Employment and COVID-19: Inquiry

Submission to the House of Lords Economic Affairs Select Committee

Chartered Institute of Personnel and Development (CIPD)

September 2020

Background

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

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

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

CIPD
Championing better work and working lives

1. What steps should be taken to protect and create jobs over the next two years? What trade-offs should be considered?

The critical issues are how swiftly the economy re-opens and how to support employment when the Job Retention Scheme (JRS) ends in October. Our latest Labour Market Outlook survey of 2,000 employers, conducted in June and July, detected an increase in the proportion of employers planning to make redundancies in the months ahead. It is highly likely that job losses will increase very significantly from current levels, which appear to be low to-date, no doubt because of the JRS. However, there is still a great deal of uncertainty over precisely how many more job losses there are to come, reflected in both the measures announced in the Plan for Jobs and the wide range of employment and unemployment outcomes present in many current economic forecasts. Some commentators forecast higher rates of unemployment into 2021 and beyond.

It is questionable if the measures announced in the Plan for Jobs will be sufficient to preserve employment in industries that are not back on their feet by October. For example, a CIPD survey to be published shortly found that only a small proportion of employers thought the existence of the Job Retention Bonus would reduce the number of redundancies they would need to make as a result of the closure of the JRS.

There remain some difficult questions, of which distinguishing between viable and non-viable jobs is the most intractable, and problems of deadweight remain. There are also the dangers of policy creating a two-tier labour market with subsidised insiders and excluded outsiders.

Nonetheless, we believe that on balance there is strong case for the Government to continue to invest to protect employment in the hardest hit sectors and jobs that have been made unviable in the short-term as a result of the pandemic and restrictions imposed on business until the end of March 2021. This could be in the form of a short hours working scheme for key sectors or through bolstering and extending the Job Retention Bonus to make it more effective.

More general measures for stimulating growth and employment such as cuts in employer national insurance and increased public spending should also be considered.

2. What barriers to entering employment could be removed to support the labour market recovery?

Flexible working

CIPD evidence, soon to be published by the CIPD shows that many employers expect to embrace more homeworking in the future and invest in technology to help make it work. The report shows that the widespread shift to home working as a result of the pandemic has not hindered workers' productivity and that employers expect the proportion of people who work from home regularly, or all the time, to double once the crisis is over compared to pre-pandemic levels. This shift should help make employment more accessible to many more people with caring responsibilities or with health conditions.

However, our research suggests that employers are not planning to increase their provision of wider flexible working practices beyond home working which means that there could be an increasing rift between people who can work more flexibly from home on a regular basis and those who are much more restricted because their jobs or the nature of their work requires them to be based in the workplace.

We believe the Government could encourage the increased provision and uptake of other forms of flexible working such as compressed hours, annualised hours, term-time working and job-sharing through making the right to request flexible working a day one right.

Widening the availability of flexible working practices would help to reduce barriers to employment related to people with disabilities and long-term health conditions as well as those with caring responsibilities.

National Living Wage

As in the previous recession, CIPD research shows that pay restraint is emerging as a key tactic that is being used by employers and employees to help minimise redundancies during the current crisis. And given that the National Living Wage (NLW) disproportionately affects the wages of those in hospitality, retail and other low-paid sectors, who are also among the worst-affected sectors by the pandemic one option for supporting employment would be apply the emergency brake on the NLW to avoid more job losses when the next annual change in the NLW is announced in April 2021. According to recent survey data, 57% of employers said they would support a decision to freeze the National Living Wage at its current adult rate in April 2021. Such an approach would also help boost hiring intentions as the economy starts to recover.

Alternatively, the Government could go ahead with the planned increase to the NLW but look at ways of reducing some of the cost for employers associated with this increase, such as through cuts to employer NICs, business rates, corporation tax, etc. Not all sectors would necessarily need support and even within these sectors there are variations, so the government could potentially target its assistance. This would have the very significant advantages of supporting the lowest paid who have been hardest hit by the pandemic and helping to stimulate the economy.

Additionally, as set out in more detail later, we believe that broadening the Apprenticeship Levy into a wider training levy would help boost and optimise employer investment in skills. This could help support workforce performance and financial returns through higher productivity, which would increase the chances of job creation.

3. ***To what extent should any future intervention by the Government in the labour market be targeted sectorally and/or regionally?***

Sector-specific targeting

There is widespread agreement that the JRS has achieved its wider objective of avoiding mass redundancies; especially in sectors that are most badly affected by the virus. For instance, around two thirds (66%) of hospitality employers say they have made use of the

JRS according to research soon to be published by the CIPD. Such levels of support are undoubtedly a key factor behind the surprisingly low levels of redundancy activity to date[1].

Despite the fact that explicitly sector specific schemes seem rare, the CIPD therefore agrees with the OECD[2]'s recent assessment that there is a strong argument for restricting the current Job Retention Scheme to the worst-affected sectors most badly affected by the virus such as hospitality and tourism. As the OECD points out:

"While in some, economic activity may pick up again quickly, others will continue to face legally imposed restrictions to their activities or have to deal with long-lasting changes in consumer patterns. Sectors whose activity remains legally curtailed may require continued job retention support in the post-confinement phase"

The specific fear in the UK is that there will be a large spike in redundancies at the end of October when the JRS scheme ends, especially in those sectors still badly affected by government restrictions on normal business operations. In a weak labour market, such workers could not easily be re-absorbed pushing up unemployment and delaying the recovery. It is also worth noting that the UK seems to be exiting the JRS much sooner than some countries, for example, France, which announced in June it was to extend its equivalent scheme for at least a year.

Regional targeting

Our view, based on discussions with employers in other policy areas, is that it would be a better approach to intervene in labour market policy on a sectoral basis than introducing an array of regional schemes. Employers often tell us that regional schemes are difficult to administer, especially those with multiple sites across the UK.

4. What steps should be taken to create a sustainable recovery over the medium and longer term?

Early ONS figures point to a fall in productivity (measured by output per hour) in the second quarter of 2020, even allowing for the impact of JRS. This is not by itself unexpected – productivity tends to fall in recessions. However, the experience of the last decade is that the productivity lost during the 2008/2009 recession was never recovered[3]. Policy in the medium to long term should be directed towards trying to prevent a repetition.

The Industrial Strategy is probably still the most suitable framework for thinking about medium- and long-term economic policy. However, the detail of its strategy and execution may need to be refreshed in light of the pandemic.

The pandemic has altered the ability of economic actors – business especially - to engage with the government and deliver the Industrial Strategy. It will have reduced the internal capacity of business to engage with – and co-finance – some of the activities given priority in the Industrial Strategy. Government may need to adjust its involvement accordingly.

---

[1] https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies
[2] https://www.oecd-ilibrary.org/sites/1686c758-en/1/2/3/index.html?itemId=/content/publication/1686c758-en&_csp_=fc80786ea6a3a7b4628d3f05b1e2e5d7&itemIGO=oecd&itemContentType=book
[3] https://industrialstrategycouncil.org/productivity

The pandemic has also affected the ability of firms to plan for the long-term. Our surveys of employers have detected a rise in the proportion of firms unable to plan ahead even on short-term questions such as how many people they expect to employ or whether they expect to pay higher or lower wages. Some of the firms expected to engage with the Industrial Strategy face much more existential issues, such as how much demand there will be for their goods and services in the long-term (such as businesses in transport- or tourism-related industries).

This will make addressing some of the big challenges facing the UK such as the need to boost workplace productivity and tackle discrimination at work, even more difficult.

There is also a need to redouble efforts to increase business productivity and support business recovery. This will require greater investment in business support beyond the generalist support provided by Be the Business and should include a dedicated focus on HR/people management and development. CIPD research into HR capability and small firms[4] also found evidence suggesting that the provision of fairly transactional HR support was associated with higher labour productivity, improved workplace relations and better financial outcomes for participating firms.

Many businesses are facing an unprecedented people management challenge with the end of the furlough scheme, trying to help staff to return safely to the workplace or continue to work productively from home. In addition, many firms are having to make redundancies and to try and manage a whole range of difficult employment relations problems including the challenge of tackling discrimination and trying to create more diverse and inclusive workplaces.

These challenges require improvements to the availability of specialist bespoke support, for example through providing more resources to Acas and by providing funding to help Local Enterprise Partnerships to boost the quality of support available to small firms on HR/people management and development.

The impact of the pandemic means that the strategy for Sector Deals should focus more on high-employment, low-productivity industries that have been especially hard-hit by the pandemic such as accommodation, hospitality, retail and events. Along with social care, these industries will also be affected by the intended increase in the National Living Wage (to reach two-thirds of median earnings by 2024) and possibly also by the ending of freedom of movement for EU nationals next January.

The challenges of building partnerships in these industries are undoubtedly severe. However, there may be scope to build on the existing Sector Deals for the tourism-related and creative industries.

5. How should the Government support training and skills development?

Employer training volume and investment has been in long-term decline in UK, with employer’s now providing and spending less on training their workforces than they were 20

[4] https://www.cipd.co.uk/knowledge/strategy/hr/hr-capability-small-firms

years ago.[5] The Covid-19 pandemic is likely to further negatively impact on the level of training volume and investment by UK firms. Data from our recent survey (June 2020), based on a YouGov representative panel of over 1,000 employers, found that just 22% of organisations expected to increase the amount that they spend on training over the next 12 months, while 16% expected a decline and 48% that it would remain the same. The same survey also found that: just 54% of organisations reported that they had continued to train staff remotely through digital/online learning during the pandemic; and just 39% provided retraining to staff who had been furloughed.

While the pandemic has reduced opportunities for in-person training activities, it has rapidly accelerated the scaling up and adoption of digital learning solutions. The vast majority (80%) of the organisations reported that they were likely to increase their use of digital/online training to develop staff over the next year. The main reasons identified for this shift was the expectation that more staff would continue to work remotely (63%), cost effectiveness (55%) and employee preference (52%). However, barriers to adopting digital learning solutions remain, most notably those related to financial constraints/budgets (17%) and the lack of in-house capability to create or curate content (18%).

While it is welcome that the Government has prioritised the digital learning and reskilling/upskilling agenda through the National Retraining Scheme it is small in scale, targeted only at a minority the workforce, and is limited in terms of the range of learning content. To address the fall in employer training and meet changing skills need the learning offer should be scaled up to provide access to a wider variety of accredited/certified learning opportunities, alongside this access to finance barriers should be addressed through, for example, a via Skills Credit as in Singapore[6] or a revamped version of Individual Learning Account, allowing opportunities for employer co-investment.

The demand for apprenticeships is likely to remain suppressed for some time, with starts predicted to be down 50% this September, and as documented above many organisations will face training budget cuts. To help mitigate this drop in training expenditure, Government should consider temporarily allowing money in levy payers accounts to be used for other forms of accredited training and development.[7] In fact when employers were asked about the effectiveness of a range of mechanisms to help them dealing with the impacts of the Covid-19 pandemic, amending the apprenticeship levy to a flexible training levy (along the lines set out above) was considered the most effective measure, with 42% of employers reporting that it would be effective or very effective, compared to just 10% of respondents who reported that it would in ineffective/very ineffective.

Yet, it needs to be recognised that employer training decisions do not take place in a vacuum and are instead shaped by firms competitive and product market strategies, and how work organised and jobs designed to meet these, as well other human resource practices. Therefore, to boost the overall level of, and investment, in training the Government needs to take concerted action on the demand side to address longstanding leadership and management deficits, particularly those in smaller firms which lack HR capability.

---

[5] https://www.cipd.co.uk/Images/addressing-employer-underinvestment-in-training_tcm18-61265.pdf
[6] https://www.straitstimes.com/singapore/education/skillsfuture-four-years-on
[7] https://www.fenews.co.uk/fevoices/49212-business-groups-and-mayors-unite-behind-calls-for-new-back-to-work-fund-to-avoid-a-lost-generation-of-apprentices

Championing better work and working lives

6. What positive and negative trends in employment may have been accelerated as a result of COVID-19?

The CIPD is about to publish a report on employers' response to the pandemic in terms of new ways of working (see attached); most notably homeworking and flexible working. The report is based on a survey of more than 1,000 employers and 15 employer case studies.

Homeworking

The report suggests that the recent sharp increase in homeworking has been successful. As a result, employers are almost unanimous in their desire to see homeworking increase at their organisation in the future. In addition, a majority of employers expect to increase investment in technology to support the new way of working.

Several factors emerge from the report as to why it has been so successful. These include a better work-life balance, most notably the reduction in commuting times and cost for employees, having fewer distractions to complete tasks and better collaboration that has been facilitated by technology.

Productivity

The report also shows that many employers feared that the shift to homeworking would hamper productivity. However, the evidence in the report suggests that the productivity of those working at home has been no lower than those of other workers. Indeed, many of the employer interviews pointed to modest improvements in productivity. Employers who say that productivity has not been affected or improved as a result of the shift to homeworking refer to an increased ability to meet targets, more focused work time and better work-life balance as key drivers. In addition, many employers say that the recent improvements to technology has helped them overcome the twin challenges of communication and collaboration.

On the downside, many employers pointed to challenges with homeworking; most notably reduced well-being, staff collaboration and line management challenges – which some employers claim, would be overcome if staff were in the workplace at least some of the time. The small minority of employers who say that productivity has been hampered cite challenges staff face juggling work and caring responsibilities and inadequate home working environment, for example a lack of space.

Looking ahead, the relative success of homeworking points to more working from home in the future, with 70% of employers saying that they expect to increase or introduce working from home on a regular basis compared with 45% of establishments before the pandemic. By comparison, the expected change in the share of the workforce that is expected to work from home all the time is much more incremental.

Flexible working

There is little indication that other forms of flexible working will be adopted with the same enthusiasm as homeworking following the crisis. The lack of spillover to other forms of flexible working is perhaps no surprise given that the proportion of workers that have adopted flexible working arrangements, such as job-sharing or compressed hours, has stood still for the past decade or more. The case study interviews suggest that the pandemic is activating subtle changes to the way in which flexible working requests are initiated and handled by employers.

However, the case study interviews suggest that employers' interpretation of the term is restricted to ad hoc information arrangements that allow workers to start or finish earlier in the day. The CIPD believes there is a need to encourage and support more employers to adopt a wider range flexible working practices such as annualised hours, compressed hours, term-time working and job sharing. The Government could help support increases in the provision and uptake of wider flexible working practices beyond home working by making the right to request flexible working a day one right.