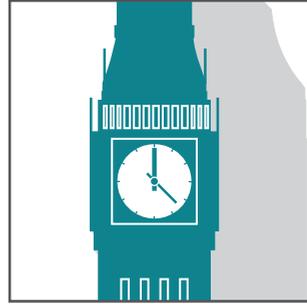


## CIPD Manifesto for Work 2020



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# Foreword

We live in the most uncertain and fast-changing political, economic and social context anyone can remember. Many of the challenges facing the Government in the UK go far beyond resolving Brexit and our future relationship with Europe and can be traced back to the failure of the UK economy, despite its many success stories, to truly deliver value across all sectors of society.

We face the challenges of improving productivity and international competitiveness, of investing in and building the skills we need now and for the future, of driving more innovation, and encouraging more agile and responsive businesses that look to the long term and not just maximising the short term. We need to make much more progress on creating inclusive workplaces, ensuring fairer distribution of rewards, and in creating working environments that engage our people and support rather than undermine their well-being. And we need to rebuild trust in our leaders, in big business and in our establishment institutions.

Government must lead by example as an employer and as the funder of public services to ensure public sector organisations have the necessary resources to support and develop their workforces so they can deliver on promises to cut crime and improve the quality of education and healthcare.

At the CIPD, our purpose is to champion better work and working lives. We believe work can and should be a force for good that helps both our economy and society to flourish and prosper. As the professional body for HR and people development, we have an important role to play in helping our members address these challenges at an organisational level, but we're calling on the Government to play its part too. Government plays a critical role in setting the policy and legal frameworks to manage and regulate many different dimensions of work, the workforce and the workplace, efficiently and fairly.

But not everything can or should be regulated or sought to be controlled through rules. The Government must also play a major role in influencing mindsets and behaviours based on key principles of ethical and sustainable business and employment practice, and in convening and encouraging dialogue, consultation and debate on how we can all influence the future.

We need the Government to play an active role in promoting and supporting the development of 'good work' across the economy – for example, by supporting the development and dissemination of advice and guidance for employers on the HR and people management practices that underpin good work, and responsible and ethical employment practices. Our more than 150,000 members are responsible for the recruitment, management and development of a large proportion of the UK workforce and, working in partnership with the Government, can actively champion better work and working lives.

Ensuring that work is inclusive, fair, supports people's well-being and enables them to develop the skills they need to reach their potential, brings benefits to individuals, organisations and society. Capitalising on the creativity and potential of our people, or 'human capital', can position the UK as the global leader in high-value, high-skill economies, and as a great place to work and do business.



A handwritten signature in black ink that reads "Peter Cheese". The signature is written in a cursive, slightly slanted style.

**Peter Cheese**

**Chief Executive, CIPD**

# Executive summary

The UK faces significant uncertainty and challenges as we move into a new decade, beyond just resolving Brexit and our future relationships with Europe. Boosting productivity growth, supporting the health of our ageing working population and tackling unfair treatment and inequality in the workplace must all be public policy priorities if the UK is to thrive in the years ahead.

Addressing these issues requires people and how they are managed being placed much more at the heart of business thinking and practice. There is growing evidence suggesting that how we invest in, manage and develop our people is key to the creation of both more good-quality jobs and more-productive workplaces.

Taking action to ensure that more people experience work that is engaging, fair, inclusive and good for their well-being brings benefits to individuals, organisations and society.

## **We therefore call on the Government to:**

**Improve corporate governance and reward practices** by ensuring that the rewards of senior executives reflect their performance and are more fairly aligned with those of the wider workforce. We believe the limited remit of RemCos should be extended to consider issues such as culture, fairness and diversity, which indicate whether organisations are living up to their values. We also think there should be much greater transparency over how organisations report on these issues in their annual reports.

**Create more inclusive and diverse workplaces** by continuing efforts to boost the uptake of flexible working across the economy. The Government can also use its reach and influence to create effective campaigns working with professional bodies, unions and employers to educate employers and improve practice. It should build on the impact of the gender pay gap reporting regulations, using the principle of transparency to drive employer action to address other disadvantaged or under-represented groups.

**Support investment in skills**, lifelong learning and improve how skills are utilised at work by reforming the apprenticeship levy as a broader, more flexible training levy and by greater investment and innovation in the key area of lifelong learning. There also needs to be a much greater focus in skills policy and industrial strategy on increasing the quality of people management capability and identifying the demands for skills, including the essential employability skills that are increasingly important in the modern workplace.

**Improve employment relations and well-being** at work by improving the awareness and enforcement of employment rights. There needs to be a greater focus on providing accessible and affordable people management support to small firms that don't have any formal HR support or function. The Government should also adopt a set of national job quality metrics to help measure progress on the 'Good Work' agenda and ensure improving job quality remains a national public policy priority.



# Good governance and fair reward

**We call on the Government to set out the key principles underpinning responsible business practice and, working in partnership with employers and other key stakeholders, to champion efforts to raise levels of transparency, trust and fairness in organisations and workplaces.**

## **Our recommendations:**

- Require the Financial Reporting Council to conduct an annual review of publicly listed firms' compliance with the UK Corporate Governance Code to increase its effectiveness.
- Support the establishment of voluntary workforce reporting standards to encourage more organisations to provide better information on how they invest in, manage and develop their workforce for the long term.
- Require publicly listed companies to establish a formal 'people and culture' committee in place of their remuneration committee (RemCo), or at least broaden the remit of their RemCo, to consider issues such as organisation culture, fairness and wider workforce reward policies.
- Extend single-figure reporting requirements to cover key management personnel and pay for the top 1% of earners, to further improve transparency and ensure this area of reporting practice improves.
- Restore the full independence of the Low Pay Commission (LPC) so future rises in the National Living Wage are based on the judgements of the social partners and not politicians; widen the LPC's remit to look at underlying causes of and solutions to low pay as part of a modernised industrial policy which seeks to raise productivity in all sectors of the economy.

Poor corporate governance and frequently excessive levels of executive pay relative to the rewards of the wider workforce are undermining both trust in business and organisational performance.

According to the 2019 Edelman Trust Barometer, more than half of the UK's public say business today is 'not good' for society, while 62% say addressing the high pay and bonuses given to senior management and business leaders was either 'important' or 'very important'. It is perhaps not surprising that people feel this way, considering that the share of total incomes going to the top 1% and 0.1% of UK earners is on the increase,<sup>1</sup> and the median FTSE 100 CEO reward package stands at 117 times higher than the average worker.<sup>2</sup>

In addition, there have been a range of high-profile corporate governance scandals that have hit the headlines in recent years on issues such as executives being rewarded for failure, sexual harassment, poor working practices and inadequate patient care, to name a few. At the heart of all these there has been a failure by boards and senior management teams to recognise the importance of critical people issues such as culture, fairness, diversity and inclusion, and investment in workforce skills and capability.

The long-standing fall in investment in training, poor productivity growth and a lack of workforce diversity, particularly at senior levels, are further signals many organisations are failing to adequately value their people and how they are managed and developed in their approach to governance.

## **Increasing transparency and fairness**

A core factor that connects these issues is that too many organisations are run with a singular focus on narrow short-term financial objectives and satisfying shareholders, which means they undervalue their human capital – the people skills and knowledge that creates long-term business success. This is partly because not enough organisations have the necessary workforce data to enable them to highlight why greater investment in the workforce is so critical and to identify and tackle problems around culture, workplace conflict, lack of diversity or employee well-being and development.

In addition, not enough organisations publicly report on this type of information externally to provide greater transparency for all external stakeholders, including investors as well as regulators.

Improving the quality of workforce data analysis and reporting, both internally within organisations and externally to stakeholders such as investors, can highlight the value of greater investment in the people management practices that underpin healthy and productive organisations.<sup>3</sup>

## **Tackling excessive executive pay**

Another way to ensure that organisations place more emphasis on fair reward practices and wider people issues such as culture, behaviour and diversity in their approach to governance is through reform of the remuneration committee (RemCo).

The CIPD's research with the High Pay Centre<sup>4</sup> suggests that currently RemCos are part of the problem, as they set CEO pay without reference to the organisational context and these broader people issues. To address this, RemCos should be replaced by people and culture committees, or at least be required to have a wider remit, to ensure executive reward levels take account of the rewards of the wider workforce, as well as issues such as culture, diversity, and training and development.

We also believe that to further improve transparency, there needs to be enhanced mandatory disclosure of the pay of senior executives beyond just the pay of CEOs to include key management personnel and the pay of the top 1% of earners.

## **Reforming the role of the Low Pay Commission**

As well as addressing the issue of pay at the top, there remain significant challenges with pay at the bottom. The rise of the National Living Wage (NLW) has ensured that those at the bottom of the labour market have seen their real wages protected, although at the cost of reduced differentials for some earning just above the NLW.

However, the politicisation of the NLW is a cause for concern, with political parties competing over the future level of the NLW with little regard for the impact on jobs, differentials or competitiveness. Trying to address low pay just through setting ever higher minimum wages does not deal with the root cause of the problem, which is low productivity across the low-pay sectors. Consequently, the independence of the Low Pay Commission should be re-established and it should be given a wider remit to look at the underlying causes of and solutions to low pay as part of a modernised industrial policy that seeks to raise productivity in all sectors of the economy.



# Inclusion

**We call on the Government to help create more genuinely inclusive and diverse workplaces to enable anyone, regardless of their background or characteristics, to access good-quality employment and reach their potential at work.**

## **Our recommendations:**

- Run a major communications campaign to encourage all employers to use the 'happy to talk flexible working' tagline in their recruitment and improve transparency of their flexible working policies by publishing these on their websites.
- Create a flexible working challenge fund which could be used to pilot flexible working initiatives in different sectors and create new guidance and toolkits to boost provision and uptake of flexible working.
- Critically review and reform parental leave policies (including paternity and shared parental leave and pay) to deliver more balance and choice over the distribution of caring responsibilities and better reflect the changing nature of modern families.
- Provide affordable childcare from the end of maternity leave to enable women to return to work more quickly if they choose to.
- Introduce one week (five days) statutory paid carers' leave.
- Launch a campaign to encourage the use of mid-life career reviews for people aged 50 and over to be launched by employers and by the Government using online support and through the National Careers Service.
- Make the provision of an action plan a mandatory element of gender pay gap reporting if the quality of organisations' narrative reporting has not improved by April 2020.
- Set a new voluntary target for 20% of FTSE 350 board-level *executive* directors to be women by 2025 to lead real culture change in organisations.
- Introduce mandatory ethnicity pay reporting for organisations of more than 250 employees, to bring transparency to inequalities of opportunity at work and spur on employer action to tackle them.
- Review the Access to Work scheme to ensure it is more user-friendly for employers and better promoted to ensure more people with disabilities receive the support they need.

## Background

Everyone deserves the opportunity to develop their skills and talents to their full potential, be fairly rewarded for their work, and have a voice in their organisation. An individual's identity, background or circumstances shouldn't affect whether they get a job or benefit from training and progression in the workplace, and discrimination should not be tolerated. However, significant numbers of people in under-represented groups in the labour market continue to struggle to access and progress in work.

There are notable benefits for employers of having a diverse workforce, but to reap the benefits they also need an inclusive culture where people feel able to be themselves at work and that their contribution is valued. Educating leaders and line managers to value difference and to manage people inclusively is essential if people are to achieve their potential at work, as they typically make the recruitment, development and progression decisions.

## Transparency and workforce reporting

A clear driver for change is the use of workforce reporting to drive transparency and shine a light on inequality and catalyse action. Gender pay gap reporting and the use of voluntary targets to drive greater representation of women on boards have ensured that improving gender equality has become a much bigger business priority.

Likewise, the introduction of ethnicity and disability pay reporting can play a similarly important role in accelerating action to address racial inequality and close the disability employment gap. However, rather than having three distinct reporting requirements, a more holistic workforce reporting framework needs to be developed to help employers provide meaningful data that can be used to understand the diversity of the workforce and provide insights on how to address inequalities among under-represented groups.

## Flexible working

A key issue at the heart of the diversity and inclusion agenda is flexible working because it can enable a range of disadvantaged or under-represented groups to 'get in' and 'get on' in employment. Flexible working can make employment more accessible for many and help support and retain working parents and carers. The ability to work flexibly is also crucial for people with disabilities and long-term health conditions, as well as for older workers who may want to downshift and work more flexibly as they move closer to retirement.

However, more needs to be done to increase the uptake of flexible working arrangements and encourage employers to think creatively about how, when and where work is done, in order to create more inclusive, diverse and agile workplaces that suit the needs of both organisations and individuals. While everyone in the UK has a statutory right to request flexible working, the number of people using the main

forms of flexible working has plateaued over the last decade.<sup>5</sup> Nearly nine in ten jobs are still not advertised as flexible, even though research shows that 87% of employees in the UK would like to work more flexibly.

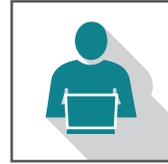
The CIPD's view is that flexible working practices should be the norm, not the exception, for UK workers. However, further regulation is not the answer; instead, the Government should support a flexible working challenge fund which could be used to pilot flexible working initiatives in different sectors and create new guidance and toolkits to enable and encourage more employers to create more flexible working practices.

## **Building campaigns for action**

Working together, government, professional bodies, unions and employers can provide practical guidance and examples of 'what works' to help create more genuinely inclusive workplaces and highlight the benefits that this undoubtedly brings to individuals, businesses, the economy and society.

Government has a critical role to play in bringing together key stakeholders to campaign on key issues and drive awareness and action to improve diversity and inclusion in the workplace. The CIPD believes there is more potential to develop or build on existing campaigns, and in one or two cases initiate new ones, supported by greater resources to boost impact. Well-funded, employer-focused campaigns are essential for long-lasting grass roots impact.

Such campaigns also need to – in addition to raising awareness and understanding around issues – refer employers to sources of practical support such as tools, practical guidance, education and training.



# Skills

**We call on the Government to provide the opportunities that people need to learn and develop their potential and progress at work and support efforts to enhance the quality of people management to unlock greater investment in skills.**

## **Our recommendations:**

- Ensure industrial strategy has a stronger focus on boosting the quality of people management capability and identifying and matching skills across the economy, working in partnership with Be the Business, Acas, employers, professional bodies, unions and Growth Hubs and Local Enterprise Partnerships at a local and sector level.
- Widen the apprenticeship levy to be a broader training levy to make it more flexible for employers' skills development requirements, and ensure future sustainability of funding by broadening the scope of the levy to all employers with 50 or more staff.
- Top-slice the contributions to the training levy fund, from the largest employers, to create a regional skills fund to provide long-term sustainable funding to address local weakness in skills supply and demand-side failings, including interventions to improve leadership and people management capabilities.
- Ensure that young people are building the skills needed for the future by enabling wide-scale adoption, by schools, colleges and universities, of the universal Essential Skills Framework, and by putting it at the heart of T-Levels and apprenticeship standards.
- Increase investment in adult skills and provide more opportunities for people to take part in lifelong learning.
- Pilot a revised version of the Individual Learning Accounts, but with much greater scope for co-investment between employer and employee, combined with a high-quality careers advice offer.
- Create a two-year temporary visa route for both skilled and unskilled EU migrant workers, to be reviewed in 2025
- Lower the proposed £30,000 minimum migrant worker salary threshold for jobs on the shortage occupation list.

If the UK economy really is to work for everyone, we need to address long-standing challenges that face us, such as falling investment in skills and the growing mismatch of skills supply and demand, low or stagnating pay for too many people, poor progression in the workplace and our low productivity. Improving the skills of the workforce, and how those skills are used by employers, should be at the heart of the Government's approach to solving these challenges.

## **Boosting demand for skills**

Successive governments have prioritised increasing the supply of skills – for instance, by widening participation in higher education and by reforms to technical education. Yet, without a corresponding increase in the demand for the skills from businesses, such an approach will not deliver the right outcomes for business or for individuals.

There is growing evidence of a lack of investment in workplace training and development, as well as too many people in jobs that do not fully utilise their skills and qualifications. Under-utilisation of skills has been identified as one of the issues underlying the UK's poor productivity record. Effective utilisation of skills in the workplace requires well-trained managers and good people management and development practices. Not enough businesses in the UK have the capability to ensure that they manage and develop their people and design jobs to ensure that the skills their staff possess are put to good use.

Raising the people management capabilities of businesses and encouraging the adoption of high-performance working practices, therefore, have a critical part to play in raising the demand for skills. Such progressive people management practices include flexible working, job design, and training and development, which are key to supporting employee engagement and well-being, boosting inclusion, and supporting efforts to increase productivity. Consequently, this ambition needs to be a key component of any future industrial strategy.

Addressing these issues is a particular challenge for SMEs – which often lack anything other than a rudimentary level of HR capability. Until this is addressed, the chances of significantly increasing SME engagement in apprenticeships or other training initiatives are severely limited. The CIPD believes there is a strong case for the Government to support the provision of high-quality HR support for small firms modelled on the CIPD's People Skills pilots,<sup>6</sup> which ran in Hackney, Stoke and Glasgow in 2015/16. These demonstrated the positive role that face-to-face advice, facilitated by strong local institutions, can play in helping to create a 'supportive skills ecosystem' at the local level that can help SMEs to raise their ambition.

## **Reforming the apprenticeship levy**

Some of the current initiatives being pursued to address the underlying weaknesses in the UK's skills system, such as the apprenticeship levy, have good intentions, yet there are significant doubts about whether the approach will help counteract the long-term decline in employer investment in training. In fact, our previous research<sup>7</sup> suggests that it could prove counterproductive, by incentivising businesses to undertake costly rebadging of existing training effort in attempts to recoup funding or by diverting investment away from other equally valuable forms of training. To ensure that the levy leads to an overall increase in employer training effort, it should be adapted into a more flexible training levy. This would mean that employers would be able to invest in other, equally valuable, forms of accrediting training and development aligned to industrial sector priorities.

To widen access and ensure the future financial sustainability of the fund, we recommend including within the scope of the levy all employers with over 50 employees, at a rate of 0.5% of payroll for small and medium-sized firms and 1% for those with 250 or more staff. This larger fund could then be top-sliced, from large employers' contributions, to create a regional skills fund to address local demand and supply weaknesses, including supporting local interventions to address people management failings as set out above.

## **Building the right institutional framework**

Alongside investment at the local level, there is a need for action at national and sectoral level too. Almost every other country sees the need to organise employers around skills, work and economic development. Without collective organisation to support skills forecasting, co-production, and efforts to deliver economic development/business improvement and productivity improvement, most policies in these areas are doomed to operate sub-optimally. Consequently, there is a clear need to develop and build upon existing strong institutions to better articulate demand and shape provision.

## **Increasing participation in training**

A key challenge for the Government is finding a mechanism to encourage and incentivise individuals and employers to participate in and invest in training to reskill and upskill throughout their working lives. Access to finance is one of the principal reasons that adults do not engage in learning, as well as insufficient information of the types of training and the return on investment for different courses. Personal learning accounts have been used in a number of countries – including the UK – to overcome financial barriers to lifelong learning, with evidence from the US suggesting that when combined with employer co-investment and high-quality careers advice, they can lead to better matching of skills development between individual and business need.

## **Post-Brexit immigration policy**

No matter how well the skills system works in the UK, our ageing workforce and employer demand for skills means it is crucial that the post-Brexit immigration system is flexible, low-cost and user-friendly.

CIPD research highlights the need for the future immigration system to enable employers to employ both skilled and unskilled migrant workers when they have been unable to find the people and skills they need despite their best efforts to recruit and train UK-born workers.

Consequently, we are calling on the Government to introduce a two-year visa system for both skilled and unskilled EU migrant workers and to lower the proposed £30,000 minimum salary threshold for jobs on the shortage occupation list.

## **Building the essential skills people need for the future of work**

There is growing recognition that the development of essential or 'employability' skills such as teamwork, presenting and problem-solving are crucial in preparing young people to make the transition from the classroom to the workplace. They are also critical to enabling workers to progress and adapt if necessary, as they reskill or upskill in response to changes in technology, work, or employment. That is why the CIPD and a number of influential and respected organisations have come together as the Essential Skills Taskforce to champion a united approach to develop a clear, measurable and authoritative framework to define the assessment and development of essential skills.



# Well-being at work

**We call on the Government to protect and enforce existing employment rights and continue to promote and support the creation of ‘good work’ to boost people’s well-being, engagement and productivity.**

## **Our recommendations:**

- Adopt a new set of national job quality metrics to help measure progress on the ‘Good Work’ agenda and ensure job quality remains a public policy priority.
- Commit to protecting existing employment rights following the UK’s departure from the EU.
- Ensure stronger state enforcement to overcome the barriers that vulnerable workers experience in enforcing their rights via an employment tribunal, including state enforcement of statutory sick pay.
- Run a high-profile ‘know your rights’ campaign, working with organisations such as the CIPD, Acas, Citizens Advice, trade unions and professional bodies, highlighting employment status and the associated employment rights people are entitled to.
- Establish a ‘one-stop shop’ resource hub for employers to make it easier to navigate the many sources of information, advice and guidance already available to support people with long-term health conditions and disability.
- Improve the quality of business support available on people management issues to small firms with no formal HR function or expertise.
- Nominate a menopause ambassador to represent the interests of women experiencing menopause transition across government departments, and support an employer-led campaign to raise awareness of the menopause.
- Invest in employee financial awareness campaigns across the UK, as well as campaigns targeted at the devolved regions, and work with employers to help promote them to workers; embed financial education in schools, colleges and workplace qualifications.
- Phase in increases in minimum employer pension contributions over the lifetime of a parliament from 3% to 5%, so that it matches the minimum level of employee contribution (5%, or 4% with tax relief), so that at least 10% of pay is going to retirement savings.

The UK's flexible labour market generally strikes the right balance between providing flexibility for employers and employment opportunities and protection for individuals. There are record levels of employment and a high proportion of people in permanent work compared with our main international competitors. In addition, overall, the share of good jobs in the UK has been on the increase over the last two decades.<sup>8</sup>

However, far too many people remain stuck in low-paid and low-skilled jobs, unable to progress, and the proportion of the workforce affected by stress, anxiety and depression is on the increase.

Consequently, it is crucial that the Government prioritises building on the 'Good Work' agenda, which emphasises that the quality of jobs matters as much as their quantity, both in terms of improving employee health and well-being and boosting workplace productivity. It is also vital that Brexit does not lead to any watering down of employment rights, as this would drastically undermine attempts to improve job quality across the economy.

## **Better protection and enforcement**

The UK may have an appropriate employment rights framework to support the quality of working life for many, but these rights only count if they are enforced effectively. The CIPD does not believe that the current two-tier enforcement framework is working effectively to protect workers, particularly those who are vulnerable.

We need a better resourced and more proactive approach to enforcement which places as much weight on providing support to organisations to help them improve their people management and development practices as it does on penalising non-compliant employers.

Lack of information and advice about employment rights is a key concern, as is inadequate support and guidance on good people management for employers, particularly for small firms with no formal HR support.

## **Improving job quality and well-being**

Enforcement of basic employment rights is of course the very minimum people should expect. The Government must also continue to advocate the Good Work agenda to improve the quality of work to support people's health, well-being and productivity.

In particular, we need a more concerted effort to address high levels of stress, anxiety and depression, which are the biggest causes of working time lost to ill health. CIPD research also finds a rising culture of 'presenteeism' at work, which is potentially more harmful for individuals and business than sickness absence.

This evidence shows that the main risks to people's health at work are now psychological rather than physical, and yet far too few employers are focusing on prevention by acting to support people's mental health. For example, less than half of employers carry out risk assessments or stress audits, and just a third focus on financial well-being as part of their health and well-being programmes, despite financial worries being a significant source of stress for employees,<sup>9</sup> along with poor organisational performance.

Many employers, particularly smaller organisations, lack access to practical and relevant information, advice and guidance to help them manage long-term health conditions, disability and sickness absence.

## **Building campaigns for action**

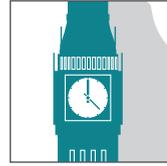
The Government can help drive employer action on employee well-being by supporting publicity and education campaigns, for example to encourage more employers to provide financial well-being support and on the importance of conducting stress risk assessments in the workplace.

Working together, government, professional bodies, unions and employers can provide practical guidance and examples of 'good work' as well as 'what works' to help create healthier and more inclusive workplaces, thereby highlighting the potential benefits to individuals, businesses, the economy and society. This type of collaboration needs to happen at a national, sector and local level to ensure campaigns can reach the greatest number of employers and have maximum impact.

## **Measuring job quality**

The other way the Government can ensure the issue of good work remains a priority is through improving how the quality of work is measured so that progress can be consistently tracked.

The Carnegie UK Trust-RSA Working Group on Measuring Job Quality recommended that the Government use the CIPD's seven dimensions of job quality from its annual *UK Working Lives* survey<sup>10</sup> as its framework for measuring job quality. The Government should act on this and announce its proposals for improving how job quality is measured in the UK.



## Key challenges

The Government will face fundamental challenges to the UK's continued prosperity. Decisions made today will outlive the next parliament, perhaps more so than at any other time. The impact and trajectory of Brexit remains uncertain, but what is not in doubt is that the UK's prosperity will depend to a significant degree on the details of our evolving relationship with the EU. It will therefore continue to be the economic challenge that attracts most political attention.

However, just as important to the country's economic competitiveness and success will be kick-starting our productivity growth, which has been dismal since the financial crash and has held back real wage growth.

There are of course reasons to be cheerful. Despite cautious whisperings that the labour market may be starting to turn, the UK's employment rate remains near record-high levels. We should not take these gains for granted though, particularly as the prospect of a downturn looks ever more real.

### Brexit

In our 2017 manifesto we noted, *'The greater the uncertainty and the longer it persists, the more likely it is that it will adversely impact on investment and growth plans by UK businesses.'* This point bears repeating, as it still stands. The IFS have said that the economy is likely to be 2.5–3% smaller than if we had voted to remain, as the negotiating period has imposed costs.<sup>11</sup> The Bank of England attributes the slowdown in the underlying rate of growth in part to Brexit-related uncertainties on business investment, which it estimates to be 6–14% lower than it would have been in the absence of Brexit uncertainties.<sup>12</sup> The costs are borne by us all. Lack of investment hampers productivity, which in turn holds back earnings growth.

Strong employment growth since the referendum may seem at odds with weak business investment, but the two could be linked. To meet demand and fill orders, businesses may be reluctant to invest in expensive and irreversible projects. Instead, they have hired more people.<sup>13</sup> In a flexible labour market like the UK, you reduce headcount as quickly as you can increase it, and we should be more concerned about the long-term prospects. In addition to employment, there has been good news on earnings. In recent months earnings growth has outstripped inflation, but this has been driven by the tighter labour market and not an increase in the ability of employers to pay. When we look over a longer period, the picture is less rosy. Real earnings still lag their pre-crisis high. For sustained earnings growth, the sort that compounds and increases living standards, we need productivity growth.

Reducing uncertainty by securing a deal that aligns the UK closely with its largest trading partner should be the priority. The post-Brexit immigration regime must be sensitive to the needs of business, especially industries that traditionally have a high proportion of EU workers. On workers' rights it is important that the gains in protections achieved at the European level are maintained and enhanced as part of the good work agenda to ensure the UK remains one of the best places in the world to work.

With the prospect of a labour supply shock, there is an opportunity to develop the skills system, including raising the standards of technical education and expanding the role of quality apprenticeships. The national retraining scheme for adults is welcome, but too modest in scope.

## **Productivity**

The UK's productivity performance has been weak since the financial crash. The policy focus on productivity has ebbed and flowed, but the problem has not gone away. The longer the underperformance, the larger the gap between the UK's potential and its reality. Productivity growth gives us options. Many have mooted the idea of a four-day working week. If productivity growth had continued at its pre-crisis rate, this policy would be achievable by now. Policies like raising the National Living Wage are much easier to achieve when businesses are raising their productivity.

Although we use the word 'productivity' as a distinct policy area, it is what happens when everything comes together – when housing, transport, skills, and investment are done well. The primary method of boosting productivity is therefore to create the business conditions, including reducing uncertainty, to boost investment.

There has been a wide-ranging debate about the different causes of the productivity puzzle and the possible solutions. Some believe that artificial intelligence and automation will soon kickstart productivity and deliver a future where even work isn't necessary. This techno-optimistic view may one day materialise, but it looks unlikely within the next parliament. With less access to labour from the EU and the baby boomer generation easing into retirement, we are more likely to face a shortage than an abundance of labour.

A more immediate avenue for productivity growth is to focus on the workplace, a previously neglected area of public policy. We know that the UK performs poorly on certain management practices when compared with peer nations. An ONS study of 25,000 businesses in Great Britain found that some of the strongest associations with productivity were in people management practices – such as those relating to promotions, performance reviews, training and managing underperformance.<sup>14</sup> We believe that there is potential to improve the skills of managers in order that they

can get the best out of their people, which is why we have launched the People Skills Hub, a free online resource for small businesses. We have also successfully piloted a model for delivering high-quality HR support to small firms at a local level,<sup>15</sup> which could be rolled out nationally at a local level, for example in England, via key stakeholders such as Growth Hubs and chambers of commerce.

## Hope for the best but prepare for the worst

The next parliament might last up until 2024, in which time it seems probable that the UK will experience an economic downturn. The Resolution Foundation has warned that not only is *'the chance of a recession in the coming years ... uncomfortably high'*, but that the country risks being *'underprepared for the next recession'*.<sup>15</sup> Brexit aside, there are global concerns. The IMF forecasts that global growth will be 3.0% in 2019, its lowest level since 2008–09, citing rising geopolitical trade tensions.<sup>16</sup>

After the Great Recession, the impact on unemployment was thankfully muted compared with previous recessions. What's more, the recovery has been characterised by a jobs boom. Contrary to some commentary, most of these jobs have been full-time permanent roles. CIPD research has found that the 'casualisation' of work has been overstated: the *'proportion of people working atypically in the UK labour market has been stable for the past 20 years'*.<sup>17</sup> The next downturn might not be so kind on employment. The welcome quantity of work could be put in jeopardy. What's more, it is easier to focus on quality, or the Good Work agenda, in times of high employment and economic expansion. Quality could suffer too, which is why it is so important there is a continued focus on the Good Work agenda.

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