

Business and Trade Committee

Oral evidence: Labour markets reform: Workers' rights and protections, HC 703

Tuesday 7 May 2024

Ordered by the House of Commons to be published on 7 May 2024.

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Members present: Liam Byrne (Chair); Ian Lavery; Andy McDonald; Charlotte Nichols.

Questions 116 - 139

Witnesses

[III](#): Nye Cominetti, Principal Economist, Resolution Foundation; Nicola Smith, Head of Economics, Employments Rights and Social Affairs, Trades Union Congress; Ben Franklin, Interim Chief Executive, Centre for Progressive Policy; and Paul Todd, Chief Operating Officer, NEST.



Examination of witnesses

Witnesses: Nye Cominetti, Nicola Smith, Ben Franklin and Paul Todd.

Q116 **Chair:** Welcome to this third panel of today's Select Committee on Business and Trade inquiry into labour market standards. We are just going to have a declaration of interest from Charlotte Nichols.

Charlotte Nichols: My father is on the General Council of the Trades Union Congress.

Chair: Thank you. I will also declare an interest: I have worked closely with Ben Franklin before, through the all-party parliamentary group on inclusive growth.

Nicola Smith, could I start with you? You have heard some pretty appalling testimony from P&O this morning. Do you think we just heard from the unacceptable face of British capitalism?

Nicola Smith: I think we have heard that, despite repeated Government assurances when P&O dismissed summarily 786 workers two years ago that this sort of completely unacceptable behaviour would not happen again, we still have employment practice operating within UK waters and UK shipping that is actively designed to undercut UK employment law and deny workers the most basic of employment standards that Parliament has set out should apply to working people across the UK. It absolutely is unacceptable practice, and it absolutely is undercutting other suppliers and operators in the sector who want to do the right thing—to recognise unions, to make sure that they are operating collectively bargained terms and conditions, and to make sure that their workforce are treated with dignity and respect.

So yes, it is unacceptable behaviour. It needs to be stopped. I think what we heard today shows us that we need both legislative change and new international agreements to make sure that we are not facilitating a race to the bottom in UK shipping employment practice, but ensuring that people who work in UK waters are treated with the employment standards we would all expect to receive in our own jobs.

Q117 **Chair:** So the law is basically creating a permissive environment for bad labour standards.

Nicola Smith: Yes, at the moment we think that is the case. I should say that when P&O originally dismissed its workforce, it was done by video message. You were told basically that it was face to face, but many of those workers found out that their employment and their family's income was simply to cease, without any consultation at all, on a video call. The way that was done was simply unacceptable. Your Committee has investigated that. There was a failure to consult with unions, workers were dismissed unfairly, and there was breaches of directors' duties.

Since then we have seen no Government action at all to prevent fire and rehire, despite commitments that were made at the time that that was



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possible. We think legislative change is necessary and achievable in that area.

We have seen lots of publicity from the Government about their action on minimum wage for seafarers, and various commitments that they have purportedly made to ensure that minimum wages will be paid to seafarers in UK waters, but, again, the legislation has not yet even come into effect and it will be limited in its application. It will be limited to, I think, international services that call at a UK port 120 or more times annually. There will be open opportunities for firms to design their routes so as to circumvent this minimum wage requirement.

It also fails to take account of the wider terms and conditions of the workforce. Anyone who is on pay above the minimum wage will of course not be protected by that legislation. The sorts of employment practice that we were hearing about in the previous session—there appear to be active attempts to present the workforce as not ordinarily resident in the UK so as to imply that UK employment standards do not apply to them—will not be addressed by that legislation.

So yes, there is a need for action—legal action. There is a need for a mandatory seafarers charter that takes account of the need for collectively bargained agreements to be respected by both national and international operators in UK waters. There is a need for direct bilateral agreements with other countries to ensure that decent employment standards are enforced. We simply do not accept that the international minimum maritime standards that were being described in that session are appropriate for people working on UK ships.

Q118 Chair: You then heard evidence from two well-known employers that had both breached minimum wage law. You will have heard WHSmith say that their breaches were breaches that were also committed by many other businesses and that they had misinterpreted the regulations. In your experience at the TUC, how much is innocent misinterpretation of regulations the problem, how much is it that the regulations are wrong, and how much is it that the enforcement is not strong enough? Or is it all three? You may feel it is all three.

Nicola Smith: There are a number of key issues at play here. Enforcement of employment rights is most effectively done through collective organisation at work. All the evidence shows that where there is union representation at work, enforcement of employment rights is most likely to be effective. There are current legislative barriers preventing union organisation at work, so there is a need to change to make it easier for unions to organise and represent the workforce and to address those mistakes, or wilful errors, or wilful attempts to deny workers the pay they are entitled to when they happen.

On individual enforcement routes, there are multiple problems. The system is chronically under-resourced. TUC evidence has looked at where we sit relative to International Labour Organisation standards, and we are something like over 1,400 inspectors short of where we need to be to



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reach the levels of resourcing that the ILO says are necessary to effectively enforce across a sector.

Chair: One thousand four hundred and—

Nicola Smith: I have the number here, but it is at least 1,400 short. We can send you the specific—

Chair: A lot.

Nicola Smith: Yes, a lot. The resourcing is a substantial problem. Resources have become tighter over the last 14 years rather than more generous. We have seen cuts of around 30% in the Health and Safety Executive and we see the gangmasters licensing regime expecting substantial further cuts in the period ahead. The amount of resource put into enforcement has fallen relatively, and there has been a failure to invest in what was already an under-resourced sector.

We also think there is a problem with fragmentation. Since 2019, as part of the “Good Work Plan” that did not deliver, the Government have told the enforcement agencies that they will be merged into a single body. That has not happened; there has been no action at all. There has been a lot of time wasted discussing what could happen and what the options could be, but in effect nothing has changed. That sort of fragmentation causes big problems because you have different inspectorates with different powers and different penalties. There are gaps in the enforcement regime—nobody is, for example, responsible for enforcing unpaid holiday pay—and agencies are not able to work among themselves to share information in the ways they would if they were joined together. There can be problems where no one agency takes responsibility, say for identifying key trends or drivers, or new employment practices that bad faith employers are coming up with that seek to circumvent the legislation, and acting on them. We think there is a case for bringing the agencies together into a single enforcement body that would make it more effective.

Q119 **Chair:** Including those enforcers who are currently in HMRC?

Nicola Smith: Work would need to be done on precisely who was involved, but we have work in Employment Agency Standards, we have HMRC and the minimum wage team, and we have people who are responsible for enforcing agency standards in Gangmasters, in the licensing sector. At least bringing those agencies together would be a good start from our perspective.

Chair: Thank you.

Q120 **Charlotte Nichols:** I would like to go to each of you for a short opener on how you would define good work. Could I start with you, Mr Todd?

Paul Todd: At NEST, we are an institutional investor, and we define decent work as a place where people are paid reasonably. We are interested—certainly in the UK—in the real living wage, the right to



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organise, and workforces being treated with respect. We think that makes long-term economic sense, and it makes sense for our investors as well. They are UK workers—we invest on behalf of a third of the UK workforce. They want long-term good returns, but they also want to see the economic benefits of decent work in their communities and in their own jobs.

Nye Cominetti: I probably wouldn't try to define it, because it is a hard thing. There are many domains you could point to that matter to workers, but they matter differently to different workers. The obvious things to talk about would be pay, security, being treated fairly, dignity at work, whether you have as many hours as you need, whether your employer is paying into your pension, whether you are free from discrimination at work, and so on, but these things matter to different extents to different workers. When I have done work on this in the past, it has been tempting to try to draw up a binary—"This is a good job; this is a bad job"—but I have always basically decided that that is not useful. It is more useful to think about the ways in which work can be hard, or make life hard, and then look at who that effects and what policy could do to address that. Things like minimum wage and security of hours are the things I would want to focus on.

Nicola Smith: Unsurprisingly for the TUC, we think good work is work where people have a voice at work through a recognised union and through worker representation in decision making; fair and decent pay, so an ambitious minimum wage but also ambitious pension provision and commitments to publish and address pay gaps; guaranteed hours, with security over when those hours will be; minimum notice periods; payments when shifts are cancelled—we think the sort of decent treatment that any of us would expect if our hours or terms of work were going to be changed should be available to everybody who works in the UK—treatment with respect, with zero tolerance for bullying and harassment; opportunities for learning and progression; and, as a minimum, safe and healthy workplaces. We think there are changes that could be introduced in that space, particularly around maximum temperatures.

I should also take the opportunity to say that I have found my note on the number of labour market inspectors. We think that another 1,797 would need to be recruited to take us to where the ILO says we need to be.

Q121 **Charlotte Nichols:** Mr Franklin, what is good work?

Ben Franklin: From the Centre for Progressive Policy's point of view, I echo what many of the panel have already mentioned. Obviously, pay and security of contract are really important. Opportunities for progression and skills development are crucial. Feeling that you have a voice and representation is also really important, as is diversity and inclusion within the workplace. Many of these things are domains that the Taylor review picked up on back in 2018, and that the Government started pushing forward with their "Good Work Plan", to some extent. We work with both national Government and local and regional places to try to embed good work according to that framework.



Q122 Charlotte Nichols: Thank you. One of the things I am always interested by in the evidence that this Committee receives from employers and industry bodies is that, when they talk about being good employers, most of the time they talk about their compliance with legal minimums on pay, standards, health and safety, and so on. Rarely do employers talk about how far ahead of all these minimums they are. I suppose one of the areas that I have become increasingly concerned about over recent years is the extent to which some of these minimum standards, which were introduced as minimum standards, have become almost a ceiling on standards. The national minimum wage, for example, has become the pay ceiling rather than the pay floor, particularly in sectors like adult social care, for example.

What do you think that we as Parliament can do, when we are trying to encourage good work, to ensure compliance not just with minimum standards from Parliament but with the spirit of what we are trying to do, which is exceeding those standards? What measures do you think we could be taking to encourage people to go beyond what we set out as the minimum?

Nye Cominetti: I'm just going to push back a little bit on the idea that setting minimum standards is definitely not the thing you should be doing. I don't think there is much evidence of levelling down, as I think you are describing, on pay. There are fewer people paid at the wage floor now than there were 10 years ago, and we have a much higher minimum wage. I think about 4% or 5% of workers are paid at the level of the minimum wage; in 2016, it was 7%. So I don't think there really is evidence that employers are seeing these minimum standards and saying, "That's as much as I have to do."

I still think there is much more that we should be doing about raising minimum standards, so I would think about that before I would worry about the problem of levelling down. For example, minimum standards on sick pay is an area I would very much like the UK to go much further on. Already, many higher-paying employers will offer most of their workers an occupational sick pay scheme—so if I go home sick, I will get paid as normal and I can come back to work when I am ready, but in the case of many lower-paid workers, lower-paying employers will only offer the statutory minimum. I would definitely like that to be a much more ambitious scheme, much more in keeping with what you get in other countries, where there is less of an income hit when you have to go home sick.

Ben Franklin: I agree with a lot of what Nye just said. For me, it is about a mixture of both hard forms of regulation—that is the national minimum wage and making sure that that is properly enforced. Bad work is feeding into a lot of the economic inactivity story in this country as well. As a result of that, we are going to see a lesser quantity of work, not just poorer quality, as people leave the labour market. Particularly at older ages, people leave the labour market because employers have been exacting bad practices. But also important are soft forms of regulation. We work with a lot of regional Mayors who are embarking on forms of



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employment charters and, in particular, good employers then sign up to that. They are verified, and it is continually verified that they are meeting good standards of behaviour. I think that is something national Government could learn from as well.

There is a challenge here in really understanding how to measure good practice within employers. We have done some of that work ourselves, but it is really difficult to get to what that workforce structure looks like, particularly for highly complex organisations. I think that, from a parliamentary or national Government point of view, really trying to understand what might be the standardised metrics against which we can measure good work—for large employers particularly, but potentially medium-sized employers, too—is something that we could move on.

Nicola Smith: It is imperative that the idea that good work is incompatible with economic success is challenged. There is a role across public life for people to make the strong case that decent treatment at work is not a nice-to-have; it is an essential part of an effective, productive economy. There is now an international evidence base that shows very strongly that societies that act to ensure that more people have access to decent rights at work are societies where there is a fairer distribution of rewards and there is greater economic success. We know that there is a strong link between not having decent treatment at work and the sorts of productivity growth that we have seen. We have seen over the last 14 years a collapse in our growth rate, stagnation in living standards and evidence that where you enable employment models of the sort we heard about this morning or the sorts we see across parts of our labour market where zero-hours contracts and high levels of insecurity are perpetuated, you don't see either the living standards gains that people need or the growth rate that we need across the economy.

So I think we need to take on those employers. We heard first thing this morning from one of them, who claimed that there is no way to achieve business success without treating workers—frankly—unacceptably and in ways that we should all be ashamed of. Challenging that idea on the evidence and the facts, rather than on the assertions, is essential. We have seen this with the minimum wage. We saw the minimum wage introduced in this country at a time when, as all of you on this Committee will know, employers across the spectrum were keen to tell us how many millions of jobs would be lost. And, lo and behold, here we are with the minimum wage at 66% of median incomes and no employment effects whatsoever having been evidenced. So I think it is time that we learn from that approach. We can learn from the evidence this morning, when we heard that P&O will be able to pay the minimum wage as soon as the Government legislates—suddenly the business model will magically enable that to be affordable in a way that apparently is not the case just now. We can see that Government has a really important role in legislating to make sure that decent standards are what working people can expect, rather than the insecurity and the mistreatment that does not give people the dignity to plan their lives properly and care for their families and children in the way that they want to, despite working extremely hard every day. I



would like to see an ambitious, positive agenda that makes the case for decent standards at work and also recognises the role of union organisation in ensuring that across the economy.

Q123 Charlotte Nichols: Thank you. Mr Todd, what more can we do to have a culture change not just for meeting the legal minimums, but for aspiring to be a good employer offering good work?

Paul Todd: I will make two points. The first is about the role of investors from across the globe. We see our role as being able to demonstrate who are the best actors in certain industries and sectors. We are investing in over 2,000 companies across the globe. I do not think it is our job to tell individual companies exactly how to run their businesses, but being able to demonstrate where we see success in areas of decent work is an important role of institutional investors. The more that asset owners demonstrate best practice and how that has a positive impact on long-term returns, the better.

The second point is about quality of data. The data on the social side and on more enforced disclosure is not as good as where you see the data on governance and environmental issues, whereas 10 years ago, when we were investing and trying to get data on climate change and carbon exposure, it was really difficult to know as an investor what investment decisions we should make and which companies we should engage with to improve standards. We have seen over the last decade that that data has significantly improved, to the extent that you can actually make investment decisions about where you put more of your capital or less of your capital. It helps us in our engagement and stewardship activities. Part of that has been driven by compulsory disclosure, or more standardisation of disclosure, so that companies know what they are supposed to disclose and investors have more confidence in that information. Companies have gone on that journey for climate and environmental data disclosure, and we need to go on a similar journey with workforce disclosure.

Q124 Charlotte Nichols: Before I go back to the Chair, from an institutional investor point of view, what sort of metrics would you want to see to judge whether this is a good employer offering good work? What would help you make that decision?

Paul Todd: It is about getting the balance right and not wanting companies to spend their entire time disclosing more and more detail. At the moment, even basic data about pay information, ethnicity and gender pay gaps is not there or is not done consistently. Starting off modestly and getting consistency across the piece—and then, over time, getting more data on health and safety, grievance mechanisms and things like that—would be really important. It is gradually building to get consistency and confidence in the data.

Q125 Charlotte Nichols: Ms Smith, from the TUC's point of view, in terms of that data disclosure, what information should employers be judged on in order to make those determinations? We have the gender pay gap, but



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would you have something like the gap between the lowest and highest paid employee, for example—pay ratios and those sorts of things? What kind of data does the TUC think would be helpful for people to make decisions?

Nicola Smith: We think there is a case for strengthening company reporting quite substantially. The biggest, most substantial change we would like to see would be to change the reference in the Companies Act to require companies to report on their whole workforce, not just their employees. At the moment, that means that in many cases the reports that you see do not reflect the employment experience of anyone who is indirectly employed by that company. Our view is that indirect employment was much less prevalent than it is now. The Companies Act was in 2006. When the word “employee” was put in as a requirement, in our view it was not intended to differentiate between different parts of the company’s workforce, but at the moment it does in fact have that effect. Given that many companies employ a significant portion of their workforce indirectly or through a franchising model, the experiences of those workers are entirely excluded from company reports. That would be a really substantial and important change, which would lead to greater transparency and disclosure.

The other thing we always say in this space is that adopting those changes and improved guidance on workforce reporting, strengthening gender pay gap action plans and all those measures has an impact, but we should not overclaim any causal link between reporting and improved employment practice. That also rests on union organisation, third-party campaigning and Government enforcement agencies, so it is also important to see the role that reporting plays and the external pressure that it can facilitate as part of a wider set of ambitions that seek to improve employment opportunities.

Q126 **Chair:** The one point that I would add, if I may, is that this is a country with £2 trillion-worth of pensions savings today, and it is pretty much impossible for most of us to figure out whether we are investing in companies that are not screwing their workers, dodging their taxes or poisoning the planet, so some disclosure could help to move investor behaviour.

Mr Todd, in your answer about defining decent work, your list was a little shorter than the others. As a bit of homework, I wonder whether our witnesses might be able to help the Committee by providing us with something in writing that would give us your definition of either good or decent work or decent jobs—however you want to express it—so that we can help to identify the overlapping consensus between you to try to help us define how close we are to, or how far away we are from, getting a “good work” definition. Would that be okay with the witnesses?

All Witnesses indicated assent.

Q127 **Andy McDonald:** This is a fascinating discussion. Mr Franklin, you and your organisation have done a lot of work on this with the good employer index. You have already hinted at some of the challenges. Would you like



to say a little about that? I am particularly interested in job security.

Ben Franklin: Absolutely. One of the biggest challenges that we have found in this work—the piece of work that you refer to—was when we looked at the 25 largest employers in the UK. The first challenge was how we even defined the 25 largest employers, because on Companies House there are different structures—“What is a subsidiary? What is not a subsidiary?” That makes it quite challenging even to get that far, so that was the first big challenge to overcome.

In terms of how we looked at the different organisations, we are relatively limited in the data that we have. We have annual reports, and different annual reports will say different things, and stuff around workforce and the quality of employment within those reports is often quite vague. One of our recommendations was actually about getting tighter around that. What we were then left with was looking at standards organisations such as the Living Wage Foundation and whether employers were signed up to that and whether they were signed up to be disability-confident employers. That is not a perfect way of doing it, but that was the way that we ranked organisations. We also looked at violations of the national minimum wage and how many of those took place during the time that we were looking at this, and we had to use some crowdsourcing stuff. We were looking at Glassdoor, which is literally where employees go online and rate their company on things such as progression and job satisfaction.

We used a variety of different measures—annual reports, different websites that we looked at and scraped data from and standards organisations—to come to those judgments around the 25 largest. It is a challenge, but it can be done. We are a team of 10, so we are quite a small organisation. However, it paves the way to saying that if the Department for Business, for example, wanted to do something like this on a more regular basis—or subcontract it out to develop metrics that can do this and understand what good work looks like and how to measure it, particularly for the largest employers—it is possible to get something done. It might not be the perfect set of metrics, but it is definitely possible to do that.

Q128 Andy McDonald: Might that be assisted by the establishment of a ministry of labour? Other jurisdictions, such as Spain and the US, have one. Are the very things that you are talking about best achieved under the auspices of a separate ministry?

Ben Franklin: I don't know about that. I think for sure it should be something that a Department can own. At the moment there is obviously the non-compliance side of things, which we heard about earlier today. Something akin to that but looking specifically at good employment, rather than bad employment, might be an interesting way of raising standards across the board.

Q129 Andy McDonald: Do you have evidence that these good work indicators that you are in pursuit of actually produce better-quality work for workers? Is that what you are in pursuit of?



Ben Franklin: Absolutely. We ranked the 25 largest employers. bear in mind that this is a small sample, but one of the interesting findings of that is that the sector—whether retail or banking; we also looked at public sector employers—only explained around a third of the difference between companies. John Lewis, for example, at that moment in time was right at the top, whereas Tesco was a bit further down. Obviously, they have different business models, but sector is only important to a point in some of these domains. I thought that was a really interesting finding.

We also found that those organisations who voluntarily reported their CEO pay, and the pay ratio between the CEO and the workforce, were higher up overall. It was a good explanatory factor of where it was in the ranking.

Q130 **Andy McDonald:** You're not forgetting the public sector, you say—they are very much included. I have a case in my own constituency where healthcare assistants at band 2 are doing clinical work on £11.45 per hour, and being robbed of their pay.

Mr Smith, can I just ask you a question? It is a bit left-field, so please feel free to come back to me another time. On this issue of in-work poverty and fragile work, I think the TUC have already done some work around single status, and as you said in your earlier evidence, this is not simply a case of poorer standards allowing for profitability and that being good for the economy—it quite clearly isn't. You have already indicated that, as we currently stand, people moving from insecure, fragile work would bring in Treasury receipts of £10 billion per annum. Is it the intention of the TUC to upgrade that work? It was a very useful research paper, and it might help us on that journey to understand the benefits of single status further. It might be a bit much; I am sorry to throw that at you.

Nicola Smith: We are always looking to upgrade work that make the case for the economic and fiscal gains that decent work can bring. I think it is also important to keep in mind that wider argument, and the point that Nye made about the evidence showing that setting a minimum standard can often improve standards in pay above that level, in a way that wouldn't otherwise be possible. I was very struck by the data on the minimum wage this year, which shows that the share of people on minimum wage is actually falling, despite the rate being the highest it has ever been. This suggests that actually we are seeing pay go up, and therefore tax returns go up, for those in work, at a rate beyond what we would have seen otherwise.

Q131 **Andy McDonald:** But sadly, within Government Departments—I am thinking about PCS members in particular—they have people working in these various Departments in this Whitehall environment who are getting a pay rise because they have been increased to the national minimum wage. Do you concur with that evidence?

Nicola Smith: There is definitely now a growing issue of workers on salaried employment being paid at minimum wage rate, and we are concerned about the enforcement issue as well. We have done some work looking at jobs sites advertising roles at salaries that would, on an hourly pay rate, take you to below the minimum wage. We know that, coming



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into this year, the Low Pay Commission has put on record its concern that, according to its analysis, several hundred thousand jobs—a very substantial proportion—look to be paying under the minimum wage.

The scale of underpayment no doubt remains a problem. Going back to where I started on enforcement, that is absolutely why we need to make sure we have a proper review, and then act to ensure that, where there are rights, they are rights that people can realise and practice, because as you all know, a legislative right is meaningless if people can't actually afford it, if they can't access it due to a tribunal backlog, if they can't ensure that their tribunal claim is actually paid out because there is no enforcement system that actually takes individual responsibility for their right, or if they can't access a trade union in their workplace because trade unions are denied access to the workplace. Action to ensure that where the right is provided, it is enforced, is still essential and needs to go alongside any new entitlements people have.

Q132 **Andy McDonald:** Finally on that, I will put the same question to you: do you think that all the deficits that you have just expertly outlined will be better addressed if we had a distinct ministry of labour in this country?

Nicola Smith: I think there is a need for proper resourcing of the system. I do not have a strong view on how the Government machinery is designed to ensure that is the case. Joined-up Government, ending fragmentation and ensuring that the current siloed approach is ended is absolutely needed. I will leave it others more expert in the design of Government Departments than me to think about how best to do that.

Q133 **Chair:** Mr Lavery, I will come to you, but may I first ask you, Mr Todd, whether you recognise some of the problems that Ben Franklin described with information gaps? You are soon going to be investing hundreds of billions of pounds of workers' equity investment in their pensions. How do you make sure that those workers are investing in companies that are helping good work, not bad work?

Paul Todd: It is a real challenge. At the moment, we offer transparency in the sense that people can understand which companies they are invested in. There is some data on workforce metrics within that, but at the moment it is a real challenge. We would absolutely support more detail, so we can be transparent to our members. It is their money. Where their money is going will be increasingly important to their trust and confidence in the reasons why they would save for their pension.

Q134 **Chair:** I think some of the metrics that you use include diversity at board level. Is that accurate?

Paul Todd: Yes. I think that will be really important. Through the work on gender at board level, with targets set and companies expected to report on them, the increased diversity on the boards of large UK companies just in the last decade has been quite remarkable. We would expect to see similar positive results if there were better data and clearer targets and ambitions.



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Q135 **Chair:** That is obviously a different view from that expressed by the Secretary of State for Business and Trade recently. She said that boards actually should not worry about diversity at board level and should not bother monitoring it.

Paul Todd: This was a Government initiative to improve diversity on boards in the UK, and I think it has been a successful initiative over the last 10 years.

Q136 **Chair:** So your view is that diversity at board level makes a positive impact on company performance?

Paul Todd: The evidence suggests that that is true.

Q137 **Ian Lavery:** Picking up on the Chair's questions regarding NEST, NEST oversees a board of trustees, and the trustees have a fiduciary obligation to look out for the best interests of the members of the scheme. We have that probably challenging some of the social governance issues. What might those challenges be and how does NEST address those challenges?

Paul Todd: When the board thinks about these issues, their starting point and primary concern is the best interests of members and long-term wealth creation. All the evidence that we are seeing is that paying decent wages and having decent jobs supports that outcome, so we do not see any kind of contradiction.

Part of the challenge is the timeframe you are looking at. We are long-term investors. Our youngest members are 16 and 17, so we are going to be investing for them over the next 30, 40, 50 years. When taking a long-term perspective, I do not think there is any contradiction between good returns and good outcomes.

The second point to make is about our membership. There are 13 million people saving with NEST and the majority of them are on medium to low incomes. Us not working closely with companies that are not paying decent wages—it is decent wages due to our members—means there is a virtuous circle of our membership being paid a decent wage and their investments getting a decent return, so they can get decent outcomes in retirement. They are employees, they are consumers of goods, but they are also now the owners of these companies. We do not see any contradiction between our members having a voice in how companies operate and fiduciary duty.

Q138 **Ian Lavery:** That is very interesting indeed. What available information have you got, and might the trust have, to make sure it is investing in good social governance?

Paul Todd: Certainly, the data on the social side is less strong than the data on governance and environmental factors. We are part of an initiative, started in 2018 by ShareAction, called the workforce disclosure initiative. More than 200 of the largest companies in the world have committed to taking part in that, so the data on this is getting better. However, there is still a real paucity of good-quality data, so it is difficult

for us to give assurance to our members about exactly where their capital is going in terms of some of the social factors.

Q139 Ian Lavery: Once you have agreed to invest in a company, how does NEST engage with that company to make sure that its practices are the best they possibly can be, and on how they can improve their practices?

Paul Todd: Through a variety of ways. We are universal owners, so we are owning a slice of the economy across the world. We do stewardship on our own account, so we will engage with particular companies. We took part in a shareholder resolution with Sainsbury's about the living wage quite recently. A lot of the work we do is in conjunction with other large asset owners. As you said, NEST is getting quite big, but compared with the trillions of assets across the globe and in the UK, working with other large institutional owners is a key part of our stewardship activity.

The third point is that we work with a lot of the largest fund managers in the world. If we can get them to change their stewardship activities, and if we can get them to change their voting behaviour at annual general meetings, the actual real-world impact would be much better than us acting on our own. That is the main approach we are taking.

With better data, I think we can deploy capital in a much better way in order to reward those companies that we think are standard bearers for decent work, and make it clear to those companies where we think improvements can be made that they won't deserve our members' money and their capital. That is a bit further down the line. We can do that at the moment with climate issues, but we are struggling to make those kinds of decisions on the more social and labour force issues.

Chair: This has been an extraordinarily useful panel. Thank you very much indeed. You've basically told us that we haven't quite got a definition yet of good work, but you've kindly agreed to undertake some homework to help us get some consensus on where that definition might lie. You've been really clear that implementing good work is going to take good workforce organisation, the law in the right place, good enforcement and engaged investors. You've all been very clear that the data and the reporting is a bit problematic at the moment, and that is an area where further progress is made. What has been really important is that you've all said that good work is good for good returns at the company level, and it is good for economic growth at the macro level as well. Thank you very much indeed for your evidence, and that concludes this panel.