

# Business, Energy and Industrial Strategy Committee

## Oral evidence: Post-pandemic economic growth: UK labour markets, HC 306

Tuesday 19 July 2022

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Members present: Darren Jones (Chair); Alan Brown; Paul Howell; Charlotte Nichols; Mark Pawsey.

Questions 29 - 64

### Witnesses

[II](#): David Fry, Director, Office of Manpower Economics, Department for Business, Energy and Industrial Strategy; Frances O'Grady, General Secretary, Trades Union Congress (TUC); Neil Carberry, Chief Executive, Recruitment and Employment Confederation; Mike Keoghan, Deputy National Statistician, Office for National Statistics.



## Examination of witnesses

Witnesses: David Fry, Frances O'Grady, Neil Carberry and Mike Keoghan.

**Chair:** We are now going to bring in our second panel. We will be welcoming on the screen Mike Keoghan from the Office for National Statistics, and in the room Frances O'Grady, general secretary of the Trades Union Congress, David Fry, director of the Office of Manpower Economics in the BEIS Department, and Neil Carberry, chief executive for the Recruitment and Employment Confederation.

Thank you for coming in to see us this morning. We are very grateful. Just before we get going, Charlotte Nichols wanted to make a declaration of interest.

**Charlotte Nichols:** Yes; my father is on the general council and executive committee of the TUC.

Q29 **Chair:** I do not think there are any other declarations of interest, so we will move straight into the questions. We heard in the first panel that there is a labour shortage everywhere. There are not enough people to do all the jobs, and the people we do have do not necessarily have the right skills to do all the jobs. We are missing out, by the sounds of it, on a huge amount of economic activity as a consequence of that.

Are there particular sectors where this is being felt the most or is it really a problem for everybody?

**Neil Carberry:** It is slightly a bit of both, in as much as the pattern of shortages that we have always seen is more acute across the piece but particularly acute in the areas where we have always had issues. I will identify two areas in particular that we see in our work. One is high-skill roles: you talked about high-skill manufacturing this afternoon with Stephen of Make UK, but also IT, engineering, healthcare, vets and sectors like that, which require big and long-term investment.

Then there is an emergent labour shortage. In the recruitment industry—the REC is the sector body for 3,000 recruitment businesses across the country—we see that in the hourly paid labour market. In logistics, food manufacturing and hospitality, people are really scrabbling for staff. You might include in that some sectors that I would not call entry level or low-skilled but are low-paid, in particular childcare and social care more broadly.

Q30 **Chair:** Frances O'Grady, that sounds like a good opportunity for workers. They are getting access to higher-paid jobs with better terms and conditions and they are leaving some of these lower-paid jobs, where we are seeing lots of vacancies. Is that what you are seeing from your perspective?



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**Frances O'Grady:** Clearly not, no, given the pay figures today. They have confirmed our concern that what we are currently seeing is a pay crisis, with real wages falling.

I would agree with Neil's assessment of where we are in terms of recruitment and retention. What is important is that you can see different reasons in different sectors. In sectors like hospitality and social care, you will see a high proportion of zero-hours contracts and very low pay. In hospitality, a quarter of workers are on zero-hours contracts, with 70% earning the real living wage. Similarly, in social care, as we know, another quarter of the workforce are on zero-hours contracts; six in 10 are on less than £10 an hour. You have problems there.

Logistics is a little different. The profile of the workforce is older, male and predominantly white. There has been a failure to succession plan or diversify that workforce, but there has also been a big shift from direct employment to self-employment and agency, which makes it harder to pull levers to deal with some of those vacancies.

I feel a particular frustration in areas like aviation. During the pandemic the TUC tried to make the case that there were strategic parts of the economy that would need a plan for transition and emergence from the pandemic. We said that you could not just pull the plug and hope everything would bounce back and that, if we lost those skills and those workers, it would be hard to build those back up, which is important not just for the sector but the wider economy, because it is strategically important for growth.

Of course, in public services there will be a big spotlight over the summer and into the autumn on whether we are able to reverse any of the trend of high vacancy rates, including in the NHS and in teaching. We are seeing a big throughput of new teachers. I will have to double check, but a third of new teachers are leaving after five years. A lot of that will depend on pay and conditions, workloads and getting the basics right.

Q31 **Chair:** David Fry, you provide the secretariat to the pay review bodies for parts of the public sector. What are the current labour shortage priorities that you are seeing from reviewing those sectors?

**David Fry:** Yes, I can provide evidence from the independent review bodies, which collect a lot of data and use a lot of the analysis from ONS and other colleagues here to bring these things together.

They are looking at the challenges of recruitment and retention. It varies between different bits of the public sector. Over the period of the pandemic, with the private sector labour market not being strong, the public sector found it easier to recruit and retain. As we move out of the pandemic, the challenges get greater. In some ways it is still a bit early to tell quite where we are, but there are risks emerging as we look through.



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For example, in the NHS there have been 40,000 vacancies in nursing over a number of years. We have seen some of these things persisting. There are ways of tackling that to increase that as we move forward. Other areas have been harder, like the Prison Service, where recruitment and retention was a challenge before and has got harder over this period.

There are almost two types of areas. You heard about some of the skill shortages in the earlier session this morning. This is things like digital, data, cyber, finance and engineering, which impact on different bits of the public sector in that way. For some areas, you need quite a lot of skilled training to get to that point. In the NHS, we know there are more people studying nursing and midwifery, and studying to be doctors. We can see that over time some of these things may be tackled.

**Q32 Chair:** While on average the figures today show that pay in real terms is 3% down, there was a difference between the private sector and the public sector. I do not have the numbers in front of me, but I think in the private sector there was a 7% increase in pay on average and in the public sector it was 1.2%.

**Frances O'Grady:** It was 1.5%.

**Q33 Chair:** Thank you, Frances. Are you finding that public sector workers are moving out to the private sector because of higher pay opportunities? Is there data on that?

**David Fry:** Again, that is one of the things the review bodies look at in their individual sectors, as they come through. Everything they do will come out in the reports that are published. There are particular opportunities to move outside to the private sector in areas such as defence, where people can work for defence contractors. This may be something that Neil knows about. In some of these areas there is a demand directly, but in other areas there is less direct competition.

Many of the nurses are in the NHS. There is some private provision, and there is a draw to that, as there may be in social care. You really need to look at the individual areas quite carefully to understand what is going on. Again, Mike knows a lot about this area.

**Neil Carberry:** Can I just add a point on pay? I wanted to pick up on something Frances said. In our data, we are seeing, and have been for a year now, record growth in starting rates for new permanent hires and in temp rates. What is important to bear in mind is that in the private sector—I absolutely see the gap between the private and public sector, and our data shows that as well—there is only so long that is sustainable for. What has not yet moved in a really substantial way is the settlements that companies are paying. When we look at the situation on pay, it is quite fragile because of that.

Frances talked about conditions. It is really important from the business side that we acknowledge this is not just all about skills: it is about the deployment of the staff we have and who are available to us; it is about



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better thinking about productivity; it is about thinking about how we deploy capital more effectively in terms of capital replacing labour in some areas. Companies are trying to work through all of that change in an era of high cost. That is where shortages do have a big effect on companies' ability to respond to demand.

**Frances O'Grady:** I feel duty bound to impress on you the strength of feeling among workers currently facing real pay cuts, on top of years and years of pay stagnation and real cuts. I go around the country talking to workers a lot. When I talk to public sector workers, they feel so strongly about their vocation. That is the whole team. In the NHS, it is porters and cleaners as much as nurses and doctors.

They really feel strongly. They say to me that they did their duty during the pandemic. They were always a little cynical about the clapping and how long that would last. They have been through a lot personally, emotionally and mentally. If they can get a job in a supermarket that is not as emotionally demanding and very often better paid, why would they not?

Q34 **Chair:** We have certainly heard evidence of that. It is understandable. Mike, I know the ONS is working on the datasets around this. To go back to my opening question, why do we not have enough people? Where have they all gone?

**Mike Keoghan:** It is worth saying that we published the latest labour market data today. One of the occupations that have shown the most growth in demand and a big shortage is air conditioning engineers, which we can sympathise with at this point.

I thought it would be quite helpful to contextualise some of the points that the panel have made around the macro position here. Overall since the pandemic the really important story is about unemployment. Unemployment is currently 3.8%. It is down 1.1% on the year and below pre-pandemic levels.

**Chair:** Mike, I am sorry to interrupt. The sound is cutting in and out a bit. Do you want to move a little closer to the laptop?

**Mike Keoghan:** I will move. Is that better?

**Chair:** I think so. Give it a go.

**Mike Keoghan:** I will lean closer. There is a really strong story on unemployment. If we were sitting here in March 2020, we would be really pleased on the result on unemployment, given where we were. That is tempered, though, by the position on employment. On employment, we are roughly around 75.9%. That remains lower than pre-pandemic levels. The interesting story there is in particular a switch between employee status and self-employment. There has been a quite sharp reduction in self-employment.



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Perhaps the really big story at the macro flow level here is around inactivity: 21%. That is up 0.9 percentage points since the pandemic. Again, the really big story—a number of the panellists in the previous sessions, in particular Stephen Phipson, pointed this out—is that there is a big move on over-50s inactivity. I will come back to that at the end, because that is quite an important part of the story. That deals with where the workforce is at this point.

On the demand side, you have heard very powerful testimony from all the panellists around the hot level of the labour markets and the large number of vacancies. This morning we published that we think there are about 1.3 million vacancies. Again, that has gone up over the last quarter. The rate of growth is slowing and the total number of vacancies is up nearly half a million since the beginning of the pandemic. At this point, there is one vacancy for every unemployed person in the country.

If we think about where the vacancies are, which is part of the motivation for this morning, it is very consistent with lots of the testimony, in particular Neil's. Since the pandemic, we are seeing vacancies in accommodation, food services and wholesale and retail. Over the last quarter, wholesale has dropped off a bit, but we still see strong demand in accommodation services and electrical, steam and air conditioning engineers.

Pulling that together—you have the supply and you have the demand—what is happening in terms of prices? This has been picked up on, but it is important for the Committee to have it in mind at this point. Total pay over the quarter is up by 6.2%. Regular pay—that excludes bonuses, signing-on fees and things like that—is up 4.3%. That is consistent with the anecdotal evidence, our survey evidence and what Neil was saying about businesses using signing-on bonuses and ad hoc payments to compensate a bit for the cost of living issues.

What that means in real terms, as Frances pointed out, is real total pay at minus 0.9% and regular pay at minus 2.8%. Committee members discussed the difference between public and private, but private total pay is up 7.2%; public total pay is up 1.5%.

There were also some discussions around which sectors are paying more. From the data and the real-time information, there are some sectors that are paying more than current levels of inflation. We see strength particularly in things like financial services and insurance.

There are probably just three other broad structural things that are worth eking out, because I know the Committee has been interested in them from both the questions and the previous testimony. One is this issue around the over-50s. Between the pandemic and now, we think about 700,000 over-50s have moved into inactivity. We have surveyed this group, because it is quite an important development: 15% left because of the pandemic itself; 13% left because of disability and other illness; 11% just did not want to work; and 10% left for a change in lifestyle.



When we asked people what would get them back into the labour market—again, this points to the issues that Neil raised around thinking about a total employment package—they were interested in issues around working from home, hybrid working, greater flexibility and caring responsibilities. Roughly 39% said they would be interested in taking up paid work in the future. We have a survey out in the field at the moment delving into this particular issue in much more detail, which, when it results, we will obviously share with the Committee.

I want to pick up on where we are on EU migration, if that is okay. We do not have much to say on this because it is a relatively small sample, but the position is that there is less migration coming into the UK than there was pre-pandemic. Within that, there has been a shift to non-EU migrants from EU migrants, so the increase has come from non-EU.

The final thing is around self-employment. The total count of self-employment is down by about 800,000. That is across all sectors. We do not see particular changes. Part of it is a classification issue, coming out of the pandemic, with people moving from self-employed to employed status. That has increased, but some of it does seem to be a real shift. I will leave that contextual piece there.

**Q35 Charlotte Nichols:** I wanted to speak a bit about something that has been a big topic of debate in Westminster over recent years, particularly around the Taylor review and the impact of the gig-ification of the economy. How prevalent is insecure work? What forms does it take? What sectors is it most concentrated in? Can I start with you, Frances?

**Frances O'Grady:** We know there are 3.7 million workers on insecure contracts. That can take many forms, from zero hours to agency to bogus self-employment, which has been a big problem in the UK. It is very interesting in terms of what is happening to self-employment now. There is a very strong link with low pay.

It is a very different experience if you are genuinely self-employed, you are earning good money and you have a degree of autonomy over the work you do. Compare that to a delivery driver whose shift may be cancelled at short notice, who gets no compensation for the cancellation of their shifts and who, more generally, cannot plan their finances, their life or raising their children, because they do not know when they are going to be working and how much money they are going to be bringing in from one week to the next. This has become a significant problem in the labour market, and it impacts on all workers.

At the TUC, we are deeply disappointed that Ministers promised us an employment Bill on more than 20 separate occasions and yet one has not materialised. Meanwhile we have seen real cases of exploitation grow. Voice at work is critical, and maybe we will come on to that. Where workers are organised and where they have an independent union voice at work, on every measure—from pay to health and safety to skills



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training to being able to balance work with family life—you are better off in a union.

It poses some big questions for us as a country, if we agree that insecurity is too rife and that workers are not getting their fair share of the wealth they produce. It is potentially very catastrophic for our economy if people cannot afford to spend in local shops and businesses. That has an impact on demand and growth. We have to set some new rules and create some new architecture to start raising pay both as a share and in terms of people's living standards.

Just on that point, Charlotte, what we are seeing in other countries—it is the big innovation around the world—is that, even where there is a national minimum wage, if you can put in some architecture on fair pay agreements at a sectoral level, you can begin to improve conditions as well as pay and provide an incentive to improve productivity at work, which hopefully is a big issue for this Committee.

**Q36 Charlotte Nichols:** In terms of the growth in insecure work within our economy, how much of it is driven by the outsource model that we are seeing a lot of particularly at local authority level?

**Frances O'Grady:** In some cases, we are thankfully seeing some attempts to reverse that at a local authority level. It is about both contracts and business models. The more fragmented those models are, and the more the company at the head of the supply chain does not have the responsibility for what is happening right down the line, the more problems we are going to face.

Certainly, in terms of dealing with some of those big issues, for lots of the employers that I speak to labour shortages is the No. 1 issue they are worried about. We are not going to have the levers to deal with that unless we begin to have a more fairly regulated labour market and workers have more power and more say.

As I mentioned, it was frustrating to me that during the pandemic we called for a national recovery council, for example, so we could get around the table and start addressing not just the immediate crisis but the medium-term and long-term issues, but the unions were not included in that. The wisdom of the shop floor was not included. That is a problem.

We need stronger collective bargaining rights. We have lots and lots of good agreements and good industrial relations with employers, but there are some bad guys out there. It is very hard to get access to a workplace to organise. I have been filmed by cameras when I have stood outside and talked to workers, which is intimidatory. That is my belief. We need to rebalance the power, because it has become skewed too far in one direction.

**Q37 Charlotte Nichols:** Just before I bring in the other panellists, you have spoken a bit about a framework for sectoral collective bargaining and



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what happens when the employment relationship is fragmented down a chain of various outsourced contracts and so on. What kind of architecture do you want to see in place? Are you talking about things like vicarious responsibility for the ultimate employer, for example? What would you want to see to fix this?

**Frances O'Grady:** Certainly, we need some reform of the rules to incentivise that responsibility at the head of the supply chain. There is new architecture currently going through New Zealand's Parliament for fair pay agreements that can be triggered by workers and their unions.

The great advantage of a sectoral agreement is that it provides those minimum standards across the board and that the good employers cannot be undercut by the bad. This is a problem for workers, but it is also a problem for decent employers who want to do the right thing. For example, some of our big supermarkets are currently facing pretty voracious competition from big tech giants, which have been notoriously resistant to organisation not just in this country but around the world.

By putting in place those minimum standards, we can all start competing on the basis of fair treatment of workers. Currently, it is about competing on the basis of how far you can suppress pay and worsen conditions for working people. That is unfair on decent employers as well as workers.

Q38 **Charlotte Nichols:** Neil, to bring you in on that question of the prevalence of insecure work, in which sectors is it concentrated? What impact is it having on the things we are discussing today?

**Neil Carberry:** We have heard from the previous panel about the scale of the risk of shortages. You do not solve shortages in a race to the bottom. We set out in our report yesterday that, as demand in the economy goes up by 10%, which it should do over the next couple of years, we will be creating a need for 1.7 million jobs.

If that goes unmet, we are leaving almost £40 billion of growth on the shelf. We are going to see 10% lower tax receipts; we are going to see a third less wage growth across the economy than we would otherwise have. The wage growth you want is sustainable wage growth in a low-inflation environment where workers are taking home a meaningful raise in pay.

All of that speaks to employers having to think about how they get the best from the resources available to them and getting this people issue right to the top of companies so you can deal with it first. I occasionally do some training for HR directors. As a recruiter, one of my slides says, "If people are your greatest asset, why do you buy them like you buy your paperclips?" That change of approach is really what we are looking for from British business.

Within that, we have to be really careful about our terms. This is where Frances and I have our stage-managed disagreement, but I promise I will agree with something else she says later on. My members place a million



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agency workers into workplaces every day in this country. The idea that all 1 million of them are insecure is absolute nonsense. Many of them joined agencies to have better relationships with their employers than they had in previous situations.

In areas like the health service, nurses are coming out of substantive employment. I am not advocating for that move at a large scale, but they are coming out of substantive employment and into agency because that is the only way they can get the flexibility they need to match their caring responsibilities with what they want to do in their profession. Agency workers are also typically more expensive for an employer than direct employment.

There are things we need to challenge here. Having said all of that, taking it back to what I said at the top, the prescriptions at the end of it are the same in terms of good employment relations. Frances and I have been aligned in the past few weeks on opposing the removal of regulation 7 from the conduct regs, which is the personal set of regulations in the agency work sector, because we do not see how it improves employee relations. I regret that it has passed through both Houses now.

There are things we can do. We have campaigned for years for proper regulation of umbrella companies, payroll companies, which often attract workers into schemes where they do not know what they are signing up to. Many umbrellas have directors in the Philippines who do not know they are directors of British companies.

That kind of stuff, for which we have been waiting for years, to protect good agencies and workers is not with us in an employment Bill, but we can rush through a change to the conduct regs in a month so we have something relevant to say on Sunday morning in the media. It feels to me as though the priorities are wrong. The same is true on supply chain responsibility. We campaigned for years for the Government to change the reading of the IR35 tax laws for self-employed people so that the ultimate client had a responsibility, and that did not happen. There are some things we can do where we can work together.

The main message from our report yesterday—it is picked up in much of what Frances has said—is that a lot of our thinking about the workplace and how we resource it is very balkanised. Skills is with DFE; immigration is with Home Office; employment rights are with BEIS; the Treasury has a significant interest on the tax side; local authorities are doing things that are really relevant to workforce participation, like transport infrastructure. We do not have a coherent strategy around that.

Even when we did have an industrial strategy, it essentially was a skills strategy with a people section, not a people and skills strategy. To me, that is the big challenge to Government. That is not to say that the bulk of this is not for companies to step up and solve. It absolutely is, but coherent public policy has a big role to play in addressing some of the shortages we face.



**Mike Keoghan:** We have published data about the prevalence of insecure work. The story over the pandemic is largely that employees with this status decreased rapidly in 2020. When the economy began to reopen, we saw the highest levels of temporary and alternative forms of employment since 2019. It has been decreasing since that high point. The most recent data does show that this particular element has been decreasing.

Q39 **Charlotte Nichols:** Is there any particular reason for that?

**Mike Keoghan:** We do not see anything in the data as to why that is. If you were speculating, you would probably think that the fact there is a large amount of demand in the economy at the moment means that, in the same way wages are going up, employers are competing on alternative terms and conditions. That would be speculating rather than anything we have published on.

**David Fry:** I just want to clarify how the review bodies work. The independent pay review bodies collect data both from the Government and employers, and from unions and that side of things. Some of the things Frances has said are things that have been reported to the review bodies through the course of events. The review body has to balance out what they think is a fair recommendation, which is both fair to employees and to the taxpayer. I just wanted to mention that.

Pay is not the answer to everything. Job security is one area where the public sector is stronger than others. It helps there, but sometimes it is not as flexible as it could be. Again, the point Neil makes about nurses is something we have had reported to us. Sometimes the security of knowing what you can do and the ability to turn down or accept shifts make it easier for people. In many of the workforces, there is space to plan and manage things in a slightly different way that fits the patterns people are working on.

In some areas of the private sector where there were fewer flexibilities, covid has meant that people now have other opportunities. The relative advantage that some areas of the public sector had has been lost. In some areas, they do not have the flexibility. If you are a prison officer, you have to work in a prison. That is your job. The review bodies look at each of these things differently for their particular workforces.

**Frances O'Grady:** Pay is not everything, but it does not half help. To give you three examples, the TUC has calculated that since 2010 nurses are worse off in real terms by more than £5,000; porters by £2,500; and paramedics by £6,700.

Before the financial crash, we had real pay increases—4% was not uncommon. Those were the good times. Since then we have had cut after cut after cut. What we seem to be debating now is how big a cut workers can stomach without putting up some resistance. This is at a time when people are also—I need to say this—looking at what is happening with top



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pay and the protection of profits and dividends to shareholders, and thinking, “Why us again? Why are we expected and able to take the hit?”

The TUC will be doing more work on keyworkers and keyworker families whose children are in poverty. That will give us a bit of a reality check as to how far this has gone.

Finally, among the workers to whom I speak, there is absolute astonishment about agency workers being used to break strikes. After everything we heard about P&O and the replacement of unionised workers with agency labour on poverty pay, it seems extraordinary to many people that P&O tactics could be deployed against workers exercising their democratic right to withdraw their labour, which we see as a fundamental British liberty, in order to weaken their power in trying to secure pay increases that at least keep pace with inflation.

**Q40 Mark Pawsey:** I want to pick up on Frances O’Grady’s points on flexible working. Neil responded to this in some ways. At a time when there is enough work available for anybody who wants to do it, I do not see how in any way flexible working can be a problem, particularly when Neil tells us that increasingly businesses are having to pay more to people starting work. Where is the problem with flexible working? It suits many people; it suits their lifestyles.

**Frances O’Grady:** Yes. I was a working mum for many years. Positive flexibility can be a huge boost to working people. We have negotiated many positive agreements that protect people’s rights but still allow for progression—you do not end up paying a progression penalty because you are working flexibly—and protect your benefits too. It can be great, and we have lots of examples of job-sharing and term-time working—

**Q41 Mark Pawsey:** The great danger is that we are hearing from you that it is a bad thing. You are acknowledging there are benefits to both employer and employee.

**Frances O’Grady:** It is a double-edged sword. There is positive flexibility. As I say, we have been doing union-negotiated agreements for many years, considering how we can meet the needs of the business and the troughs and peaks of demand.

**Q42 Mark Pawsey:** The agreements do not necessarily have to be negotiated by a union. They may be offered and provided by an employer in absence of that negotiation.

**Frances O’Grady:** They may be.

**Mark Pawsey:** A good employer will do that.

**Frances O’Grady:** You will find that some of the best agreements are those that also give workers an independent voice to talk about what suits them, so you can match the needs of the business and workers.

**Mark Pawsey:** A good employer will do that anyway.



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**Frances O'Grady:** Yes, but not collectively. There are bad examples of so-called flexibility. It can be a fancy name for exploitation, where workers have no security of income or hours and no recompense for cancellations.

**Mark Pawsey:** The demand for labour right now means that businesses would not do that anyway.

**Frances O'Grady:** They clearly do, as we saw so vividly in respect of P&O and as we have seen in many other cases where workers are not being treated well and exploited. Let us call it what it is.

Q43 **Mark Pawsey:** My questions are for Neil, really. I have a couple on the basis of the evidence that you provided to the Committee. The first is about the future workforce strategy. How would that help?

**Neil Carberry:** There is a risk when you talk about a strategy in Government and you want to reinvent various bodies that have existed over the long term. My observation would be that we have done two big and effective Government interventions in the UK labour market, which have been supported by both of the major parties of Government over the last 20 years. One of them is the national minimum wage, which was then built on by the national living wage. The other one is automatic enrolment into pensions. In both cases, what happened is the Government of the day set out a big tent and tried to address, from the ground up, the issues that we face.

I set out in my previous intervention that, given the debates we are having at the moment about how we invest in public services and keep taxes affordable for workers and businesses, we are not in a position to leave growth on the shelf. There is an option here for us to think about a growth strategy that focuses on our workforce. What do we want to do on skills that really touches the side and makes sure public sector interventions on skills catalyse private sector investment?

My primary criticism of the apprenticeship levy is that it is not designed to draw more private sector investment into skills. If anything, as you heard from the previous panel, it pushes money away. Forget the word "Brexit". We have moved on from Brexit in the business community. We are interested in an immigration system that works. How do we get a balanced and controlled immigration system that meets our needs?

There is some really important stuff that we need to look at. Kickstart is a great example. We have a member that offered seven Kickstart placements to seven young people last year. Only one of them was able to take up the placement. That was because my member was where small service businesses on the south coast are: in a business park next to the M27. One of the seven people could get there. There are no buses.

Things like local transport plans and care infrastructure draw people into the labour market. We talk about over-50s wanting to come back in. We



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need to start putting a workforce lens on these things as well. We need a strategy with a home in Government that is seeking to set out—

Q44 **Mark Pawsey:** Is that just a policy document that lays this out? What is it going to look like?

**Neil Carberry:** I am sitting next to David, who sits in an organisation that fulfils a technical function for Government in the pay review bodies. I am a former low pay commissioner, as Frances is. If nothing else, we need a home and a strategy for how we are addressing this, to create a discussion about how we are supporting our labour market.

At the moment, we exist in this very balkanised space. Small companies struggle to understand the skills system, for instance, as we heard from Jane Gratton earlier. We could make this simpler. By making it simpler, we could increase the pressure on Government to do more.

Q45 **Mark Pawsey:** You also spoke about immigration policy and how that would help. I know your recommendation is that the Government update the shortage occupations list and do so more regularly. How would that happen? How would you like to see that done?

**Neil Carberry:** There is a question over whether the current approach with the Migration Advisory Committee is right. It does a very different job to when it was set up. In fact, when the Migration Advisory Committee was set up there was a discussion between the TUC, the CBI, where I was at the time, and the Government about whether to set it up on the same basis as the Low Pay Commission. It was doing a different job then, and it was decided not to do that.

If we have a shortage list, if we are choosing to run things via a list—I am a capitalist; I prefer to do things via the market—it has to be market-responsive.

Q46 **Mark Pawsey:** Do we have the right data, then? Is that a question for Mike?

**Neil Carberry:** It is about being fleet of foot. Aligned to that, it is about reducing the costs of work permits by allowing them to last for five years.

Q47 **Mark Pawsey:** Can we go to Mike? Are we able to get information quickly enough for people like Neil to advocate updating the list of occupations that we are short of?

**Mike Keoghan:** That is really a question for DFE. My understanding is that this is the whole point of the Unit for Future Skills that they are creating, which the previous Secretary of State initiated. It is to have real-time economic data drawing from the data that we have, the official data from the ONS, vacancy data, and information from colleges and the education system so they have situational awareness of what is happening on the skills side of the labour market.



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There is a question about how that plays out in other domains of policy. I do not have visibility on that, but that was certainly the aim of the work of the Unit for Future Skills.

**Q48 Mark Pawsey:** Neil, is the market going to understand better what is needed than statisticians?

**Neil Carberry:** We can generate a list, between the work ONS and DFE have been doing and the work of survey providers such as us. Then it is essentially a political question about how open we want our immigration system to be to skills. The legitimate question back from public policy makers to business is, "What are you doing on the domestic skills supply?" Those two go hand in hand.

In some areas in particular, we mention how we address some of the fundamental labour shortages. We have always done that in agriculture, but in areas like food manufacturing it is particularly sharp right now. There are areas where we potentially have to look abroad, because there is not the labour in the UK to fill those roles. The political question is, "Do you want that manufacturing done in the UK or do you want it done overseas?"

**Frances O'Grady:** I agree with Neil. You need to look at both together. In my experience, people do not have a problem with immigration into areas where we are going to hold ourselves back if we do not get that migration, such as in the car industry or highly skilled roles in aerospace. That is not good for anybody. There are worries about—

**Q49 Mark Pawsey:** Are we currently holding ourselves back?

**Frances O'Grady:** Certainly, that is what the companies I speak to in manufacturing, aerospace and chemicals tell me. Neil is right. We need to address the domestic picture. Again, I am sure this is all too obvious to this Committee, but the TUC analysis shows that employer investment in training has been declining since the mid-1990s and is now half the EU average. IFS has shown that Government funding of college courses for adults has been cut by over a half over a decade, and the national skills fund reverses only a third of that cut. There is a root problem here: we are not investing enough in both the young people and people already at work.

Of course, the union learning fund was cut, which I thought was a big mistake. That made a big difference to literacy, numeracy and key skills. It reached parts of the workforce like the night shift, which is often forgotten. Again, there is a link. If you are in a low-paid and insecure job, you are less likely to get investment in training. That particularly hits women, black and ethnic minority workers, and young workers. From all the work we have done with young people, it is the one thing they really want: the chance to develop their skills and progress at work.

**Q50 Paul Howell:** I just want to reflect on some of the things that were said a bit earlier on and make sure I have got my head round them. It



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sounded like you were saying that, at a fairly macro level, through the pandemic people were gravitating towards the public sector, because that is where the more secure employment was. As we have come out of that, because the private sector has then started to recover better and there have been better wage opportunities in there, you have seen a gravitation in the other direction, which has therefore put pressure on the public sector.

Overlaying all of that is the fact that in the pandemic a lot of people have had, for want of a better phrase, change of life type assessments and have decided what they would actually like to do. You have therefore seen people dropping out of the market, particularly the older generation, so to speak—people of my age and around it. You then have what is happening now with the cost of living pressures. Some of those people who have gone are maybe re-appraising and needing to come back in.

I just wondered what you thought about where those movements in the market are going. What we have talked a lot about in this space so far today has been all about how tight the labour market is and where it is going. Frances, I understand a lot of your comments about how the bad employers are always going to be there, how we have to do things and how we therefore need collective bargaining and things. As my colleague was saying earlier, when the market is as tight as it is, that is the strongest point of the cycle for employees to have opportunities.

How is all of that playing together? What do we think is going to happen next? Are more people going to come back to the market because of the cost of living pressures? That might ease some of the pressures that we have and bring some more experienced people back into the market.

**Frances O'Grady:** It is one of the extraordinary things that we have such a tight labour market and yet we are not seeing the commensurate improvements in pay and conditions that you would expect. It is a real puzzle.

Q51 **Paul Howell:** If things remain as tight as they are, will that have to happen?

**Frances O'Grady:** It is clearly not happening.

**Paul Howell:** No, not yet.

**Frances O'Grady:** It will not happen without resetting the balance of power. There are lots of ways you can do that, including fair pay agreements and strengthening workers' rights, union rights and so on. You need a reset.

Q52 **Paul Howell:** You can, but, to a degree, the whole supply and demand pressure has to be on employers as well, does it not? I am not denying the other sides of the argument.

**Frances O'Grady:** Yes, sure. We might see some people who have taken early retirement returning. I suspect all of us know people who have said,



“I have had it”, for whom the idea of going back is too much, but there is also quite a significant group of people who have left early because of long-term health problems—very often those who are doing elementary work, like cleaners, security guards, and machine operators.

If we are going to deal with the root of those issues, if we would like them to stay in the labour market longer, we have to address some of those issues around long-term health and what causes it.

**Q53 Paul Howell:** There is one other point that you could consider in your answer. Is the overall ageing of the UK population playing a role in this as well, because there is more in that pot?

**Frances O’Grady:** Do you mean in terms of what people want for themselves?

**Paul Howell:** We have more older people, so there are more people at that end of the spectrum.

**Frances O’Grady:** There is a lot more we could do, including positive flexible working, to keep skills and experience in the workforce, if we designed working conditions more around the needs of older workers and allowed that to be possible. We know how valuable that could be.

We need to address some of these bread and butter issues about why so many people are leaving because of long-term health issues and why our Health and Safety Executive has fewer than 500 main grade inspectors nowadays. We need to get the basics right as well as some of the more ambitious changes that we would like to see.

**Neil Carberry:** There are certainly some underlying things here. The labour market will ebb and flow with the economy. Right now, why are companies’ settlements going up but not at the same pace? If you are a small business, your input costs have gone up this year in a way that you cannot pass on fully to customers. With the NI rise, your tax has gone up 60% before any changes are made this month. That is paid by businesses. You have probably already put through a pay rise higher than what you budgeted for last October, November or December, and you are seeing labour pressure in terms of bringing people in.

We can talk about net profits, but they are very unevenly distributed across the employer base. A lot of the tax base now is taxes like NI, which are on activity rather than on profits. Companies are feeling hard pressed. We are just beginning to see in our data the foot coming off the accelerator a little bit on hiring. This thing will ebb and flow over time.

We all expect the winter to be tougher economically than the first half of this year, but what is underlying this is a general tightening of our labour market. It is not just the decisions people made around the pandemic. I absolutely agree with Frances: we have had a range of people making decisions or being forced into steps because they are not well. It is up to companies to think, “How do we fish in that pool of potentially productive



workers?” That is alongside all the other things that companies should be doing on equality, diversity and inclusion, and improving how they are hiring.

We also have to acknowledge a fairly stark fact, which is that there were 50% more babies born in this country in 1964 than 1977. The baby boom generation is a big one. Gradually, over the next 20 years, they will retire. That is creating some challenges. We heard from Stephen in the previous session that in some sectors the average age of different jobs has been rising for some time. That is a big and important issue for businesses to get their head around.

When we launched our report yesterday, we talked about putting the people stuff first. It is also a big and important issue for Government, because for me the skills system in England feels a bit like Holmes and Moriarty wrestling with each other on the Reichenbach Falls. I will leave you to decide which one is which. On the one hand, businesses absolutely have not been investing as much in skills, but we have had about 30 top-down rearrangements of the English skills system since the mid-1980s and colleges are in a constant state of flux.

The levy is just a way of funding skills. Lots of countries have levies. They can be perfect functional. We appear to have one that not only does not catalyse further private sector investment but in its design—I am sorry to say that some of us raised this point at the time—it actively discourages employers from doing more apprenticeships, which is what we have seen in the apprenticeship numbers that were reported earlier.

There is a lot of work to do to address that, because of the demographic point. There are lots of jobs. Last autumn’s driver shortage is a classic example. Over years, companies have allowed the average age of the workforce to creep up. That is a slow-motion car crash, if you will forgive the driving pun, for companies in the next decade perhaps.

**Q54 Paul Howell:** I really wish I had a better memory, because I was around a Jobcentre Plus not so long since and they were telling me that, while there was a lot of bad press about the apprentice levy, there was some good stuff as well.

**Neil Carberry:** There are some great apprenticeships, absolutely.

**Q55 Paul Howell:** I cannot remember the detail about where it was. I will need to move the discussion on to where we are now. I will come to David and Frances to follow up on this one. The Government have said that their objective is to promote higher wages and higher productivity. What more can the Government do to raise wages and achieve that? Where can the Government intervene further? What should they be doing? I will start with you, David, and then I will come to Frances.

**David Fry:** That is not one I can really comment on.



**Frances O'Grady:** I have a little five-point plan. The key priority is investment. As we have already heard, businesses need certainty for investment. I do directly link that across to social partnership arrangements, which can provide some of the longer-term vision and delivery through changes of Government. This is something that employers and unions have been arguing for. It would be a good basis for a proper industrial strategy that is sustainable, that we came to a consensus on and that Government stuck at over a number of years.

Q56 **Paul Howell:** I do not disagree. Whatever the dimension we are talking about, businesses like certainty. They like to know the environment they are operating in.

**Frances O'Grady:** There are massive opportunities, as we know, on green jobs. We have set out quite detailed plans on that. We think we need to step up on deep decarbonisation. That could create good jobs in the parts of the country that need them most.

**Paul Howell:** As you heard earlier, I am quite a fan of that in the north-east.

**Frances O'Grady:** We would love to get around a table and come up with practical plans on that.

On collective bargaining and fair pay agreements, we have to grasp this nettle at some point, if we are going to meet that promise of a high-wage economy. I have mentioned skills and industrial policy. We should not forget the importance of corporate governance reform. Setting rules for what success means and how much of that is about the long-term success of a company is really important, as is reform of directors' duties.

Trade policy is something we are devoting quite a lot of time to. Around the world, the most interesting and innovative thinking is happening in the States on worker-centred trade with Katherine Tai, with more effective mechanisms for using trade to raise labour standards and tougher enforcement. That is another key area for us.

Q57 **Paul Howell:** David, I will ask you a different question that is hopefully in your space. I would like you to outline the trends over the past year in the number of public sector vacancies, which the Office of Manpower Economics monitors. As part of that, are Government targets for the recruitment of nurses and police officers being met? If not, what sort of shortfall rates are we seeing?

**David Fry:** In the evidence the review bodies have been collecting, the trends are very specific to the particular bodies. The one I would pick out is the Prison Service, where over the last year we have seen that recruitment and retention rates have been getting worse. That is an area where it has got more challenging over the last year.

Q58 **Paul Howell:** I am sorry to interrupt, David. I apologise. Earlier, you used the Prison Service as an example of a space in which people cannot



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really get too much flexible working, because you have to go to a prison and you have to do certain things. If you could develop the thought on flexible working at the same time, that would be useful.

**David Fry:** One of the challenges that the Prison Service has is, as I was saying, partly the way that people have to work in a prison to do specific things. One challenge there is that the other markets that people could move into have been increasing.

The review body has been hearing reports of people leaving to become some of the things Frances was mentioning—supermarket workers, delivery drivers and other roles that they compete with when it comes to looking at issues of take-home pay rather than maybe the overall package. The Prison Service pay review body has been looking at this carefully. You will be able to see what they say on that when their report is published.

Looking at nurses, I also said that there have probably been around 40,000 vacancies in nursing for a number of years. As you say, Government have a target of increasing the total number of nurses by 50,000 over the coming years. How has recruitment been done on nurses? We have seen an increase in nurses from abroad, from the Philippines and from India. There has been an increase of 15,000 nurses over the last year. That is partly how that has been bridged. Combined with the increasing numbers of people studying, things are working at this point in time, but there is always a delicate balance on these things. They need to be looked at as we go through.

The review bodies are always impressing on employers to look at how they do workforce management and to track these things through. You also asked about the police, which is another good example. There is a specific target of increasing the number of police by 20,000. Up until recently, they were on track to do this. A particular area of challenge for the police was detectives. They were finding it harder recruit detectives, but they have done some targeted pay that has alleviated some of those concerns at this point in time.

They are getting people in. Again, it is going to be more challenging over the next period, because the ramping up is slightly higher. With the tightening of the labour market that everyone has mentioned, it becomes harder to recruit. The review body will look carefully to see what happens next and see whether the targets can be met.

Q59 **Paul Howell:** I have one final question for you, Frances, which has just occurred to me. Are we seeing that people are trying to move to jobs that are better paid and not necessarily worrying about the other aspects to it just because of the pressures on cost of living at the moment?

**Frances O'Grady:** It is money, but it is quality of life as well. If you take the Prison Service, we know all too well that the job of recruitment and retention is going to get all the harder because there is chronic



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understaffing in a number of areas. There is a direct link between chronic understaffing and the rise in violent assaults on prison officers. If you are going into work and you have been doing that through the pandemic, the temptation to find something that is not going to give you that amount of grief or risk is very high.

**Q60 Paul Howell:** It does not matter what business you are in. If you are going into an employment situation where you are understaffed, that is not a good thing and it becomes a vicious circle.

**Frances O'Grady:** Exactly, yes. The same is true for health staff and supermarket workers experience it too. There are those chronic pressures.

There is one other important point. The armed services are often a very important recruitment source for the uniformed services and public services. You get a lot of vets in the rail industry, the fire service and the Prison Service. There are particular issues around mental health, housing and integration back into civvy life that we have still not addressed in this country. That might just be one more creative strand to look at and think about.

**Q61 Mark Pawsey:** I wonder whether I might ask our witnesses whether there is anything to be learned from what goes on in countries around the world. I am thinking of Japan. They have a demographic challenge, a very low birth rate and an elderly population, but they have invested massively in automation in their manufacturing processes. Are there ways that automation can help solve our problems? Are there any other lessons that we can learn from elsewhere in the world?

**Neil Carberry:** There are good examples. We have to be very clear that the labour shortage is not a UK-specific problem. If you look across many of what we would call the developed economies, you are seeing it in lots of places. The interesting thing about Japan is that, yes, there is investment going on. Sometimes that investment creates a need for more jobs rather than—

**Mark Pawsey:** Yes, we heard that in our previous session.

**Neil Carberry:** That was aligned to a strategy from the Japanese Government to increase women's labour force participation. That is still, by British standards, exceptionally low, but they are beginning to move in the right direction. There is also a national debate shaping up in Japan about how immigration plays into that, because Japan traditionally has had lower rates of immigration than other countries. It is capital, skills and employment taken together that is important.

There are two countries that I would draw on. Canada is a really good example. About 55% of companies report that they are struggling to hire at the moment, particularly driven by food service and hospitality. That is a story we have heard in this session. They are looking across the board at how they align their federal Government strategies—I think it is federal



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Government in Canada—like their global skills strategy to take account of that. That is very similar to the discussion we were having before about the need to elevate this in companies and elevate it in Government as a major aspect of Global Britain.

Germany is the same. In fact, Germany in many ways is in an even tougher spot than we are demographically. They are looking at a 3.9 million drop in their labour force by 2030. There, of course, you have seen a big move on immigration. We are not in the same position and probably do not need the same policy solution, but you have definitely seen the sadly departed Shinzo Abe, the German Government and the Canadian Government starting to deal with this as a top-tier issue. That is what we have to do.

**Frances O’Grady:** I always say that in this country we do not have too many robots; we have too few. Exactly as you say, the evidence is that there is no necessary consequence to the country of destroying jobs through technology. On the contrary, we could be creating high-quality jobs.

**Mark Pawsey:** That is encouraging to hear.

**Frances O’Grady:** We would be keen to discuss that. It does mean more investment. That has to be a priority in how we use public investment to lever in private investment that is patient and good capital. We also need clarity about our mission. I would suggest that decarbonisation is a very urgent mission, but so is quality work. Thirdly, if you look at all the international evidence, it is very clear that, where you have social partnership architecture in place, that is good for productivity, for investment in skills and for society.

Let us not forget that there are consequences, if we get it wrong. There will be greater inequality and child poverty, which cost us all in the end.

Q62 **Mark Pawsey:** Are there any international examples where they have managed to keep older workers in the workplace for longer, perhaps by demonstrating the flexibility we have been talking about?

**Frances O’Grady:** Yes. We have been doing work looking around the world in particular on just transitions to green economies. We do not need another period of disruption, big job loss and people losing out on living standards. We need plans. We are pulling together practical examples of that from different countries about the social infrastructure we need and what can happen at a company level to ensure that transition is smooth and good for everyone.

**Neil Carberry:** A couple of years ago, one of our members helped one of their clients in Spain, which had to close a plant that was fundamentally unproductive. The thought process that went into that in terms of retraining workers in their 50s and 60s has fundamentally underpinned



the competitiveness of that town in central Spain as an economic entity going forward.

To add one thing to the big tent piece that Frances outlined, local really matters as well. The most interesting things that are happening in the English school system right now are happening with the mayors, with Andy Burnham and Andy Street. Things like LSIPs have great potential.

My conviction is that most things in the English labour market can ultimately be explained by buses, but we need, through local transport plans and things like that, to get people to where they can work at times when they want to go. All of that has great potential.

**Frances O'Grady:** Buses and airports.

**Mark Pawsey:** There is a whole host of smaller factors that can support that.

Q63 **Charlotte Nichols:** Frances, over the coming months, with the cost of living crisis, we are likely to see an increase in industrial disputes. We have had the RMT already; my mum was one of the people on strike. We have also seen ballots for the CWU, TSSA, ASLEF and others. Where are we likely to see these tensions? What can the Government, employers and unions do to find solutions to prevent an autumn of discontent?

**Frances O'Grady:** As unions, our aim is always to get a fair negotiated deal, but, yes, we are seeing a rise in industrial action and a rise in ballots. Because of the legislation, we often have to do things a long time in advance to have it ready in case. We have seen how that process of balloting and the display of the strength of feeling from the workforce can help drive an employer to the negotiating table. We saw that at BA with the check-in staff, who were looking for a restoration of what was a 10% cut in their wages over the pandemic. All they wanted was that money back.

Yes, we have seen a number of high-profile ballots. There will be more. Whether those result in strike action depends on the offer that is being made, but nobody should doubt that there has been a mood shift. We saw that with the public sympathy for some of the strikes that we have had recently. Something has shifted. People look at the boardroom and they look at shareholders; they feel it is not fair that, after 12 years of stagnating wages, workers should be asked to take another hit. Frankly, many working families do not even have that choice. They simply cannot afford it. They are getting into debt.

Q64 **Charlotte Nichols:** We have had comments recently from the Bank of England about the need for pay restraint in order to prevent a repeat of the 1970s. From the TUC's point of view, how would you characterise this current time, the economic situation we are going through at the moment and the call for wages to rise at least in line with inflation? Is this different from other economic events we have seen in the past?



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**Frances O'Grady:** Given the news today, it has been proven that it is simply nonsense to suggest we are in a pay-inflation spiral. It is simply nonsense. The real challenge we face is how on earth we improve people's pay packets so that people can have decent living standards, bring up their families, pay their taxes, which fund our public services, and spend their money in local economies to keep businesses in the private sector going, too.

Frankly, it is nonsense. I sit on the Court of the Bank of England, and one of the terms is that I do not comment. Others at the TUC comment on the Bank of England, but I would strongly advise anybody on more than £500,000 a year not to be lecturing low-paid workers on what they are entitled to.

**Charlotte Nichols:** That is something I might advise some of my colleagues on as well. We are not too bad done by as MPs compared to the national average.

**Neil Carberry:** Can I offer a private sector business view on all of this? I should declare an interest: I am a member of the council of Acas.

When there is disruption, it is very easy—public sector strikes cause disruption, but private sector strikes do too; they just cause it in a much more focused way—to try to wish away conflict in workplaces. I come back to what I said earlier. There will be more conflict around these issues in workplaces in the private sector, the public sector and the third sector over the next year, because everyone is hard-pressed. Companies are facing very high inflation; they are facing difficult decisions about how they change. Most of the economic change that has been wrought by the last few years probably has not yet played out in companies. Everything Frances has said about where workers are and the pressure they are feeling is right.

What is really important is negotiation, that these things play out and that we handle conflict in the right way, which is to channel it. I am a vanishing breed as a private sector ER specialist, but there has never been a negotiation I have seen on the business side—I doubt there is one you have seen from the trade union side, Frances—where everyone got everything they wanted, because these are tough issues.

My plea would be that we focus on what we can do to resolve this. Getting some good offices around that, as we are starting to see in some of the disputes, is the only way we can do it. Some people were surprised by the stance we took on reg 7. It is about protecting agency workers from being put into difficult situations. It is about protecting agencies from being put into difficult situations. It is also about the fact that the Regulatory Policy Committee, looking at the change back in 2015, concluded that the best thing for employers was to try to resolve disputes. Getting people to the table and giving negotiators the space to find a deal is really important.



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**Chair:** We have come to an end for today. Thank you to all of you for your contributions. Frances O'Grady, this is probably the last time you will appear before the Committee before the end of your office at the end of the year.

**Frances O'Grady:** Who knows?

**Chair:** On the assumption of that being the case, thank you for your service at the TUC. We wish you the very best.

**Frances O'Grady:** Thank you very much indeed. Perhaps a little retirement gift would be support for our call for maximum temperatures in working.

**Chair:** We will take note. Thank you to you. We will then bring the session to an end for today. We are returning to his inquiry after the summer.