CIPD
Championing better work and working lives

Spring Budget Representation

Submission to HM Treasury

Chartered Institute of Personnel and Development (CIPD)

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About CIPD

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 160,000 members across all sectors and sizes of organisation and 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.

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. It also seeks to promote and improve best practice in people management and development and to represent the interests of our members.

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Our response

Economic Context

The UK Government faces significant challenges as it seeks to drive economic growth and raise living standards across the country. Inflation may be falling but the cost of living and the cost of doing business are set to remain high for the foreseeable future.

The labour market has loosened over the last six months but vacancy levels remain high, above pre-pandemic levels, and many employers report ongoing difficulties in addressing skills shortages. Skills and labour shortages continue to be worsened by economic inactivity due to ill health.

There is also the ongoing problem of endemically weak business investment.

Addressing these issues requires a focus on policies that can support job quality and labour market participation to maximise the health and potential of the working age population.

It also requires much greater emphasis on policies that can over time unlock greater business investment in the people management capability, skills development and technology adoption needed to boost productivity and drive growth across all sectors.

Greater focus needed on boosting *innovation adoption* across all sectors

The predominant view on innovation is characterised by the Government target of investing 2.4% of GDP in R&D by 2027 as part of its strategy to make the UK a science and technology superpower by 2030. Investment in R&D and science-based innovation is of course critically important to the UK's competitiveness and productivity potential and needs to be an ongoing priority.

However, there is strong evidence set out in CIPD's paper *An industrial strategy for the everyday economy*, that the focus on R&D investment, and green and high-tech sectors, needs to be augmented by a broader strategy to boost economic growth across all sectors of the economy.

For example, evidence cited in our industrial strategy paper, highlights that 75% of private R&D spend in the UK takes place in just 400 firms and, of 3 million active UK firms, just 60,000 claim R&D tax credits, meaning 98% of firms don't. There is also evidence that the UK already performs reasonably well on R&D investment. Overall spending on R&D in 2021 was £66.2 billion which equates to around 2.9% to 3% of GDP according to the UK Government. This means the UK already exceeds its target for total R&D spending to reach 2.4% of GDP by 2027.

A narrow focus on science and technology-based innovation does not address the critical importance of improving productivity growth in 'everyday economy' sectors such as retail, hospitality, transport, logistics and social care which account for at least 40% of employment.

The UK needs different policies to improve performance in these sectors through boosting incremental innovation and increasing investment which can enhance products and services and productivity across much broader swathes of the economy. This approach to innovation is central to the successful adoption of new technologies such as AI and is supported by improvements to work organisation, job design, skills development and changes to people management capability and practices. However business investment in skills, people management capability and adoption of technology are particular areas of weakness for the UK.

Broader adoption of key HR and people management practices across the economy can also improve job quality, support people's wellbeing and widen labour market participation to tackle skill and labour shortages.

To help address and overcome these challenges, CIPD is calling for three areas of focus for Government to include in the Spring Budget.

1. Develop a high-quality, locally delivered business support service

The Employment and Skills Survey 2022 shows that employers in the UK are investing less in their workforces than they were 20 years ago, with smaller businesses less likely to provide training opportunities than larger firms. There are well documented barriers to SME investment in skills and engagement with the skills system:

- The system is perceived as too complex to navigate with awareness of public provision especially low in small firms.
- The lack of dedicated staff means little or no strategic workforce skills development, often coupled with no ring-fenced training budgets.
- Poor people management capability results in the lack of understanding among owner managers of the skills the business needs and often an overestimation of skills knowledge.

To help overcome these challenges, CIPD believes there is a need for a step change in the type and quality of business support available to small firms.

As highlighted above, HR, people management and development capability is a particular area of weakness among SMEs and there is currently very little support provided through the business support infrastructure through bodies such as Local Enterprise Partnerships and Growth Hubs. To address this, there is a need for a review of publicly funded management qualifications and those business support programmes designed to build management capability as recommended in our paper on improving UK management capability.

The review should inform the development of an accessible, high-quality, locally delivered business support service that can over time help large numbers of SMEs improve their management capability and skills investment. CIPD believes there are useful insights from CIPD's People Skills business support model, which has been effectively piloted in four parts of the UK and is a cost-effective way of providing bespoke, high-quality advice and guidance to small firm owner managers.

CIPD estimates that this type of business support service could be rolled out across England at a cost of £20m to £40m a year (based on two days of free HR consultancy support per firm) and could support between 20,000-40,000 firms a year depending on the level of investment. Consequential funding would allow devolved administrations to introduce similar schemes across Scotland, Wales and Northern Ireland.

The support would be focused on providing SMEs, particularly micro and small firms, with high quality and easily accessible HR and people management and development support help improve how they manage, develop and retain staff. It could help support SMEs' adoption of new technology, and their informed engagement with apprenticeship and other training providers, including further education colleges, to improve innovation and productivity.

It can also help small firms improve how they broaden their approach to recruitment, and boost adoption of key people management practices that support retention of staff such as flexible working, absence and conflict management, reasonable adjustments and phased returns to work.

The recent experience of the Help to Grow schemes also suggests it would be crucial to develop arrangements, and market the offer, in partnership with credible delivery partners that are trusted by business.

2. Reform the Apprenticeship Levy into a more flexible training levy

The Levy has failed to address the decline in employer investment in skills, which was part of the stated rationale for its introduction. It has also coincided with a significant fall in apprenticeship starts in England. In 2021/22 there were around 349,200 apprenticeship starts which remained 31% below the pre-Apprenticeship Levy figures of 509,400 starts in 2015/16.

The decline in starts has been even more pronounced for young people. Between 2016/17 and 2020/21 the number of apprenticeships going to young people aged under 25 fell 40%, with an even more severe fall in apprenticeships for those aged under 19, where there was a 47% drop in numbers.

The rigid nature of the Apprenticeship Levy has meant employers have understandably looked for ways to make the most of their levy funding if they struggle to use it for more traditional apprenticeships. This has often involved effectively rebadging existing professional and executive management development programmes as apprenticeships, in order to enable the cost to be picked up by firms' levy money.

For example, as the number of apprenticeships going to young people have declined, there has been a ten-fold increase in the number of generic management apprenticeship starts since the introduction of the levy, absorbing an estimated £2bn of levy funds to-date. The vast majority of these go to existing employees aged over 25. These generic management apprenticeships provide questionable value as about half of them are never completed, and there are other cheaper, more flexible and effective types of training and qualifications available for developing managers.

To address these negative unintended consequences of the Apprenticeship Levy as currently designed, there is an urgent need to reform it into a more flexible training levy, a change CIPD members have consistently advocated for. A more flexible training levy would enable employers to use it to develop existing staff through other forms of accredited training and skills development that are more cost-effective and usually much more suitable for existing employees aged 25 and over. This would remove the employer incentive to use levy funds to rebadge existing training courses as apprenticeships and leave more money to invest in apprenticeships for young people who most need them and in apprenticeships to address key technical skills shortages in the economy.

Providing more effective and cheaper courses would also help to tackle the high volume of apprenticeship non-completions which are in part driven by learners being put on courses which don't meet their learning needs.

Local Skills Improvement Plans could help decide the type of training and qualifications employers could use with the skills levy funding to ensure it tackles identified local skills shortages and priorities.

3. Reform and enhance Statutory Sick Pay and improve access to occupational health services

The third area where we are calling for action is to support employee health and retention at work and labour market participation, including through reform of Statutory Sick Pay and improving access to occupational health services. The pandemic brought the UK's ailing and financially inadequate SSP regime into sharp relief. The vulnerability of many workers forced to rely on Statutory Sick Pay (SSP), or not being able to access it at all, exposed the fault lines in the UK system.

The UK's SSP rate is the second lowest level of sickness benefit among countries in Europe and undermines efforts to support workers' health and prevent them falling out of employment due to ill health. It is also inflexible and doesn't enable workers to claim as part of a phased return to work.

However, in the UK, SSP is payable by the employer to eligible workers for up to 28 weeks, one of the longest periods compared with other European countries. Paying a higher amount of SSP, potentially for a shorter period of time may encourage a quicker and more sustainable return to work. Consequently, we are calling for a further consultation on SSP reform to make it more effective in supporting health outcomes and economic participation.

The consultation should consider:

- raising the rate to the equivalent of the National Living/Minimum Wage (pro rata)
- whether or not SSP should be linked to earnings level
- amending SSP rules to allow for phased returns to work

- permanent removal of the three qualifying days for payment of SSP

- whether SSP should continue to be paid for 28 weeks or changed to fund a higher rate over a shorter period of eligibility

- whether or not there should be a new payment structure whereby financial responsibility is shared between the state and employers. Explore (via consultation) various cost-sharing options.

- if/how SMEs can be better supported, in particular micro and small employers

- Wider reforms are also needed to create healthier and better-managed workplaces including:

    - Developing access for employers to high quality occupational health [OH] provision delivered at a local level. This would include bespoke support services to help small employers prevent and manage the physical and mental health issues affecting their workforce. The SME market is diverse and their workforce/business challenges, people management capability, knowledge of employment and H&S law will be very different for a business of 30 compared with 230 employees. To improve access to OH across the SME sector, an effective model will need to be developed for that sector that take into account their needs and the barriers to access. For micro and small firms with less than 50 employees, affordability is a huge barrier and access to OH services needs to be free if there is to be a step change in access to OH support. More detail on our policy calls in relation to expanding and improving OH provision in workplaces is set out in the CIPD's response to the DWP consultation 'Occupational Health: Working Better'.

    - Appointing a director of work and health to work with employers and across government departments. This would help provide more co-ordination over efforts to improve the recruitment, retention and progression of people with disabilities and long-term health conditions, through the use of evidence-based interventions based on ill-health prevention including 'good work'.