

# **Opportunity through work**

## A manifesto for Scotland

A policy programme to  
champion better work  
and working lives



# Opportunity through work

## A manifesto for Scotland

A policy programme to champion better work and working lives

<b>Foreword</b>	<b>2</b>
<b>Challenges in the year ahead</b>	<b>6</b>
<b>Our calls to government</b>	<b>9</b>
Skills, innovation and productivity	9
Skills and lifelong learning: meeting employer needs and labour market equity earlier	11
Access for success: improving economic performance and well-being through diversity and inclusion	13
Welfare	15
Pay and pensions	17
Employment relations	19
Corporate governance	21
<b>Conclusion</b>	<b>23</b>

*‘At the CIPD, our mission is to champion better work and working lives. We’ve produced a manifesto which we believe does this, and which encourages the next Scottish Government to do the same.’*

## Foreword

Scotland has long been known for its ingenuity and enterprise. Our economy is diverse and dynamic, and in comparison with many other European nations, our economic performance is enviable. We have relatively low adult unemployment, a diversified business base, and a high level of qualification and skills among our people. We have also benefitted from significant public investment, which has allowed Scotland to build modern schools, hospitals and other public facilities.

Scotland also has well-respected and focused public agencies, which service both enterprise and skills using deep insight, knowledge and connection to develop better solutions. That’s the good news. We also, however, face some headwinds. Our economy has started to slow, with a fall in the rate of employment as the supply-chain impact of the North Sea slowdown works its way through. Independent of the economic shocks, there has also been a high level of inactivity in our labour force, especially among the young. We have an ageing workforce, and we are dependent on key industries, such as financial services and oil and gas, which are going through a period of painful adjustment.

Scotland also faces major challenges in common with other advanced industrial economies, in repairing and renewing our infrastructure with housing, roads, bridges and flood defences being the most critical recently. All of these are underpinned by current and emerging skills shortages, especially in areas such as technology, science, engineering, healthcare and construction.

The next Scottish Government will face a number of challenges, arguably none more important than boosting the productivity of our economy and our people, which has lagged behind our international competitors for far too long. The UK and Scotland’s

productivity performance is poor by international standards and, if we are to grow the economy and reduce inequality, boosting productivity will be vital. Important decisions will also need to be made around public spending and investment, the delivery and design of public services, as well as the allocation of resources so that Scotland can sustain long-term employment, growth and opportunity.

This is also an important time for Scotland's employers. Our labour market is changing, and employers need to keep pace with the changing world of work and new ways of working if they are to attract and retain the right talent and skills for their organisations – which will ultimately enable us to compete on a global stage. Employees, too, face both challenges and opportunities in today's workplaces; whether they are older workers looking to retire comfortably or remain in work, or young people looking to take their first step onto the jobs ladder. Skills development, apprenticeships, careers advice and guidance, and real work experience are all vital components, and must be thought about, not only for young people, but right across the age demographic.

At the CIPD, our mission is to champion better work and working lives. We've produced a manifesto which we believe does this, and which encourages the next Scottish Government to do the same. We call upon the next government to:

**Boost productivity and skills utilisation throughout the Scottish labour market** – by continuing the welcome focus on demand for skills and skills utilisation, encouraging more workplace development and investment in skills, and encouraging the creation of the high-performance, flourishing workplaces Scotland needs in order to succeed in an increasingly competitive global economy.

**Strengthen initiatives which enable young people to succeed in our labour market** – by facilitating excellent pre-school education as the first building block, by developing a dynamic and innovative approach to schooling at both primary and secondary level so that Scotland can prosper in the global economy, and continuing the high-quality careers information, advice and guidance (IAG) with strong relationships between education and business as envisaged in Developing Scotland's Young Workforce.<sup>1</sup> We need to support SMEs in offering more high-quality apprenticeships, and incorporating youth enterprise education into the Scottish curriculum. We advance ideas and policies which enable and support such approaches.

**Develop a supportive and sustainable welfare system which helps to include everyone in the world of work** – by improving support and counselling for discouraged and disadvantaged workers, providing work incentives under Universal Credit, and creating a single-door service managed by Skills Development Scotland, which dispenses the

devolved programmes aimed at ‘hard to reach’ categories of unemployed worker. Bring in tax credits to help low-paid workers keep more of their earnings, though with a recognition that this shift in taxation policy will positively impact the poorest least as its level rises,<sup>2</sup> and continue to encourage employers to create opportunities to increase low-paid and part-time workers’ earnings, including consideration of the National Insurance contributions (NIC) threshold.

**The next government should encourage employers to recruit using ‘blind’ shortlists so that issues of ethnicity, race and class are not barriers to participation** – we should also accelerate the proportion of women on Scottish corporate boards and public agencies to ensure that our businesses and public bodies are representative of modern Scottish society.

**Protect the lowest-paid in our society** – a future Scottish Government should continue to pursue the Scottish Living Wage and continue the dialogue with employers on its phased introduction. Linking future increases in the National Minimum Wage (NMW) more explicitly to the changing rate of inflation, together with addressing the causes of low pay and the progression routes out of low pay, are central. It must also recognise the benefits and pitfalls of flexible working; ensure that employees should have the right to request fixed hours after 12 months of employment; and amend current legislation to entitle all workers to written terms and conditions within two months of employment.

**Take a ‘good practice’ approach to employment regulation and policy** – while the CIPD supports the creation of a Fair Work Commission, we argue that the Commission should recognise that simply focusing on building collective bargaining and wage floors is not enough. The development of a dynamic Scottish economy will only come with an innovative and agile approach which focuses on developing its workforce. The aim of helping employers raise standards of people management, and advising government on employment policy, is one which needs to be focused upon.

**Establish a pensions framework through which workers can build a sustainable retirement** – by ensuring employers have access to the information and support they need to achieve the successful implementation of automatic enrolment, give clarity to savers by stabilising the annual and lifetime tax-free pensions allowances, and support them with sufficient information to make the right decision regarding their savings throughout their working lives and beyond. Furthermore, make a commitment to review after 2018 the adequacy of pension contributions, management charges, default funds and the level of pensions understanding among employers and workers. We also believe that a youth-based ‘future life savings’ commission could help.

**Implement a workplace well-being strategy** – which uses tax and other incentives to encourage employers to develop well-being solutions, integrating workplace health with the health of the community. We believe that tax powers in a devolved setting should be used to develop innovative approaches which could offset other costs, such as the growing costs of healthcare and welfare. People in work and being productive is the surest fiscal strategy.

This is our ‘Manifesto for Work’, an agenda that we hope will shape the future of work, our future workforce and our workplaces, for the benefit of our organisations, our people and our wider economy and society. It is our conviction that flourishing people working for flourishing organisations are at the heart of a prosperous and productive Scotland.



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

**Peter Cheese**  
**Chief Executive**



A handwritten signature in black ink that reads "John McGurk".

**Dr John McGurk**  
**Head of CIPD Scotland**

*'The key economic challenge facing the next Scottish Government will be to help create the conditions for sustained productivity growth, as it is only through this that we are likely to see sustained growth in the economy and in incomes.'*

## Challenges in the years ahead

Like all governments, the Scottish Government elected in 2016 will face many challenges, both expected and unexpected.

At the time of writing, Scotland is reeling from the global decline in world oil prices, with no sign of abatement. However, the economy is diversified and resilient compared with other oil-exporting nations. In any case, the volatility of global oil prices suggests that the price will climb and demand for skills will rise with it. For the skills to be there, we need a long-term approach.

The impact of this localised recession on Scotland's long-term growth potential is still uncertain. It would be unwise for the next government to assume that productivity will improve by itself without sustained investment and a supportive business environment. Investment and productivity growth are more likely in a business environment that balances short-term results against long-term capability, and that balances flexibility against the need for a degree of certainty on what governments expect of businesses in terms of regulatory requirements.

Scotland's productivity conundrum is a distinctive one. Our level of productivity is 97% of the UK, yet our growth in productivity has been higher at about 0.6% per annum. This may reflect a 'catch-up' phenomenon. The key economic challenge facing the next Scottish Government will be to help create the conditions for sustained productivity growth, as it is only through this that we are likely to see sustained growth in the economy and in incomes. This is the main reason why average earnings in Scotland have failed to keep pace with inflation since 2010.

According to recent analysis by the Fraser of Allander Institute, had Scotland's productivity level been equivalent to that of the UK, annual average wages would be £440 higher. If we matched the OECD average, our wages would be 10%, or £3,850, higher.<sup>3</sup>

One key condition for productivity growth is ensuring that businesses can access the necessary skills as and when they need to. Migrant workers provide critical skills for Scottish employers, and the CIPD welcomes the Scottish Government's recognition of the need for an immigration policy to be based on these positive aspirations, both for Scotland's existing and new citizens.

Productivity growth will create the conditions for improvements in real earnings, but there is no guarantee that real earnings will, in fact, increase, or that they benefit all sectors of the workforce. In particular, the apparent lack of opportunities for training and progression for lower-paid workers is a barrier to improved living standards and social mobility. Further analysis by Scottish Enterprise shows that Scotland only outperforms the rest of the UK in 16 sectors, while underperforming in 39.

In addition, there are still over 170,000 people in Scotland who are unemployed. The problem is most acute for young people, who account for over a third of the unemployed, although that situation does appear to be improving. Nevertheless, the long-term damage to employment prospects from prolonged unemployment makes tackling long-term unemployment a continued priority.

The need to generate higher productivity growth and continue to reduce unemployment deserves to be addressed with a degree of urgency, and will no doubt receive it. However, the next government is also the steward of Scotland's long-term interests and, in this capacity, it needs to take concrete steps to equip the nation to face the challenges of the coming decades.

One of these is an ageing population. This will increase the demands on our healthcare and pension systems and, indeed, action has already been taken to address the consequences (such as the progressive increase in the state pension age). Nevertheless, one consequence will be that many people will want, and need, to stay in employment until an older age than at present. The number of people in Scotland aged 50 to 64 who are unemployed has risen by 77% since 2008. By contrast, it's fallen by 6% for the 25–34 age group. Scotland's specific demographic challenges, coupled with our poorer rates of health and well-being, suggest that we need to

harness the potential of older workers. However, we must also be aware that changes in pension policy, notably the so-called pension freedoms and the re-calibration of the pension tax system, could act to accelerate retirement, especially within areas such as the teaching and medical professions.

Another challenge is the impact of technological change upon jobs. This is an area where there is much conjecture, but few concrete pointers. However, the impact of this technology torrent could be significant. Indeed, if it is as great as some expect, and if past history is any guide, the adaptation period could be highly disruptive. Even if the long-term impact is an overall increase in living standards, many people (including some in currently well-paid jobs) could find their experience and skills no longer valuable.

A longer, and potentially more disruptive (or disrupted), working life means that Scotland, in common with other advanced nations, needs to make 'lifelong learning' a reality for everyone. Young people need to gain the 'learning habit' and never lose it, and those in later life must have the appetite and opportunities to adapt to changing demands and make what could be big changes in their skill sets. There needs to be both a change in culture and the construction of a learning infrastructure that enables it to happen. We do not have a blueprint for this, but we believe it needs to be done and we would urge the next government to begin building a consensus around the changes necessary.



A handwritten signature in black ink that reads "Mark Beatson". The signature is fluid and cursive, with the first letters of "Mark" and "Beatson" being larger and more prominent.

**Mark Beatson**  
**Chief Economist**

*‘This is our “Manifesto for Work”, an agenda that we hope will shape the future of work, our future workforce and our workplaces, for the benefit of our organisations, our people and our wider economy and society.’*

## **Our calls to government**

### **Skills, innovation and productivity**

Skills acquisition alone as a panacea for productivity and economic growth has failed. Scotland has taken an admirably different route to focus on skills utilisation, and the CIPD was proud to be involved in this review.<sup>4</sup> We recognised the need for a more integrated skills and industrial policy in our joint report with SKOPE in 2014,<sup>5</sup> and believe that Scotland is well placed with its other labour market initiatives to make this happen. We believe that the next step is to integrate skills, innovation and productivity. Modern open economies such as Scotland prosper on skills and innovation. We welcome an integration of the Fair Work Commission with the broad skills and labour market remit of the Department for Fair Work, Skills and Training. Currently, however, the FWC focuses on a narrower workplace employment relations agenda. We understand the need to build a platform of fairness and employee involvement, but would counsel that if this is not integrated with productivity and competitiveness at an early stage, momentum will be lost. Productivity and fairness are two sides of the same coin in a sophisticated advanced economy, and we must tackle this head on.

Lifelong learning is a major objective of the CIPD and, we know, has been an objective of various Scottish administrations. Much has been done to develop a lifelong learning approach, but the best signal is to fiscally advantage this vital element of our economic growth. The current learning account amount of £200 is inadequate for the complex training needs of today’s labour market.

In terms of major interventions to support skills and to develop economies, few approaches are better than apprenticeships. Successive governments have prioritised this; however, the latest imposition of an Apprentice Levy would have major implications for Scottish employers in areas such as engineering and energy, which are

facing considerable cost headwinds. A 0.5% levy on payroll may seem trivial, but, in the context of overall profitability levels, could prove to be quite testing. However, many employers are less concerned about the multiple of the levy than about the complex process by which investment will be recovered. The present Scottish Government shares the concerns we have and we would argue that an earmarking of the levy into both apprenticeship programmes and the ecosystem of support, which enables apprenticeship to be developed, would be appropriate within Scotland. This, we suggest, would be worth exploring as an appropriate labour market measure within the emerging devolved framework of economic and labour market powers.

For the CIPD, much of this focus on skills and productivity is second nature. We know that well-trained, motivated and productive workforces are critical to the success of enterprises. We also know that innovation is the bedrock of skills. Previous Scottish governments have developed, through the Scottish Funding Council, nine innovation centres for key industries. These focus mainly on product and process innovation, but, as the CIPD's role in the Construction Innovation Centre shows, the issues of people and skills are critical to any innovation strategy. People and development professionals can help by joining the boards of the existing innovation centres. An audit would help uncover where this was needed.

***We call on the next government to:***

- Integrate the Fair Work Commission within a wider productivity and skills agenda to help develop a high-performance workplace for Scotland.
- Establish and grow SME skills centres in each major city and region using the CIPD's People Skills platform, so that Scotland can grow its way to jobs and prosperity.
- Lift the earnings and amount threshold for Lifelong Learning Accounts so that they can help with the skills shifts necessary in an advanced economy. We suggest raising the threshold of earnings to £30,000, and lifting the limit to £1,000. Scotland could also experiment with a training ISA (TISA), which would store up funding. A rethink around education funding could allocate some investment from higher education.
- Ensure that the proposed Apprenticeship Levy is earmarked to invest in the entire array of support for high-quality apprenticeships. We also argue that the Scottish Government should do what it can to allow long-standing and effective arrangements in high-level training environments to persist.
- Encourage people and development representation on innovation boards. This will help cement the skills and productivity proposition within our key sectors.

## Skills and lifelong learning: meeting employer needs and labour market equity earlier

The employment of young people is one of the biggest challenges for all mature economies, and Scotland is no different. Our youth unemployment performance is firmly in the middle, far behind the high-performing nations of Germany and Sweden, but significantly ahead of countries such as Spain, Portugal and Greece. The Developing Young People Commission has set credible targets and approaches based on revamping the vocational route and allowing disengaged young people to connect with the world of work earlier in their school career.<sup>6</sup>

The CIPD is convinced that a modern economy pursuing the high road of growth needs to be radical in how it supports the journey into work. We outlined in our *Scotland's Skilled Future* report<sup>7</sup> the value of pre-school education and the higher return on investment compared with other forms of education investment. Scotland has previously neglected the development of pre-school education in common with other advanced nations. The present Scottish Government is currently addressing the deficit in pre-school education with significant investment in free pre-school learning. For CIPD Scotland, the evidence shows we need to invest even more in this area to target the deep disadvantage and inequality which still persists in Scotland's otherwise affluent society. Having promoted the value of pre-school learning, we need to improve the experience and develop pre-work schooling in a much more evidence-based way, so that the good work which pre-school learning delivers can be built upon.

Furthermore, we believe there needs to be dialogue around school improvement, including consideration of new approaches. For example, the 'Fryer five' makes the following suggestions, based on an evidence-based approach: an extended school day and year; use of data by teachers; a culture of high expectations; and small group tutoring. All of these are underpinned by well-qualified teachers who continually develop their skills and training.<sup>8</sup>

Many of these elements exist in the Scottish system, but only in pockets. International educational attainment benchmarks, such as the OECD PISA rankings, help to identify some of the key drivers for improvement. Scotland's participation in these initiatives has helped identify some of the relative strengths and comparative weaknesses of our educational performance. It's easy for critics to say that PISA is partial and measures only some skills and learning aptitudes, and that is correct. However, by monitoring progress on key bedrock learning, such as STEM skills and reading, it helps provide a strong foundation for Scotland's broader curriculum. Benchmarking on international

standards allows us to build the foundation of the vocational and academic skills we need for an increasingly complex and challenging world of work.

We believe that better-quality vocational learning is only possible with a vibrant and well-funded tertiary/further education (FE) sector. While much investment has taken place in FE infrastructure with new and welcome facilities, funding for students has been reduced. While we would not advocate a different approach on tuition fees at this stage, we think there should be a frank and full debate around education funding and contribution. The recent Law Society Scotland report exposes some of the adverse consequences for access to professions of the tuition fee policy in Scotland.<sup>9</sup>

Scotland's higher education (HE) sector is world-leading, and our reputation is well deserved. University education has an almost iconic status within Scotland, with most investment going into HE. However, this is generally allocated to more affluent pupils and their families, and the CIPD believes this imbalance has to be righted. Indeed, our approach in evidence from our research on graduate overqualification shows that Scotland has a large percentage of young people with university education and inappropriate skills, gravitating towards jobs for which they are overqualified. We have would-be barristers and solicitor advocates working as baristas in the hospitality industry.<sup>10</sup> A debate needs to take place about the optimal allocation of educational investment, and we need to fix this chronic mismatch between opportunity and skills.

***We call on the next government to:***

- Continue to prioritise pre-school education as the first step in access to jobs and opportunities.
- Introduce transparent testing and internationally comparable benchmarking of school performance so that Scotland can track progress as we seek to develop a more varied curriculum.
- Develop a better evidence-based approach to what works in terms of school experience and outcome, based upon internationally reviewed evidence and benchmarks.
- Re-appraise the balance of funding and investment between FE and HE to achieve a better balance of access to skills and funding throughout the lifecycle.

## Access for success: improving economic performance and well-being through diversity and inclusion

The CIPD is convinced that we need as many people as possible in Scotland in jobs. The demographic challenges that we face suggest that we will face major skills shortages within the next seven to ten years. The ageing of our population suggests that we will need to develop many more jobs in health and social care.

To compete as a high-performing manufacturing and technology economy, we will need many more high-level skills. The Centre for Cities latest report shows that skills are the true driver of a high-productivity and high-earning economy.<sup>11</sup> A key finding is that because of pressure on housing costs, some of the highest wage areas, such as Edinburgh and Aberdeen, are also higher in welfare demand. There is no positive link between high wages and low welfare as the interaction between housing and the labour market currently operates.

The report also paints a picture of the complexity of Scotland's dilemma, with high skills and qualifications sitting alongside poor basic skills in areas such as Glasgow and Dundee. The skills within cities such as Edinburgh and Aberdeen are high, but also highly sector-specific. These are daunting challenges. However, Scotland has the scale, energy and commitment to tackle them.

Diversity and inclusion are vital to Scotland's skilled future. It's obviously just and fair that we involve as many as we can in our labour force, but it is also an economic necessity. We support a number of initiatives in improving diversity and inclusion in the workplace, such as 'characteristics-blind' recruitment and the proportionate appointment of women to boards. Much can be learned from the fair employment practices pursued in Northern Ireland, which, in the CIPD's experience, are widely supported by the community and encourage inclusive recruitment and selection.

Scotland's BAME population is small, and its levels of skill and work-readiness vary across different groups. Scottish government reviews have challenged employers to increase the number of BAME candidates accessing the job market, which the CIPD supports. The existence of unconscious bias in recruitment means we should work to support a 'characteristics-blind' approach to employment. Alongside reliable data collection, this would counteract the exclusion evident in the fact that employment in the non-BAME community is around 20 percentage points higher than that of the BAME community. The example of modern apprentice recruitment is instructive. Given the younger age profile of BAME communities, they should have a fair allocation of this key youth employment policy. The actual numbers applying in 2014

was 1% of the total, down from 1.7% in 2009. This may well reflect different education and work experiences. Either way, we need data to drive more-inclusive policies.

We also need to boost access to the labour market for those with disabilities. We can all celebrate the fantastic legacy of the 2014 Commonwealth Games and the performance of disabled athletes needs to be built upon. However, the success of high-performing disabled athletes masks a labour market which needs to be much more inclusive. The proportion of disabled people in work – 48% – compares badly with the able-bodied population. We believe that the Scottish Government should set up an access authority, composed of employers, unions, specialists and advocacy groups, to champion the integration of disabled people into the workforce. The UK Government's Disability Confident initiative, which provides advice, guidance and support to employers in return for pledges to encourage disabled applicants, is a step in the right direction. Scotland can easily develop this approach working with organisations such as the CIPD.

Finally, in a world of wicked taxation challenges with large corporates offshoring and gaming tax registration, and a range of individuals able to considerably reduce their tax liability, taxes on work are easy to collect and play far too prominent a role in tax policy. The CIPD believes we need to look at reshaping the tax system away from work and towards other forms of consumption and resource use. This is a long-term policy challenge; however, one way to signal a new approach is to provide tax-favourable treatment, on both the employee and employer side, of well-being investments such as health clubs, work-based medical services and other investment which promotes well-being, resilience and better, healthier ageing.

***We call on the next government to:***

- Institute a wide-ranging Fair Employment initiative for Scotland which helps to ensure that all who wish to can access the labour market and opportunities to train and develop, through measures such as blind recruitment.
- Advance proportional representation of women on all public boards and exhort the private sector to a 25% proportion of women on boards by 2020, and a 50% target by 2025.
- Institute a joined-up access authority to help disabled people access jobs and learning opportunities, while promoting Disability Confident within Scotland.
- Consider workplace well-being incentives as part of a wider devolved taxation strategy.

## Welfare

One of the key issues in the research cited previously about building high-wage lower-welfare economies is to take a far broader perspective. We believe the real answer to the complex problems within our labour market is to fuse welfare, well-being and skills. We also think that the problems of a modern economy in terms of well-being cannot be fixed solely through the health service. The health service needs to be integrated, not just with the wider community, but with the world of work. Scotland has the scale and 'connectedness' to make this happen.

The current focus on Universal Credit illustrates the recognition of how welfare and income are intertwined. However, its impact, as assessed by key policy analysts such as the IFS, is to reduce income significantly for some of the poorest, and to reduce the incentive for non-working spouses.<sup>12</sup> In Scotland, many perceive this new approach to welfare, with its sanctions and withholding of vital income, as a significant factor in the growth of poverty, the proliferation of anti-poverty interventions such as food banks and emergency support networks. That many of the people impacted are in work amounts to a major policy failure. The fact that many requiring access to the labour market are from previously neglected groups – such as those with disabilities, and especially those with mental health issues – means we need to pursue a different direction. The need to develop a less punitive, and more supportive, approach is clear.

The UK Government has devolved some services, such as Work Choice and the Work Programme, to Scotland, but with considerably reduced funding than previously envisaged. In our view, the fundamental reshaping of welfare and labour market access needs greater funding and policy commitment.

We recommend a four-tier approach: with support and counselling as the first step to help many of those with long-term health conditions, and especially mental health problems, to have the support and advice they need. Next, they need to understand how to apply for jobs and how to 'play the game'. The CIPD has an existing successful programme launched in Scotland called Steps Ahead Mentoring, which provides one-to-one mentoring for jobseekers from HR professionals on the job application process, and we are looking at focusing this on discouraged workers.

We also need to continue the excellent work of Scottish Enterprise and Skills Development Scotland in recognising the growth sectors, and using skills and regional investment plans to connect jobseekers with available jobs. Finally, people who have had a difficult journey finding jobs need to be supported once they are in work, as do their employers. A programme of in-work aftercare could help build

resilience. Again, HR professionals can help with this. Since around 30% of the Scottish adult male population and 10% of females has some kind of conviction, we support the growing attitude in government that ex-offenders should be re-integrated into the labour market.

***We call on the next government to:***

- Tackle inactive and discouraged workers by fusing welfare, skills and well-being.
- Develop a four-tiered approach to inclusion with counselling and support, labour market access, targeted access to growth sectors and in-work aftercare.
- Develop a 'single door' welfare and skills focus with Skills Development Scotland as the unified delivery agency to promote the appropriate mix of opportunity and support for those needing to enter the labour market.
- Support ex-offender recruitment by removing irrelevant disclosure criteria and allowing offenders to access skills, welfare and well-being.

## Pay and pensions

The issue of a Living Wage has really caught fire in Scotland and the rest of the UK recently. The current Scottish Government is championing a Scottish Living Wage, and enshrining this in its Business Pledge. This has, to an extent, been superseded by the UK Government's commitment to a higher minimum wage for those over 25 – known as the National Living Wage (NLW) – offset by changes to welfare spending and the lowering of taxes. Nevertheless, the approach of the Scottish Government based on exhortation and example, and rooted in a focus on auditing the costs and benefits, is one that the CIPD supports. The CIPD has always encouraged all employers who can afford to do so to pay the Living Wage. With the legislative enactment of the new NLW, that choice has been superseded. Some industries and many smaller organisations will struggle to comply with the new wage floors, and we believe that there could be job losses. However, the evidence on implementation of the NLW does not point to significant job losses, with an additional premium of only 0.1% in overall employee compensation identified by one key study. However, the care sector was a concern, with its poorly funded and fragmented system and poor current scope for offsetting productivity gains.<sup>13</sup> Generally, a focus on growing productivity will help to offset these sectoral effects. The recent report from the Living Wage Foundation indicates the potential for productivity improvement in a range of industries including social care and how investment in learning and development is a major driver for this improvement.<sup>14</sup>

Pensions are also a major challenge. Within Scotland's ageing population, some will have benefitted from good pension provision, with employers and taxpayers taking most of the risk. Many of the older generation, especially women and those in smaller businesses, will have poorer provision. However, the younger generation will have been much less well served, with much more risk shifted to the individual. Recent changes to legislation surrounding pensions, such as auto-enrolment, new pension 'freedoms' and taxation issues, need to become part of the conversation, especially for the younger workforce. The CIPD is working with scheme administrators, as well as those financial services companies which retail pension and life products, and is encouraging that dialogue. The Scottish Government should support this by instituting a review of retirement saving, which should be composed of young workers and their representatives. This would give unique insight and create a conversation around later years' saving. Given the confusion over state pensions and their role, and given the behavioural issues around getting young people to consider retirement as an event in their own time horizon, we would recommend using the concept analogous to lifelong learning of lifelong savings.

***We call on the next government to:***

- Promote the value of a Scottish Living Wage and continue to make the productivity case for it, aligned to Scotland labour market and business needs.
- Promote better information, advice and guidance on pensions within Scotland as a government policy objective – given the welter of changes in retirement provision.
- Institute a Young People’s Lifelong Savings Convention to spark the interest of Scotland’s young workforce in future savings.

## Employment relations

Scotland has a high level of unionisation, with just around a third of the total workforce in union membership, compared with a quarter for the UK and a fifth for London. Union-negotiated collective agreements cover about 37% of the workforce. Density is higher in the public sector, with over half of workers being union members. Given Scotland's high level of public sector employment and mix of large private sector employers, the CIPD broadly supports the Scottish Government's approach of developing more-inclusive, long-term conversations about the future of work, and was involved in the Working Together Review. We have also been, and continue to be, supportive of the general thrust of the Fair Work Convention (FWC).

The involvement of union and collective representation in co-determining the future of business is a principle which we support in the right context. Moreover, the possibility of workers on boards is one we cautiously support, as there is much evidence that different forms of ownership have impacts on business performance. However, the evidence is mixed on the link between board membership by union members and better corporate performance, though there is a causal link between engaged workforces and better performance. This can be, and often is, independent of union organisation.

It also needs to be recognised that, in the private sector, unions are less common, accounting for only 15% of the Scottish private sector workforce, and that a majority of the Scottish workforce are not union members. There is, however, a growing economic argument that global inequality is partly caused by the decline of the collective bargaining power of unions. We support the right of unions to organise, but believe the issue is much more nuanced around globalisation, product market and technological shifts, as well as changes in attitudes among citizens. The focus of the FWC needs to turn much more towards building productivity, which itself builds better workplace involvement. There is a good case for integrating the skills agenda with the employment relations agenda. This would help Scotland build the high-road economy we seek.

In the CIPD's view the UK's current employment rights framework and flexible labour market are worth preserving. We do not believe that there is an urgent need for further regulation, or indeed deregulation, as envisaged in the previous UK Government's Beecroft proposals, which we opposed. We also oppose the current UK Government's proposals to change the rules on lawful trade union action and the scope of industrial action and the function of workplace union representatives. When it was proposed, we criticised this approach as an outdated response stuck in the mindset of the 1980s. What is needed is dialogue, engagement and joint problem-solving. The current Scottish Government seeks to adopt that approach and we welcome it.

The CIPD also wishes to preserve flexibility in the labour market, as in the case of the small number of zero-hours (ZHCs) and short-hours contracts. Research from the Labour Force Survey and the CIPD shows, respectively, the incidence and perception: the idea that these contracts are anathema to a fair labour market is misplaced. However, we need real safeguards to counter exploitation. The issue of exclusivity has been confronted, and the right to a contract should also be part of the approach after one year of service. We would also remove the distinction between the worker and the employee in terms of the rights to written terms and conditions. Flexibility and light-touch regulation is a two-way street, and attempts to enforce and constrain the actions of either employees or employers would undermine that flexibility and, with it, the jobs and skills necessary to compete in a global economy.

Finally, we note with concern proposals to reduce the status and governance of employment tribunals in Scotland. The proposed changes would give this highly important aspect of employment relations and redress the status of routine administrative courts. While we deeply believe that legal resolution should be a final resort, the fact that complex modern employment relations requires such a system means that it should have due status for the court and its professional legal and lay members.

***We call on the next government to:***

- Integrate the Fair Work Convention with the skills agenda in shifting towards a productivity focus.
- Recognise the diversity of workplace relations and don't simply promote collective bargaining and union-negotiated agreements. A richer mix of mediation and a wider agenda based on learning, skills and productivity will work best for Scotland.
- Press to retain the current status of Scottish employment tribunals as a distinct tier in law with legal status appropriate to their vital function, and the appropriate recognition of lay members.
- Just, fair and flexible employment regulation is the key to a sustainable economy for people and organisations. Scotland is right to regulate intrusive legislation around the operation of trade unions but must also protect flexibility and adaptability for employers as another key part of creating a prosperous, fair and productive Scotland.

## Corporate governance

Since the global financial crisis, the CIPD has sought to challenge cultures of risk and irresponsibility in finance and other industries. We have been at the forefront of initiatives to secure a change in culture in the banking and finance industries, done by working with the sector and regulators within Scotland and the rest of the UK. In Scotland, where the sector provides many good-quality jobs and opportunities, we are mindful of the large share of employment and GDP which the sector also represents. The short-termism and systemic risk is being tackled, but the bigger challenge remains in developing culture within the industry which supports innovation, jobs quality and productivity, while minimising the mistakes and over-reach of the past. Thus we are concerned by the UK Government's decision to abandon the Banking Culture Review.

Corporate governance used to be an activity for lawyers, accountants and a few shareholders' advocates; now this is the pressing business of HR professionals. In order to both drive productivity and reduce runaway inequality, we need to develop a new culture of corporate responsibility which encourages longer-term thinking and a 'shared value' approach. The CIPD has been engaged in an ongoing research project developing a 'principles'-based approach which promotes key criteria. Our work with the High Pay Centre on senior-level pay is an example of our view that massive mismatch between senior reward and general staff compensation has a major impact on engagement, performance and productivity. Our longer-term project working with the finance management and other functions – *Valuing your Talent* – seeks to measure and monitor human capital performance as a pivotal aspect of corporate performance.

We also believe that diversity in leadership and decision-making is an important aspect of robust and accountable corporate governance. We therefore support the appointment of employee representatives and, importantly, under-represented segments of the population, particularly women. The Scottish Government's commitment with the business community to board gender parity by 2020 is an ambitious one, but one we fully support. Given the importance of HR management to productivity and prosperity, and the disproportionate gender balance within the profession, we believe that HR leaders will play a significant part in supporting this reform.

Inequality in society and the labour market is one of our biggest challenges as we seek to build better work and working lives in Scotland and beyond. It's in every advanced nation's interest that we tackle some of the major levers of inequality and unfairness because they themselves poison the well of progress and prosperity. There is cross-party agreement that the gap between board-level pay and that of most employees is a real cause for concern, and we must be mindful of the executive pay differential.

The CIPD has worked with the High Pay Centre and others to explore employee perceptions of executive pay. Nearly half of employees feel that their CEO's pay is far too high or too high, and 72% would like to see more transparency in executive pay generally. Nearly two-fifths believe that their CEO is over-rewarded. Given the opacity of executive reward, and the fact that three-quarters of the increase in executive compensation could not be attributed to increased corporate performance, this issue is becoming critical.

***We call on the next government to:***

- Press the UK Government to implement in full the recommendations of the Banking Standards Review. Scotland's exposure to systemic risk from the financial sector and the value of jobs in the sector means this element of stewardship is necessary.
- Introduce a Scottish Workforce Review integrating the work of the Fair Work Commission, and linking it to the CIPD/CIMA/UKCES Valuing your Talent framework working with employers through Skills Development Scotland (SDS).
- Support board gender parity objectives as an essential aspect of corporate governance.
- Where there is mutual support and appeal and where appropriate to business context, consider appointing employee directors to Scottish-based boards.
- Promote transparency in executive pay, including the publication of executive-to-employee pay ratios. Ensure transparency from advisers and others who consult and advise on executive compensation.

*‘We want to see a brave and open-minded approach to workplace policy, preserving the best of the flexibility and agility present within our job market and striving to improve productivity and performance to promote prosperity and tackle inequality at its roots.’*

## Conclusion

We have set out our view of how Scotland can tap the skills and energies of its people, building the supply chain and increasing the demand for high-value skills to build a high-productivity, high-wage economy. The policies we have set out would help Scotland:

- Link skills and innovation to productivity.
- Help young people to flourish from pre-school learning through to the job market. Thinking about how we design, deliver and evaluate educational services is a big part of that challenge.
- Help the large number of Scots distanced from the labour market to earn their own living and play a full part in the workplace, through an integration of skills, welfare and well-being.
- Help ethnic minorities to go as far as their skills and training allow and to help them access the job market fairly.
- Boost the fair work agenda with an integrated productivity focus so we can build a genuine compact between employers and employees, involving unions but taking a much wider perspective.
- Develop a data-driven, evidence-based approach to workforce development that helps Scotland plan for the workplace of the future, which is governed by principles and ethics.
- Resolve the unacceptable disconnect between the skills and contribution of women and their representation on boards and other decision-making forums.
- Tackle the yawning gap between executive and employee pay by encouraging transparency, especially in ratios and conflicts of interest.

With the considerable challenge to our economy of oil and gas retrenchment, the continued restructuring of our financial sector, the success and global reputation of our universities and the skills and capabilities of our workforce, we believe Scotland can plough a furrow of inclusive prosperity driven by better workplaces and a focus on productivity as the real path to an inclusive Scotland. We have in Scotland the scale and connectivity, the relationships and the resolve to improve how our country works for everyone. Our Opportunity through Work agenda helps to inform that debate as we go forward to a set of crucial elections.

## Endnotes

- 1 SCOTTISH GOVERNMENT. (2014) *Developing the young workforce: Scotland's youth employment strategy*. Scottish Government. Available at: <http://www.gov.scot/Publications/2014/12/7750> [Accessed 12 February 2016].
- 2 D'ARCY, C. and KELLY, G. (2016) *State of working Scotland: living standards, jobs and pay*. London: Resolution Foundation. January 2016.
- 3 RICHMOND, K. and TURNBULL, J. (2015) *Scotland's productivity performance: latest data and insights*. Economic Perspectives. Glasgow: Fraser of Allander Institute.
- 4 See SCOTTISH GOVERNMENT. (no date) *Reaping the benefits: encouraging employer engagement in skills utilisation*. Scottish Government. Available at: <http://www.gov.scot/resource/doc/276460/0082992.pdf> [Accessed 12 February 2016].
- 5 MAYHEW, K. (2014) *Industrial strategy and the future of skills policy: the high road to sustainable growth*. Research Insight. London: Chartered Institute of Personnel and Development. Available at: [http://www.cipd.co.uk/binaries/industrial-strategy-and-the-future-of-skills-policy\\_2014.pdf](http://www.cipd.co.uk/binaries/industrial-strategy-and-the-future-of-skills-policy_2014.pdf) [Accessed 12 February 2016].
- 6 SCOTTISH GOVERNMENT. (2014) *Developing the young workforce: Scotland's youth employment strategy*. Scottish Government. Available at: <http://www.gov.scot/Publications/2014/12/7750> [Accessed 12 February 2016].
- 7 CIPD. (2014) *Scotland's skilled future: a pathway to productivity and prosperity*. London: Chartered Institute of Personnel and Development. Available at: [https://www.cipd.co.uk/binaries/scotlands-skilled-future\\_2015.pdf](https://www.cipd.co.uk/binaries/scotlands-skilled-future_2015.pdf) [Accessed 12 February 2016].
- 8 FRYER, R. and KATZ, L. (2013) Achieving escape velocity: neighbourhood and school interventions to reduce persistent inequality. *American Economic Review* (papers and proceedings). pp232-7.
- 9 LAW SOCIETY OF SCOTLAND. (2016) *Our priorities for the Scottish Parliament election of 2016*. Edinburgh: Law Society of Scotland. Available at: <https://www.lawscot.org.uk/media/695383/2016-priorities-web-v4.pdf> [Accessed 12 February 2016].
- 10 CIPD. (2015) *Over-qualification and skills mismatch in the graduate labour market*. Policy Report. London: Chartered Institute of Personnel and Development. Available at: <https://www.cipd.co.uk/binaries/over-qualification-and-skills-mismatch-graduate-labour-market.pdf> [Accessed 12 February 2016].
- 11 CENTRE FOR CITIES. (2016) *Cities outlook 2016*. London: Centre for Cities. Available at: <http://www.centreforcities.org/wp-content/uploads/2016/01/Cities-Outlook-2016.pdf> [Accessed 12 February 2016].
- 12 BROWNE, J., HOOD, A. and JOYCE, R. (2016) The (changing) effects of universal credit. In: EMMERSON, C., JOHNSON, P. and JOYCE, R. (eds) *IFS green budget 2016*. London: Institute for Fiscal Studies. Available at: <http://www.ifs.org.uk/publications/8136> [Accessed 12 February 2016].
- 13 D'ARCY, C. and KELLY, G. (2015) *Analysing the National Living Wage*. London: Resolution Foundation. January 2016.
- 14 COULSON, A. and BONNER, J. (2014) *Living wage employers: evidence of UK business cases*. London: Living Wage Foundation, in partnership with the University of Strathclyde. Available at: [http://www.livingwage.org.uk/sites/default/files/BAR\\_LivingWageReport%20cropped%2021%2001.pdf](http://www.livingwage.org.uk/sites/default/files/BAR_LivingWageReport%20cropped%2021%2001.pdf) [Accessed 12 February 2016].

# CIPD

Chartered Institute of Personnel and Development  
151 The Broadway London SW19 1JQ United Kingdom

**T** +44 (0)20 8612 6200 **F** +44 (0)20 8612 6201

**E** [cipd@cipd.co.uk](mailto:cipd@cipd.co.uk) **W** [cipd.co.uk](http://cipd.co.uk)

Incorporated by Royal Charter

Registered as a charity in England and Wales (1079797) and Scotland (SC045154)

Issued: February 2016 Reference: 7209 © CIPD 2016