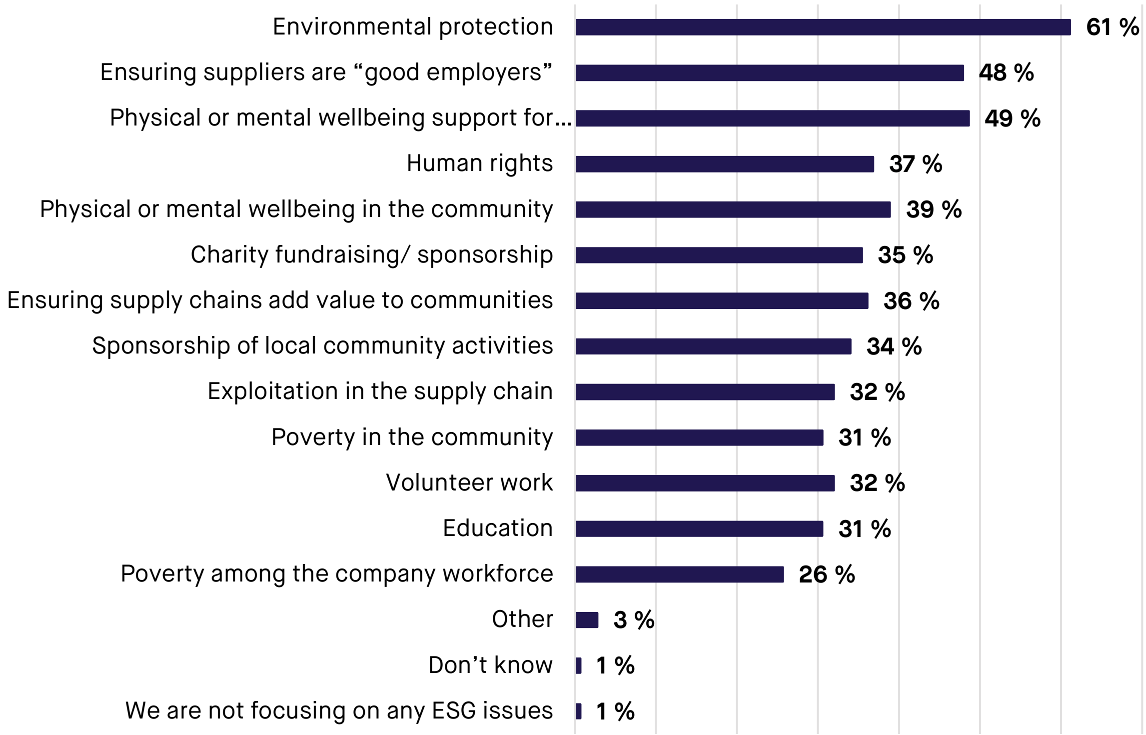
As Figure 24 shows:

- 79% of larger businesses in London say that ESG activities are "very important" to them.
- 18% say that ESG issues are "somewhat important" to their company.

Poverty is not, currently, a top concern for large London firms

Of the larger London businesses surveyed, which said that ESG issues were "important" to them, the topic most frequently stated as being a "current focus" of their ESG efforts was the environment. Figure 25 shows the full list of topics large enterprises report as being ones they currently have a "focus" on.

Figure 25: ESG topics large London businesses are currently focussed upon



Source: Opinium survey of London businesses, 2021

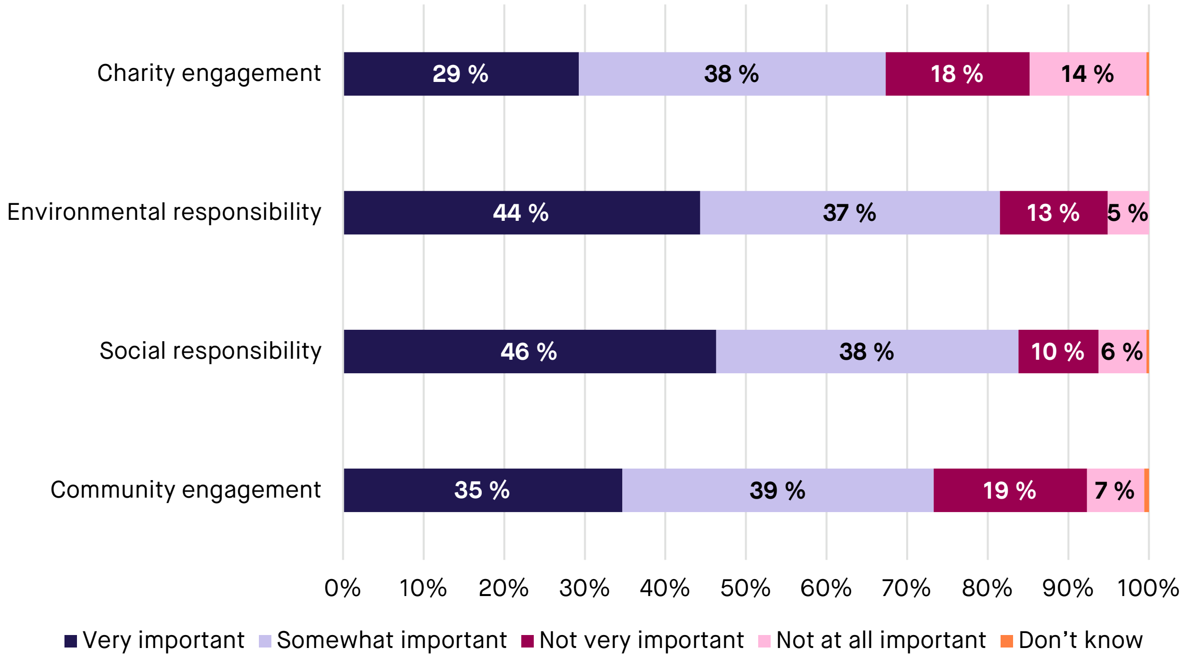
The topic of poverty among a firm's own workforce was the 13th most frequently cited ESG issue by larger businesses, with 26% reporting it as a "current focus". However, nearly half (48%) of larger businesses said that ensuring their suppliers are "good employers" was a current ESG "focus", while 32% said "exploitation" across their supply chain was a "focus". This indicates that the supply chain is where companies interested in the "S" part of ESG tend to focus their efforts.

ESG topics that London SMEs prioritise

Among small and medium-sized employers (SMEs) in the capital, around three-quarters (76%) said that at least one category of “ethical business activity” (set-out in Figure 26) is either “somewhat important” or “very important” to their firm. In particular:

- 46% stated that “social responsibility” issues (such as in-work poverty) are “very important” to their business.
- 38% said that such considerations were “somewhat important” to their business.

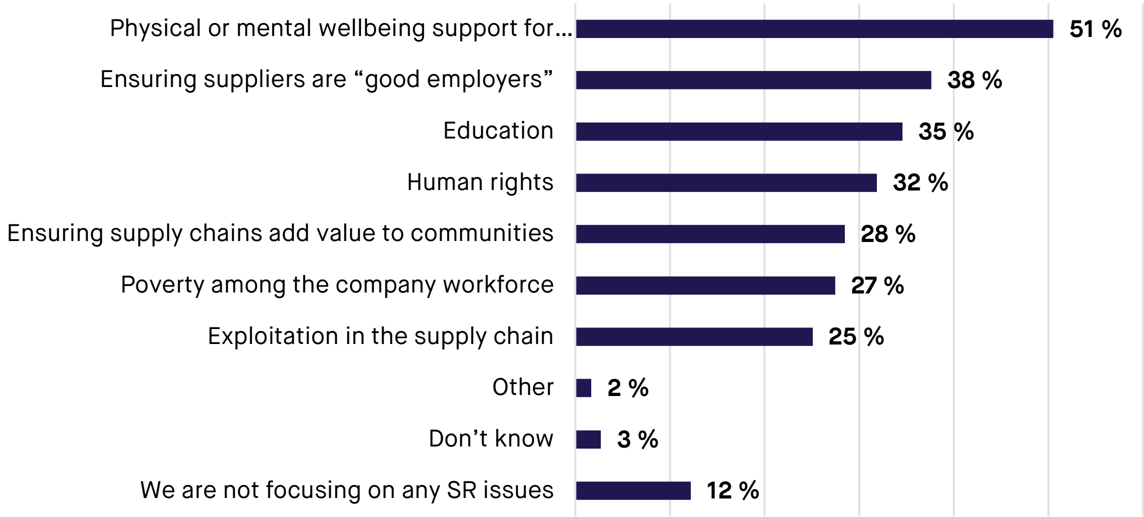
Figure 26: The importance of different categories of ESG activity to London SMEs



Source: Opinium survey of London businesses, 2021

Among SMEs who said that “social responsibility” issues were either “somewhat important” or “very important” to their business, the most often cited focus for such firms was supporting the “physical and mental wellbeing of their workers”, as shown in Figure 27.

Figure 27: "Social responsibility" topics that London SMEs are focused upon



Source: Opinium survey of London businesses, 2021

Figure 27 shows that, among SMEs (with employees) that cited "social responsibility" as being "important" to their business, ensuring suppliers are "good employers" was a "current focus" of 38% of them. While 25% said "workforce poverty" was a "current focus".

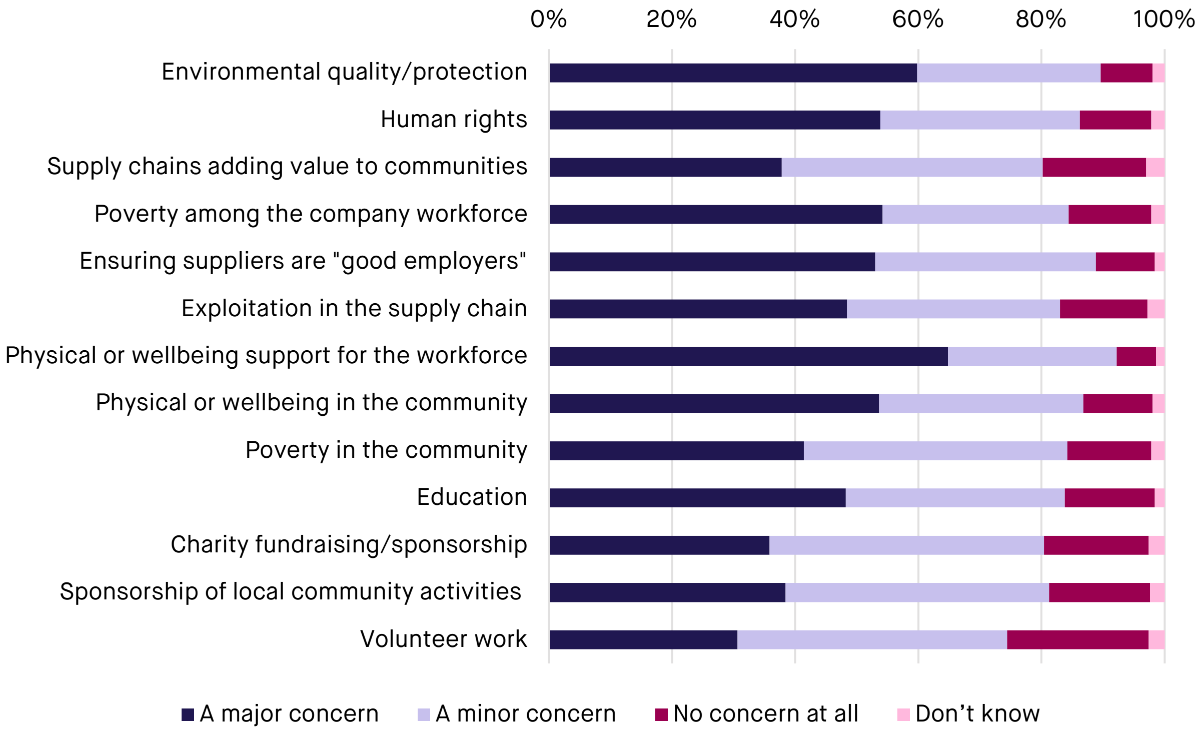
It is notable that supply chain-related "ethical" issues rank second among SME employers who say "social responsibility" is important to their business. Illustrating a degree of consistency in some of the "ethical" or ESG issues that are most important to businesses across size categories.

The ESG issues that should be "concerns" for London businesses

In-work poverty in the capital "should" be more of a concern for businesses

Figure 28 shows the degree to which London businesses (with employees) believe that particular ESG topics "should" be topics of "concern" to the business community in the capital.

Figure 28: The extent to which different ESG issues "should" be a concern to London employers



Source: Opinium survey of London businesses, 2021

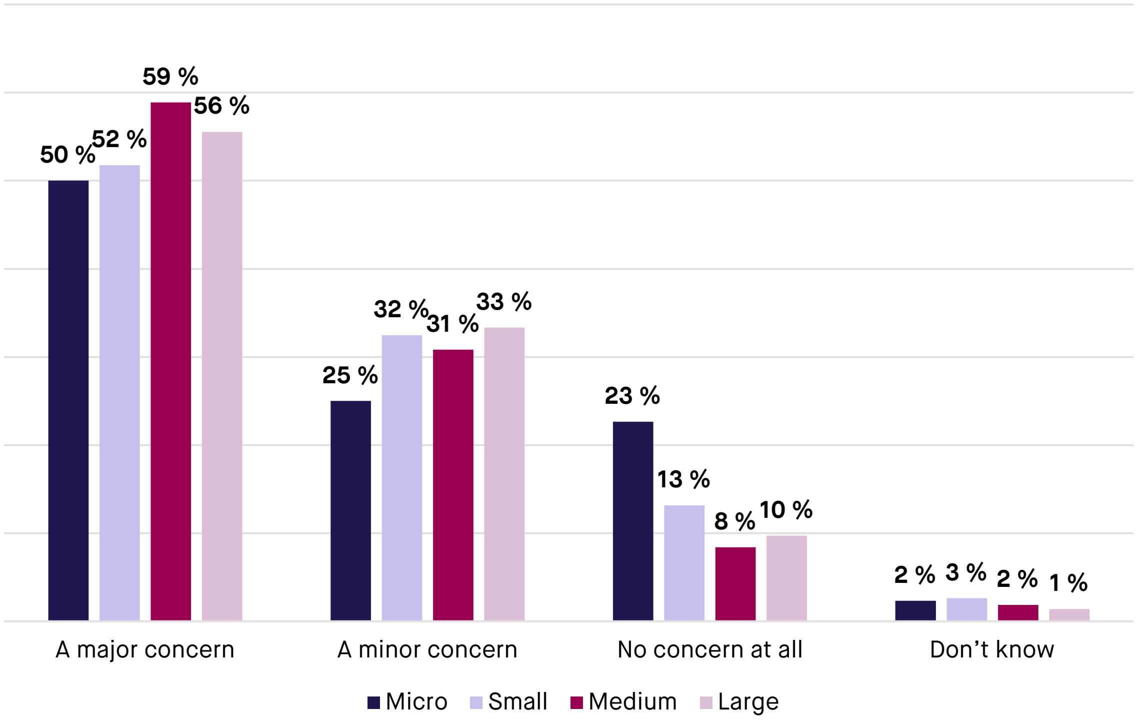
In contrast to the comparatively low proportions of employers (of all sizes) that reported having a "current focus" on the issue of "poverty in their own workforce", 54% of London businesses stated that the issue should be a "major concern". A further 30% believed it should be at least a "minor concern".

At the same time, 41% agreed that "poverty in the community" should be a "major concern" for businesses and 43% said it should be a "minor concern". As with the topic of "poverty in a firm's workforce", these proportions are substantially higher than the percentages of firms who had this issue as a "current focus" of their ESG efforts at the time of the survey.

The importance of poverty to London firms across business size categories

Across the three categories of poverty: "poverty among a business's own workforce", in "the community around a firm's main London operations" and among those who "work for local suppliers", the survey data suggests that higher proportions of larger and medium-sized enterprise tend to see them as "major concerns" compared to smaller enterprises. Despite the comparative differences across size categories, substantial percentages of micro and small firms still say these three categories of poverty are a "major concern".

Figure 29: The importance of poverty among a firm's workforce to London employers, by business size



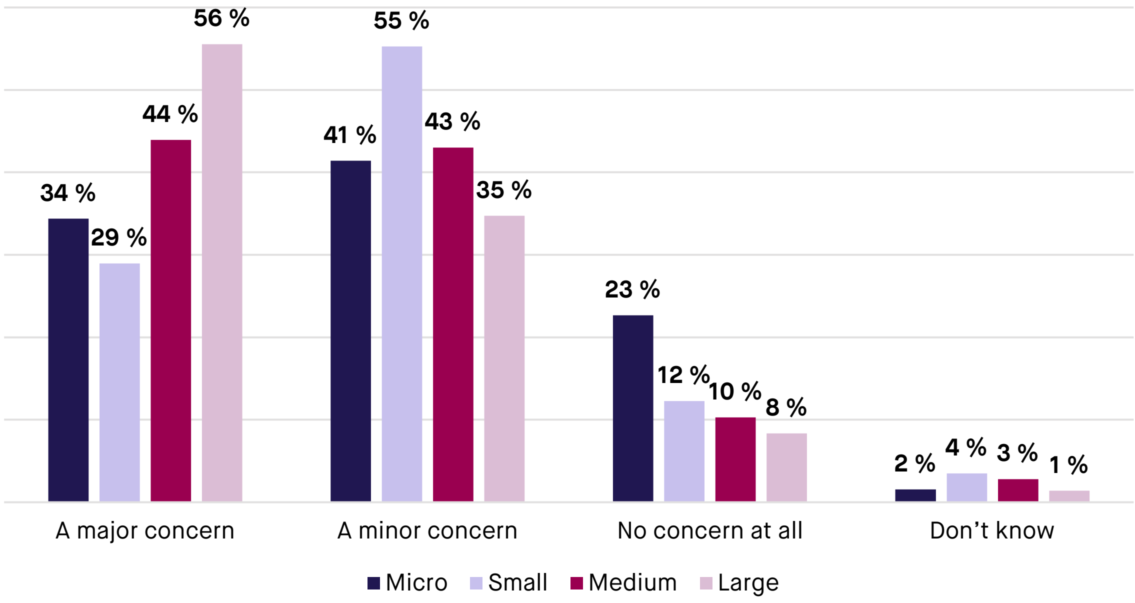
Source: Opinium survey of London businesses, 2021

Figure 29 shows that the size of businesses most likely to say that "poverty among their own workforce" is a "major concern" are medium-sized and larger enterprises. Nevertheless, the proportions of micro-businesses and smaller firms reporting "poverty among their workforce" as "a major concern" was still considerable, with more than one-in-two businesses in these two size categories agreeing that it was a "major concern".

Figure 30 shows the degree to which the issue of "poverty in the communities local to the respondents' London-based business operations" is a "concern" to employers in the capital across the different business size categories.

Similar to the distribution of "concern" for "poverty in a firm's own workforce" across business size categories, it is medium-sized and larger firms that most often report his as an issue that should be of "major concern".

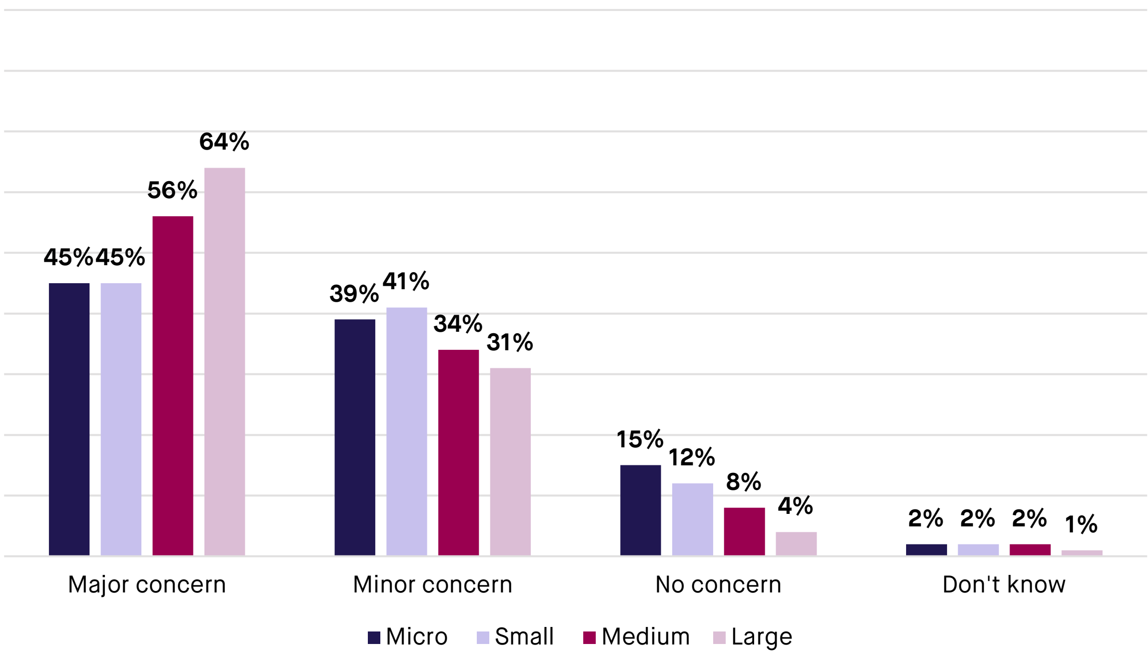
Figure 30: The importance of poverty in the community to London employers, by business size



Source: Opinium survey of London businesses, 2021

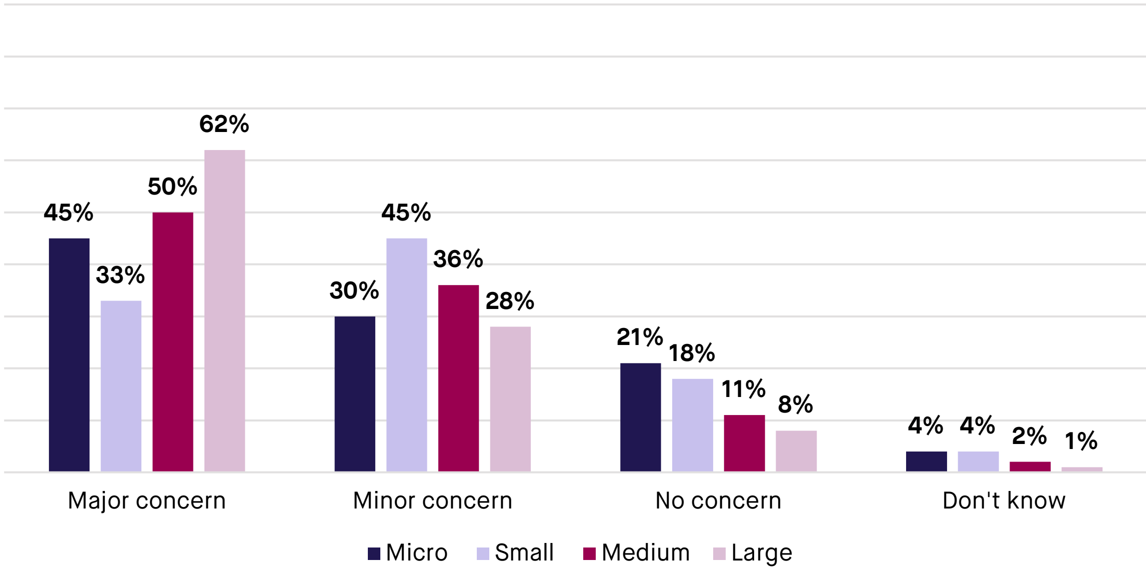
Figures 31 and 32 illustrate the extent to which London employers consider how "good employers" their local suppliers are and whether there is "exploitation" among their local supply chains, should be a "concern" to business.

Figure 31: The importance of suppliers being "good employers" to London businesses, by business size



Source: Opinium survey of London businesses, 2021

Figure 32: The importance of exploitation in the supply chain to London businesses, by business size



Source: Opinium survey of London businesses, 2021

As with in-work poverty in an employer's own workforce and poverty in the communities local to a firm's main London operations, the survey data show that it is medium-sized and larger businesses that most often say these two types of supply chain issues are of "major concern". However, it should be noted a significant minority of London's the micro and small firm communities consider them to be issues of "major concern" too.

An appetite to make a difference

One implication of the survey data highlighted above, is that there are signs of an appetite among London employers to see poverty in general and in-work poverty specifically, become a greater priority for the business community.

As demonstrated earlier in this report, firms are well-placed to play a role in taking steps that can make a difference to poverty, e.g. through raising wages, ensuring more certainty over working hours, etc.

One inference that can be drawn from the scale of the concern among London businesses combined with their ability to make changes that can, for example, reduce the poverty experienced by those in their employ, is that enterprises themselves can and should take actions to help deal with the poverty challenge.

Support among London businesses for taking measures to tackle poverty

The willingness of businesses in the capital to take action to help reduce poverty cannot just be inferred but is visible in the survey findings outlined in Figure 33. The data shows substantial support among employers, of all sizes, for taking at least "some" measures that go "above and beyond" the legal minimums already required of firms – such as paying the "National Living Wage".

Figure 33: The extent to which businesses should help address the following issues

Source: Opinium survey of London businesses, 2021

Figure 33 shows that:

- 38% of London-based firms with staff, said that companies should be "willing to take many voluntary measures" to help address poverty in their "own workforce".
- 32% agreed that businesses should be "willing to take some voluntary measures" beyond the legal minimum requirements already placed upon businesses, to help tackle poverty in their "own workforce".
- One in four (25%) respondents considered that businesses should take "many voluntary measures" to help reduce "poverty in the community".
- 43% agreed that businesses should take "some voluntary measures" to help reduce "poverty in the community".
- 25% said that businesses should take "many voluntary measures" to try and help address poverty" among those who work for local suppliers (25%).
- It was agreed by 37% of respondents that businesses should be willing to take "some voluntary measures", to help address poverty among the workforces of their local suppliers.

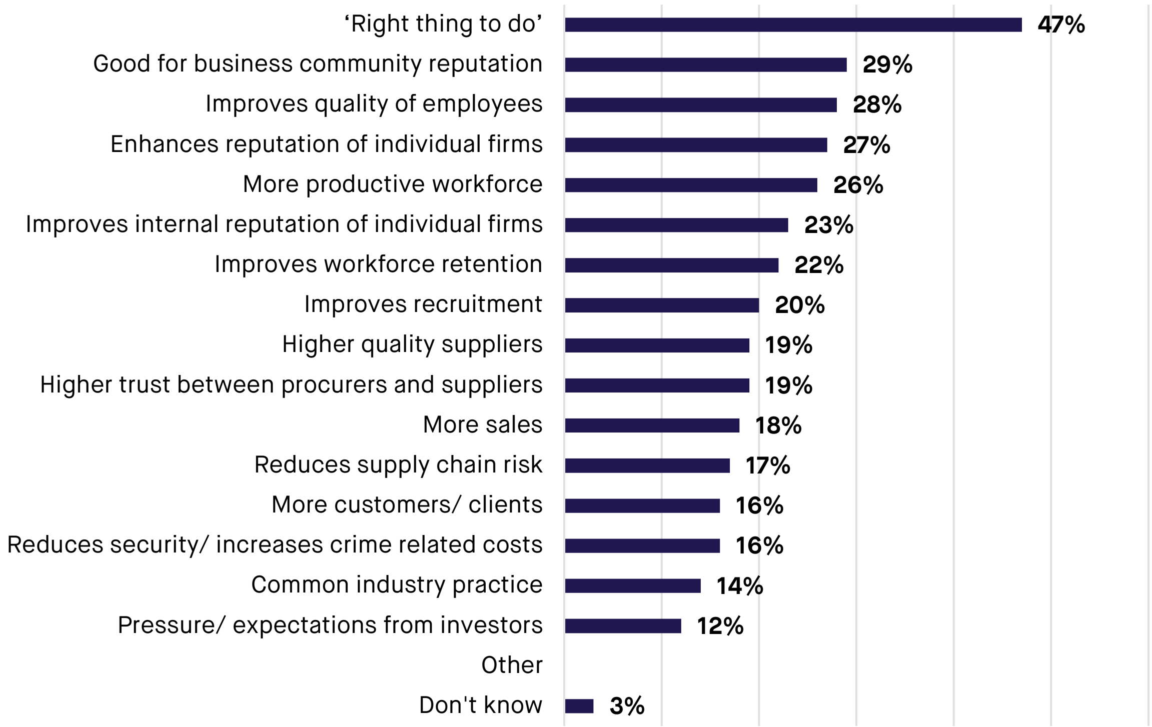
CHAPTER TEN – MOTIVATIONS OF LONDON BUSINESSES WHO WANT TO HELP TACKLE POVERTY

Why London employers want to help tackle poverty

Being the "right thing to do" is the main motivator for London firms

The motivations of London employers that want to help tackle poverty are set out in Figure 34. The most frequently offered reason by firms who had said that "firms should be willing to take measures to tackle" one or more of the categories of poverty in London (see Figure 33) was a moral one i.e. "it is the right thing to do". Nearly half (47%) of all businesses gave this answer.

Figure 34: Reasons why poverty should be an issue that business helps address



Source: Opinium survey of London businesses, 2021

Note: respondents could select up to five options

The "rights thing to do" was followed by a cluster of more pragmatic commercial reasons, with similar proportions of businesses saying that:

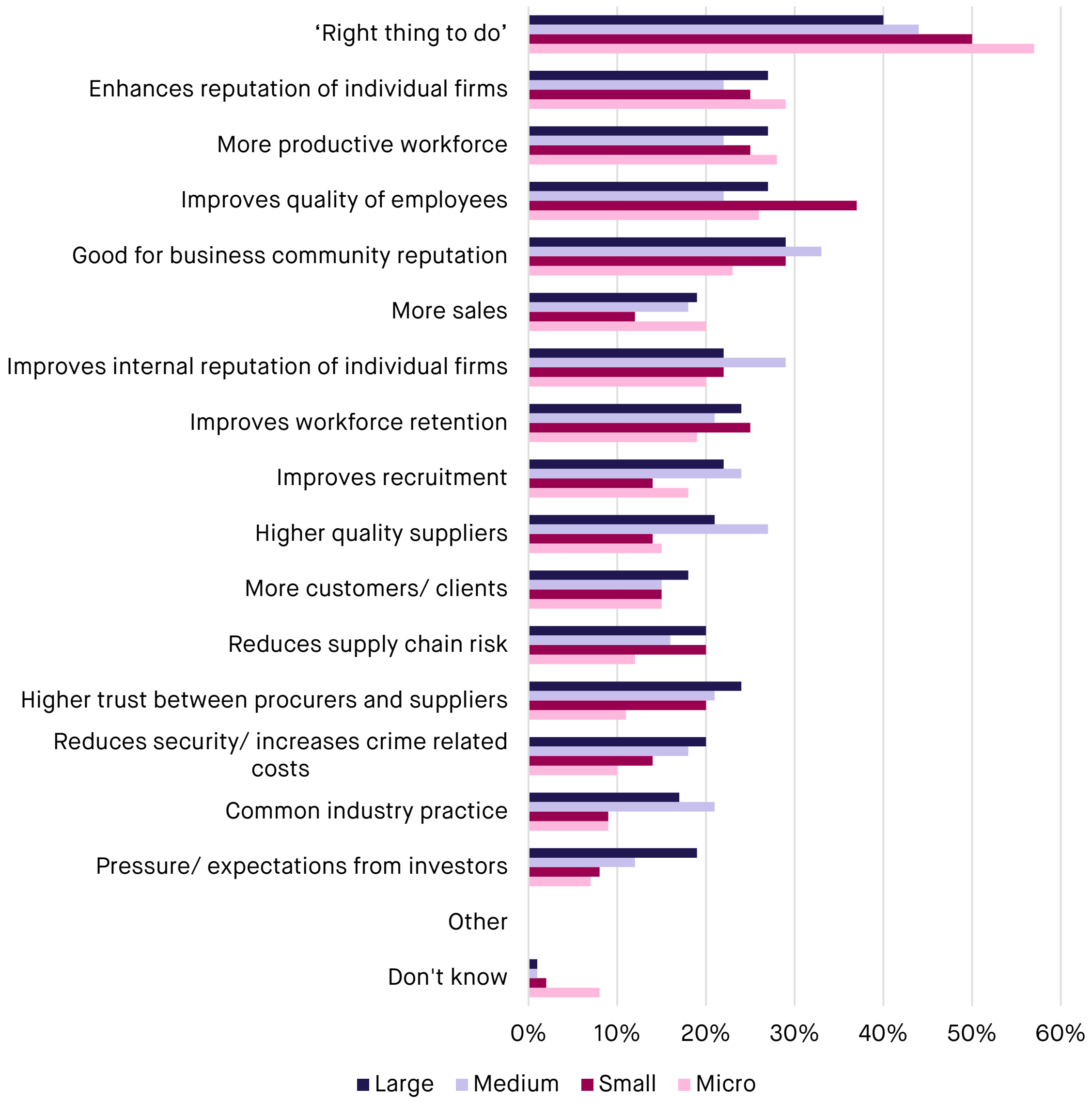
- "It would be good for the reputation of the business community as a whole" (29%).
- Less poverty will help "improve the quality of employees" (28%).
- It is "good for the reputation of individual businesses" who do take action (27%).
- Addressing poverty will ultimately "lead to a more productive workforce" (26%).

Notably, motivations such as taking steps to help address poverty because it is a "common industry practice" (14%) and "pressure from investors" (12%) were reported as motivations by comparatively low percentages of London employers.

Micro-businesses most frequently cite it's the "right thing to do" as a motivation

Figure 35 highlights the motivations of London employers across different business size categories. Notably, "doing the right thing" was the most popular motivation for businesses in all size categories but was particularly frequently stated as a motivation by micro-businesses (57%).

Figure 35: Motivations behind why businesses want to help address poverty, by business size



Source: Opinium survey of London businesses, 2021

Smaller enterprises were the category of firm most likely to say that addressing poverty helps "improve the quality of employees" (37%), with 26% of micro-businesses, 22% of medium-sized firms, and 27% of larger companies saying this, too.

It is noteworthy that 19% of larger firms said that "pressure/ expectations of investors" was a motivation. This relatively low proportion of larger (i.e. those most likely to be publicly quoted) businesses citing this motivation is consistent with the picture painted earlier in this report of such issues attracting comparatively low levels of interest among investors, compared to topics like the environment.

Box 11: Company case study – McDonald's

McDonald's is a giant of the fast-food sector, and one of the largest companies in the world. The Department for Work and Pensions' In-Work Progression Commission has endorsed McDonald's for the way it invests in its staff, and it is regarded as an exemplar of workplace learning and progression.[193]

McDonald's reports that it invests £43 million in training for its staff each year.[194] It provides 'early career opportunities' such as student work experience and apprenticeships, and it even has its own business management degree programme.[195] As a 'progression-focused employer', McDonald's is recognised as having a long career ladder,[196] as well as providing a range of in-work benefits, including pension scheme, performance reviews, and flexible scheduling.[197] Because of its commitment to its employees, McDonald's is able to demonstrate that:

- 85% of employees said they "love" the flexibility of their job.
- 90% of restaurant managers had started out as crew members, working behind the counter or in the kitchens.
- 33% of its executive team had started their career in McDonald's restaurants.

In the words of the company:

> *"We need our people to succeed if we are going to be successful. It is because of this focus on our people that we are proud to say that many stay with us for a large part of their careers…the McDonald's training philosophy centres on career long learning – "from the crew room to the boardroom".*[198]

Sources: Department for Work and Pensions and McDonalds

The demography of the employers adopting the "Real Living Wage"

The most high-profile way that employers can show they are taking efforts to reduce the incidence of poverty among their own workforces is by gaining accreditation from the Living Wage Foundation and becoming an accredited "Living Wage employer".

In absolute numbers, more smaller firms are formally accredited "Living Wage employers". However, proportionate to their numbers in the wider London and national business populations, medium-sized and larger firms are overrepresented among the formally accredited. Data from a study by Cardiff University shows that, in 2016:

- 28% of accredited firms were micro-businesses
- 40% were small enterprises
- 20% were medium-sized firms
- 14% were large corporations

Conversely, smaller firms are under-represented, compared to their prevalence in the economy. Some of the reasons for this are explored in Box 12. The under-representation of smaller enterprises led the authors of the Cardiff University research to conclude that:[199]

> *"…only a small percentage of British SMEs have implemented the LW ["Real Living Wage"] in a meaningful way. There is enormous scope for many more companies to follow the lead of this small group of pioneers and so make a vital contribution to reducing the externalities associated with low pay".*

Box 12: The difficulties facing SMEs that want to help tackle in-work poverty

Despite the importance of SMEs to the economy as-a-whole, there is little evidence SMEs play a particularly important role in alleviating poverty.[200] This is, in-part, no doubt due to the fact that SMEs tend to pay lower wages than their larger counterparts.[201] They more often rely on temporary labour and are less able to provide "extra benefits" such as generous pension provision and a structured career pathway.

Consequently, unilateral action by SME owner-managers to boost their employee's pay, or improve other aspects of the worker's employment conditions – that in-turn could have a positive material imapct on whether a worker remains below the poverty line – presents a challenge.

The diversity of the SME community further complicates the picture, as measures that would alleviate poverty – such as more certainty on working hours – could have very different consequences for the firms implementing the change, depending on the sector. The differences between professional services SMEs on the one hand and SMEs in the retail or hospitality sectors are profound. The economics of the three sectors and the prevailing business models in each are very different.

Analysis into the experiences of SME "Real Living Wage" employers bears some of the difficulties out. A study by academics from Liverpool University and Middlesex University found that the impact of introducing the "Real Living Wage" into their business presented a number of challenges for SMEs. The most frequently raised one, was "keeping up with rises, after making the initial "increases". This was said to be "a difficulty" by 57% of SME respondents. While 55% of those surveyed said that "competing with lower cost competitors" now they were "Real Living Wage employers was a challenge. Nearly half (48%) of SMEs agreed that "maintaining pay differentials" was also a problem once the initial change to wage structures had been implemented.[202]

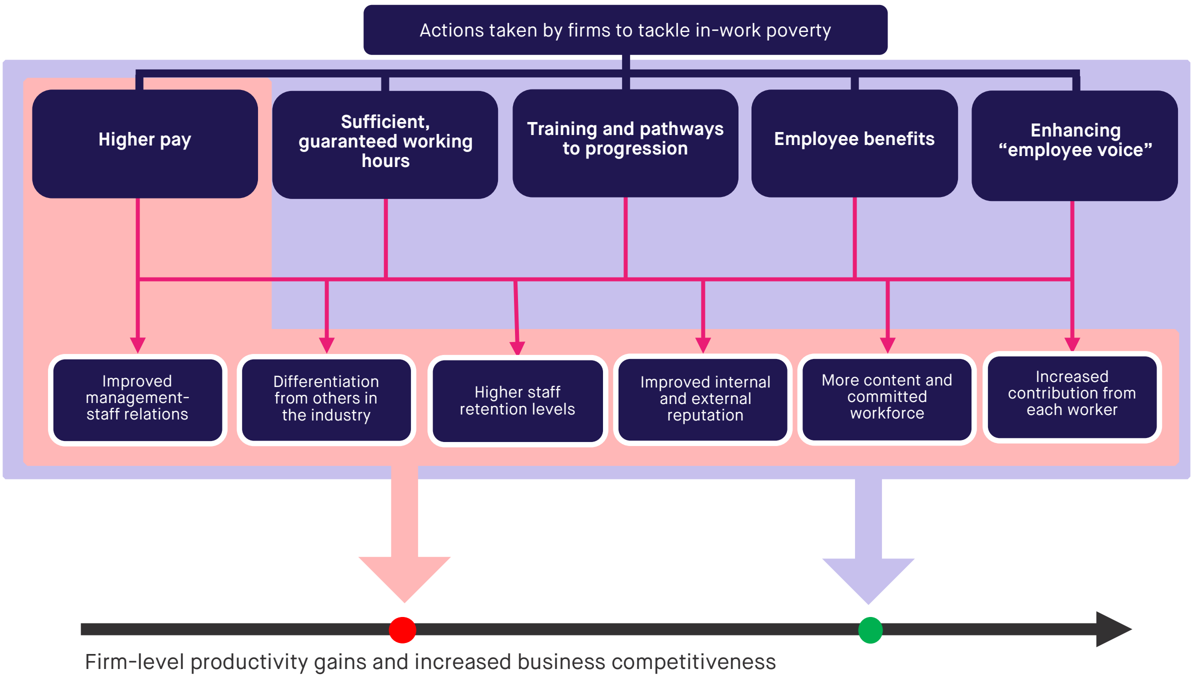
Work by the Federation of Small Businesses (FSB) found that increases in wages - due to up-ratings in the "National Living Wage" in 2019 - led to the "wage bill" of more than half of small firms increasing in that year. Among those SMEs affected, most smaller firms reported reduced profits (71%) and higher prices (45%) as the main consequences of their having to increase pay.[203] "Lower profits" (37%) was also commonly reported as a consequence of implementing the "Real Living Wage" by SME owner-managers in the University of Liverpool and Middlesex University research. Further, impacts on profits are likely to be particularly acute in those low-margin sectors where a large proportion of workers are likely to be working and earning below the poverty line, such as social care.[204] FSB found that among those whose wage bill rose as a result of increases in the "National Living Wage", non-trivial proportions of businesses reported that they "scaled back investment" (29%) and "reduced the hours worked by staff" (23%) to help absorb the cost.[205]

Sources: Federation of Small Businesses and Werner, A and Lim, M (2016)

CHAPTER ELEVEN – THE BENEFITS, TO EMPLOYERS AND THE ECONOMY, OF BUSINESSES TAKING ACTION TO TACKLE IN-WORK POVERTY

In addition to the detriment that poverty causes for people and communities (see Chapter Five) it also has detrimental impacts on businesses (as reflected in Figures 19, 20 and 21 in Chapter Seven). Reducing these through lessening poverty suggest there are a range of ways that firms can benefit from lower poverty. However, the benefits do not just come through minimising negative impacts. There are also considerable "additionalities" that can accrue to businesses and local, regional, and national economies from less poverty.

Diagram 6: Summary of the benefits that accrue to business from measures that help tackle in-work poverty



Source: SMF

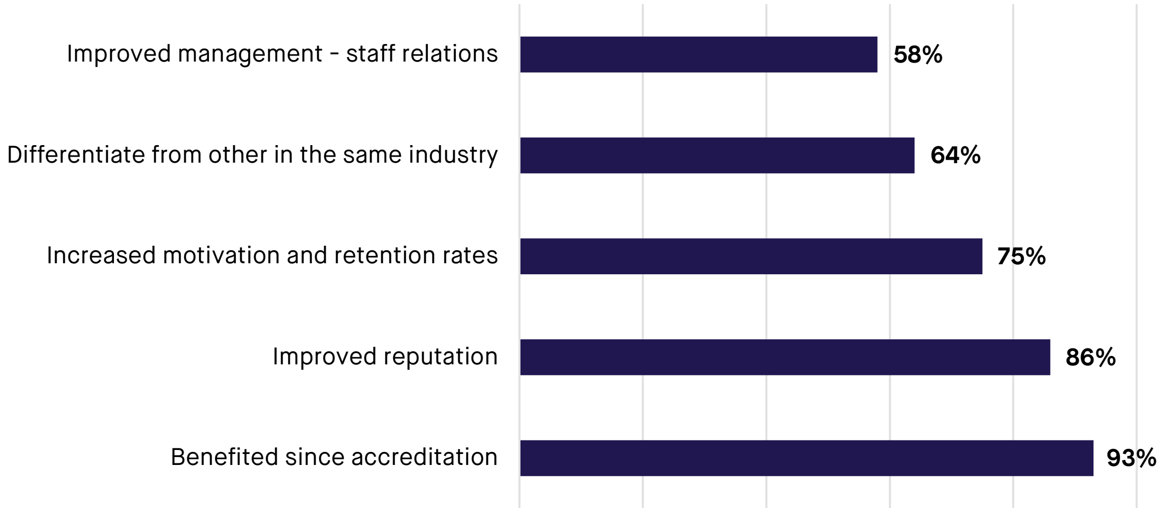
The direct business benefits of increasing the pay of the lowest paid workers in a firm

There are business benefits that accrue from efforts by employers to tackle poverty among their own workforces. Raising wages to "liveable" levels for example, can bring with it a number of business benefits, which include:[206]

> *"…[raising]…the contribution from each team member…[which]…contributes directly to the bottom line by increasing the return on capital, and also creates an environment where pay rises become more possible, helping to retain and motivate staff, which in turn reduces turnover costs and supports higher performance".*

Data on the impact of the "Real Living Wage" on the businesses that adopt it, shows that most of those who implement such a change to the remuneration of their lowest paid workers see positive changes in their business as a result. Figure 36 shows some of the most frequently cited benefits reported by businesses with "Living Wage employer" accreditation.

Figure 36: reported business benefits of paying the "Real Living Wage"



Source: Living Wage Foundation

- More than nine in ten (93%) employers awarded "Living Wage" accreditation by the Living Wage Foundation reported that becoming an accredited employer had brought about at least one "benefit" to their business.
- More than eight in ten cited how it had "improved the reputation of the business".
- Three-quarters of those paying the "Real Living Wage" and been accredited for it said it led to improvements in "staff motivation and retention rates".

The results reported in Figure 36 suggest that there are both "internal" and "external" benefits to the large majority of businesses of taking steps that can help them get out of poverty, such as paying higher wages.

Direct business benefits from measures other than higher pay

In addition to the evidence for the benefits of increasing pay, there is also data suggesting that there are a number of direct business benefits that can derive from firms taking other measures which help ameliorate in-work poverty.

The business benefits of providing less precarious work and offering sufficient work hours to staff

Despite the often-touted benefits of a highly "flexible" labour force, there is a substantial body of evidence that suggest precarious work, temporary contracts, and inadequate hours bring with them a number of disbenefits for employers. Specifically:

- A lack of certainty in the hours offered by employers are linked to lower levels of commitment to the success of the firm from staff subject to precarious conditions, compared to those with more secure employment.[207] [208] Commitment levels are directly related to employee performance and other positive behaviours, such as greater willingness to engage in the myriad informal, yet unmeasurable, activities that help a workplace run smoothly.[209] [210] [211]
- Lower psychological commitment to the business, stemming from being temporary leads to higher turnover of staff[212] and lower job satisfaction[213] and less interest in "extra-role performance".[214]
- Impairing cooperation and teamwork among a workforce.[215] [216]

Ultimately, employing large numbers of temporary workers in a workforce can be detrimental to overall corporate performance.[217] [218] [219] There is little evidence of a clear link between the use of temporary staff and improvements in business competitiveness (such as sales or in the amount of value added).[220] Consequently, employers could avoid many of the problems described above and generate more of the positive behaviours that better terms and conditions can bring – by offering more certain and sustained work to those they employ – without the fear of any significant downside.

The commercial gains from providing skills, training, and opportunities for progression to employees

The opportunity to "upskill" and progress at work can have a bearing on whether an employee of a firm can escape poverty or not. However, training staff requires employers to invest time and money. Therefore, "upskilling" can be a "double-edged sword" for firms because of the potential to lose any return on an investment if a worker leaves their employment after receiving training. If that employee leaves for a rival enterprise, the employer who paid for the training has, in effect, also subsidised a competitor.

However, the balance of evidence suggests that the gains for employers from investments in the skills of their staff and providing the opportunity for progression as a result, outweigh any downside risks. For example:[221] [222] [223]

- Training and progression possibilities mean an employer is more likely to retain staff, avoiding the costs associated with staff leaving.
- Training boosts the capacity of those working in a firm and their commitment levels to that business.

The potential productivity gains for firms, from measures to reduce in-work poverty

Higher wages can boost productivity

Increasing wages at the lower end, offering benefits such as pensions and sick pay, providing more certainty over hours as well as offering opportunities to workers for progression, improving the skill levels of the workforce and enhancing "employee voice" (through better engagement with workers by managers) all contribute to higher productivity in firms.

The higher productivity comes, to a significant extent, from the positive impact on the quality of the human capital working in firms,[x] a factor strongly linked to the productivity of people, firms, and the economy as a whole.[224]

A number of studies have found evidence that increasing wages at the bottom-end for the lowest paid, for example through the National Minimum Wage when it was introduced, boosted productivity in businesses.[225] [226] The improvement in productivity was generated through:

- The effect on the incentives on employers to increase training and enhance the skills of their workers
- Additional efforts by workers, who were incentivised by the higher pay to work "harder and smarter"
- More commitment from employees[227]; one way that higher pay boosts commitment is through its effect on the morale of those receiving a pay boost.[228]

It is notable that the accumulated evidence has suggested that the productivity gains from the (enforced) higher wages of the "National Living Wage" (formerly the "National Living Wage") did not come from shedding labour or substituting labour for capital, which conventional economic thinking might have predicted.[229]

Increases in and more certainty over working hours can increase productivity

Measures by employers to increase certainty in working hours and reduce the "one-sided flexibility"[230] of some modern employment arrangements have been linked to higher productivity in the businesses that make such efforts.[231] [232]

Placing workers in a more certain position over their work schedule reduces many of the problems associated with "precarious work", such as stress, fatigue, ill-health[233], greater chances of incurring a workplace injury – and the lost hours, days and weeks of work that can be a consequence of such problems.[234] At the same time, sufficient and greater certainty over hours improve the commitment levels of staff and consequently reduce turnover, increase cooperation across the workforce, and the willingness to undertake "extra-role" activities.[235]

[x] Human capital describes the cumulative value of individuals' skills, knowledge, abilities, social, personality and health attributes. Source: Human capital estimates, UK - Office for National Statistics (ons.gov.uk)

Complementing higher wages with other improvements to maximise productivity gains

To optimise the business productivity benefits of increasing wages for the lowest paid, some research has indicated that such changes need to be complemented with a wider range of measures which generate a “combined effect” that is greater than any brought about by any single improvement in wages or terms and conditions, which can often result in one-time gains.

For example, one cross-country study looking at experiences in Denmark, New Zealand, and Ireland, found that rising wages at the lower end of the pay spectrum brought about the biggest overall gains for those businesses where there were other supportive arrangements such as structures and processes to encourage upskilling through more and better training for the staff who are receiving the pay boost,[236] as well as procedures which helped enhance factors such as “employee voice” (e.g. collective agreements with trades union). The research observed that, the combination of the various elements working in tandem, encouraged companies in Denmark, New Zealand, and Ireland to improve their broader business strategies and shift their business models towards higher value-added ones.

Box 13: The commercial benefits to SMEs of making efforts to tackle in-work poverty

SMEs account for 99% of the UK business population and around 60% of total employment in the UK. Since 2000, the number of small business employers has risen by 27%.[237] The number of medium-sized employers has grown by 33%. In contrast, the number of larger employers grew by 7% over the same period.[238] SMEs are therefore, a vital part of the economy that need to be nurtured for their role in employment growth as well as the other benefits they bring to the economy.[239]

Many smaller businesses that have adopted the "Real Living Wage", have reported a number of benefits accruing to their enterprises, including a positive "productivity response" from the staff in those firms. Around 45% of SMEs surveyed by Liverpool and Middlesex Universities for the Living Wage Foundation said the productivity response was positive benefit.[240] While 43% said that it helped "push" the firm to improve their produce and service offering to customers, as a way of lessening the financial impact on the firm of paying the "Real Living Wage" to their workers.[241]

It is notable that on the direct "gains" identified by SMEs, as a result of taking poverty reducing action like paying the "Real Living Wage", echo those reported by the broader business community:[242]

- The "positive impact on the company brand" was the most frequently cited direct "business benefit" (72%) by SMEs.
- The "impact upon manager-employee relations" was the second most often cited benefit, with 60% saying the effect had been positive.
- Just over four in ten (43%) said paying the Real Living Wage had improved "employee morale, productivity, and motivation".
- 4 in 10 said becoming a living wage accredited employer improved "employee retention".

Sources: Office for National Statistics and Werner, A and Lim, M (2016)

The potential national, regional, and local gains from higher wages for the lowest paid

There are also macroeconomic, local, and regional economic penalties, i.e. foregone prosperity, associated with high levels of in-work poverty. These could be ameliorated somewhat if the number of people in-work poverty were reduced.

At the macroeconomic level, there is some evidence to suggest that lower poverty levels translate into better, overall, economic growth. One study argued that inequality acts as less of a "drag" on growth rates and therefore less of it is associated with higher growth.[243] While another has suggested that in countries with greater income equality, there is more support among the public for measures that are more conducive to growth,[244] which might otherwise be controversial and not be implemented.

At the regional and local level, higher pay could stimulate additional economic output. A 2018 analysis of the impact of increasing the wages of a quarter of the lowest paid - across various UK City-regions - to the level of the "Real Living Wage" was estimated to:[245] [246]

- Increase the size of the economies of those selected areas by £560 million in total.
- Generate £350 million in higher tax revenues and benefits savings.

Table 4: Estimates of the gains from increasing the wages of a quarter of the lowest paid in selected UK City-regions to the level of the "Real Living Wage", 2018

UK City-region	Estimate of additional output	Estimate of Living Wage "premium"
Cambridgeshire and Peterborough	£15 million	£1,210
Cardiff	£24 million	£1,170
Glasgow	£27 million	£1,180
Greater Manchester	£53 million	£1,230
Liverpool	£30 million	£1,300
London	£294 million	£2,710
North East	£29 million	£980
Sheffield	£22 million	£1,020
West of England	£15 million	£1,200
West Midlands	£51 million	£1,230

Source: Smith Institute

CHAPTER TWELVE – WHERE NEXT?

This paper has highlighted the extent of the prevalence of poverty in the UK and, more particularly, in London. Previous chapters discuss the detriment that poverty causes to individuals, families, and communities. It has also revealed that London businesses have some awareness of the extent of poverty in the capital city and believe the business community can play a role in helping alleviate it. In addition, many have an appetite for helping do so. Further, the commercial benefits that can accrue for firms who do take steps to, for example, reduce poverty among their own workers can be substantial.

However, many are not yet acting, despite the aspirations to do so. Which begs the question: How can more employers in the capital be encouraged to take such steps?

In this chapter, the usefulness of standards, accreditations and benchmarks to London businesses is explored along with the likely utility of a new benchmark that would enable employers to understand what steps they could take to reduce poverty among their own workers, in the communities where their main business operations are based, among those who work for their local suppliers, and the business community in the capital. Such a benchmark would enable businesses to compare their actions to those of their peers. It would also facilitate investors' understanding of what companies are doing to help tackle poverty and calibrate their investment decisions accordingly.

Standards and accreditation schemes

Standards are used to incentivise ethical business behaviour

There are a number of prominent accreditations in existence that show compliance with "ethical business standards". The Fairtrade mark, now a household name, is a world-renowned standard for improving ethical practices across supply chains. When introduced, the Fairtrade model galvanised a movement of conscious consumers and ethical producers. However, owing to ever-competitive market demands and lowered monitoring standards, the credibility of the model has since been thrown into question.[247]

Other accreditations also exist with the purpose of encouraging good business practice. They include the "Planet Mark", which considers the environmental impacts of business operations by measuring carbon emissions, energy, water consumption, and travel and waste – helping businesses to meet their sustainability goals.[248] There is also the "Fair Tax Mark", which demonstrates leadership on responsible and transparent tax as "the gold standard".[249]

The Government's Taylor Review into modern working practices endorsed independently verified accreditations as an effective means of encouraging good employment practice. According to the report, they lead positive engagement with businesses, and can help them to adopt better workplace principles.[250]

A growing number of "Good Work" standards

In London, companies that wish to demonstrate that they are good employers can be officially recognised by the "Good Work Standard". Notably, there are also similar, like-minded initiatives in other parts of the country. Table 5 below shows a range of accreditation schemes available to businesses in the UK, illustrating the kinds of areas companies can invest in to demonstrate corporate responsibility, social value, and, ultimately, commitment to the welfare of their employees.

Table 5: Examples of workforce accreditation schemes

Accreditation	Certified by	Description
Living Wage	The Living Wage Foundation	Living Wage employers are certified to show they are paying their employees enough to meet living costs, based on the Real Living Wage.
Living Hours	The Living Wage Foundation	Calls on employers to provide a guaranteed minimum of 16 hours a week, and a decent notice period for shifts.
Investors in People	Investors in People	Helps businesses to get the most from their employees, while investing in support and training for people, wellbeing and apprentices.
Disability Confident	UK government	Encourages employers to recruit and retain people with disabilities and with health conditions, as well as demonstrating a commitment to diversity.
Workplace Wellbeing Charter	Workplace Wellbeing Charter	Is accredited to a business which shows a commitment to "improving the lives of the people that work there" by providing wellbeing training.
Good Work Standard	London City Hall	London employers can be accredited for four 'pillars': fair pay and conditions, wellbeing, skills and progression, and diversity. It incorporates the London Living Wage and London Healthy Workplace Award.
London Healthy Workplace Award	London City Hall	The Award, aligning with the Mayor's Good Work Standard, recognises London employers that invest in their staff's health and wellbeing. The scheme is supported by Public Health England.
Scottish Business Pledge	Scottish government	The Pledge is premised on working with business – all that are based in Scotland – to implement ethical, fair practices. Businesses that sign up can access training, grant funding, and business rates discounts.

Good Employment Charter	Greater Manchester Combined Authority	The Charter, a voluntary membership and assessment scheme, aims to raise employment standards across the city. Membership requires companies to show excellent practice in seven different key areas.
Birmingham Business Charter for Social Responsibility	Birmingham City Council	Invites organisations to abide by its guiding principles, including living wage policy and ethical procurement. It is aimed at all businesses, and it is a requirement that City Council contractors adhere to it.

Source: SMF analysis

A selection of some of the most prominent "good work" standards are briefly discussed, below.

London Mayor's Good Work Standard

The Good Work Standard was launched in July 2019 by Mayor of London, Sadiq Khan. The Standard measures London businesses against four 'pillars' – "fair pay and working conditions", "employee wellbeing", "skills and progression", and "diversity in recruitment". It also incorporates the London Living Wage and London Healthy Workplace Award. The Standard is for all employers, irrespective of size or sector.[251]

Once the required criteria are met, firms will be given the official Good Work Standard logo to display for recruitment and marketing purposes. City Hall say there are a range of business benefits that include: better recruitment, reduced absences and sick leave, improved employee motivation, increased productivity, and reputational gain. The Standard can also be used to apply for public sector procurement opportunities with the Greater London Authority.[252]

The GWS was developed in partnership with CIPD, with its framework and guidance[xi] for employers being produced by experts in learning and development. Additionally, City Hall run workshops to support those looking to sign up.[253]

As of March 2020, 60 employers had signed up to the Standard – covering around 200,000 employees – including EY, ITV, PwC, West Ham United Football Club, and Which?.[254] Despite the promising take up of the GWS, the extent of its impact upon the London business community is currently unclear, due to the lack of any independent evaluation.

[xi] See, for employer guidance: https://www.london.gov.uk/sites/default/files/mayors_good_work_standard_employer_guidance_00.pdf

Scottish Business Pledge

The "Scottish Business Pledge" was launched by the Scottish government in 2014. The Pledge is comprised of paying the "Real Living Wage", not using Zero Hours contracts inappropriately, and taking action to address the gender pay gap – as well as six other Pledge components that firms must commit to in the future.[255] The pledge is considered to be a long-term, sustainable solution to engendering ethical business practices, rather than a "quick fix".[256]

Businesses that sign up to the Pledge receive support from Scottish government agencies and can have access to training, grant funding, and business rates discounts. They can also use their pledge logo for marketing purposes.[257]

Figures from January 2020 show that the businesses signed up at the time provided 127,225 jobs – 5.1% of all jobs in Scotland. As of June 2020, 814 business had made the pledge, and 89.9% of businesses that had signed the Pledge were adhering to at least six of the nine elements [258]

Case study analysis has noted that take up of the Pledge has been slow, suggesting that further research into the barriers to engagement – for example small businesses being unable to afford to pay the "Real Living Wage" – may be needed. The same analysis noted that the Pledge would have benefited from being co-designed with stakeholders. Such an approach would likely have helped it make a bigger impact.[259]

Greater Manchester Good Employment Charter

The Good Employment Charter is overseen by the Greater Manchester Combined Authority and is supported by the European Commission. Designed to support employers to develop "good jobs", as well as helping employers and the local economy to succeed, the Charter is an assessment scheme that aims to raise working standards across the city-region.[260]

To improve conditions, it sets out seven characteristics – "secure work", "flexible work", the "Real Living Wage", "engagement and voice", "recruitment", "people management", and "health and wellbeing", for employers to demonstrate best practice in. In return, benefits include peer-to-peer support, access to resources, and performance improvement.[261]

The Charter Supporters' Network was launched in July 2019, while its Membership Tier was launched in January 2020. Membership requires employments to show excellent practice in the seven key characteristics outlined above, receiving accreditation. Advocates are employers who meet high standards in all the employment characteristics and who also encourage others to join the Charter process.[262]

Consultation for the development of the Charter was carried out throughout 2018, with the Greater Manchester Combined Authority working with employers, employees, and experts to co-produce its structure and content.[263] There are over 100 supporters and 22 members of the Good Employment Charter, covering 200,000 employees in the area.[264]

Birmingham Business Charter for Social Responsibility

The Birmingham Business Charter for Social Responsibility aims to boost the local economy by ensuring employees are paid fairly, the creation of job opportunities, and supporting local supply chains. It was set up in 2013 as guiding principles which Birmingham City Council adheres to, and which it invites others to adopt – including Council contractors, for whom it is a requirement.[265]

Charter signatories must describe how they can add social value to Birmingham through its activities. This includes paying the Living Wage, with key principles also covering local employment, buying locally, building community partners, being a good employer, being green and sustainable, and demonstrating ethical procurement. [266] It is aimed at businesses of all sizes and from all sectors and, since its inception, over 500 organisations have joined – though many certificates have since expired.[267]

No evaluation of the effectiveness of the Charter have been carried out. However, it has been praised for how well it is integrated into the Council's activities, its priorities, and procurement and funding regimes. Nevertheless, beyond Council contracting awards, it is unclear whether businesses are motivated to commit to the Charter.[268]

Benchmarks and indicators

Benchmarks can help drive corporate behaviour change

Due to an increasing interest in corporate governance standards, there has been a rapid growth in ESG investing during the past decade.[269] The OECD have said that to unlock the full benefits of responsible investing transparency, consistency, and comparability of metrics and frameworks used to understand and evaluate ESG efforts, is essential.[270] In particular, owing to their impact, the "Access to Medicines Index"[271] and Oxfam's Behind the Brands[272] were seen as "outstanding" benchmarks.[273]

Both benchmarks have garnered praise from companies, investors, and civil society. They are seen as market mechanisms that "*…fit well with liberal economic appeals to corporate voluntarism and self-regulation*", and have shown to be effective in reducing risk for potential victims of harm, such as those working in the international supply chains of food companies. The ETI also point to the effectiveness of the "Corporate Human Rights Benchmark", which is used to compare company action on human rights policy and practice.[274]

These exemplar schemes are not concerned with poverty per se, but they do point to what successful ESG measures can look like. As schemes used for the systematic analyses of different human rights issues, they have helped build a consensus among stakeholders around what society expects of companies – stimulating responsible corporate behaviour. Consequently, all three serve as useful examples of good corporate benchmarking practice.

Access to Medicines Index

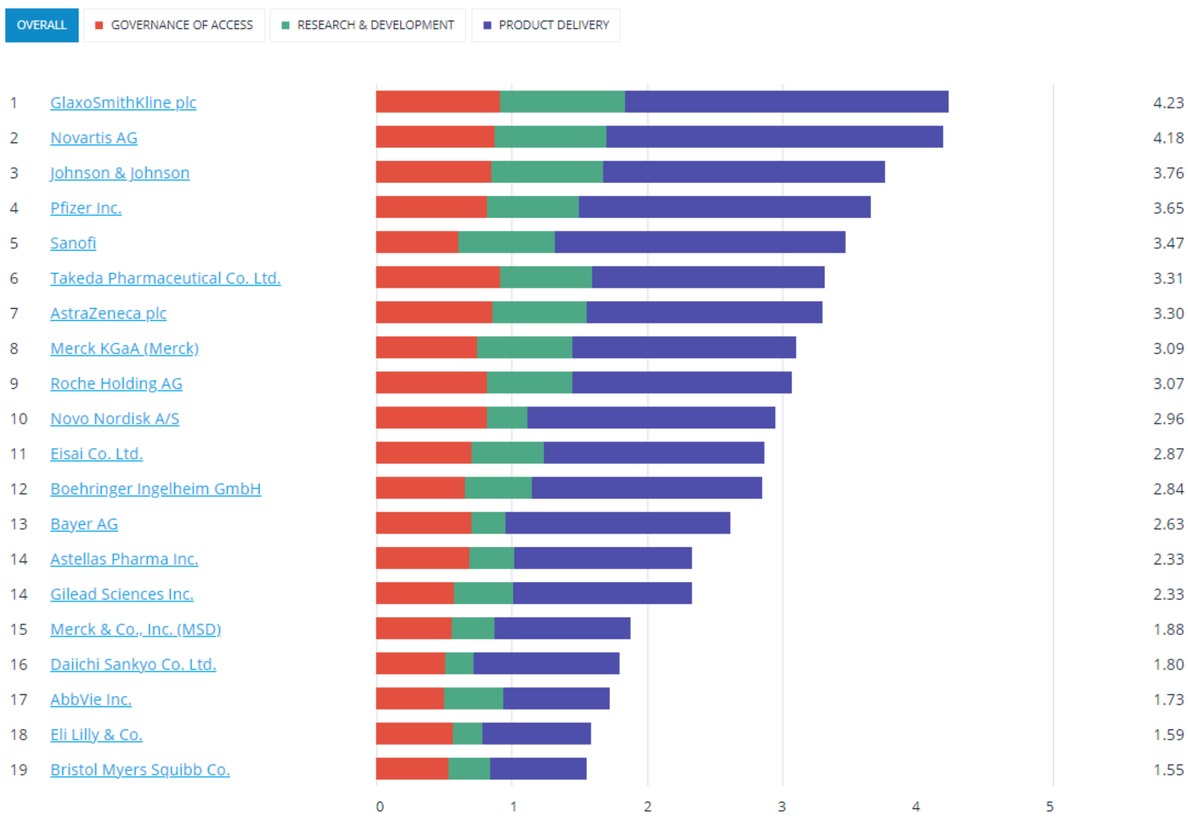
Established in 2008 by the Access to Medicines Foundation, the "Access to Medicines Index" analyses the world's 20 largest pharmaceutical companies and the extent to which they address access to medicine in low- and middle- income countries. The

Index scores firms according to three key areas of criteria, which are then used to produce an overall ranking.[275]

Crucially, as a "tool for change", the Index is used for: publicly recognising the positive actions by companies towards health goals; providing guidance on where companies can improve; and holding workshops with stakeholders, discussing opportunities for improvement with companies.[276]

The Index is also used for reaching investment decisions, with 113 investors – managing assets worth $17 trillion – currently endorsing the Index.[277] The 2021 Index showed that the pharmaceutical industry is making progress across a number of key areas, including the take-up of more inclusive business models.[278]

Figure 37: Access to Medicine Index 2021 Ranking



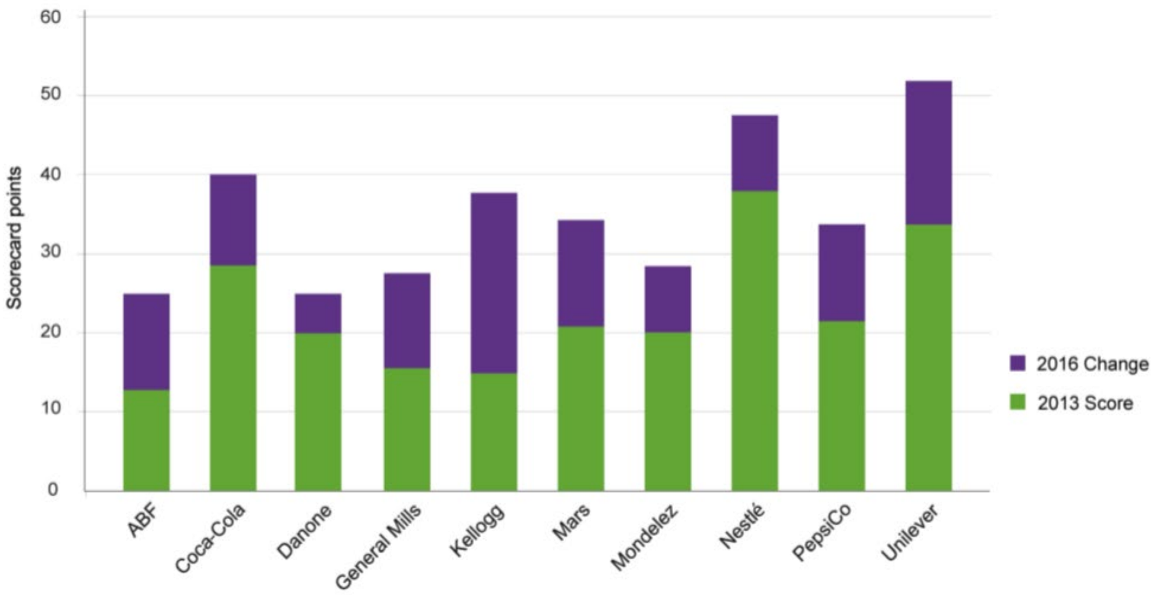
Source: Access to Medicine Foundation

Behind the Brand

Launched in 2013, Oxfam's Behind the Brand rated and ranks the 10 largest food and beverage companies on their "ethical" and "environmental" supply chain management. Together, these brands generate revenues of more than $1bn a day. Oxfam hoped that shifts in the behaviour of the biggest firms will ultimately resonate throughout the entire "food system".[279]

Behind the Brand used publicly available information to assess companies on the sourcing of their agricultural commodities. Over the three years the campaign was running, it was able to claim a number of achievements, such as: encouraging company commitments on "land rights", "female empowerment", and "climate change", as well as mobilising consumers to push over 700,000 campaign actions.[280] [281] Figure 38 shows that the 'Big Ten' made stronger corporate policy commitments during that period.

Figure 38: Behind the Brand overall score changes, 2013-2016



Source: Oxfam

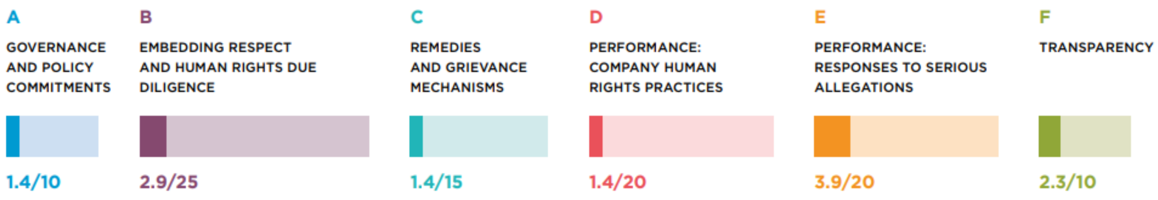
Corporate Human Rights Benchmark

The "Corporate Human Rights Benchmark" (CHRB) assesses companies on a set of human rights indicators, in order to confront some of the negative impacts of the global marketplace upon workers, consumers, and communities. It scores them across categories such as "governance", "policy" and "transparency".[282] It was launched in 2013 by a range of stakeholders, drawing on investor, business, human rights, and benchmarking expertise.[283]

In the 2020 Benchmark, 230 of the world's largest companies were assessed, and it is now part of the World Benchmarking Alliance (WBA).[284] The methodology is grounded in international and industry-specific standards on responsible business conduct – including the United Nations' "Guiding Principles on Business and Human Rights" – and uses public information to assess companies' performance.

In terms of effectiveness, the Benchmark can help investors in their investment decisions, as demonstrated when a group of international investors representing over $4.5 trillion in assets used the 2019 Benchmark to demand action from poorly performing companies.[285] Similarly, in 2018 and 2019, insurance company Aviva used its shareholdings to encourage low scoring companies to improve their efforts. The CHRB has identified positive behavioural change by companies in its metrics.[286]

Figure 39: Automotive companies' average score by measurement theme, 2020



Source: World Benchmarking Alliance

London employers and their engagement with ESG standards

ESG standards of various kinds are used by many London employers

Accreditations, standards and benchmarks with an ESG focus are widely used by London-based employers. As Figure 40 shows. Just over two-thirds (68%) of London businesses employing staff adhered to at least one ESG related accreditation, kitemark, standard or benchmark.

Figure 40: ESG standards that London businesses currently adhere to

Source: Opinium survey of London businesses, 2021

Notably, the Living Wage accreditation was the most frequently reported standard that respondents held. A kitemark system that is directly concerned with one of the factors that influences whether an employee is likely to be suffering from in-work poverty, or not.

ESG standards deliver considerable value to London businesses

Among the businesses who had current experience with at least one standard, had a kitemark or accreditation or was signed up to a Code of Practice, these were popular. When asked, for example, how "valuable" they were to the business, large majorities said that they were either "very" or "somewhat" valuable.

Figure 41 shows the balance of respondent answers about how "valuable" each of the specific accreditations, kitemarks and Codes of Practice that respondents were surveyed about, were to the respondent business.

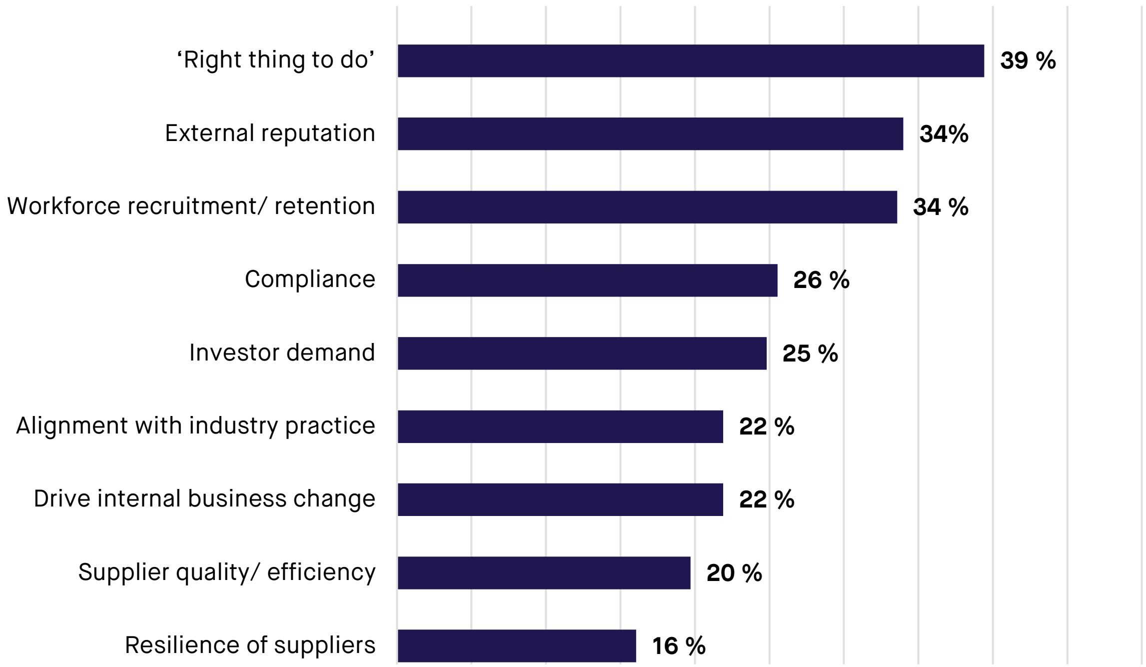
Figure 41: The value of ESG standards to London businesses

Source: Opinium survey of London businesses, 2021

The findings presented in Figure 41 suggests that those employers recognise there can be considerable value in some ESG standards, accreditations, kitemarks or benchmarks and that, for many firms, they do deliver benefits. The average proportion of firms saying that the standard(s) they adhere to, or the accreditation(s) they hold or the benchmark(s) they participate in is "very valuable" to their business is 49%. While the average percentage that reported the standards they adhere to, or the accreditation they hold or the benchmark they participate in is "somewhat valuable" to their business is 43%. Typically, over 90% of firms adhering to a standard, complying with an accreditation, holding a kitemark or subscribing to a benchmark report them as being of - at least - some value.

The data highlighted in Figures 42 indicates with more specificity, the main ways in which Living Wage accreditation is valuable to those businesses who have it.

Figure 42: Reasons for Living Wage accreditation being valuable to business



Source: Opinium survey of London businesses, 2021

Among those who said that the Living Wage accreditation was "valuable", the most frequently cited reasons for its "value" were:

- Paying the Living Wage is the "right thing to do" (39%).
- The benefits for a firm's "external reputation" (34%).
- It helps with "workforce recruitment and retention" (34%).

The findings reported in Figure 42, revealing the motivations for becoming a Living Wage employer, are consistent with conclusions from other research which looked into the reasons as to why employers become Living wage accredited. The latter also found that take-up was primarily "values driven" not "performance driven" or "stakeholder driven". For example, Cardiff Business School found that:[287]

> *"...The two main reasons given by employers for seeking...["Real Living Wage"]...accreditation were to 'act in accordance with the organization's mission or values' and to demonstrate that the organization is a 'socially responsible employer', More than 80 per cent of employers reported these reasons were of 'great importance' to them....".*

For smaller firms the balance of motivations was similar. One study into SME take-up of the "Real Living Wage" concluded that:[288]

> *"…an overwhelming number of participants…[in the research]…clearly felt that adoption of the voluntary LW was primarily driven by moral motives. This sentiment was echoed over and over again…the voluntary LW in accredited SMEs is perceived as part of the company's ethos, and not as a threat that needs to be resisted or managed".*

Box 14: reasons why firms became "Real Living Wage" employers

A company that has embraced efforts to tackle in-work poverty among its workers is SSE, which, in 2014, pledged that all those involved in its project to lay an undersea electricity link as part of the Caithness to Moray Transmission project would be paid the Living Wage.[289] At the time, SSE was the only Living Wage energy supplier.[290] SSE's pledge was heralded as significant for two reasons: the scale of the project and because it would cover those working as contractors on the project and not just those directly employed by SSE.[291]

Nestle became the first manufacturer in the UK, in 2017, to guarantee that it would pay the "Real Living Wage" to all its contractors.[292] This ensured its contract workers would be guaranteed the same minimum pay as its 8,000 permanent staff. Nestle has been a Living Wage accredited employer for its own staff, since.

Other big UK employers that have become accredited Living Wage Employers, and which have additionally pledged to extend "Real Living Wage" coverage to contract staff too, include HSBC, Aviva, Santander, Scottish Water and RBS, among others[293].

Unilever employs over 7,000 people in the UK. The company has been a Living Wage Employer since 2015.[294] Further, Unilever has given a public commitment to ensure that all temporary workers on their manufacturing sites are also given the same terms and conditions as permanent Unilver staff, including being paid – at minimum - a the "Real Living Wage".[295] By 2030, Unilver have said that all those firms that directly supply goods and services to them, will also have to pay their workers, at least the Living wage. [296] Unilver have claimed that:[297]

> *"Our ambition is to improve living standards for low-paid workers…We will therefore ensure that everyone who directly provides goods and services to Unilever earns at least a living wage or income, by 2030".*

Small specialist finance business Brightstar became a Living Wage accredited employer in 2016.[298] Their explanation for why they become a "Living Wage Employer" is an example of the combination of "values" based motivation and the direct business benefits ("performance driven") motivation that many firms have creating the incentive for the business to get the accreditation, with their Director of Operations stating that:[299]

> *"Accreditation reinforces the firm's values and its commitment to a good working environment and employee relations…it's just common sense. The biggest asset we have and need to invest in is our people…If we get our people right and can retain them, and have people who enjoy coming to work, we will have a far better environment and be more successful as a result".*

For Brightstar, the "Real Living wage" is one part of a wider approach to ensure that they are "good employers" by, for example, taking seriously staff well-being and mental health issues and focussing on skills and training and other workplace issues. They have won national and international awards for their efforts:[300] [301]

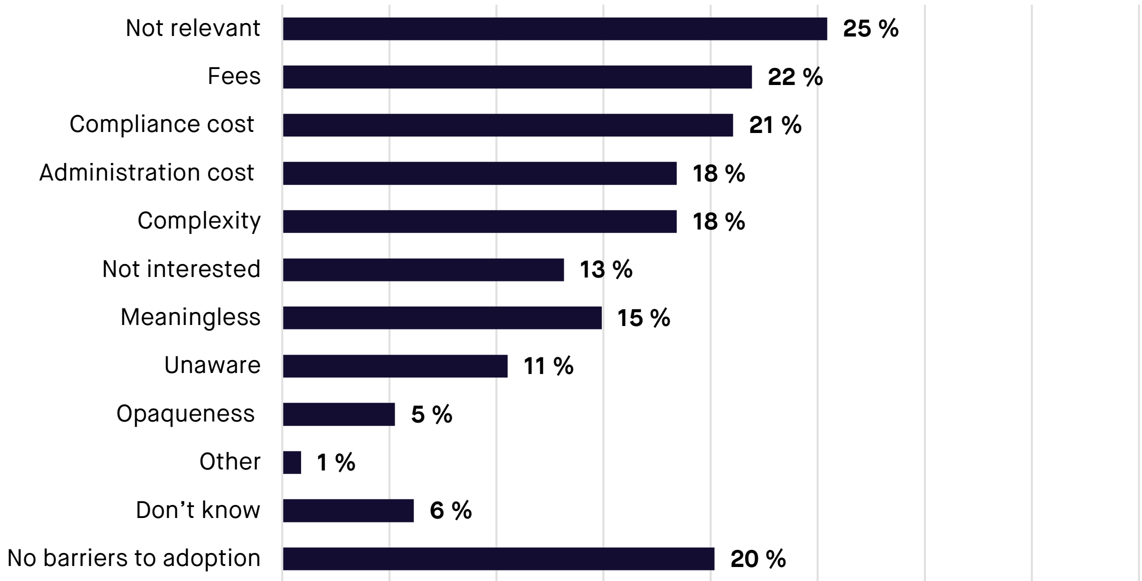
> *"In…2016, Brightstar was named Investors in People (IIP) Gold Employer of the Year, beating more than 300 companies from 29 countries across the globe…Brightstar was also named 'Equality Employer of the Year' in 2018".*

Sources: AAT; BBC; Brightstar and Unilever

Why some London businesses do not engage with ESG standards

As noted earlier, just under a quarter of London employers do not engage with any ESG standards. When asked why this was, survey participants gave a number of reasons. These are set out in Figure 43.

Figure 43: reasons for not adopting ESG standards



Source: Opinium survey of London businesses, 2021

The most frequently cited barrier to ESG standards was a view that they were not "not relevant" to the respondent business (26%). The second most frequently given answer was that "the fees" associated with some of the standards were a barrier (22%). The third most popular response was that the "compliance costs" associated with such standards are too great (21%).

The case for a new metric

In this report, we've examined the business case for firms to take a more direct interest in in-work poverty and adopting fairer, more ethical workplace standards. We've also suggested that accreditations, benchmarks, and indicators for measuring performance can be useful tools to businesses, employees, and investors alike. Emerging out of the evidence about standards that is outlined above, are a number of lessons to be learnt by anyone that might consider trying to utilise such tools to encourage more businesses to, for example, take steps to help poverty among their own workforces.

Looking at some of the regional workplace accreditation schemes in existence, lessons – both positive and negative – can be learned. Those foregrounded appear to have had reasonable success in terms of take-up and, while data on the outcomes of each scheme is limited, each offers a distinct approach to stimulating effort among businesses to take ethical considerations more seriously. Some, however, have also encountered difficulties, such as finding ways to incentivise smaller businesses to take up and comply with such schemes.

A "Good work" standard for London is already in place and growing

In London, the Good Work Standard stands out for its comprehensiveness, and it has no immediately apparent gaps although there is a lack of timely data into its effectiveness. It was co-designed with CIPD, with experts on "work" and those with an in-depth knowledge of the city, combining to create the framework,[302] and it incorporates both the London Living Wage and the London Healthy Workplace Award initiatives. At the same time, over 60 reputable names – representing 2,000 employees – have adopted the scheme. Suggesting there is little scope for a London-based workforce accreditation scheme and raising the issue of anything new emerging having to differentiate itself from the GWS.

Absence of a benchmark to assess ESG performance of London businesses

But there isn't currently a benchmark to assess the ESG performance of London-based businesses in general or around in-work poverty. The role and effectiveness of the prominent CHRB has already been note earlier in this chapter, while similar measures, such as KnowTheChain[303] and the Workplace Disclosure Initiative,[304] also exist. However, these look to improve the corporate accountability of global companies, and they are therefore international in scope.

As shown earlier in this report, public information from businesses on workforce issues is difficult to come by. Benchmarks can help with this, increasing knowledge and in-turn helping provide the data through which accountability can be enhanced, through scrutiny of that data by governments, civil society, investors, and consumers. With data that is publicly available, there can be robust oversight of how companies are supporting and protecting their workers from the challenges of poverty.

Practical considerations for designing a benchmark

There are also limitations that need to be considered. For example:

- Any benchmark needs time in order to gain a reputation, for awareness about it to grow and then be actively used by stakeholders for change to occur within a company and across sectors. With the case of the CHRB for example, indications of impact took five years to emerge.[305]
- Independent monitoring is necessary. In the WDI's 2018 and 2019 surveys, analysis of corporation's disclosure of information found that some companies had omitted or were reluctant to share the details of certain data.[306] This points to the need for assessments that go beyond simple voluntary self-reporting.[307]
- Benchmarks may also result in unintended consequences. For example, scoring that is typically focused on policy commitments, instead of the outcomes of those policies, can lead to scenarios where companies score high on their commitments when they perform poorly in terms of impacts. Bias can also be a factor. Companies with greater resources, that able to provide better data can appear to be doing better, despite their "impact" not being – objectively – any greater than another organisation who doesn't have the internal resources to report on its activities as effectively.[308]

Box 15: Summary of lessons learned

- In London, the space for a workplace accreditation scheme is narrow; there is a much greater need for a local benchmarking initiative.
- To ensure that a standard is well-designed and adequately targeted, it ought to be widely consulted with both experts and relevant stakeholders.
- Where possible, already-established schemes (such as the Living Wage) should be incorporated into new standards in order to increase credibility.
- Support and guidance should be issued to employers to help them sign up a standard, and to maintain development.
- New standards are likely to take years to come into effect before they can begin to make an impact on business practice.
- To allow for trust and transparency, publicly accessible data and independent monitoring is necessary.
- Organisations looking to run a new standard should be aware of the potential unintended consequences of monitoring companies.

Towards a new business standard

In this report, we have called attention to the scale of the in-work poverty problem in London – what drives it, and the impact it has on workers, their families, and on wider society. Through the surveying of London employers and their attitudes to ESG issues, this repot has revealed that businesses in the capital recognise poverty among their workforce as an issue. Crucially, we have also shown that many businesses are willing to help do something about that poverty, and accrue a number of commercial benefits as a result.

This paper has attempted to demonstrate that there is a strong case for a new business standard in London, focussed on poverty and the actions that businesses can and do take to help ameliorate it. However, this paper is but one component of a much broader body of work. With the above lessons in mind, the SMF is looking to establish how the *principles* for a successful benchmark can be applied in *practice*. With the view of designing an in-work poverty benchmark, a set of metrics that can be used to incentivise London businesses to better engage with the poverty challenge, improving business practice, we will convene experts from across business and civil society to oversee its design and delivery. From these conversations, we believe we can encourage and help businesses to help tackle poverty in the capital.

Poverty is a complicated phenomenon, and any attempt to reduce it is often a difficult, unwieldly task. In particular, the nature of in-work poverty is that it is multi-faceted and the factors that contribute to it are often ambiguous. For example, while it is inevitable that low earnings will end up being a key driver for those that are experiencing hardship – most workers in poverty *will* be low paid – it is likely there will be a number of determinants at play. From household composition to living costs, skill levels to opportunities for progression. The causes of workforce poverty are multitudinous and are just as dependent on a person's personal circumstances as they are on their working conditions.

In-work poverty is not just a wage issue. This is why we would like to hear from businesses, investors, experts, and campaigners about the best ways for companies to act on poverty, and how we should measure that action. In late 2021, the SMF will undergo a two-year consultation process, seeking ideas, observations, and feedback to help take this research forward, developing a new benchmark for businesses and ESG investors. We have already recruited an expert advisory group to help guide the project through its next steps.

A call for concerned parties to show their interest and get in-touch

The project that this report is one part of, still has two years to run, with much work to do, which will benefit from further engagement with and input from businesses, civil society, academics and practitioners. Consequently, SMF **welcomes the ideas and observations of businesses, relevant civil society groups, academics, practitioners and others on this research, the wider project and its objectives**, and encourage those who are interested in this issue to contact the Social Market Foundation via director@smf.co.uk to be part of this conversation.

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