

Autumn Budget 2017

Submission to HM Treasury

Chartered Institute of Personnel and Development (CIPD)

September 2017



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 over 140,000 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.



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Introduction from Peter Cheese, Chief Executive, CIPD

The Rt. Hon. Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 1HQ

Dear Chancellor,

I am writing to outline CIPD's priorities for your Autumn Budget on 22 November. Our submission sets out key findings from our recent *People Skills* research programme and our case for the Government to invest £13m a year to revolutionise the quality of support to small and medium-sized enterprises (SMEs) through the Local Enterprise Partnership (LEP) network and boost productivity among a group of firms which have proved hard to reach through existing provision.

As the UK negotiates its departure from EU, an equally big challenge facing the country is how to boost the country's poor productivity growth to create an economy that works for all and one that generates sustainable and inclusive increases in living standards. The CIPD welcomes the Government's intention to boost productivity through its plans to support an increase in investment infrastructure, address regional disparities and tackle inadequate skills within the economy. We have actively supported the government's post-16 reforms of technical education and measures to improve the quality of apprenticeships, both vital if the long term aim of improving productivity is to be met.

Government has also provided valuable support to the *Be the business* initiative designed to increase workplace productivity through improving managerial capability, which HM Treasury and many independent analysts have identified as an important constraint on improving our productivity performance. To complement that initiative, the CIPD believes the Government could improve the effectiveness and reach of business support to SMEs to increase workplace productivity, particularly among the nearly 1.3 million small businesses, employing between 1-50 employees.

The *People Skills* pilot projects that we have undertaken, with support from the JPMorgan Chase Foundation, have shown that many SMEs lack the basic HR capacity and managerial



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capability to successfully engage with government programmes to encourage them to invest in their workforces, especially young people, and make their businesses more efficient. They have successfully demonstrated that a new and flexible approach, building on existing local provision, can greatly improve their managerial capability that will allow them to respond positively to government initiatives in the future.

There is also great potential in developing the *People Skills* delivery model as part of the forthcoming Modern Industrial Strategy. It can also act as a further vehicle for improving job quality among small firms and would support the Government's response to the Taylor Review of Modern Working Practices.

We would be delighted to discuss this proposal with you and how we can support the Government's broader plans to improve skills development and utilisation across the economy. I attach a short summary of the People Skills research programme and the key findings. I do hope you and your officials find it of interest.

Please see below for our full submission.

Yours sincerely,

A handwritten signature in black ink that reads 'Peter Cheese'.

Peter Cheese
Chief Executive, CIPD

Our submission

Improving Business Support for Small Firms: the *People Skills* programme

Rationale for the project

Many analyses of the UK's productivity puzzle finds that managerial quality is likely to be a material factor that helps explain some of the wide variation in productivity between the UK's leading firms and a comparatively long tail of low productivity companies. This is particularly likely to be the case for smaller companies (fewer than 50 employees) given that there is a larger, longer tail of small firms with low, or even negative levels of productivity growth.

Background

It is against this backdrop that CIPD has been conducting significant research in this area evaluating the impact of a programme providing high quality HR support to small firms in Hackney, east London, Stoke-on-Trent and Glasgow.

The programme was supported by J.P. Morgan through the JPMorgan Chase Foundation, and delivered through the CIPD and local partners (local councils/chambers of commerce). In each of three locations – Hackney (London), Stoke-on-Trent and Glasgow – a small bank of independent HR consultants was recruited to provide free employment and people management advice to small businesses on demand, and the CIPD's *HR Inform* online support system was made available to project participants. The pilot ran from July 2015 to October 2016 and has been evaluated by a team at Manchester Metropolitan University through surveys and interviews with project stakeholders.

The project vision was to '**...support SME growth and productivity by enabling better people management (PM) and leadership practice within the SME community**'. This vision was grounded in the long-standing concern around productivity levels in the UK and the view that better management, leadership and skills utilisation are likely to be some of the keys to addressing this. It also reflects a recognition that SMEs represent a significant segment of the UK economy – accounting for nearly half of business employment and turnover – but that constraints in time, resources and expertise often present particular challenges for them in developing people management capability. The project also sought

to develop partnerships at local level that were able to effectively support SMEs with people management issues.

People Skills sought to achieve **four specific outcomes**:

- Provide free easy access to high-quality support for SMEs (up to 2 days' worth of support per small business)
- Unlock demand for investing in leadership and people management capability.
- Inspire SMEs to invest in and employ young people.
- Deliver improved co-ordination of local partnership networks to provide people management support and services.

Evaluation findings

Take-up of the service exceeded expectations, considerably so in Stoke and Glasgow. 449 SMEs made an initial enquiry and 416 of those proceeded to work with an HR consultant. In most cases this involved an initial telephone call, followed by one or more site visits. Seventeen SMEs were funded to take advantage of 'deep-dive' engagement with their consultant, involving more intensive work over a longer period of time. Survey responses indicated that the quality of support provided was highly regarded. SMEs particularly welcomed the flexibility of the offering and the bespoke nature of guidance offered, and 'deep-dive' respondents taking part in case study interviews were unanimous in reporting the substantial difference that *People Skills* had made to their business.

The evaluation found that while much of the support provided by the *People Skills* initiative was fairly basic, such as establishing workers' terms and conditions or job descriptions, there was evidence that this provided a foundation for boosting workplace productivity. For example, owner managers were more likely to report their organisation 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. These benefits also came through in the in-depth qualitative interviews with owner managers that participated in the *People Skills* initiative.

The results suggest that 'getting the people management basics right' is highly valued in its own right, and may provide a foundation for further development (and greater confidence) but that more transformational change is likely to take longer to achieve.

The evaluation also found:

- Online business support is inadequate unless supplemented by personalised advice and support, with face-to-face advice particularly valued by small business owner managers.
- The support provided by *People Skills* did not disadvantage existing private sector providers as owner managers participating in *People Skills* had not previously accessed HR support services.

The project did identify, however, significant barriers to employing young people/apprentices. While many SMEs were open to this, there were also barriers reported in terms of the 'work-readiness' of school-leavers, perceived bureaucracy of apprenticeship schemes, and lack of resources to support inexperienced workers. With a few notable exceptions, the issue-led nature of the *People Skills* programme did not appear to provide the right context for changing attitudes in this area.

The findings suggest policy makers need to rethink how they encourage SMEs to employ and train young people in the workplace, for example through apprenticeships, as in most cases they don't have the interest or capability to do this. Refocusing a proportion of government investment in skills to providing enhanced business support around people management capability for SMEs would, over time, give more small businesses the capability and confidence to engage in programmes supporting young people into work in the future.

Another finding of the project was that progress in improving the co-ordination of local partnerships was mixed depending on locality. Where partners were highly engaged and well embedded in the local business community (such as in Stoke and Glasgow), there were some tangible gains. Indeed in Glasgow, the city council continued to fund the project after the initial pilot had ended, with local stakeholders highly supportive of the *People Skills* business support model. However, stakeholders recognised the lack of a central point where SMEs could go to identify support and that the overall offer in Glasgow to small businesses, alongside many other cities, was quite complicated.

In Stoke, the chamber of commerce was very positive about the impact of its partnership role in the *People Skills* initiative and there is a belief that *People Skills* had improved the chamber's partnership working with other organisations, for example apprenticeship training providers.

In Hackney there was little progress on this objective, and overall, across all three areas, there was generally a sense that the business support architecture is seen as fragmented.

Recommendation to HM Treasury

In light of the acute productivity challenge facing the UK, particularly in terms of the need to boost productivity among small firms, and the positive evaluation of the *People Skills* programme, there is a strong case for the Government to support a national roll-out of the scheme in England.

This would be part of a renewed focus in the Government's Modern Industrial Strategy on enhancing workplace productivity by boosting managerial quality, increasing investment in skills and strengthening the quality of business support through local-level institutions. The CIPD's provisional estimate is that if the *People Skills* model were adopted by all Local Enterprise Partnerships in England it would require initial funding of around £13 million per year for at least three years (including evaluation costs). This could be funded by allocating £40million of the £23 billion National Productivity Investment Fund. CIPD estimates that once the *People Skills* programme is properly embedded and marketed in a locality, the resource model would enable the programme to provide free (but finite) HR support for up to 700 businesses per year, which potentially could mean actively supporting over 25,000 small businesses across the LEP network.

The three-year time period would allow for the anticipated changes to take root and for the development (through independent evaluation) of a sound evidence base for future government policy. If, as we anticipate, the overall results are positive, the reach and range of the support offered could be steadily expanded as local and national resources became available.

It is vital that independent evaluation is built into the initiative so that at the end of three years the Government has a sound evidence base on whether the positive findings from the pilots have been replicated in all areas. This would allow those areas where the approach has proved successful to scale up, and those areas where it was less successful to address the underlying structural weaknesses around effective engagement with SMEs.

The full *People Skills* evaluation report and the case studies can be found [here](#).

CIPD

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