

CIPD Scotland – 2021/22 Budget Submission

About CIPD Scotland

The CIPD is the professional body for HR and people development. As a not-for-profit organisation, we **champion better work and working lives** and have been setting the benchmark for excellence in people and organisation development for more than 100 years.

We have more than 150,000 members across the world, provide thought leadership through independent research on the world of work and offer professional training and accreditation for those working in HR and learning and development. The CIPD has around 11,000 members across Scotland. We sit at the heart of a proud, growing community of practitioners, members, partners, policymakers and thought leaders in the world of work. We work with the Scottish government, its agencies and several academic, business and voluntary partners on a broad range of public policy issues.

We are key partners on multiple working groups and serve as a conduit to our network of members who both inform changes in policy and deliver them. **Our membership in Scotland is spread across businesses from the public, private and third sectors and across businesses of all sizes.** This puts the CIPD in a strong position in the public policy sphere.

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. We seek 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.

Executive Summary

The upcoming Scottish Budget will have to be delivered in the most challenging of circumstances. The uncertainties of putting together a budget before the Chancellor has detailed his spending plans are compounded by the uncertainties of COVID-19.

Yet, it will arguably be the most important budget of this parliamentary session. It will need to outline further measures to deal with the rapidly escalating economic impact of the pandemic, but it will also need to start paving the way towards a new post-COVID economy. At the CIPD, we will keep making the case for job quality, skills development and inclusion to be at the heart of these plans.

Our key recommendations for the Scottish Government are:

- Rollout the People Skills small business support model across Scotland
- Announce further funding rounds for the National Transition Training Fund
- Provide ongoing support for fair work across government and its agencies
- Introduce enhanced Individual Learning Accounts
- Explore options to close the gap between parental leave and funded childcare

Introduction

This Scottish parliamentary session's last budget – the 2021/22 Scottish Budget - will be a very different document to the one presented last year. Not by choice, but by necessity.

The Scottish Government will have to present its budget in a cloud of uncertainty. The postponement of the UK Budget – for the second year in a row – is a big challenge given the complex funding mechanisms that underpin devolution. The one-year spending review gave Scottish Ministers a good idea of the expected Barnett Consequentials and the block grant and, thankfully, the OBR's economic and fiscal forecast allows block grant adjustment estimates to be produced. Nonetheless, a degree of guesswork will be required and, of course, the UK spring budget will have an unknown impact, especially if it includes significant tax changes.

In addition to what may seem like technical challenges, COVID-19 continues to loom large over any budgetary decisions. Despite the gradual vaccine rollout, we cannot yet predict the trajectory of the pandemic, nor its full impact on the labour market and the economy.

The 2021/22 Scottish Budget process will therefore be truly unprecedented. However, it will also arguably be the most important budget of this session. The key priority remains responding to COVID-19, but it also presents an opportunity to start thinking about how we move forward.

COVID-19...

Safeguarding Jobs

The economic impact of the pandemic on Scotland has been nothing short of staggering. Our GDP fell 19.4% in the second quarter of 2020, following a 3.2% fall in the first quarter. While most recent data show six consecutive months of growth, GDP is still around 6% below its pre-COVID level in February 2020. The resulting impact on the labour market is similarly stark. The Scottish Government's latest [State of the Economy](#) report suggests unemployment peaking at 8.2% under the central scenario. While this is slightly better than previous predictions, it is still around double the pre-pandemic levels. **Safeguarding jobs and supporting those faced with redundancies will therefore be the key task in the budget.**

The range of support provided by the UK and Scottish governments has been transformative, but both will need to stand ready to deliver more. Direct grant support for businesses affected by closures - in addition to the UK-wide job support schemes - may need to be scaled up even further, depending on the trajectory of the virus spread. Furthermore, the additional funding for PACE (the government's partnership redundancy service) is welcome, but small in scale given the likely exponential caseload rise.

In addition to direct financial support for businesses and employees, we believe there is a particular gap in business support services for the smallest of businesses. Small employers are currently facing a perfect storm with many having to deal with a cash flow crisis while dealing with a range of complex employment relations issues. We know that the level of people management capability is typically very low in micro and small firms, with many struggling to meet even the basic requirements on employment rights even in normal times. Furthermore, the link between management capability and productivity is well documented in research.

A few years ago, the CIPD ran three local People Skills pilot initiatives - including one in Glasgow - providing a day of free professional face-to-face support to small firms via CIPD qualified HR consultants. An evaluation of these pilots was very positive and we believe **there is a strong case for a national roll-out of the People Skills scheme.**

Youth Unemployment

Much of the public policy focus has been on youth unemployment, given the threat the pandemic poses to young people across some of the worst-hit sectors, school leavers and graduates. The long-term scarring effect of youth unemployment during the 2008/09 recession is something we all want to avoid. IPPR Scotland has [estimated](#) there could be around 100,000 unemployed young people in Scotland this winter.

In consequence, the Young Person's Guarantee has received near-universal support, including from CIPD Scotland. There are, however, some clear challenges that will need overcome for it to have

the desired impact. Chief amongst these is the need for deep cooperation between three levels of government and the public, private and voluntary sectors. The guarantee is designed as an umbrella for several initiatives, including the UK Government's Kickstart scheme, which could be a source of tension. Some proposals - like the wage subsidy scheme - look challenging to design. Lastly, with most of the funding attached to the guarantee channelled through 32 local authorities, there are additional fears of complexities for businesses.

Upskilling and Reskilling

In addition to a focus on young people, interventions will be required to boost upskilling and reskilling programmes across the workforce, provided unemployment levels rise as projected. We have previously supported a broader transition training fund being introduced and were pleased to see it being announced in the last Programme for Government.

That being said, the **funding attached to the scheme is likely to be insufficient** given the scale of the challenge. Based on the previous experience in the oil and gas sector, we know the average cost of an intervention is in the £2,500-£3,000 range. This means the announced funding will help a maximum of 10,000 workers. For comparison, the [report](#) by the Enterprise & Skills Strategic Board sub-group on Measures to Mitigate the Labour Market Impacts from COVID-19, published in July 2020, modelled this proposal at 80,000 workers and a cost of £200 million.

...and Beyond COVID-19

The Future of Work

The most obvious longer-term change of the pandemic is the dramatic shift towards flexible work. CIPD research suggests that Scottish employers expect homeworking in particular to more than double from pre-pandemic levels. Additionally, emerging evidence suggests that there won't be a hit to productivity that some expected, although this requires a lot more work as there will be big differences across sectors and in individual circumstances.

We believe it will be important that policymakers and employers don't lose sight of these differences and that **a focus on homeworking does not crowd out the broad range of other flexible work options** – like job sharing, flexi-time or term-time working - which may suit individuals better.

In addition, there are some potential interesting public policy implications associated with this shift. First and foremost, the importance of closing the digital divide has been amplified further and, in addition to significant capital infrastructure investment, a focus on digital upskilling will be crucial. Other impacts on transport or housing policy are also likely to emerge.

Job Quality

The pandemic has put the quality of work debate in sharp focus. The Scottish Government should be commended for leading the job quality agenda UK-wide over the last few years, with their commitment to fair work principles and the support given to the Fair Work Convention. Job quality is arguably even more important during the post-crisis recovery, with a renewed focus on flexible working, work-life balance and health and wellbeing. In Scotland, that means **continued support for fair work principles across government and its agencies and a concerted effort to bring businesses across sectors and of all sizes on board too.**

Any policy work relies on robust data and evidence. The Fair Work Convention has developed a set of indicators to measure progress, but gaps in data remain – for example statistics around effective voice, job autonomy or conflict at work. The CIPD's annual *Working Lives Scotland* report covers some of the gaps, but this is not a survey that can take the place of an official national statistics publication. The Scottish Government should therefore commission and fund a regular robust survey that would complete the measuring framework.

Furthermore, our discussions with employers have found that while many businesses are already working to the Fair Work Framework, they do not necessarily use the same language, or even know that they are meeting the criteria. We know that employers are not inclined to disagree with the content of the framework. This suggests that **there is a clear need to better articulate what fair work means in terms of individual business practices.**

Skills and Training

The pandemic has only amplified the need to tackle some of the underlying problems in Scotland's economy. Levels of over-qualification (as for example reported in our own [Working Lives Scotland](#) report) suggest inefficiencies in the relationship between the labour market and the skills system. Flexibility in skills development, strengthening of vocational routes and better lifelong learning provision should all be high on the agenda.

In their recent [report](#) on Scotland's apprenticeship system, the OECD makes a series of recommendations which aim to reform the system into a more responsive and agile one. Fast-tracked qualifications, making the system truly employer-led and rebalancing vocational and academic education are **all steps the government should commit to.** In addition to this, the government should build on progress shown during the last year and work with providers to expand the digital learning offer in Scotland. More flexibility in employment patterns should be mirrored in learning flexibility too.

This flexibility is especially important in delivering the necessary step-change in lifelong learning. The combination of demographic change and the speeded up spread of so-called industry 4.0 will require a transformation Scotland lifelong learning offer. This will require changes to qualifications,

skills development provision and individual incentives. On the latter, the CIPD has long supported form of personal learning accounts, which could be an evolution of Scotland's ITAs, as a way of stimulating individual demand for lifelong learning.

Earlier this year, CIPD Scotland in cooperation with IPPR Scotland published our [Skills to Grow](#) report with a series of recommendations around enhanced Individual Learning Accounts. Drawing on best practice across international models and the experience of ILAs and ITAs in Scotland, we have outlined a set of principles that should be used to boost this model. Our original primary objective was to flesh out what contribution ILAs could make to meet the challenges posed by our changing economy and evolving skills needs, but our recommendations now also offer a timely assessment of how enhanced ILAs can be used in Scotland's COVID-19 recovery too.

We believe that ILAs offer particular strengths to learners, employers and skills providers across Scotland. They offer flexibility and individualisation that enables them to be valuable and adaptable tools to support learners throughout their working lives, and through challenges from multiple fronts: be it as a tool to support early-career progression, as an opportunity to learn to work with new technologies, or as a means of accessing retraining that can support a smooth transition from high- to low-carbon industries.

Inclusion and Diversity

As mentioned above, much of the public policy focus at the moment is on youth unemployment and rightly so. But the pandemic – and its economic impact - has only highlighted embedded inequalities and longer-term challenges that the Scottish Government will have to tackle. **Issues around inclusion and diversity should remain at the top of the government's agenda and this should be reflected in the budget.**

While there is much more for employers to do in this space, government also has a role to play. Even though much of the legislative power is reserved, the Scottish Government can provide advice, support and guidance, it can lead by example as an employer and – crucially - it can use its devolved powers to act as an enabler. This means it should take specific steps that eliminate barriers to work, and – by extension - enable diverse and inclusive workplaces.

We believe there are three areas (disability, age, caring responsibilities) where meaningful changes can be made in Scotland, not at the expense of others, but in order to unlock the same opportunities regardless of individual circumstances.

Recent years have seen an increased focus from both the UK and Scottish governments to tackle what policymakers refer to as the disability employment gap - the difference between the employment rate of people with and without disabilities. Latest annual statistics show that in Scotland, the difference in employment rates stands stubbornly at over 33%.

Job quality and the disability employment gap are intrinsically linked. Equal opportunity to access employment is linked to the experience of people with disabilities once in the workplace. A disability should not be a barrier to positive relationships at work, skills development, career progression or fulfilment at work. Our own research shows that there are gaps in job quality for people with disabilities – higher presenteeism, poorer relationships with managers or weaker job security. Keeping fair work at the heart of Scottish Government policy, for example through the steps we describe in our first chapter, is therefore crucial if we want to make further progress. The Scottish Government's stated ambitions as an employer and the recent establishment of the Public Social Partnership, of which CIPD are a part, are also positive developments.

Another underlying challenge comes from Scotland's demographic projections. According to the latest statistics, the number people of pensionable age is projected to increase by over 240,000 over the next 25 years. It is of course true that similar estimates can be seen for much of Europe and for the rest of the UK too. However, due to our current demographic make-up, Scotland is projected to have slower population growth than all the other UK countries. This should make it a public policy priority.

An increased proportion of older people will translate into an increased proportion of older workers across Scotland, so a focus on their job quality as well as their routes into employment will be needed. Many of our recommendations in the skills space – boosting lifelong learning or enhanced ILAs are of relevance here, as are considerations of flexible work, which we know are of importance to older employees.

Lastly, there is a mountain of evidence that shows the gendered nature of care in the UK. Women are still significantly more likely to be the primary carers for children or elderly relatives, with associated impacts in the labour market. Our own research in Scotland points to this too, with the usage of reduced hours heavily skewed towards women – reflecting the choices women make to look after children or elderly relatives. The pandemic has only exacerbated this. [The ONS estimates](#) that women provided two thirds more childcare than men during lockdown. Research also shows that women were more likely to [lose jobs](#), to be [furloughed](#) and to experience [deteriorating wellbeing](#). With uncertainty over the full-time return of schools as well as further reopening of workplaces, it is likely that female employees will be impacted disproportionately over the coming months.

Despite the most recent reforms, there is still a significant gap in funded support between the end of parental leave and funded childcare. The Scottish Government does not have powers over parental leave, but it could take steps to offer some support – universal or targeted – for parents who wish to return to work. Several options exist here, ranging from an expansion of the current model, through the provision of childcare accounts (compatible with the UK Government's tax-free childcare scheme) to more complex spending limits tied to household incomes. **The Scottish Government should commit to exploring these in the near future.**