

# NON-COMPLIANCE WITH THE NATIONAL MINIMUM WAGE IN NEWHAM

MAY 2012

## A RESEARCH REPORT FOR THE LONDON BOROUGH OF NEWHAM



# Foreword from the Mayor of Newham



The introduction of the National Minimum Wage has greatly benefited the very lowest paid across the country and protected many vulnerable workers from the worst excesses of exploitation. However, pay abuses still continue and too many people still do not receive the National Minimum Wage, to which they are legally entitled. In this day and age it is completely unacceptable that a person can receive a wage as little as £3 an hour. This issue sadly affects areas like Newham, which have a dense and changeable population, with a disproportionate number of small to medium sized businesses.

Many of our local businesses offer good quality and sustainable employment but the purpose of this report is to highlight the evidence we have gathered, which shows the impact of businesses not paying the minimum wage. This report importantly illustrates experiences and the vulnerability felt by people working below the National Minimum Wage and the damage that is done by businesses that refuse to adhere to fair pay. This research will be used by our local enforcement teams to inform their work. However, I also strongly hope this report will contribute to the national debate on empowering local government to challenge the informal economy to protect vulnerable residents.

Local authorities are best placed to know what challenges they face. National Minimum Wage investigative powers will help us to create a level playing field in our communities where legitimate business and good quality employment opportunities can thrive.

A handwritten signature in black ink, appearing to read 'R. Wales'.

Sir Robin Wales  
Mayor of Newham

# Contents

<b>1. Executive summary .....</b>	<b>4</b>
1.1 Overview .....	4
1.2 Why people work for below the national minimum wage .....	4
1.3 The impact of working for below NMW .....	5
1.4 Barriers to better paid and formal work .....	6
1.5 Routes out of below-NMW employment.....	6
<b>2. Introduction.....</b>	<b>7</b>
2.1 Background.....	7
2.2 Research objectives.....	11
2.3 Methodological note.....	11
2.4 Acknowledgements.....	11
<b>3. Employee characteristics.....</b>	<b>12</b>
3.1 Demographic features.....	12
3.2 Employment patterns .....	14
3.3 Sources of Income .....	16
<b>4. Awareness of the NMW and attitudes towards it.....</b>	<b>17</b>
4.1 Are employees aware of the NMW? .....	17
4.2 Attitudes towards the NMW .....	18
4.3 Motivations for working for less than NMW .....	19
<b>5. The impact of earning below the NMW.....</b>	<b>22</b>
5.1 Working conditions in informal jobs.....	22
5.2 What is the impact of low pay? .....	23
5.3 How does low pay impact on social networks? .....	26
<b>6. The journey towards formalisation.....</b>	<b>28</b>
6.1 Barriers to formal work.....	28



6.2	What are respondents' aspirations for the future? .....	28
6.3	Attitudes to existing support services .....	30
<b>7.</b>	<b>Conclusions and recommendations.....</b>	<b>34</b>
7.1.	Overview .....	34
7.2.	Key themes from the research .....	34
7.3	Recommendations .....	35
<b>Appendix 1 – Methodology.....</b>		<b>37</b>
<b>Appendix 2 – List of literature reviewed.....</b>		<b>39</b>
<b>Appendix 3 – Depth interview topic guide .....</b>		<b>41</b>

# 1. Executive summary

In Autumn 2011, the London Borough of Newham contracted Ipsos MORI and Community Links to conduct research to develop a greater understanding of how working in the informal economy impacts on the lives of those paid below the National Minimum Wage (NMW). The research includes a literature review and 30 face-to-face in-depth interviews with people either living or working in Newham, and earning below the NMW. The main interview findings and key recommendations are summarised below.

## 1.1 Overview

Awareness of the NMW level varies markedly. Low awareness is particularly noticeable among those working informally, who believe that unskilled, cash-in-hand work does not carry an entitlement to the NMW or other workers' rights. Limited evidence exists that participants felt exploited despite their low wages, which ranged from under £3 to £5.90 an hour. Rationalisations for low pay include the current economic downturn depressing the 'going rate' for unskilled work.

Respondents approve of the NMW in principle, but the NMW level is considered too low. This perception is due, in part, to limited knowledge of in-work support such as tax credits, but also reflects the high cost of living in London. Doubts were expressed about how the NMW can help workers achieve a decent standard of living, given the high cost of living.

All of the participants want better paid jobs, and need help to achieve them. They are less keen for their current employer to be investigated and penalised for non-compliance of NMW legislation. Participants are actively complicit in hiding their employers' malpractice because they want to protect their jobs.

Routes out of below-NMW employment must address both factors pushing people towards low pay and the barriers to overcoming low pay. Some barriers are perceptual (e.g. assumption that welfare benefits would stop). Local agencies need to work together to publicise more widely information about in-work financial support, local opportunities for skills training and services offering tailored job search support. Targeting groups prone to low pay through key touch-points, such as debt advice centres, centres for lone parents or Sure Start centres, is also important going forward.

## 1.2 Why people work for below the national minimum wage

Reasons given for working below the NMW vary, primarily according to participants' life stage and housing situation. Three groups are identified:

- **Younger people living at their parental home**, who regard informal work as a gateway to formal employment. They see their below-NMW status as temporary;
- **People living with children**, who need the flexibility informal working allows (to fit around their childcare arrangements) and who want to earn a little extra cash to top up their benefits;
- **People living alone or without children**, who lack the skills or resources to obtain better paid work.

In contrast to the younger participants living at their parents' home, the other groups spoke of being trapped in the informal economy. Of particular concern for these people is the perceived reduction in benefits from working in formal employment. Poor knowledge of in-work benefits, and the level of the NMW, contribute to this concern.

Although most interviewees claimed benefits, it is not possible to identify fraudulent claims among this group. Reasons for doing low-paid informal work and claiming benefit include:

- working the hours allowed to still receive certain benefits;
- providing the sole source of household income, sometimes in conjunction with legally claimed Housing Benefit; or
- 'topping up' benefits illegally.

A lack of recognised qualifications, skills and work experience is a common factor to all groups. Younger people hope to gain skills and experience through their informal work and other activities such as studies. Gaining experience and skills through a below NMW job is considered valuable to getting a job in the formal sector.

### 1.3 The impact of working for below NMW

Earning below-NMW impacts personally and on the wider community.

**Financial impacts:** Earnings from low-paid informal work are a vital source of income for those without formal employment, or for young people living with parents who contribute to household bills. But working without fixed terms of employment at low pay makes people vulnerable to a reduction in pay in an economic downturn. Individuals are also asked to work long hours without overtime pay, making financial planning difficult.

**Impacts on personal well-being:** The effects on social and personal well-being are not entirely negative. Gaining work experience, the chance to practice or update skills, and having contact with people through customer-facing work are all positive. However, participants are largely negative about the personal impact of their below-NMW status. The difficulty of surviving on low pay can contribute to mental health problems such as stress, and the social stigma of working informally can be humiliating. This embarrassment is particularly felt among those claiming benefits fraudulently while working, who are aware they are breaking the law. The worry of being found out is also a constant pressure for some informal workers.

**Impact on community involvement:** Some participants chose to work informally to develop community connections, meet others and possibly find formal opportunities for work or training. But low pay can cause community withdrawal, particularly for those working unregulated and long hours in physically demanding jobs. The stigma of working while claiming benefits and not revealing true employment status can also inhibit integration into the local community.

#### 1.4 Barriers to better paid and formal work

Participants want to work in the formal economy and receive better pay. To help low-paid workers move into a better paid, formal job a number of barriers need removing including the perception that working for the NMW will make them worse off. Additionally, there are practical barriers such as difficulties finding affordable and good quality childcare, and affordable housing. Other problems include the general lack of recognised qualifications and work experience among this audience and their lack of confidence in applying for jobs and performing in job interviews.

#### 1.5 Routes out of below-NMW employment

Based on the research findings and steering group discussion, four immediate actions are identified to reduce below-NMW employment in the Borough:

- **Lobby HMRC, UKBA and BIS** to provide local employers with a greater incentive to comply with Minimum Wage legislation and lobby Government to extend Minimum Wage enforcement powers to the London Borough of Newham;
- **Joint Enforcement and Workplace activity. Enable Workplace managers to join enforcement raids to provide guidance and support** to those who will lose their jobs as a result of enforcement activity for non-compliance. This will include piloting intensive job guidance sessions for those workers;
- **Improve Workplace communication to prevent employees feeling trapped in the informal economy.** Target communication to those working or likely to be working in the informal economy by: identifying key locations and placing information and contact details in shop windows alongside job advertisements; and recruiting local people who are likely to have contact with below-NMW employees to champion the services of Newham Workplace; and
- **Identify barriers to childcare take-up** and promote formal childcare options by raising awareness of funding options available for working parents using formal childcare, as well as tackling cultural concerns about using childcare outside the family.

The Council recognises that medium-term measures to prevent informal employment need a partnership approach, providing a mix of enforcement action with formal employment opportunities and information, advice and guidance.

## 2. Introduction

An overview of the National Minimum Wage and the four sectors researched in this study are discussed in this Chapter.

### 2.1 Background

#### 2.1.1 NMW Rates

The NMW, introduced in April 1999, is a legal right covering almost<sup>1</sup> all UK workers. It was introduced to prevent unduly low pay and create a level playing field for employers. Four rates of pay were established from the recommendations of the Low Pay Commission (LPC)<sup>2</sup> (Table 1.1).

**Table 1.1: National Minimum Wage rates**

Category	NMW Rate (per hour) During fieldwork	NMW Rate (per hour) Since October 2011
Workers aged 21+	£5.93	£6.08
18-20 year olds	£4.92	£4.98
16-17 year olds	£3.64	£3.68
Apprentices	£2.50	£2.60

#### 2.1.2 NMW and the informal economy

Non-compliance with the NMW places a business in the 'informal economy' defined as work which is 'unregistered by, or hidden from, the state for tax, benefit and/or labour law purposes, but which are legal in all other respects'<sup>3</sup>.

The informal economy is difficult to approximate due to its hidden nature, but is estimated to account for approximately 12 per cent of UK GDP or £120 billion. In 2008, the TUC estimated it had 2 million employees but no official data exists. Construction accounts for half of informal work and consumer services such as hairdressing for a quarter<sup>4</sup>.

Research for the Department for Communities and Local Government (DCLG) suggests informal work is particularly significant as a proportionate source of income in deprived neighbourhoods<sup>5</sup>.

<sup>1</sup> Self-employed workers, company directors, voluntary workers, members of the family working in a family run business, members of the armed forces and reservists, share fishermen, prisoners, members of religious and charitable communities and those working under the EU Lifelong Learning Programmes are all exempt from being paid the NMW

<sup>2</sup> <http://www.businesslink.gov.uk>

<sup>3</sup> Community Links/Joseph Rowntree Foundation (2006), *People in Low-Paid Informal Work; Need not Greed*, Policy Press

<sup>4</sup> Community Links (2009), 'The Informal Economy', Social Change Series 3 [p7]

<sup>5</sup> Evans, Melvyn, Stephen Syrett and Colin Williams (2006), *Informal Economic Activities and Deprived Neighbourhoods*, Department for Communities and Local Government.



Most people working in the informal economy also work formally, but residents in deprived neighbourhoods are much more likely to have informal work as their only earned income source. Many people in deprived areas treat informal work as a 'gateway' to formal employment because they are:

- less likely to have a social circle of employed workers, so lack the contacts useful for finding a formal job. Working informally introduces them to new people. Most managers, colleagues and customers met through informal work are economically active and may know of other employment opportunities.
- more likely to lack education, qualifications and English language ability. Informal work may provide an opportunity to acquire fluency in English, vocational skills and work experience. A study of the Asian catering sector found high turnover of staff from underpaid jobs: many moved on to the formal sector once they had gained experience or saved money<sup>6</sup>.

Recognising these motivations, successive Government reports<sup>7</sup> recommended formalisation programmes allowing those in the shadow economy to operate legally without prosecution.

### 2.1.3 Industry segmentation of NMW non-compliant workers

This study focused on four sectors: construction, hairdressing, catering, and hospitality. These industries have a high proportion of low-skilled, low-paid jobs. Recent figures from the Department for Business, Innovation and Skills (BIS) found hospitality, hairdressing and construction were all in the top five trade sectors for minimum wage non-compliance (Table 1.2). The hospitality sector identified by BIS is represented by two categories in this research: hospitality (including hotels and restaurants) and fast food (including eateries and cafes).

<sup>6</sup> Ram, M., P. Edwards and T. Jones (2004), *Informal Employment, Small Firms and the National Minimum Wage*, Low Pay Commission. <http://www.lowpay.gov.uk/lowpay/research/pdf/t0NTAVZ4.pdf>

<sup>7</sup> Beginning with the seminal report by Lord Grabiner (2000), *The Informal Economy*.

**Table 1.2: Complaints closed by trade sector <sup>8</sup>**

Trade sector	2010/11
Hospitality	503
Market service	347
Retail	261
Hairdressing	239
Production/Construction	197
Security/Cleaning	130
Social care	163
Clothing/footwear	15
Public service	27
Other services	426
<b>Total</b>	<b>2,308</b>

### 2.1.3.1 Construction

Informal and undeclared work is common in construction, home repairs and improvement, especially at the small-scale end of the spectrum where the majority of work is paid in cash<sup>9</sup>. The Department for Business Enterprise & Regulatory Reform (DBER) reported strong suspicions of pervasive underreporting of earnings for tax evasion purposes<sup>10</sup>. Compared with much of Europe, the UK construction sector is difficult to regulate as it has large numbers of self-employed, sub-contractors and agencies<sup>11</sup>.

Although most construction jobs are paid above NMW, “the construction sector has a long-standing reliance on a ‘reserve army’ of relatively cheap foreign labour”<sup>12</sup>. Recruitment to the industry is usually by word-of-mouth. Migrant workers may find it hard to access permanent positions, and turn to agencies or sub-contractors to find jobs. This may lead to exploitation if employees are unaware of industry conditions and statutory rights.

### 2.1.3.2 Hairdressing

Hairdressing makes widespread use of ‘cash-in-hand’ arrangements (i.e. undeclared payments to casual staff), facilitating non-compliance with the NMW. Hairdressing staff have low awareness of the different rates by age and apprentice status, which is particularly significant in an industry where many start out as teenagers on trainee schemes<sup>13</sup>.

Elaine Lawson, Secretary-General of the National Hairdressing Federation, identified that in smaller salons, there is some non-compliance due to:

*...[difficulty] understanding the complex nature not just of the tiers for different ages, whether somebody is an apprentice or whether they are not an apprentice, when they*

<sup>8</sup> <http://www.bis.gov.uk/assets/biscore/employment-matters/docs/n/10-1153-national-minimum-wage-non-economic-evidence-2010>

<sup>9</sup> RAND Europe (2008b), *Tackling the Hidden Economy*, §5.11

<sup>10</sup> *Ibid.*, §5.9-10

<sup>11</sup> I. Fitzgerald (2006), “Organising Migrant Workers in Construction”

<sup>12</sup> *Ibid.*, p. 3

<sup>13</sup> G. White and R. Croucher (2007), *Awareness Of The Minimum Wage In The Hairdressing Industry*

*become an apprentice, when they stop becoming an apprentice, with all the issues around holiday pay, maternity pay, sick pay and all the rest of it when you have an industry which is based on a basic salary plus commission on the number of clients they are dealing with*<sup>14</sup>.

### 2.1.3.3 Catering

Downward pressure on prices from intense competition in catering can lead to using sub-NMW wages to reduce costs. A report on café and restaurant workers in Brick Lane presents an extreme example: “Three quarters earned below the legal minimum of £5.75 per hour – some as little as £3 per hour. The majority of workers did not pay tax and most had no contract of employment”<sup>15</sup>. Managers made use of irregular shift patterns to underreport the hours worked by staff and conceal the fact they pay below minimum wage.

### 2.1.3.4 Hospitality

The hospitality industry is characterised by a large number of very small firms, and a high proportion of workers on Minimum Wage. Hospitality was particularly badly hit in the recent recession, with output contracting by 8 per cent from its 2009 peak<sup>16</sup>. This led to some businesses taking staff ‘off the books’ and reducing wages below NMW<sup>17</sup>.

A report on migrant workers in North Staffordshire indicates some agencies in the industry exploit migrant workers’ ignorance of NMW legislation to make illegal deductions for “extortionate and poor quality accommodation, payments for services not provided and the use of relocation to keep the worker isolated”.<sup>18</sup>

## 2.1.4 Demographic composition of NMW non-compliant workers

People in part-time work are more than twice as likely as people in full-time work to be paid less than the NMW, with 1.8 per cent of part-time jobs and 0.8 per cent of full-time jobs falling below this level. Jobs held by women are more likely to fall below the NMW than jobs held by men (1.2 per cent compared with 0.9 per cent). This reflects the UK labour market, where a higher proportion of women work part-time than men<sup>19</sup>.

In addition to women and part-time staff, other groups who are also at greater risk of being paid below the NMW include young people, older workers, disabled people, ethnic minorities and those with no qualifications<sup>20</sup>. This trend is connected to the high incidence of these groups in the informal sector. For example, female workers may opt for low-paid informal work because it allows them to work around childcare commitments. Informal work tends to provide greater opportunities for flexible, temporary or home-based working, or the possibility of bringing children to the workplace.

Migrant workers are over-represented in informal and below-NMW work due to a lack of English language skills, recognised qualifications and contacts, all of which are valuable when searching for formal employment. They may also lack awareness of their legal rights, and have low expectations of pay conditions, placing them at risk of exploitation. Undocumented migrants are even more likely to face poor conditions, as employers are

<sup>14</sup> Scottish Affairs Committee (2009), §26

<sup>15</sup> J. Elliott (2009), *Waiting for Change*, p. 6

<sup>16</sup> Low Pay Commission (2011)

<sup>17</sup> For the effect of the recession on compliance, see Low Pay Commission (2011), §4.57-59

<sup>18</sup> Steve French and Jutta Möhrke (2006), *The Impact of ‘New Arrivals’ upon the North Staffordshire Labour Market*

<sup>19</sup> ONS website (2011), <http://www.statistics.gov.uk/cci/nugget.asp?id=591>

<sup>20</sup> Low Pay Commission, (2011) ‘National Minimum Wage’ [p 18, 65]

aware they have few options and cannot complain to the authorities. The verbatim comment below from a construction worker illustrates this point:

**“What could I say to my boss – ‘you have to pay me more’? No. If I had the legal papers I would not be working there and I could find a proper job and pay tax and everything.”**

*Male, Electrician, working at various locations around Newham*

A recent report by Community Links and the Refugee Council found refugees are particularly vulnerable to under-payment in the informal sector. Although refugees are permitted to work in the UK, many employers are misinformed. Other barriers to formal work include gaps in work experience due to the asylum process, and difficulties in getting overseas qualifications recognised by British employers. For this reason, many refugees work informally.

## 2.2 Research objectives

The research has three objectives:

- Develop a greater understanding of how employees paid below-NMW are living, including entry points to working in the informal economy and its impact on their lives;
- Explore how non-compliance with NMW links with other elements in the Borough such as uptake of childcare, housing arrangements; and
- Understand how to help these employees back into the formal economy or whether further barriers exist such as immigration status or lack of available jobs.

## 2.3 Methodological note

The research had two parts, a literature review and 30 face-to-face in-depth interviews with employees paid below the NMW. This report outlines the main findings and key recommendations from the face-to-face interviews. A full description of the project methodology can be found in Appendix 1. The literature review is reported separately and can be obtained from the Research and Policy team at London Borough of Newham. However a full list of the literature reviewed is given in Appendix 2.

The findings of this report are not statistically representative of the views of all employees paid below the national minimum wage. The perceptions of participants make up evidence in this study, and they may not be factually accurate.

## 2.4 Acknowledgements

Ipsos MORI and Community Links would like to thank Dr Jane Kennedy, Ethan Greenwood and colleagues in the Research and Policy team at London Borough of Newham for their help with this study and reporting. We would also like to thank all of those who participated in the research.

### 3. Employee characteristics

A broad range of participants were interviewed across the four chosen industry sectors. Three distinct groups of informal employees were identified: younger employees living at home with their parents, those with caring responsibilities for children, and those who lived alone or with a partner. The differences between these groups are explored further in the report.

#### 3.1 Demographic features

Owing to the nature of qualitative research, our sample is not intended to be representative of below-NMW workers in Newham. However, we took into consideration the need to balance the demographic characteristics of interviewees in order to obtain a wide range of insights. A full account of the demographic characteristics of employees is covered in table 3.1 overleaf.

We recruited participants from four economic sectors known for the use of low-wage labour. In total we had 12 from the construction sector, 8 from fast food, 6 from hair and beauty, and 4 who worked in hospitality. We achieved an even gender balance amongst the interviewees: 15 were male and 15 female. However, there was a strong bias within some of the trade sectors: construction workers were all male while hair and beauty staff were all female. This reflects the gender bias that is commonly found in these industries.

The average number of hours worked by participants was 27 hours per week (though many worked variable hours, or were subject to other fluctuations like unpaid overtime). Half of the sample (15) worked full-time, defined as 30 hours per week or more, whereas 13 worked part-time. Two respondents did not reveal the number of hours they work.

The average age of individuals was 30, but this included a range from 18 to 52. There were five who were under the age of 25 (four of which were living with parents in their family home). The 25-44 bracket contained 21 interviewees, with the remaining four being aged 45 or over.

Most respondents migrated to this country, largely from Eastern Europe and Africa. Two interviewees did not have the right to work in the UK. However, all interviewees were at least moderately proficient in English. Only two interviewees of the 30 did not have the right to work in the UK, but it is suspected the proportion working informally in the Borough is higher. It is likely that new arrivals, particularly those with poor English and those without the right to work make up a large proportion of NMW non-compliant workers.

Most of the interviewees live and work in Newham and had lived in the Borough for over five years with deep connections to the local community. A few respondents worked for agencies or in temporary positions outside the Borough.

One interviewee had a degree from a British university, and one had a degree from her home country (overseas). But most interviewees had low academic achievement. The young people were largely better educated and trained than older workers. Some participants had vocational qualifications from their home country which were disregarded by potential employers in the UK. Most interviewees learnt their skills from experience or on-the-job training.

**Table 3.1: Characteristics of workers**

<b>Gender of interviewee</b>	<b>Business sector</b>	<b>Ethnicity</b>	<b>Number of hours worked per week</b>
Male	Construction	Mixed Race	Not given
Male	Construction	Black Caribbean	40
Male	Construction	Black Caribbean	Variable: 32 average
Male	Construction	Black African	Variable: 25-35
Male	Construction	Black African	16
Male	Construction	White – E. European	30
Male	Construction	White – E. European	30
Male	Construction	Black African	Variable: 30-50
Male	Construction	White – E. European	30
Male	Construction	White – E. European	40-48
Male	Construction	White – E. European	32
Male	Construction	Asian	35
Female	Fast Food	White British	12
Male	Fast food	Asian	36-40
Female	Fast Food	Black Caribbean	12
Male	Fast Food	White – E. European	Variable: 27-54
Female	Fast Food	White – E. European	Variable: 20-30
Female	Fast Food	White – E. European	20
Female	Fast Food	Black African	32
Female	Fast Food	White – E. European	16
Female	Hair and beauty	Black Caribbean	16
Female	Hair and beauty	White British	Not given
Female	Hair and beauty	Black Caribbean	(full time)
Female	Hair and Beauty	Mixed Race	6
Female	Hair and Beauty	Black African	16-18
Female	Hair and Beauty	White – E. European	45
Female	Hospitality	Black African	15-20
Male	Hospitality	Black African	24
Female	Hospitality	White – E. European	25
Female	Hospitality	White – E. European	15



## 3.2 Employment patterns

Participants largely had one job only, with the exception of two participants. Three interviewees volunteer regularly to gain work experience (for example, as an assistant in a hospital). Rodney's story below illustrates how volunteering can be thought of as a gateway to paid work.

### **Case study: Handyman, 48-years old, Canning Town**

Rodney was a self-employed builder for many years before suffering an accident on a construction site which left him temporarily unable to work. Without an income stream he lost his house and was placed in a hostel by London Borough of Newham.

Once he had sufficiently recovered from his accident, Rodney began helping out the hostel with maintenance work. The managers were impressed with his skills and offered him a one-year position as a handyman. Rodney works full-time for the hostel, but he also volunteers up to four hours a day doing maintenance at a local community centre as he hopes that they will take him on if a job becomes available there.

***"It's a lot of hours, but I used to do more than that when I was self-employed. Harder work too. I need to move on, so if I get familiar with that building [the community centre], maybe I'll get a permanent situation there."***

On average, participants worked less than full-time, but there is significant variation in the hours worked. This ranges from one hairdresser who works six hours a week to builders who occasionally work over 50 hours.

Working hours for informal employees appear to be more variable than hours in the formal sector. Among our respondents the variability was due to a number of reasons: in some cases, the respondent wanted to work around study or family commitments. Working below NMW allows this sort of flexibility. In other cases, participants' hours varied depending on how busy their employers' businesses might be. This is illustrated in the case of Lisa (case study below), who was once sent home without pay when her employer had a poor business day. In the reverse situation a fast food restaurant waitress described how she was required to do unpaid overtime at short notice. Having terms of employment which are not fixed can allow flexibility, but at the same time means informal workers are less able to protest if they are given less or more work than they expected to perform.

***"When they [the restaurant] don't need me, they call me and say 'stay at home'. When you get Minimum Wage and you're working with papers [legally] then you [can] tell them 'I need minimum 5 days [work] guaranteed'"***

*Male, Chef, Forest Gate*

Although some worked part-time out of choice, other participants were actively searching for full-time employment.

Pay ranged from £5.90 an hour to under £3 an hour. Some earned a fixed amount per shift, but the shift hours varied considerably between one day and the next. This was most common in the construction sector, where pay is on a day rate basis but workers are expected to stay until the job is complete.

Workers are paid either daily or weekly, and the majority are paid cash-in-hand. A few were employed formally, with tax and National Insurance deductions taken from their pay: NMW non-compliance was due to either a mistake or deliberate fraud on the employer's part.

### **Case Study: Waitress, 18-years old, Stratford**

Lisa works for a fast-food chain, serving customers, clearing tables and operating the till. She works 12 hours a week, and lives with her parents. Because she lives with her parents, Lisa does not pay rent. Her job allows her to buy clothes, pay for her phone bill and also contribute 'gas money' to her parents.

Lisa finished school at 16 and entered full-time employment. She found an informal job at a hairdresser's where the pay was below NMW, but after four months she moved to her current job as it paid slightly better – £4.50 an hour. Lisa has decided to improve her career opportunities by enrolling in an accountancy course this year. For this reason, she can only work part-time for the fast food chain.

Often, her manager will ask her to stay on for an extra hour or two at the end of her shift if there are more customers coming in. She is not paid for overtime. The work is tiring: ***"My lifestyle is all about working and college, that's all I do"***.

She is not aware of the different age bands for the NMW, or that it is illegal for an employer to pay below them.

Last year, Newham Workplace put Lisa on a retail training course which she hoped would enable her to find a job at Westfield Shopping Centre, but her applications have been unsuccessful. She feels very frustrated by her situation, as friends with similar experience and qualifications found jobs with fashion outlets paying above NMW.

Employers are largely small businesses with a 'visible' presence: for example, high street hairdressers, cafes and nail bars. Other Ipsos MORI research<sup>21</sup> found such businesses are likely to operate formally in other respects, for example complying with VAT and Health and Safety regulations. National chains are among other employers mentioned along with home-renovation businesses operating informally.

<sup>21</sup> Ipsos MORI "Non-compliance with the NMW" for LPC as yet unpublished

### 3.3 Sources of Income

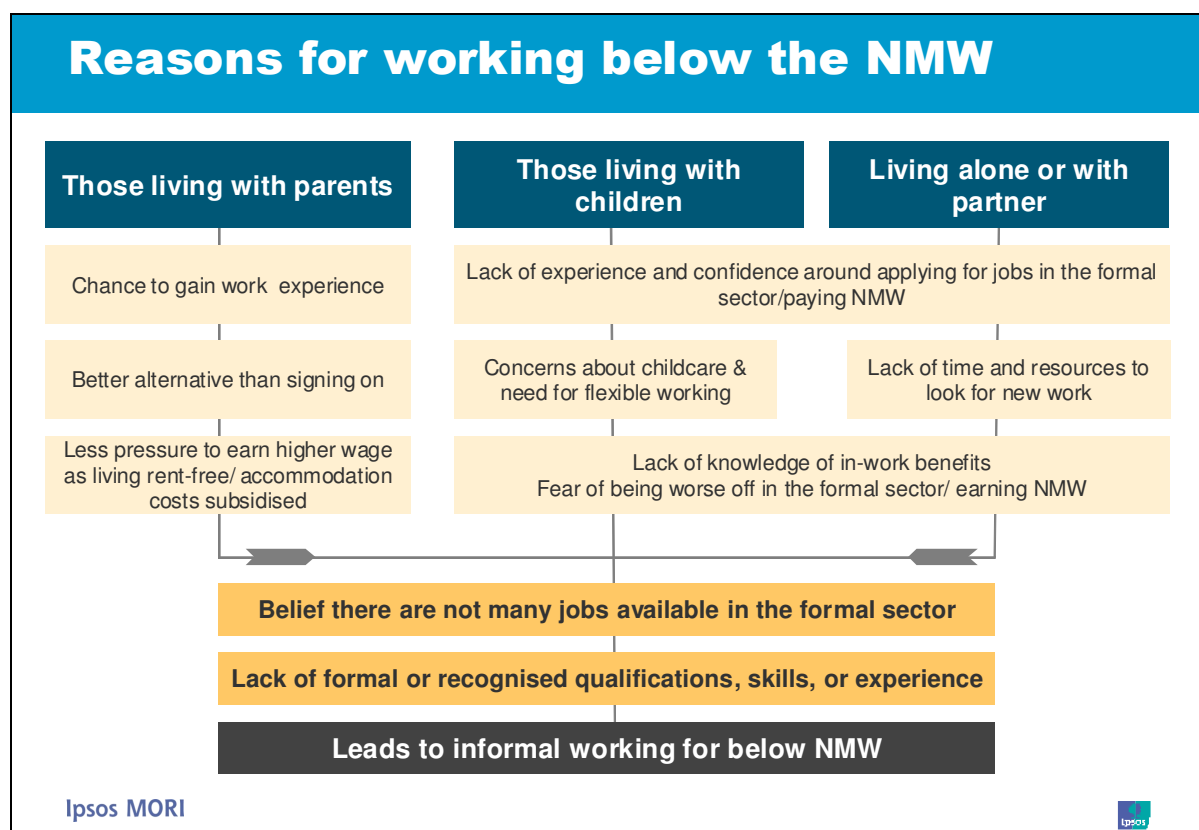
Generally, the younger participants (18-24 years old) live with their parents, and contribute money towards household bills in proportion to the amount they earn.

Seventeen participants claim Housing Benefit, which is almost all of those who are not being supported by their parents (in most cases, the interviewee's rent was greater than their entire wages). Other welfare benefits are commonly claimed, including Jobseeker's Allowance (drawn by 12 participants). The exact proportion that benefits and wages made up in total income varies: For example, one café assistant earned £60 per week and received three times this amount in benefits. In a reverse situation, a construction worker with earnings averaging £170 per week, claims Income Support of around £70 per week.

Although most of those interviewed claim some sort of benefits and are doing undeclared work, it is not possible to say how prevalent deliberate fraudulent claims might be among this group. The picture is complex. For example, some participants work the hours permitted when claiming certain benefits such as JSA, and therefore see themselves as doing 'permitted work'. A number are the sole source of income in a household that is in legal receipt of claimed Housing Benefit. Of course there are some participants who are 'topping up' benefits in a way they recognise is illegal and possibly fraudulent.

## 4. Awareness of the NMW and attitudes towards it

Awareness of the NMW was high, but knowledge of the specifics of the NMW and its application across a range of unskilled jobs was low. Motivations for working for below the NMW differed across three groups: Those living at home with their parents, those living with dependent children and those living alone or with a partner. The chart below summarises the motivations for informal work across these three main groups.



### 4.1 Are employees aware of the NMW?

All the interviewees were aware that the NMW exists and provided a minimum hourly rate of pay for workers, but knowledge levels varied markedly. Overall, participants are poorly informed about the NMW, and their estimates of the current level are inaccurate. Awareness of the different age bands and apprentice rates is even patchier.

**“When I started my job I wasn’t really aware [of the NMW]. I have a friend that works at Upper Crust, and he gets paid £5.90 an hour, he told me about it.”**

*Male, Hotel Room Attendant, Stratford*

Knowledge of the NMW and other labour legislation is strongest amongst young people, who received information from school, youth centres or friends. Recent migrants appear to be the least informed about NWM but migrant community organisations do disseminate some advice about employment rights.

Employees working in the formal sector assumed they are earning NMW. Informal workers are generally either unaware that they should be covered by the NMW, or think it is not legally binding. There is a widespread belief that unskilled, cash-in-hand work does not constitute a 'proper job' and therefore does not carry an entitlement to the NMW or other workers' rights.

## 4.2 Attitudes towards the NMW

Low-paid workers approve strongly of the concept of a NMW to provide workers with a decent standard of living and to reduce worker exploitation. No-one questioned the Government's right to intervene in matters of employment, though one interviewee suggested the NMW may make formal jobs scarcer. Respondents agree with the age band differentials as young people living at home do not need to support themselves as much as those living independently.

**“[The NMW] definitely is a good thing, because if there's no minimum wage then people would be getting ripped off every time. Definitely [...] They could take you for granted and just give you something [very low] as long they knew you wouldn't complain about it.”**

*Male, Plumber, East Ham*

When prompted with the current rate of the NMW, participants generally considered this too low. Those who know from their own or friends' experience of trying to support a family by working for NMW feel it was not enough to live on. This perception may be due to limited knowledge of in-work benefits, such as the working tax credit<sup>22</sup>. Respondents identified working for the NMW as unattractive compared with claiming benefits while working informally. Young people are more likely to identify the NMW level as reasonable.

**“Do the calculation: For example, a friend of mine works 32 hours for £6 [per hour], she pays everything – rent, council tax, children's after-school clubs, everything she has to pay by herself now. She is struggling...”**

*Female, Café Server, West Ham*

**“There's [formal] work out there, but for the hourly rate it's almost pointless. You have to judge whether to stay on social [benefit], work less than 16 hours a week”**

*Male, Builder, various locations*

Informal workers usually do not expect the NMW to apply to their job, particularly those in casual, part-time or unskilled work, and they assumed informal and micro-businesses are outside the scope of the legislation. Participants compared their pay to the 'going rate' for the industry, and this rate is kept low by economic conditions.

**“Indian restaurants, they can do whatever they want. It's because most of them are independent, it's not like McDonald's which is a chain...”**

*Male, Kitchen Assistant, Beckton*

<sup>22</sup> According to Wave 6 of The Newham Household Panel Survey, seven in ten Newham working residents earn the national median weekly wage or below. The median weekly wage, according to the study is £280/week which is lower than for the UK.

Only the very lowest paid interviewees feel they are exploited; the rest observe the number of jobseekers chasing each vacancy and are grateful for having a job at all. Those workers who did not rely on wages to pay for necessities (i.e. younger people living at home, or welfare dependents who could cover their living costs from benefits) see informal wages as an income supplement (as they cannot find a formal job). They take little interest in the NMW as their wages are only a small proportion of their total income (which includes their below-NMW salary, but also benefits and/or parental support).

### 4.3 Motivations for working for less than NMW

#### It is temporary

For young people, especially those living with their parents, working for less than the NMW is seen as a temporary measure while they search for a better job or study for qualifications.

**“I decided to do a course in accountancy. It’s 3 days a week, 6 hours a day... I don’t have that much time to work, I want to concentrate on my coursework from college... I do help out my mum, I give her gas money to help with the house, I pay for my own clothes, phone bill, everything”**

*Female, Waitress, Stratford*

#### It is considered a necessary top up to benefits

Adults living alone, or with dependents, face very different considerations in their employment choices from younger people. Almost all of them claim Housing Benefit, and many also claim other income-contingent benefits like Jobseeker’s Allowance. They feel trapped: they would lose benefits if they took a full-time, formal job but may not see an increase in total income. This means they are locked in to working informally. Unskilled people particularly are forced to work below the NMW.

#### **Case study: Cleaner, 45-years old, Stratford**

Natasha is a hotel room cleaner, working five-hour shifts, five days a week. She has two friends working the same job, which is how she heard about the vacancy in the first place. She is paid £5 an hour, cash-in-hand, and does not pay tax or NI contributions. In addition to her wages, she receives Housing Benefit and Jobseeker’s Allowance.

Natasha has two young daughters, and by working informally she is able to give them what other children in their class have (e.g. she can pay for their school trips). When she took the hotel job she did not consider whether it paid NMW as she was ‘just glad to get a job’. She assumed that her employer would stay within the law. She feels unable to move to formal employment: She can only work part-time because of her daughters, and so a NMW job would not cover the withdrawal of her benefit payments.

***“I need clarification about what would happen to my benefits if I started working formally part-time. I feel because I have two young girls I can’t work full time. A friend of mine started working part-time and her housing benefit stopped immediately.”***



## It is the only work available

For some workers, earning below NMW is almost to be expected given their perceived employability. A lack of qualifications<sup>23</sup> and formal experience prevents them from obtaining a well-paid job and they cannot afford training<sup>24</sup>. Other barriers to formal work include the job application process. Some respondents lack confidence in reading, writing and interview skills, and this deters them from sending CVs to prospective employers in the formal sector. There is a general belief that all job vacancies are over-subscribed, and therefore the unqualified or inexperienced applicant has no chance of being selected.

### Case study: Hairdresser, 19-years old, Stratford

Marie lives with her mother and works at a hairdressing salon two days per week. When Marie finished education she worked as a retail assistant at a department store, but was made redundant along with all other staff aged under-18 as the management looked to cut costs. She spent some time claiming Jobseeker's Allowance, but found that it damaged her sense of self-worth: ***"I know what it's like not to have a job and I don't ever want to be in that situation again"***.

A friend helped Marie get a job at a local salon despite having no formal qualifications or experience in hairdressing. Initially she earned £40 for a six-hour shift, but one year ago the manager told junior staff that they must take a pay cut so that the salon could afford to keep them during a downturn in business. They agreed to a reduction in pay down to £30 a shift, which meant accepting a wage below NMW.

Marie has reduced her working hours to two days a week so she can study business management at a local college. Her long-term plan is a career in accountancy or business. Despite the low wage, Marie's job gives her spending money and some self worth.

***"I've been trying to get a job somewhere else. No-one's really recruiting. Because I've been at the hairdresser's for so long, and I know the people, I don't want to just up and leave. But I do want to get a better job."***

## It allows flexibility around childcare commitments

Single mothers frequently choose to work informally and below the NMW in order to fit work around childcare arrangements. The use of childcare is very low in Newham – just 9 percent of adults<sup>25</sup> with children have regular childcare arrangements, formal or informal, (compared with 30 per cent for London). Further research needs to establish if the low use of childcare in the Borough is a symptom or a cause of some parents working in the informal sector. Childcare is a major issue in labour market decisions, particularly for single mothers.

<sup>23</sup> According to wave 6 of the "Understanding Newham Household Panel Survey", 45% of residents have no formal qualifications which is higher than the average for London.

<sup>24</sup> The same study shows that only one in ten have taken part in training schemes or courses in the last two years. Furthermore, those who had taken part in training are more likely to already hold higher formal qualifications.

<sup>25</sup> Ipsos MORI (November 2011), "Understanding Newham: Newham Household Panel Survey Wave 6 Survey Findings", §7.3

### It allows some people to keep up some skills and meet others through work

While earning money is the dominant motive for finding work, social reasons are also significant. Hairdressers and other beauty sector staff are particularly likely to say they enjoy work – one hairdresser despite not earning NMW had stayed in her profession for 15 years as she enjoys making people happy. Customer-facing roles also provide opportunities to meet new people and form relationships. Employment also contributes to an individual's self-worth and, for parents, this sets a positive example for their children.

**“I don't really like depending on others. Once you depend on others you start getting that lazy approach... I personally believe hard work always pays off”**

*Male, Construction Worker, Canning Town*

### It provides a platform for gaining work experience

Respondents also identified gaining work experience as a key motivator. A few people we interviewed started in their present workplace by working for free until they were offered a job. They accepted low pay as part of a long-term plan to build up a career or start their own business. Frances's story below, which we recall in detail, shows how important it is for her to gain work experience through her very poorly paid employment.

#### **Case study: Hairdresser's Assistant, 28-years old, West Ham**

Frances, 28 has no formal qualifications and little work experience. She has tried different low-skilled jobs in the past, and now works full-time in a hair salon.

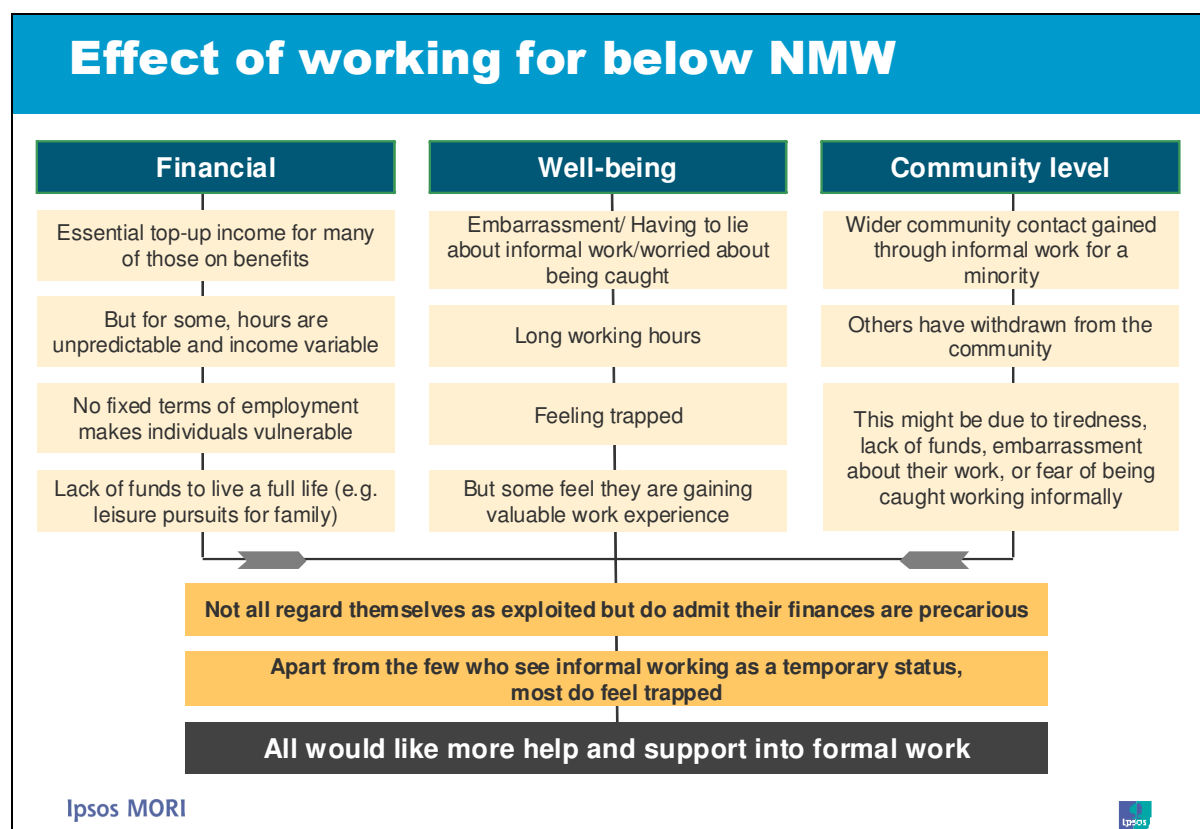
A friend, who worked in the salon, originally asked her to work as a volunteer, four hours a day, making tea and welcoming people. She progressed to washing hair, mixing colours and assisting the stylists. She is now paid £30 for a nine-hour shift, or £3.33 an hour, cash-in-hand, paying no NI or tax. She also receives Child Benefit, Jobseeker's Allowance and Housing Benefit.

Her current job provides her with an opportunity to build know-how, and she is working towards a qualification – this is one reason she is willing to put up with the low wage. She sees this position as a stepping stone, and hopes one day to open her own hairdressing business.

No-one mentioned loyalty to friends or acquaintances as a reason for accepting a wage below the NMW. One construction worker renovating a church site identified the project as 'God's work' and gave this as a reason he did not ask for a pay rise.

## 5. The impact of earning below the NMW

This chapter looks at the impact of working for below the NMW, both in terms of the day-to-day working conditions respondents are faced with in their job and the wider societal impacts of low paid work. The following chart summarises the impacts noted in three domains: Financial, personal well-being and the wider impact on community and social networks. These issues are also discussed in more detail below.



### 5.1 Working conditions in informal jobs

None of the participants have formal employment contracts. This lack of rights extends beyond the NMW. Most respondents have no guaranteed hours of work, or payment, particularly of overtime. Several participants are sent home with no pay if business is quiet, with some saying pay is withheld on an ad hoc basis.

**“Sometimes he keeps our pay and he says ‘we’ve got no money’. And [the next week] when he has to give us money for two weeks he’s not happy to pay all the money, he keeps some of the money... I am 52, I have to live, I get depressed and stressed and everything.”**

*Male, construction worker, West Ham*

Employees do not feel they can complain, either to their employer or to a third party, about the treatment they might receive at work. They are usually prepared to accept their working conditions, particularly those claiming benefits and working without declaring them, in order to keeping their job and income. Employers are aware staff cannot afford to complain and

some take advantage of them. Two participants mentioned feeling sexually harassed in the workplace – in one case by an employer and in another case on a routine basis by customers. This treatment is seen as part of the job, and complaining might put their job in jeopardy.

Participants are generally comfortable with their physical working conditions, and health and safety complaints are rare. However this is within the context of what conditions employees feel comfortable operating in. There is poor understanding of any health and safety protocols in place and this may be why the issue has low salience amongst participants. The exceptions are found in the construction and fast food sectors, where there is a general awareness of what proper working conditions should be (though workers were still fairly tolerant of any shortfall in standards). Without exploring with employers the extent to which they understand the health and safety standards within their own industry, it is difficult to reflect on how closely these protocols were being followed.

**“They don’t go through any health and safety procedures with us. Though obviously you have to be cautious for your own health and safety... We use chain saws but haven’t had training how to use them. That’s definitely not safe.”**

*Male, Landscape Gardener, various locations around Newham*

## 5.2 What is the impact of low pay?

### Financial impacts

The financial impact of earning below the NMW varies. Housing and life stage are key factors.

Almost all the respondents living independently from their parents claim Housing Benefit and some do so without declaring informal earnings. Meeting rent payments each month is the primary demand on the income of these participants. Few live in house shares or other houses of multiple occupation (HMOs) which are generally cheaper living arrangements.

Those at different life stages experience different financial impacts. Younger participants usually contribute to their parents’ household finances, but view their income as primarily ‘pocket money’ to spend on leisure or save for the future. Other participants, even those claiming benefits, could not survive without the income from informal work. One participant described paying the rent, bills and basic expenses every month as like *“treading on thin ice”*<sup>26</sup>.

Low income also impacts on other aspects of participants’ lives. Non-fixed budgets are squeezed, with expenditure on food often suffering. Yasmin, whose case study is below, claimed she has £20 per week for food. Another participant working informally and claiming benefits said supplementary wages helped to improve her and her children’s diet, providing fresh fruit and vegetables.

**“Without the money from the café I would struggle. I would have to cut down on fresh fruit and vegetables. I would have to buy out of date stuff that is cheap”**

*Female, Fast food worker, Plaistow*

<sup>26</sup> According to a male construction worker.

### Case study: Hairdresser, 37-years old, Stratford

Yasmin has been a hairdresser for fifteen years, and has a NVQ level 3 in hairdressing. She is currently at her 34<sup>th</sup> salon. She really enjoys her work and feels that she's making people happy, but by staying in a poorly-paid industry she has had to accept certain constraints on her lifestyle.

For example, her morning commute involves taking two buses and then walking a substantial distance, as her salon is in the next zone and she cannot afford to travel directly.

Yasmin's weekly food budget is £20 per week, which means **“you end up with less healthy food; you [end up] get[ting] three cakes for £1”**. She often pays bills late and cannot afford any luxuries.

Working below the NMW and claiming benefits can also pay for treats like new clothes.

**“My life is a bit better, because the Council is paying my house. And the money I get [means] I can enjoy myself a bit ... Once in a while at least you need something nice. When I was working at McDonald's I couldn't afford to go clothes shopping at all.”**

*Female, Fast food worker, East Ham*

### The impact on employee well-being

The difficulty of managing day-to-day costs can contribute to poor mental health. One participant described how badly depressed he feels when he thinks about his constant struggle to survive.

**“Even when I cut out all luxuries and going out, I still can't manage. It makes you depressed. There are times when I feel very depressed, barely being able to manage and comparing yourself to other people who are better off. But I think it is either this or being even worse off”**

*Male, construction worker, Upton Park*

According to the latest household panel survey in Newham, a quarter of residents (23 per cent) find it difficult to manage financially, notably this rises to 40 per cent among lone parents.

Working below the NMW can also impact negatively on leisure time. This is particularly the case among participants working long hours in sectors such as construction or hospitality and who have physically demanding jobs. Participants report being too tired to enjoy leisure time or to do exercise.

**“Sometimes I don't even want to meet friends that I have because I don't feel like I'm in a position where I can really enjoy myself because I'm thinking about all this [working long hours]. And even sometimes when I try to stop thinking about it, it's always in the back of your head. It prevents you from having a good time. When**



**you're not in a good mood and you're finishing work at these times it just doesn't leave you in a state of mind where you want to go out, and want to have fun."**

*Male, Window Fitter, Upton Park*

**"I haven't even got the energy to go to the gym, and in this line of work you've got to be physically fit"**

*Male, Construction worker, various sites around Newham*

Families also feel the impact of respondents working long work hours.

**"When I get home I just want to sleep, then wake up and go to college. I don't really communicate with my family so much anymore"**

*Female, Fast food worker, Stratford*

A common effect on participants is feeling uncomfortable with or feeling embarrassed about the low wages they earn, which might somehow be a marker that they are less valuable workers. Those who work in industries where they come into contact with more skilled trades people (particularly those in construction), said they feel looked down on by others in the workplace. They also feel unappreciated in the role they perform.

There is an added layer of shame for those claiming benefits such as JSA who are aware they are doing undeclared work. Participants know they are breaking the law claiming benefits while working and feel guilty, but cannot stop claiming as they need the money. Not paying taxes or NI often added to this sense of guilt and left participants feeling they do not contribute to society.

**"It makes me feel very bad. It is a shameful thing. It is not nice breaking the law. I think people should pay their taxes and people who employ people should pay a decent wage. But I feel my hands are tied and I'm forced into doing this. When you have kids you have to think of them, especially when you are on your own"**

*Female, café worker, Plaistow*

### **Case study: Hairdresser, 29-years old, West Ham**

Tanya, 29, is a single parent with an 11 year old son. She used to work at McDonald's but found that the pay was insufficient to support herself. She decided to live on benefits, and four months ago she started working informally in a hair salon.

However, Tanya worries about being caught for working and claiming benefits. **"I am afraid of going to prison or getting a criminal record and what that would mean for my son."** She uses her wages to have a positive impact on her son, by being able to buy him decent clothes, and extra tuition in French and Maths. Her ambition is for him to go to university, so that **"he doesn't have to do the work I have had to do."**

Feelings of worthlessness and low self-esteem make people feel trapped in informal working as they do not feel 'good enough' to obtain formal employment. Breaking this cycle is discussed in Chapter Six.



### 5.3 How does low pay impact on social networks?

Low pay and informal working has a wider impact on the lives of those involved. Community cohesion and community network support are extremely important in creating resilience in communities and working informally can cause distance between those in low pay employment and their local community.

Low pay can cause withdrawal from the community because participants might not participate in social or leisure activities. The stigma of informal working and particularly of working while claiming benefits has an impact on employees' integration in the local community. One participant described how he feels unwelcome and unable to socialise at community events.

**“We are less connected because we can’t go to community events. They know about us [working informally] and there is a division in the community. We are not welcome... they look down on us because they ask why aren’t we working with the papers [i.e. formally]? They think that we are taking a lot of money from the state, but it’s not true”**

*Male, Painter, West Ham*

**“I feel that I am not part of the community because I am doing things behind doors and I can’t expose myself and I have to hide and explain why I have the amount of money I do. I feel I am not contributing, because I am not paying taxes and I feel guilty about my own life and that there is something wrong with me.”**

*Female, Fast food worker, Stratford*

Embarrassment coupled with feelings of low self-esteem can act as a barrier to integration with the wider community, and some people who have experienced this have tried to mitigate it by avoiding discussion of their economic activity as Danny’s story below describes in detail. This is particularly evident where respondents had previously worked in a more skilled profession or had qualifications not recognised in the UK.

#### **Case study: Construction worker, 33-years old, various sites**

Danny has been working in construction for the past six months: He is registered with an agency that sends him to sites around London, and sometimes also works casually for a friend’s father’s construction firm in Stratford. He works 4 or 5 days a week, and the physically demanding nature of the work leaves him very tired by the end of the day.

Since he began labouring in construction, Danny socialises a lot less. He is often too tired to go out in the evenings, and does not have much money to spend on leisure activities. He also feels ashamed of taking a menial job, believing that it reflects his failure to complete further education. For this reason he prefers not to discuss his job with his wider social circle. **“Not even too many people know that I’m doing construction. If I was at a better level – like supervision, or more qualified – then it could be something that I’d speak about freely. But right now this just to pay bills. For me anyway, ‘cause I’ve got plans, and this is not part of them”.**

Most participants also need to keep their work secret because they fear being reported to the authorities for working illegally (either while claiming benefits or, in two cases, without the correct papers to work in the country). These participants also feared their employer being discovered non-compliant and are actively complicit in preventing their employers from being caught. This is a frequent cause of strain for participants.

**“I can’t get into conversations with people because they will ask what you do and where you work and I can’t take that risk of talking to people.... If I go to the pub I have to be careful about what I say and who I talk to. I have to be careful not to drink too much and say things I would regret.”**

*Male, Landscape Gardener, various sites around Newham*

Not all participants feel their employment cuts them off from the wider community. Some participants deliberately choose to work informally to develop specific community connections. As discussed earlier in chapter two, most of those we interviewed had lived in Newham for some time and are intent on building a life in the area. Informal work is a good way to meet people in the community and identify potential opportunities for formal work or training.

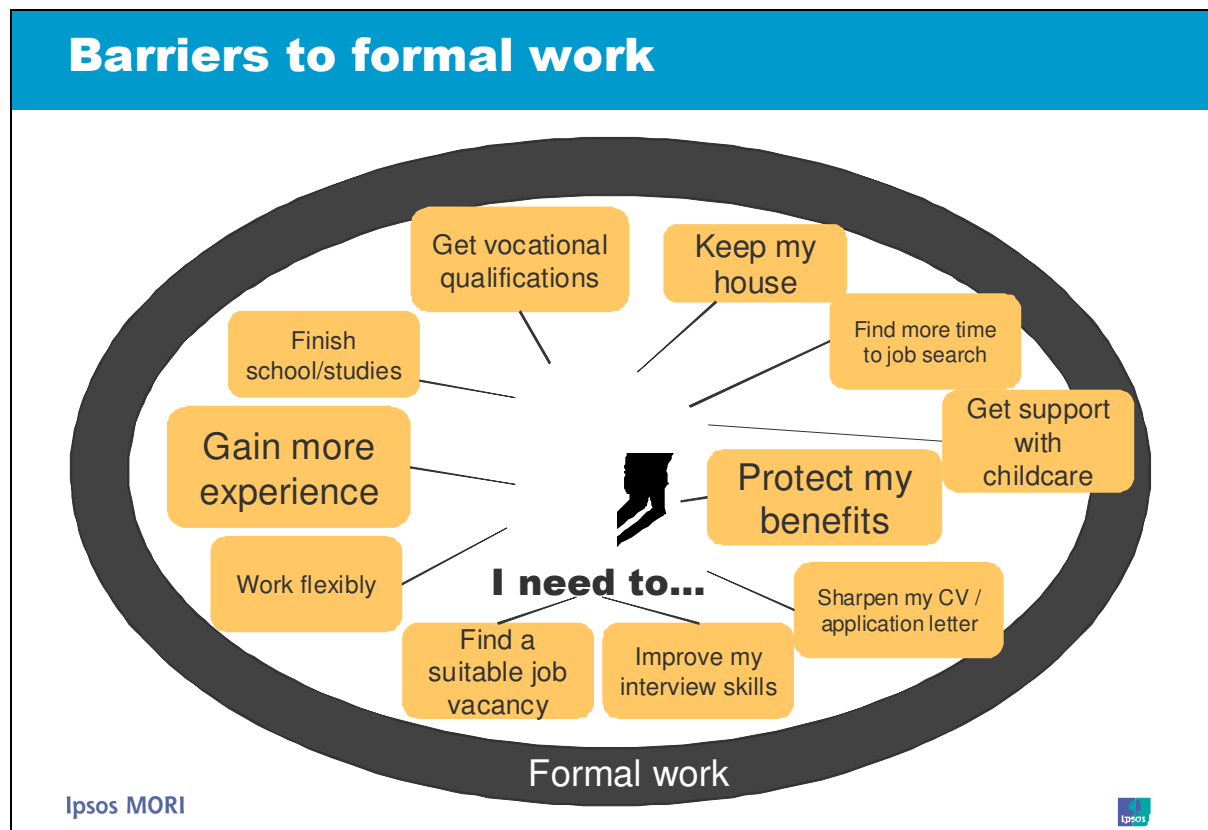
**“The job makes me more connected to the community. I get to speak to different people who have different experiences and different professions. So it has made me more open minded. Doing this job has made me more aware of opportunities for training and work.”**

*Female, Hair and Beauty worker, West Ham*

## 6. The journey towards formalisation

### 6.1 Barriers to formal work

The chart below summarises the key barriers faced by those trying to move from informal to formal work. The larger bolder text boxes represent more commonly mentioned barriers. As can be seen below, protecting benefits and gaining experience are key issues mentioned by participants. These are the problems that participants feel need to be addressed in order to move into formal work.



### 6.2 What are respondents' aspirations for the future?

All respondents aspire to work in the formal economy. Some have more defined career aims. Others identify common problems preventing the transition to formal working. In order to help low-paid workers move themselves into a better-paid job, and one in which they no longer rely on a combination of low paid work and benefits, there are a number of problems or barriers that need to be overcome.

Key among these problems is addressing the perception that working informally and being on benefits will leave people better off than if they worked for NMW. There was a common belief amongst participants that their total income would decrease if they worked a standard week for the NMW. Whilst this perception can be accurate, it is also informed by a lack of awareness of what in-work benefits participants are entitled to. This is particularly the case

with means-tested benefits, as we have found both in this study and in previous work looking at benefit claimants returning to work<sup>27</sup>.

**“I think there should be a review of NMW so the benefits system is changed so that working for the NMW is at least a little bit better than being on benefits. If that was the case I would not have to go through the stress of worrying I would be caught every day. And if working for the NMW and paying tax earned more than being on benefits I would definitely do that. I also have to think of my pension and I know when I am older I will suffer by not paying national insurance now”**

*Female, Hair and Beauty worker, West Ham*

However, there are other practical barriers that can prevent people from breaking out of the cycle of low-paid informal work. Some of the key issues facing those wishing to work formally involve obtaining qualifications and finding affordable housing.

Childcare was also seen as a key barrier by those with dependent children. As previously mentioned, this is already known to be a significant issue for the Borough, with just 9 percent of adults with children<sup>28</sup> having regular childcare arrangements, formal or informal, (compared with 30 per cent for London). Although this research was not able to explore fully the reasons for the low uptake of childcare services, parents mentioned several reasons for childcare being a factor in them working informally. These include:

- The need for flexible working to maintain informal childcare arrangements;
- A lack of awareness of financial help with formal childcare arrangements; and
- Concern about the standard of formal childcare or concern about leaving a child with a stranger, even a qualified childcare professional.

The emergence of childcare as a key barrier for parents in this research alongside the findings from the Household Panel survey suggest that childcare is a particular issue in Newham that warrants further investigation. Some of the issues around uptake of childcare are explored in Ipsos MORI's report on Childcare Affordability Pilots (CAP) for the Department of Education<sup>29</sup>. It is likely that issues identified in the CAP evaluation such as the need to overcome multiple barriers (finding work, finding childcare and cost of childcare), the need for flexible working, the low cost or non-cost benefit of NMW work compared to formal childcare costs and the reliance on informal childcare networks, all identified as issues when evaluating CAP, are also significant issues for parents in this particular study. Overcoming multiple barriers was only possible when all challenges were addressed at the same time.

Another key finding of the CAP study was the importance of having a positive driver in encouraging parents to work. One group of parents identified was the '*Not interested*' group who were typified by those who would prioritise unpaid care for their children over work. This group represented those who did not want to relinquish the role of primary carer for their child (particularly those with younger children). Linked with this, there were parents who felt that they would not be comfortable leaving their child in formal care, regardless of the level of qualification of the carer, when their child was below a certain age. This was often linked to

<sup>27</sup> <https://www.education.gov.uk/publications/RSG/publicationDetail/Page1/DFE-RR101>

<sup>28</sup> Ipsos MORI (November 2011), "Understanding Newham: Newham Household Panel Survey Wave 6 Survey Findings", §7.3

<sup>29</sup> Ipsos MORI (April 2011). <https://www.education.gov.uk/publications/RSG/publicationDetail/Page1/DFE-RR101>

whether a child was able to fluently express themselves and therefore related to children below 3 years of age.

However, as found in the CAP study and in the work for Newham, these parents are often low skilled and in some cases not fully literate. For these reasons solutions proposed must not impose a perceived burden on the parent. For example, regular financial management and reporting (such as providing weekly estimated childcare costs) was considered to be overly complex by some parents in the CAP study and therefore they dropped out of the pilot, despite receiving coverage of the full childcare costs.

### 6.3 Attitudes to existing support services

There is no clear or consistent view of the Council and its services, as respondents are generally uninformed as which services are provided by the Council and which were not. The most commonly mentioned point of contact with the Council is to arrange housing provision and/or Housing Benefit. There is some understandable trepidation among informal workers to discussing their employment situation honestly with the authorities (such as the Council) given many are operating illegally and did not want to be caught.

Participants are unaware of the wide range of Council services they can access or use. Younger participants are generally more likely to have sought help and advice from services with regard to finding employment and are acquainted with Connexions, and to a lesser extent Newham Workplace.

Job Centre Plus (JCP) is identified as a key service provided to help residents find formal work, but views among those who had used JCP are in largely negative. As already mentioned, participants' self-esteem is often low and they can have negative feelings about their own ability to contribute fully to the formal job market. Some of the negative reaction associated with JCP relates to the formal and impersonalised atmosphere at JCP. This is felt to be intimidating by some participants.

**“There are security guards on the door of the Jobcentre who ask you as to the purpose of your visit. It’s not very encouraging”**

*Female, Fast food worker, Stratford*

There is also a stigma attached to attending the Job Centre, which, although it does not stop people using the facility, made participants feel negative when attending JCP.

**“Every time I walk in through those doors I feel like I’m the lowest grade of society”**

*Male, Hospitality worker, Beckton*

Of those participants who are aware of Newham Workplace, the reaction is more positive. It is felt to offer a much more tailored service: Advisors work with clients individually to determine what the best solution would be to get them into a formal workplace. Although the service is described as offering similar support to JCP, the way in which this is done is favoured as it is more focused on individuals' needs. A major criticism of JCP is that staff are *perceived* as keen to process customers in the easiest way possible – in most cases towards benefits. Newham Workplace is seen as more focussed on helping people to find work and to help them develop skills in order to look for work for themselves.

Participants generally struggled to propose services that would be useful in helping them to find a job, as they are unsure what they should be doing to improve their employability.

Nonetheless, there is a very strong feeling that the Council should be doing *something* to help poorly-paid residents.

**“[The council] need to communicate better. There used to be youth clubs all over Newham that provided a useful forum for Council staff to hear young people’s concerns – and to provide them with information about local services. But many of these clubs have been shut down. Young people in Newham want to work and be independent, but they need help in finding the jobs that are available”**

*Female, Waitress, Stratford*

Newham provides the largest programme of youth activity in London – and this quote exemplifies the gap between this group’s understanding of provision and the reality – which was also observed, as discussed above, in relation to Workplace.

Those participants who had a clear idea of where they wanted to go in the future are often stopped from doing so by a lack of money (to fund courses, for example) and/or support to attain the correct qualifications or by a lack of flexibility around caring for children. While vocational courses can be a lucrative investment in the long term, those living hand-to-mouth cannot afford to save up for them. Andy’s story below, illustrates this very well.



### Case study: Plumber, 30-years old, East Ham

Andy lives in East Ham with his wife and 10-year old daughter. Andy is a plumber, but has no paper qualifications – his skills have been developed on the job. He works for a small construction company who have eight staff, working in private homes and on commercial premises.

Andy is paid £28 per day for an eight hour day, or £3.50 an hour, cash-in-hand, paying no NI or tax. He is also in receipt of benefits, principally Jobseeker's Allowance and Housing Benefit, but says they are insufficient to provide for his family. Andy feels his lack of formal qualifications holds him back from progressing into better-paid, formal work.

He is currently saving to pay for a plumbing course which will cost £3,000, but has managed to save only £200 after five months, as he had to keep dipping into this fund in order to pay for essential items like the utility bills and food.

Having such a low income has a serious impact on his family life, as he cannot afford to take his daughter out swimming or to the fun fair, for example. ***“The advert for a fun fair comes through the door and I think ‘damn these people’ making my daughter see this. I feel ‘oh now what can I do’, so I have to take my course money out of the pot and take her to the fair.”***

Andy cannot afford to socialise with family or friends. This makes him feel embarrassed, inadequate and that he is letting people down.

Training, apprenticeships and help finding a formal job are what Andy sees as the way out of his predicament.

The process of applying for a job and job interviews are considered daunting by some participants. They lack the language or presentation skills to make a good impression in a job interview. Newham Workplace already provides training on job interviews, but not all those who could benefit from this particular service have been signposted to it, as the following case study shows:

### **Case study: Hotel room attendant, 24-years old, Stratford**

Paul cleans rooms in a large hotel in Beckton. He found this job 3 months ago by applying online. Previously to that he spent a period of seven months rotating between temporary work and unemployment. During this period he would go to Jobcentre Plus regularly in order to sign on and look for work, but his experience was very negative.

By his own admission, Paul is not confident around new people. He prefers to apply for jobs that do not require an interview. ***“I’m kind of a shy person – I know I could go there myself and try and talk my way into getting a job, but I get a mental block.”*** Being unemployed also dented his confidence, but because of a strong support network of friends in the area he decided not to leave Newham.

Having greater support through the application and interview process would improve Paul’s ability to find a full-time, formal job. For example, coaching on interview techniques, or a guaranteed interview scheme could build confidence with facing potential employers.

Secondly, he suggests that the Council should publicise their existing services more extensively (Paul had not heard of Newham Workplace), by advertising in the media and busy public locations. They should also disseminate information on labour rights like the National Minimum Wage, as many people are not aware that they are entitled to better conditions.

It is important to inform young people that working formally is a viable option and can provide them with a decent living, even if they cannot work in a high-skill, well-paid sector. One participant described how a youth organisation, which is now closed, was critical in changing the mindset of young people about the importance of work.

***“A lot of young people were going there. It encouraged you to look at jobs. They taught a lot of things by different youth workers, and their mindset on life changed... but they’ve closed it down now”***

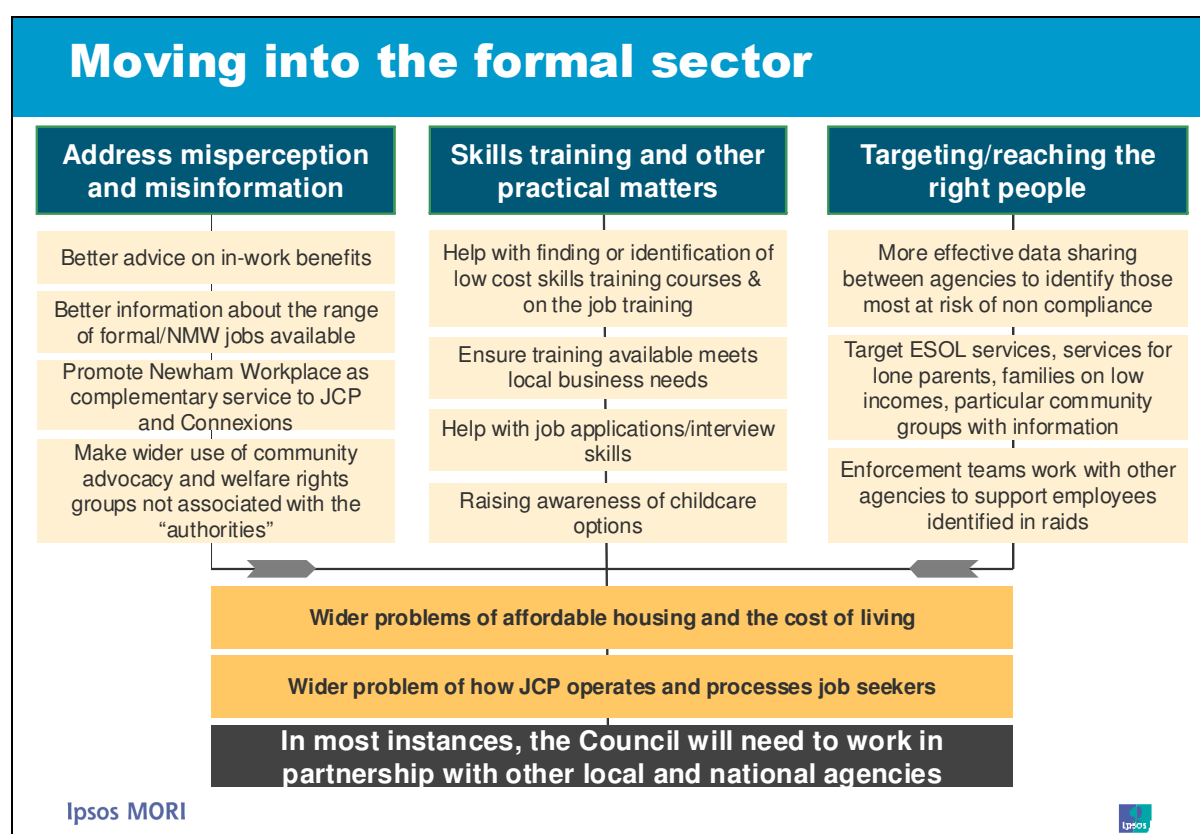
*Male, Construction worker, Canning Town*

## 7. Conclusions and recommendations

### 7.1. Overview

This chapter identifies key themes from this research and makes recommendations for next steps in the development of a strategy to reduce or prevent non compliance with the NMW among residents in Newham.

The chart below summarises three broad sets of actions that should be considered as a good starting point for planning a reduction strategy.



The Council will need to work in partnership with other local and national organisations to provide practical support and to target communication.

### 7.2. Key themes from the research

Widespread ignorance around the NMW exists, based on a misperception that NMW only applies to formal employment (i.e. salaried positions with contracts, usually jobs requiring basic skills and experience).

Whilst participants agree NMW is a good idea in principle and should be enforced, they are complicit in concealing their employers' practices. For this reason action targeted solely at supporting individual employees to move into the formal sector is unlikely to be sufficient. Discussions with local officers highlighted that although it has significant enforcement powers in relation to issues such as Trading Standards and Environmental Health, the council has no powers in the area of minimum wage or other tax enforcement and is therefore reliant on partnership working with national HMRC. Newham has raised this issue and agreed a pilot

programme with HMRC. However, given the inevitable limitations on the ability of national officers to devote time to a single borough a greater role for local government officers who are present on the ground is likely to be helpful.

All participants express a desire to work in the formal economy. Those working illegally in the informal economy are usually doing so because they feel it is their only current option.

Motivations for working below the NMW vary. Participants' life-stage is an important factor. Younger respondents are more likely to make a positive choice to enter the informal economy, considering it to be a short-term measure. Working for below-NMW can help with increasing their basic skills and provides valuable work experience to prepare them for formal work. There is less pressure on younger participants to work formally as they live with their parents.

A feeling of being trapped is common among those living independently from their parents. A perceived lack of jobs and low skill levels mean below NMW employment is inevitable, and in the short-term desirable. Mothers of dependent children, in particular, feel that informal below-NMW employment offers them flexibility to work around childcare arrangements.

The impact of working below NMW is varied. Participants can feel very uncomfortable and embarrassed about the level of wages they earn, and they feel guilty about claiming benefits illegally. Some also feel guilty about not paying taxes or NI. Depression and tiredness from working long hours are other negative impacts felt by participants. The worst-off participants show signs of withdrawal from the community by abstaining from social or leisure activities – either because they do not want to explain to others what they do, or because they simply cannot afford to participate.

Not all participants feel their employment cuts them off from the wider community. Most of those we interviewed had lived in Newham for some time and are intent on building a life in the area. Informal work, for some, can be a good way to meet people in the community and identify future opportunities for more formal work or training.

Common problems preventing the transition to formal working include the misperception that working for NMW would leave people worse off financially. This is due to a lack of awareness of in-work benefits low paid workers are entitled to. Other key barriers are a lack of qualifications to enter formal work, awareness of childcare options and the lack of affordable housing.

Generally, participants are not aware of support services they might use, but are familiar with Jobcentre Plus (JCP) which is held in poor regard. Younger participants have heard of Connexions with some also having visited Newham Workplace, with the latter being regarded well.

## 7.3 Recommendations

Based on the research findings and steering group discussion, four immediate recommendations are identified to reduce below-NMW employment in the Borough:

- **Lobby HMRC, UKBA and BIS** to provide local employers with a greater incentive to comply with Minimum Wage legislation and lobby Government to extend Minimum Wage enforcement powers to the London Borough of Newham;
- **Joint Enforcement and Workplace activity. Enabling Workplace managers to join enforcement raids to provide guidance and support** to those who will lose their jobs as a result of enforcement activity for non-compliance. This will include piloting intensive job guidance sessions for those workers;

- **Improve Workplace communication to prevent employees feeling trapped in the informal economy.** Target communication to those working or likely to be working in the informal economy by: identifying key locations and placing information and contact details in shop windows alongside job advertisements; and recruiting local people who are likely to have contact with below-NMW employees to champion the services of Newham Workplace; and
- **Identify barriers to childcare take-up** and promote formal childcare options by raising awareness of funding options available for working parents using formal childcare, as well as tackling cultural concerns about using childcare outside the family.

### 7.3.1 Medium term activity

The Council recognises that medium-term measures to prevent informal employment need a partnership approach, providing a mix of enforcement action with formal employment opportunities and information, advice and guidance. Some of these actions are suggested below:

- To map, with partners, where target audiences come into contact with local agencies and community groups including:
  - ESOL classes
  - Citizenship ceremonies
  - Services for lone parents/Sure Start Centres/services for families on low incomes
  - Services related to the administration of welfare benefits
  - Housing services
  - Particular community groups
  - Debt advice centres;
- To review information on formal employment opportunities for residents with poor language and literacy skills;
- To consider the role of community advocacy and welfare rights groups in promoting communication on formal employment;
- To run a local employability campaign promoting local low skilled jobs in the formal sector; and
- To help to identify funding for skills training, free training and on-the-job training schemes.

# Appendix 1 – Methodology

The research comprised two elements:

1. A literature review; and
2. Thirty face-to-face in-depth interviews with employees paid below the NMW.

## Literature review

The literature review helped to obtain a thorough understanding of existing knowledge of employee attitudes to and awareness of the NMW. Twenty-six documents were reviewed; with the full list found in Appendix 2. To find documents, an internet search using key terms was undertaken, based on the project objectives. Each document was catalogued and a summary of the document prepared to draw out key messages.

The literature review findings helped to develop hypotheses and shape the interview discussion guide. It also provides context to the report and places our findings in relation to other studies conducted on this subject. The literature review element of this study can be obtained from the Research and Policy team at the London Borough of Newham.

## Qualitative interviews

Thirty face-to-face in-depth interviews were conducted with employees either living or working in Newham, who are paid less than the NMW. The principal research objective was to understand the opinions and influence factors behind the circumstance of working for below the NMW, and to understand the impact of this on those who do it.

Due to the sensitive nature of the topic, face-to-face interviews were conducted, enabling the interviewers to build a better rapport with participants.

Employees were recruited jointly by Ipsos MORI and Community Links, using specialist qualitative recruiters, skilled in targeting hard-to-reach audiences and by working with close community contacts. Interviews were clustered in four industry sectors selected in conjunction with LBN: Construction, hair and beauty, fast food and hospitality (these are known to be sectors operating with high NMW non-compliance in Newham<sup>30</sup>). Concentrating the interviews enabled a good understanding of the issues facing employees in each industry sector and to pull out any differences between sectors.

Recruiters were instructed to try and find employees from the four selected industries, to achieve a good spread across the Borough, by age and ethnic background. To aid recruitment, 'snowballing' approaches were allowed, as previous studies showed this is a useful and time-efficient way to recruit individuals associated with the informal economy. 'Snowballing' asks participants to refer anyone they know in a similar position to themselves. Measures were put in place to ensure each snowballing chain did not exceed the recruitment of three individuals. The employee characteristics of participants recruited are discussed in Chapter 2.

Interviews were conducted between 6<sup>th</sup> September and 28<sup>th</sup> October 2011, lasting between 45 minutes to an hour, and were recorded digitally where participants consented<sup>31</sup>.

<sup>30</sup> BIS (2010), 'Government non-economic evidence to the Low Pay Commission'

<sup>31</sup> In order to encourage participation, and as a thank you for their time, employees were given £40 in cash



Participants were given reassurance they would not be identified, exposed or reported to any authority as a result of their participation in the research. It was also stressed that Ipsos MORI and Community Links abide by the MRS Code of Conduct and are bound by industry regulations to protect their anonymity and confidentiality. The only details needed for an interview to take place were a first name and contact phone number. Participants agreed the interview location.

Where verbatim quotes are used they are anonymised and attributed with relevant characteristics of gender, industry sector and location of interview.

Interviews were structured using a discussion guide designed in collaboration with LBN (Appendix 3).

In order to produce actionable findings from the research, two stakeholder workshops were held. The first workshop on 9<sup>th</sup> November 2011 discussed the initial findings of the study and helped to structure analysis of the research. A second stakeholder workshop held on 16<sup>th</sup> January 2012 used the broad research recommendations as a framework to devise an action plan for LBN to tackle NMW non-compliance in the Borough.

## Appendix 2 – List of literature reviewed

Buehn, F. and F. Schneider (2007), “Shadow Economies and Corruption All Over the World: Revised Estimates for 120 Countries”, *Economics: The Open-Access, Open-Assessment E-Journal*, Vol. 1, 2007-9. <http://dx.doi.org/10.5018/economics-ejournal.ja.2007-9>

Community Links & Refugee Council (2011), *Understanding the Informal Economic Activity of Refugees in London*, London: Community Links. <http://www.community-links.org/our-national-work/publications/understanding-the-informal-economic-activity-of-refugees-in-london/>

Community Links (2010), *Women and the informal economy in the UK*, London: Women’s National Commission.

Community Links (2009), *The informal economy: Social change series 3*, London: Community Links. <http://www.community-links.org/uploads/editor/InformalEconomyFinal.pdf>

Community Links and ATD Fourth World (2009), *Working Alongside: Community Links and ATD Fourth World’s ‘Need NOT Greed’ discussion groups on the Benefit System*, London: Links UK

Community Links (2008), *Cash-in-hand and working rights for young people*, London: Community Links.

Croucher, R and White, G, (2004), *Enforcing the Minimum Wage: The experience of Workers and Employers*, London: University of Greenwich.

Elliott, J (2009), *Waiting for Change*, London: Community Links, Toynbee Hall. <http://www.community-links.org/linksuk/?p=236>

Evans, Melvyb, Stephen Syrett and Colin Williams (2006), *Informal Economic Activities and Deprived Neighbourhoods*, Department for Communities and Local Government. <http://www.communities.gov.uk/documents/communities/pdf/151732.pdf>

Evans, Yara, Joanna Herbert, Kavita Datta, Jon May, Cathy McIlwaine and Jane Wills (2005), *Making the City Work: Low Paid Employment in London*, Queen Mary, University of London. <http://www.geog.qmul.ac.uk/globalcities/Report2.pdf>

Fitzgerald, I. (2006) *Organising migrant workers in construction: experience from the North East of England*, London: Trades Union Congress Migrant Report.

French, Steve and Jutta Möhrke (2006), *The Impact of ‘New Arrivals’ upon the North Staffordshire Labour Market*, Low Pay Commission.

Grabiner, A. (2000), *The Informal Economy: A Report by Lord Grabiner QC*, HM Treasury.

Jones, T. and M. Ram (2004), “Illegal Immigrants and the Informal Economy: Worker and Employer Experiences in the Asian Underground Economy”, *International Journal of Economic Development*, vol. 6, № 2, pp. 98-119.

Katungi, D., E. Neale and A. Barbour (2006), *People in low-paid informal-work: 'Need not greed'*, Bristol: Policy Press. <http://www.jrf.org.uk/sites/files/jrf/9781861348937.pdf>

Llanes, M. and A. Barbour (2007), *Self-employed and Micro-entrepreneurs: Informal Trading and Journey towards Formalisation*, London: Community Links. <http://www.community-links.org/our-national-work/publications/self-employed-and-micro-entrepreneurs/>

Llanes, M. and A. Barbour (2007), *Measuring the size of the informal economy at a borough-wide level in the UK*, London: Community Links.

Low Pay Commission (2011), *National Minimum Wage: Low Pay Commission Report 2011*, Low Pay Commission. [http://www.lowpay.gov.uk/lowpay/report/pdf/Revised\\_Report\\_PDF\\_with\\_April\\_date.PDF](http://www.lowpay.gov.uk/lowpay/report/pdf/Revised_Report_PDF_with_April_date.PDF)

Low Pay Commission (2010), *National Minimum Wage: Low Pay Commission Report 2010*, Low Pay Commission. [http://www.lowpay.gov.uk/lowpay/report/pdf/LPC\\_Report\\_2010.PDF](http://www.lowpay.gov.uk/lowpay/report/pdf/LPC_Report_2010.PDF)

McIntyre, D. and A. Stewart (2009), *Invisible Workers: The Informal Economy*, Manchester: Community Pride and Oxfam.

Ram, M., P. Edwards, M. Gilman, and J. Arrowsmith (2001), "The Dynamics of Informality: Employment Relations in Small Firms and the Effects of Regulatory Change", *Work Employment and Society*, 15: 845-61.

Ram, M., P. Edwards and T. Jones (2004), *Informal Employment, Small Firms and the National Minimum Wage*, Low Pay Commission. <http://www.lowpay.gov.uk/lowpay/research/pdf/t0NTAVZ4.pdf>

RAND Europe (2008a), *Comparing how some tax authorities tackle the hidden economy*, London: National Audit Office.

RAND Europe (2008b), *Tackling the Hidden Economy*, London: National Audit Office.

Scottish Affairs Committee (2009), "Enforcement of the National Minimum Wage in Scotland", House of Commons. [www.publications.parliament.uk/pa/cm200809/cmselect/cmsscota/380/38002.htm](http://www.publications.parliament.uk/pa/cm200809/cmselect/cmsscota/380/38002.htm)

White, Geoff and Richard Croucher (2007), *Awareness Of The Minimum Wage In The Hairdressing Industry*, Low Pay Commission. <http://www.lowpay.gov.uk/lowpay/research/pdf/t0Z96GK6.pdf>

## **Appendix 3 – Depth interview topic guide**