



*Championing better
work and working lives*

Jobs, growth and productivity after Coronavirus: call for evidence

Submission to the Treasury Select Committee

Chartered Institute of Personnel and Development (CIPD)

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Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 155,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Our response

Q2. What are the causes of the gap in the UK's level of productivity compared to other advanced economies, and why has productivity growth been persistently weak in the aftermath of the 2007-09 financial crisis?

The reasons are varied and contested, but our research suggests that there has been too little focus on people. UK firms have a larger share of poorly managed firms than other advanced economies.¹ This is important because an increasing body of research is linking management practices and productivity. Research by the ONS² suggests the presence of more formal management practices has a clear link to higher productivity firms. The latest Management Expectations Survey from the ONS found that found employment practices relating to promotion, training and employee underperformance, 'seem particularly important to labour productivity in 2020'.³

A critical area where employers require more support to boost their resilience during the pandemic - and growth potential when conditions improve - is workforce skills development and people management. Boosting employers' capacity to train and manage their workforce is also crucial to support efforts to increase workplace productivity and UK competitiveness and living standards for the long-term.

Small employers with no in-house HR support face some of the biggest challenges. CIPD research⁴, which evaluated three local *People Skills* pilot initiatives providing a day of free professional face-to-face support to small firms via CIPD qualified HR consultants, found that the level of people management capability is typically very low in micro and small firms, with many struggling to meet the basic requirements on employment rights even in normal times. The type of support provided was often quite basic, for example ensuring there were employment contracts, job descriptions and objectives in place. However, the research showed participating owner managers were more likely to report their business was better or much better than similar firms in their sector on measures of workplace relations, labour productivity and financial performance after using the *People Skills* service than they were prior to using it.

¹ Bloom, N., and Van Reenen, J., 2010, "Why Do Management Practices Differ across Firms and Countries?", *Journal of Economic Perspectives*, 24.1, 203-224

² ONS (2018) Management practices and productivity in British production and services industries - initial results from the Management and Expectations Survey: 2016. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/experimentaldataonthemanagementpracticesofmanufacturingbusinessesingreatbritain/2018-04-06#conclusions-and-next-steps>

³ ONS (2021) Management practices, homeworking and productivity during the coronavirus (COVID-19) pandemic. Available at:

<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/articles/managementpracticeshomeworkingandproductivityduringthecoronaviruscovid19pandemic/2021-05-17>

⁴ Professor Carol Atkinson, Professor Ben Lupton, Dr Anastasia Kynigho, Dr Val Antcliff and Dr Jackie Carter (2017) An evaluation of HR business support pilots. Manchester Metropolitan University business School. Available at: https://www.cipd.co.uk/Images/hr-capability-small-firms_2017_tcm18-27313.pdf

Good people management enhances other efforts to raise productivity. Slow adoption of new technologies is sometimes a target of policy, but our research shows that even when technology is adopted, the workforce is often an afterthought. When implementing AI and automation, the people profession is often the least likely business function to be involved in decision-making and implementation for these new technologies.⁵

Another policy focus is skills, but always on the supply side, and seldom concentrating on firms' ability to properly utilise skills. Again, we believe that good people management can increase an organisations capacity to use skills.

Q3. How successful has the Government's pandemic response been in protecting jobs to date, and how can it help reduce and mitigate the economic scarring effects of the pandemic going forward?

Successful. The initial furlough scheme and subsequent extensions saved viable jobs and protected incomes. Forecasts of unemployment have been consistently revised down with the peak occurring later.⁶ Perhaps more important than labour market policy is the direct response to the public health crisis. The successful vaccine rollout has also bought forward the recovery.

Pre-Covid, the UK had a tight labour market, apparent in the record low unemployment rate. This resulted in positive outcomes such as increasing employment rates among marginal and marginalised people including disabled people, older people, and long term unemployed. This happened in the absence of government intervention. These outcomes are still sought but policy is working against a gradient now, and tight labour markets may not be easy to foster deliberately. 'Running the economy hot' has potential downsides - not least inflation - but the benefits in terms of positive labour market outcomes suggest the pros and cons should be debated. A more immediate and practical step to prevent scarring more active labour market policy is needed and this must be targeted.

Time out of the labour force can cause scarring and this is likely to accrue both to unemployed workers and those on furlough. With time out of work, skills can atrophy. One group of particular concern is young people. Data from HMRC on furlough showed that until 30 June 2020 44% of employed under-25s were on furlough compared to 27% of

⁵ <https://www.cipd.co.uk/knowledge/work/technology/people-machines-report>

⁶ OBR November forecast was for unemployment to peak at 7.5% in the second quarter of 2021. By March this had been revised down to 6.5% and pushed to the end of 2021 - <https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/>

over-25s⁷. The ability to defer entry to the labour market through full-time education - as a record 46% of young people are currently doing⁸ - has mitigated the effect on young people.

Unemployment is not just about people losing their jobs but failing to get into the labour market in the first place and this is where many young people are most affected. Here, programmes like Kickstarter and apprenticeships can help.

Take up of apprenticeship incentives has been relatively sluggish. As of April 2021, around 45,000 apprenticeship incentives had been taken up by employers, out of a budgeted 100,000. Increasing the level of incentive payment to £3,000 should hopefully boost uptake by smaller employers. However, CIPD research – carried out before this change – suggested that apprenticeships incentives were only likely to have a very limited impact on the volume of apprenticeship hires: a survey of 1,000 organisations found that just 5% of employers that were not planning to recruit apprentices responded that they were considering it now, and just 7% of those that were already planning to recruit apprentices would now be encouraged to recruit additional apprentices.

Kickstart, on the other hand, with its more generous financial support, has proved much more beneficial. Our survey results from September 2020 found that a under a third (32%) of employers surveyed were either very interested (8%) or somewhat interested (24%) in providing a Kickstart placement. The Government aims to support 250,000 young people, but while the programme has generated substantial employer interest, so far only 16,500 have been placed.

Q5. What policies are effective in helping people to reskill, move between occupations and sectors and take advantage of new opportunities? How could these be best implemented in the aftermath of the pandemic, and as technological developments such as artificial intelligence change the nature of work?

The Government has rightly prioritised the need to support people reskill and move between sectors, with the national roll out of Skills Bootcamps, and it is encouraging that those who successfully complete will be offered a guaranteed job interview. However, it is

⁷ CIPD analysis of – HMRC (2020) - Coronavirus Job Retention Scheme statistics: July 2020 - data tables (table 7 – CJRS claims by age and gender). Available at: <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-july-2020>

⁸ ONS (2021) Employment in the UK: April 2021. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest#unemployment>

yet unclear at how successful the initiative will be in connecting participants to labour market opportunities.

Evaluation evidence from international programmes provide a number of lessons from elsewhere on how to successfully retrain and support individuals to move to occupations with better prospects for career advancement. For example, WorkAdvance⁹, a successful US programme¹⁰ aimed at helping low-income adults move into new careers in growth sectors (for instance health and care), offer opportunities for progression, including formal training that takes into account employers' skills requirements and results in industry-recognised certifications. Support includes intensive screening of applicants to assess level of career interest in sector, skills assessment to identify transferable skills and identify gaps, sector-specific career readiness training and occupational skills training to meet employer needs, as well as employer engagement and job brokerage to 'open the door' to job opportunities to participants. Participants would also be provided with post-employment retention and advancement support – including ongoing coaching and training. The WorkAdvance programme was estimated to cost \$5,700 per participant, equivalent to around £4,000.¹¹

Q6. Does the Government have the right mix of policies and a coherent strategy to promote long-term productivity growth and create new high-quality jobs?

Instead of seeing productivity growth as a route to high quality jobs, perhaps it is time we considered that high quality jobs can lead to productivity growth. The good work agenda has fallen out of favour with government, and it is likely that the political imperative will be to focus on quantity rather than quality as unemployment remains above pre-pandemic levels. This would be a mistake. Thankfully, Covid infections are not the only curve that was squashed. Successive revisions to unemployment forecasts have seen the peak squashed down from a figure in a similar territory to the post-financial crisis (7.5% in the OBRs November 2020 forecasts⁶) to a much more modest 5.5% (Bank of England's May 2021 forecasts¹²). The labour market should recover quickly, ensuring that the gains achieved in the latter part of the 2010s remain, and can be built upon.

Marks of job quality include access to training and progression, an area which is within the Government's remit to improve, but it has so far fallen short. Policies like the

⁹ <https://www.jrf.org.uk/case-study/workadvance-us>

¹⁰ <https://whatworksgrowth.org/blog/an-exemplary-training-programme-will-it-work-here/>

¹¹ Ibid – estimated from the Per Solas WorkAdvance model

¹² Bank of England (2020) Monetary policy report, May 2021. Available at: <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/may/monetary-policy-report-may-2021#:~:text=Bank%20staff%20estimate%20that%20UK,by%200.8%25%20in%202020%20Q4.&text=In%202021%20Q1%2C%20the%20level,below%20its%202019%20Q4%20level.>

Apprenticeship Levy have laudable intentions but have not delivered. The UK has suffered a long-term and substantial decline in the volume of training and levels of employer investment in training over past decades. Figures show declining employee participation in workplace training, and that a substantial portion of the training done is only induction or compliance-based.¹³ As part of an attempt to reverse the trend, the Government introduced the Apprenticeship Levy in 2017. The focus of the levy was to increase both the quantity of UK apprenticeships and the quality of new apprenticeships, in addition to spurring employer spending on training. Yet the initiative is not having the desired effect, with the number undertaking apprenticeships falling since the policy was introduced.

The CIPD believes the Apprenticeship Levy should be made more flexible to enable employers to use their levy funding for other forms of accredited training and skills development, as well as apprenticeships. This would mean employers could use their levy funding for the different types of training and development their workforce need, allowing them to rapidly retrain and redeploy staff to new growing areas of the business, as well as allowing them to support re-training opportunities for employees who are being made redundant. In fact, when we surveyed a representative sample of over 1,000 employers in June 2000 and asked about the effectiveness of a range of mechanisms to help them dealing with the impacts of the Covid-19 pandemic, amending the apprenticeship levy to a flexible training levy (along the lines set out above) was considered the most effective measure, with 42% of employers reporting that it would be effective or very effective, compared to just 10% of respondents who reported that it would be ineffective/very ineffective.

Flexible working and remote working

CIPD evidence recently published shows that many employers expect to continue to embrace more remote working in the future and invest in technology to help make it work. Almost two thirds (63%) of employers in our survey said that they planned to introduce or expand the use of hybrid working^[1]. CIPD evidence has also consistently shown that the widespread shift to remote working has not hindered productivity overall throughout the productivity. The greater investment in digital technologies look set to support new business models and practices offers further potential to boost productivity and make employment more accessible to more people.

On the downside, the same research suggests that employers are not planning to increase their provision of wider flexible working practices beyond home working. Indeed, [CIPD analysis of the Office for National Statistics's Labour Force Survey](#) shows a decline in the use of all types of flexible hours arrangements, such as part-time, flexi-time and

¹³ https://www.cipd.co.uk/Images/addressing-employer-underinvestment-in-training_tcm18-61265.pdf

annualised hours during the pandemic. This trend, if continued, will limit the pool of available labour, such as those with caring responsibilities or health conditions and hinder productivity growth. This problem could be addressed by making the right to request flexible working a day one right.

Interaction between skills policy, labour immigration policy and the National Living Wage (NLW)

The Government's target for the NLW to reach two thirds of median earnings by 2024 and the recent limits to the supply of unskilled and low-skilled overseas workers also look set to interact to raise productivity. This is because both policies will contribute to the disappearance of some unskilled and low-skilled roles. This will build on the recent trend, which has seen employment growth driven almost exclusively by permanent, high-skilled, high-quality roles.

However, one of the concerns is how poorly educated, unskilled workers will cope with an economy in which most jobs are skilled and technologically advanced. The most recent data suggest that just 60% of 19 year-olds are qualified to Level 3. And with the UK population no longer able to offset the falling share of people of working age in the UK; matching the shrinking labour supply with the rising demand for high-skilled jobs looks set to be an even bigger challenge.

As we set out in more detail in the other questions, we believe that broadening the Apprenticeship Levy into a wider training levy would help boost and optimise employer investment in skills. This applies especially to the substantial bottom layer of poorly-educated, unskilled workers who continue to receive relatively little training. For instance, a training levy would allow or even encourage employers to invest more money in especially basic skills training.

Another concern is that young people continue to bear the brunt of the falls in employment levels. The most recent real-time data shows that the number of young people in employment has fallen to a post-pandemic low^[2]. This reinforces the urgent case for apprenticeship incentives to be made more generous and targeted specifically at 18-24 year-olds.

And while the CIPD recognises that any job losses resulting from the NLW has been small to date; we believe that some caution should be attached to the youth NMW rates to help boost hiring among young people. In a recession it is vital that the preservation and creation of jobs takes priority over pay increases. The current downturn is having a far



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bigger impact on young people than other age groups and it is important to avoid any change that makes this group less attractive to employers, particularly SMEs.

People management practices

The CIPD also believes that the government could do more to address the problem of poor management which is a key factor behind the UK's woeful productivity performance. In particular, the government needs to play a more significant role in encouraging more 'smart working' by managers and staff. This could be achieved through greater investment in business support beyond the generalist support provided by Be the Business and should include a dedicated focus on HR/people management to help drive growth in workplace productivity. CIPD research into HR capability and small firms found evidence suggesting that the provision of fairly transactional HR support was associated with higher labour productivity, improved workplace relations and better financial outcomes for participating firms. Extra public resources into people management skills will give more managers and leaders the skills to adopt smart work practices that enable people to achieve more. The importance of this will become even more acute as more organisations turn to upskilling their workforce as a response to migration restrictions and recruitment activity returns to pre-pandemic levels.