TUC Budget submission 2017

Contents

1. Introduction

The 2017 budget takes place at a time when working people across Britain face profound uncertainty. While the Prime Minister has made clear her negotiating priorities for our exit from the European Union and our future trading relationship, we cannot know to what extent this will be achieved, or its impact on the British economy and working people's jobs and pay in the future.

The priority for the Chancellor must be to ensure that the British economy is strong enough to protect living standards during this period of uncertainty. That means making sure working people do not pay a price for the country's decision to leave the EU, and the Prime Minister's decision to leave the single market. But while it is positive that economic performance after the referendum has been stronger than predicted, there are clear warning signs that the weaknesses in our economic model pose a significant threat to living standards:

- Pay growth continues to be weak, and there is a danger of a pay squeeze as inflation rises. The Office for Budget Responsibility's projections at the time of the Autumn Statement showed that real wages are not expected to return to their pre-crisis peak until 2020/21, meaning that working people will have endured 13 years of lost pay growth, the longest squeeze since Victorian times.
- The economy remains reliant on consumer spending. But British households have record levels of unsecured debt, which is unsustainable.
- Growth remains skewed towards London and the South East, meaning that where you live still has a disproportionate impact on your pay and prospects. Growth in London was more than double than the average across the rest of the UK over the last two years.
- Despite high levels of employment, job insecurity is growing, with one in ten workers now facing significant insecurity at work.

Some have suggested that the UK's response to Brexit and weak growth should be to slash corporate taxes and workers' rights, and seek to make our way in the world on the basis of a race to the bottom. The Prime Minister herself raised this as a prospect in her Lancaster House speech if the negotiations with the EU do not go well. The TUC does not believe that the British people voted for our country to become a low-regulation tax haven on the edge of Europe. Nor do we believe that this is an approach that is likely to achieve inclusive growth and a return to British prosperity. This submission lays out an alternative set of priorities for the Chancellor.

A strong economy needs strong public services. Yet the public services that working people rely on are deteriorating fast following years of underfunding. This can be seen across our public services, but is particularly stark in health and social care. In September 2016, nearly one in three ambulances failed to respond within eight minutes; meanwhile in the same month nearly one in ten patients waited more than

18 weeks to start treatment; and in the second quarter of 2015-16, half a million patients waited longer than four hours in A&E.

And the crisis in our public sector is exacerbated by recruitment challenges, as public sector workers are now facing a decade of pay restraint leading to significant cuts in their levels of real pay. For example, a midwife will face real terms cuts to her pay of over £3,000 by 2020-21.

The Government has so far not responded to the crisis facing health and education services. It has been years in the making, but now is the time to change course and deliver a budget that protects living standards and strengthens the public services that working people rely on.

The TUC's priorities for the Chancellor are therefore as follows:

A concerted effort to boost living standards by improving pay and security at work

The TUC welcomes the review of modern employment practices and its intention to tackle increased insecurity at work. However, the review will need support from the Chancellor in order to achieve this goal. This should include:

- Government support to drive up pay and conditions by increasing the number of workers covered by collective agreements. The Government should investigate the potential for new industrial bodies in low paid sectors, drawing on lessons learned from the old wages councils as well as the current Low Pay Commission, to work with unions and business to help boost pay and productivity across large sectors of the economy. The Chancellor could help advance this aim, by announcing funding for a pilot of this approach, for example in the social care sector.
- A stronger floor of employment rights, expanding family friendly rights and the right to protection from unfair dismissal.
- Better social security protection for those in insecure work. Universal Credit cuts will hit low paid and insecure workers the hardest. If the Government is serious about supporting those in insecure work, it will take this opportunity to fully reverse them. Further changes needed include expanded sick pay provision for the very low paid, and new support for new fathers in self-employment or insecure work.
- Secure pension provision for everyone including through expanding auto-enrolment to cover more low paid workers.
- The abolition of employment tribunal fees as part of wider efforts to increase enforcement of employment rights, including increased funding for the Gangmasters and Labour Abuse Authority.

Improved corporate governance to improve workforce engagement and productivity

Improving the health of the British economy requires a long term approach, which fully engages the skills and talents of the workforce in raising productivity and contributing to business success. Reforming the UK's model of corporate governance will be critical to this, and the TUC will be responding fully to the government's green paper. But the Chancellor could do much to ensure that reform delivers the step change in British productivity the economy needs.

- The promise of workers on boards must mean delivering workers on boards. Real worker involvement in boardroom decision making helps drive better business performance across a wide range of European countries, including those with unitary boards. The Government should stick to its promise and introduce mandatory worker representation within the boardroom.
- Reform of excessive executive pay should be a priority. The government should press ahead with mandatory publication of pay ratios, but go further to require worker representation on remuneration committees, and a reform of the current approach to directors pay in the form of long term incentives.
- Investing in the skills and engagement of the workforce is key to delivering better business performance: Britain's poor productivity performance can be traced in part to its lack of an effective system for developing the skills of the workforce, and to lower levels of worker participation, which mean that British businesses are failing to get the best out of their workforce. The government should take steps to enhance the quality of apprenticeships delivered under the new levy and make sure these new skills are fully utilised by expanding rights to collective consultation and representation at work.

An industrial strategy to deliver better jobs across the country

There is a clear need for an industrial strategy to redress regional disparities in jobs and pay, and ensure that Britain can continue to deliver decent jobs after we have left the European Union. The success of the government's industrial strategy will be judged on whether it delivers good jobs on good wages in the parts of Britain that need them most. The TUC believes that the strategy should include:

- A plan to negotiate maximum access to our largest trading partners in the European single market, both for our manufacturing industries and for the service sectors providing jobs across the country, without tariffs and with the regulatory compliance that will allow maximum access for services.
- A step up in the level of investment in infrastructure. The £23bn national infrastructure and productivity fund announced at the autumn statement was welcome, but leaves government investment as a share of GDP still below the levels seen in the last parliament. With British levels of infrastructure spending still amongst the lowest in the OECD, a further boost to spending is still required.
- A strategy to ensure that government spending across the board supports the aims of the strategy including a commitment to use procurement to support strategic industries, an expanded Migration Impact Fund to ensure the benefits of migration

are fairly shared, and a review of the effectiveness of tax reliefs in supporting jobs rich growth around the country.

A step change in investment in our public services and the public service workers who deliver them

This submission lays out the extensive evidence of the pressure placed on the health, social care, and education services on which working people rely. Investment in public services is investment in people's ability go about their daily lives without worrying about what will happen if they fall sick, or about whether their child is getting the best possible support at school.

The Chancellor should take the opportunity of the budget to recognise the pressure on public services, and on the public servants who deliver them. This means:

- New funding for health and social care, to ensure that we keep pace with the spending of our major competitors.
- Revisiting the schools funding formula to ensure that no school is a net loser as a result of the changes.
- Lifting the public sector pay cap that will see public sector workers face a decade of pay restraint, and allow public service wages to be determined according to the needs of each sector through collective bargaining between employers and unions or through genuinely autonomous and independent Pay Review Bodies where appropriate

2. The British economy in 2017

The economy has shown welcome resilience following the decision to leave the EU, bolstered by high levels of consumer spending. But we face significant uncertainty ahead as we enter the negotiations around our future relationship with our largest trading partner. Strong foundations will be required to protect against a threat to living standards. Here there is more cause for concern:

- Pay growth remains weak, and the threat of rising inflation poses a real threat to living standards.
- The economy is over reliant on consumer spending, leading to high levels of household debt
- Growth is unbalanced, with pay and prospects disproportionately influenced by where you live and work; and
- Despite strong employment levels, insecurity in the labour market is growing.

This section of our submission briefly outlines these issues; subsequent sections suggest how they could be addressed.

The threat to living standards

The TUC believes that the main aim of government economic policy should be to ensure decent jobs that support living standards for people across the country. Pay plays the most important role in supporting living standards (with wages and salaries accounting for two thirds of average gross household income)[1], so trends in pay can be seen as a marker for the overall success of the economy in achieving this goal.

Judged by this measure, the British economy is weak. Real pay growth (adjusted for inflation) has been stuck at 1.7 per cent for the last five months (see chart 1), and remains well below its pre-crisis peak. While pay growth was slowing even before the financial crisis, the recent squeeze on pay is the longest since at least Victorian times.[2]

The Office for Budget Responsibility (OBR) forecasts at the time of the Autumn Statement offered little comfort, showing that real pay is not expected to recover to its pre-crisis levels until 2020/21, with the forecast for average real pay in that year now downgraded by £1,000 relative to the prediction at the time of the last Budget, due both to higher inflation (as a weaker pound feeds through into higher prices for imported goods), and a weaker economy, and therefore pay.

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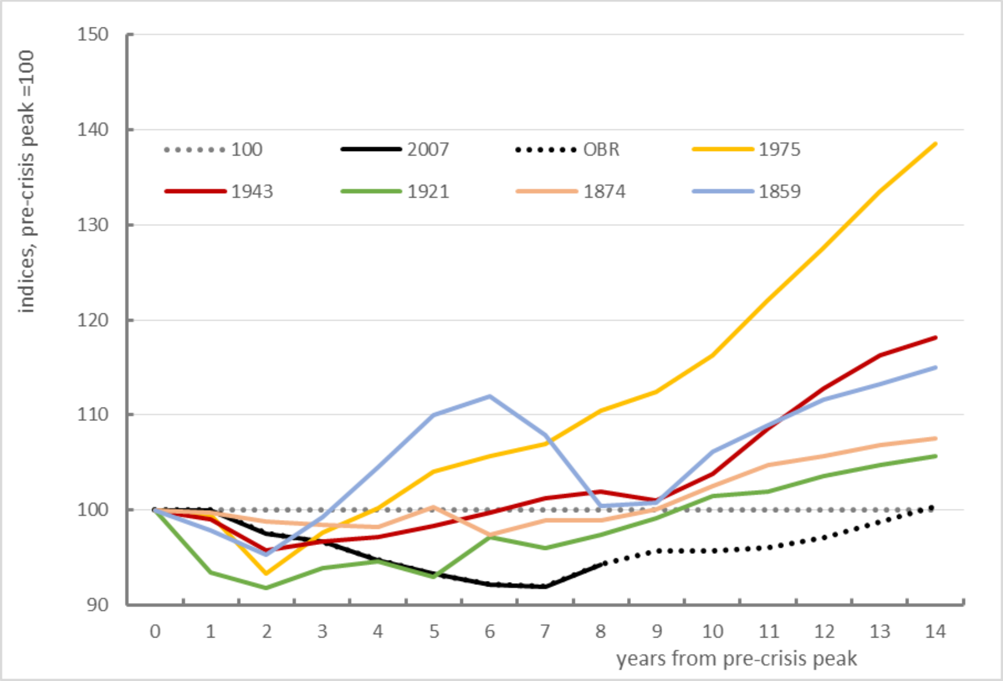
[1] See table 2https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014

[2] http://touchstoneblog.org.uk/2016/11/no-bones-worst-real-earnings-decline-least-162-years/

Chart 1 below compares all episodes of real earnings decline from 1854. 2017 corresponds to the tenth year of decline, with the pre-crisis peak not expected to be restored until 2021.

Chart 1: Real earnings, pre-crisis peak =100



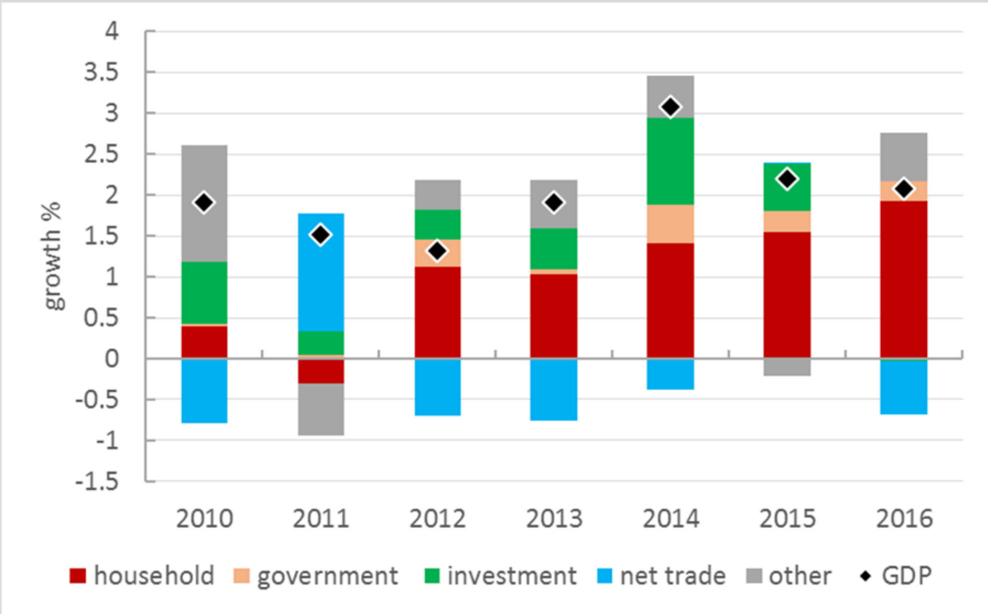
Other forecasts are in line with these gloomy expectations, with the latest HM Treasury round up of economic forecasts forecasting wage growth of 2.5 per cent in 2017, but CPI growth of 2.8 per cent meaning falls in real wages over the year.[3] There is a clear risk of a return to the living standards crisis seen earlier this decade without significant government action.

An unbalanced economy: high levels of household debt

Weak pay can be seen as one sign of an unbalanced economy, with growth almost wholly reliant on consumer spending (see chart 2 below). It also poses a risk to this model continuing, as rising household levels of household debt place a limit on people's ability to keep on shopping – as well as putting their personal finances at risk.

[3] Hm Treasury (January 2017) Forecasts for the UK economy: a comparison of independent forecasts https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/584067/PU797_Forecast_for_the_UK_Economy_Jan_2017.pdf table 5, median forecasts.

Chart 2: Demand / Contributions to GDP(E) growth, percentage points



Source: ONS and OBR forecast for 2016

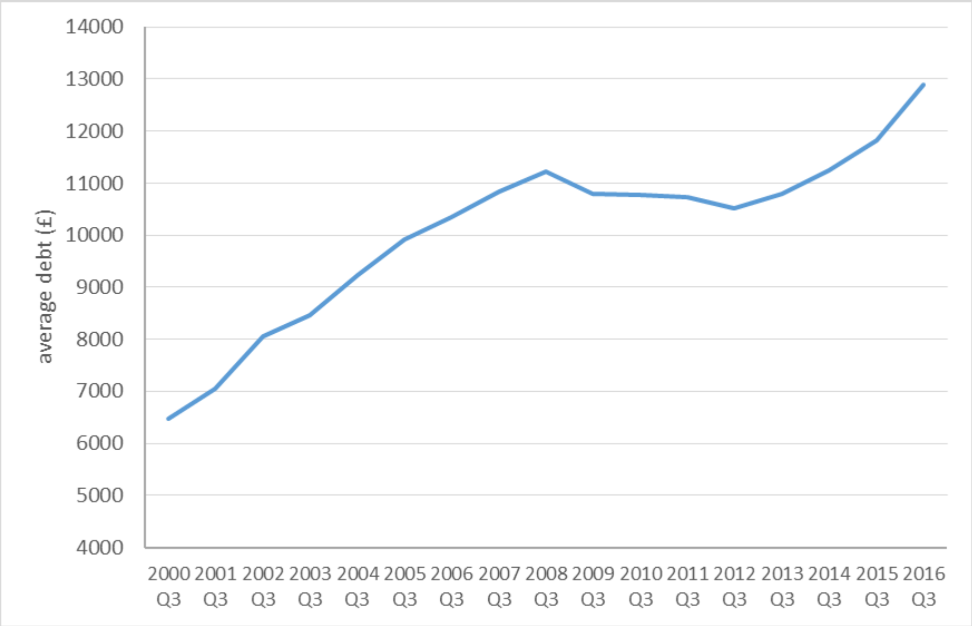
The current reliance on consumer spending is leading to worrying levels of unsecured household debt. Data from the Bank of England shows that total consumer credit (that is excluding both mortgages and student loans) grew by 10.8% in November 2016 compared with a year before.[4] TUC analysis of ONS figures has found that total unsecured debt (i.e. not mortgages) hit £350bn in the third quarter of 2016, well above its peak of £290bn before the 2008 crisis. Some of this will be increased student fees, but as the Bank of England shows, this cannot be all the full story, and Mark Carney has been among many drawing attention to the sharp increase in consumer borrowing.[5]

Particularly concerning are levels of unsecured debt per household. Chart 3 below shows the nominal (cash) value of debt per household in the UK. As of quarter 3 of 2016 each household owed £12,887.45, a rise of over £1100 on the year and the largest, single year increase since at least the turn of the century.

[4] http://www.bankofengland.co.uk/boeapps/iadb/FromShowColumns.asp?Travel=NIxSSx&SearchText=LPMB4TC

[5] See http://www.bankofengland.co.uk/publications/Documents/speeches/2017/speech954.pdf

Chart 3: Average level of unsecured debt per household (£)



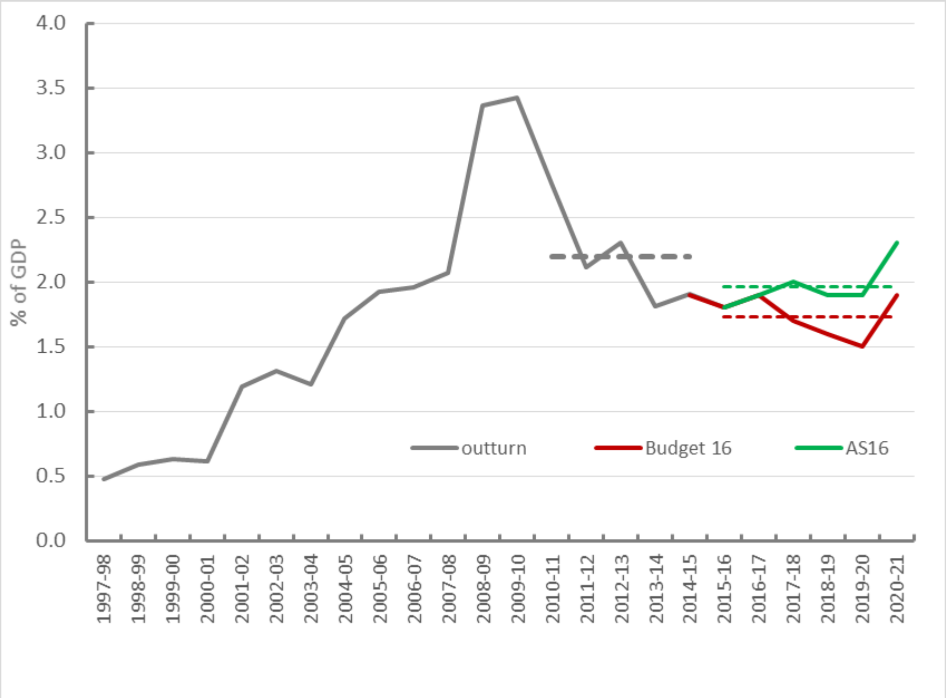
Source: ONS, total loans, loans secured on dwellings

Weak pay growth and high levels of consumer debt risk forging a vicious cycle: as pay growth slows, households will find it harder to service their debts, and be forced to reduce their spending. And unless we see a boost to the economy from business or government investment, this could lead to a further slowdown in growth, and ultimately in jobs and pay.

The Autumn Statement saw a welcome start to an approach based on investment, with £23bn ear-marked for a 'National Productivity and Infrastructure Fund'. But while a step in the right direction, this level of additional expenditure leaves investment levels well below that seen even in the last parliament.

Chart 4 below shows public sector investment as a share of GDP – with the new projected spend compared with the position at the time of the 2016 Budget. Overall public investment in this parliament is projected to reach 1.9 per cent of GDP – an improvement on the position at Budget 2016 of 1.7 per cent, but still well below the 2.2 per cent level reached in the last parliament.

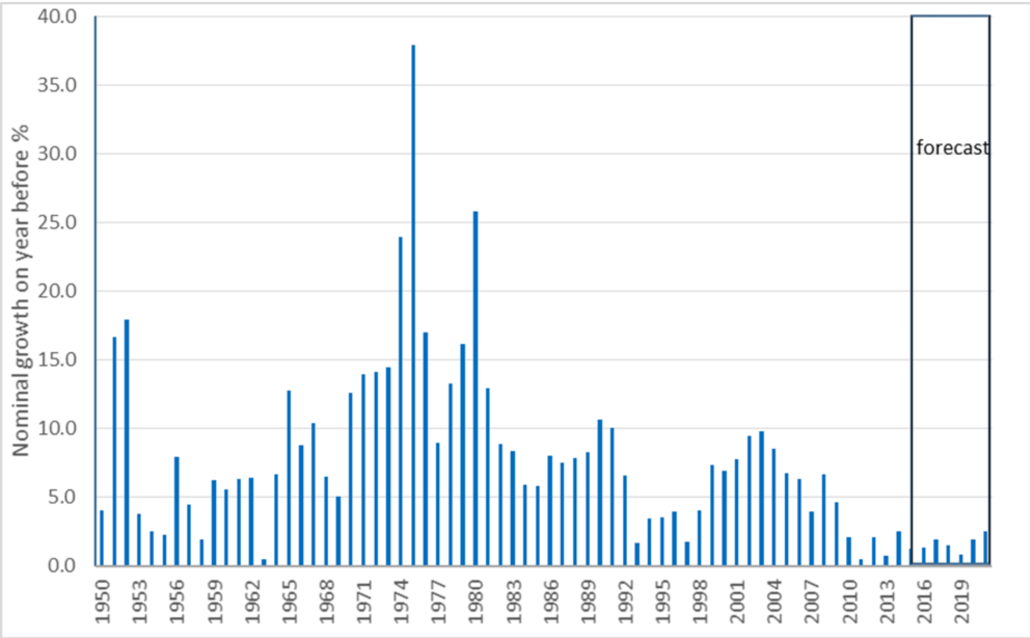
Chart 4: public sector investment as a share of GDP (%)



Source: OBR

And as the OBR have shown (see chart 5 below), while public investment increased at the Autumn Statement, total government expenditure will grow extremely slowly over the course of the parliament, and only marginally faster than in the previous parliament. There is clearly space for government spending to do more to support the economy, and we believe that there remains significant unused capacity. As we set out further below government investment is required both in infrastructure and in our public services.

Chart 5: Government consumption 1950-2021



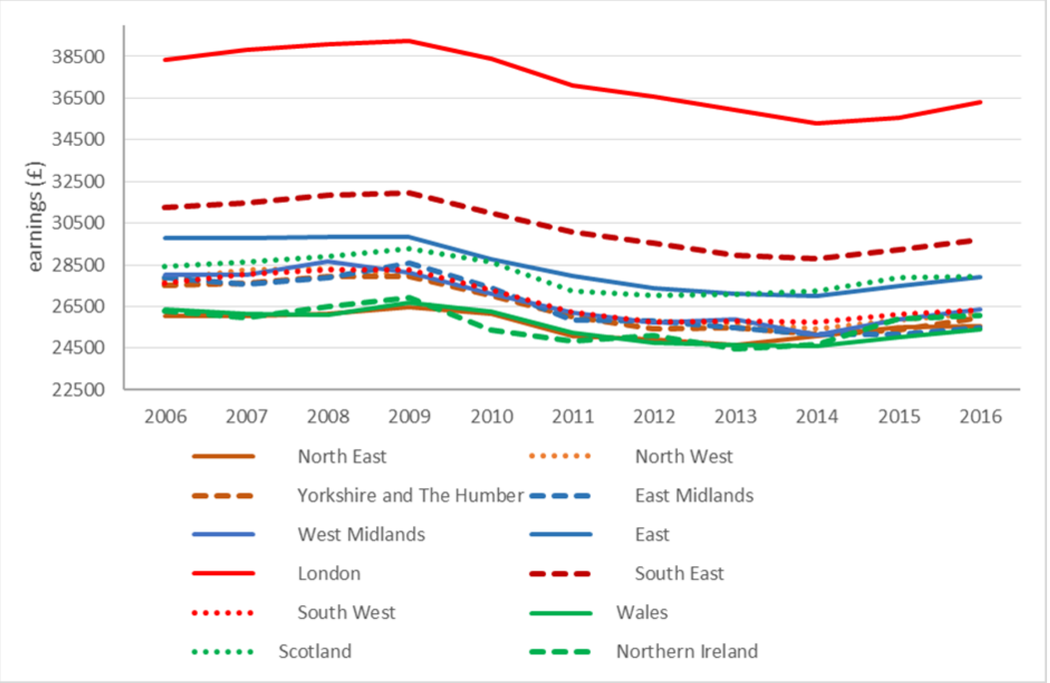
Source: OBR forecast 2016

An unbalanced economy: regional disparities

Working people across the country have experienced a hit to their pay packets. But Britain's long trend towards growth that benefits London and the South East while leaving the rest of the country behind means that the impact on living standards still varies significantly around the country.

Chart 6 below shows the sharp disparity in real wages around the country, with workers in the lowest paid region (the East Midlands) earning on average just 70 per cent of those in London The disparity is not only between the capital city and the rest of the country: those in the North West earn just 88 per cent of their counterparts in the South East for example.

Chart 6: Real full-time weekly earnings in UK regions and nations (£, 2016 prices)

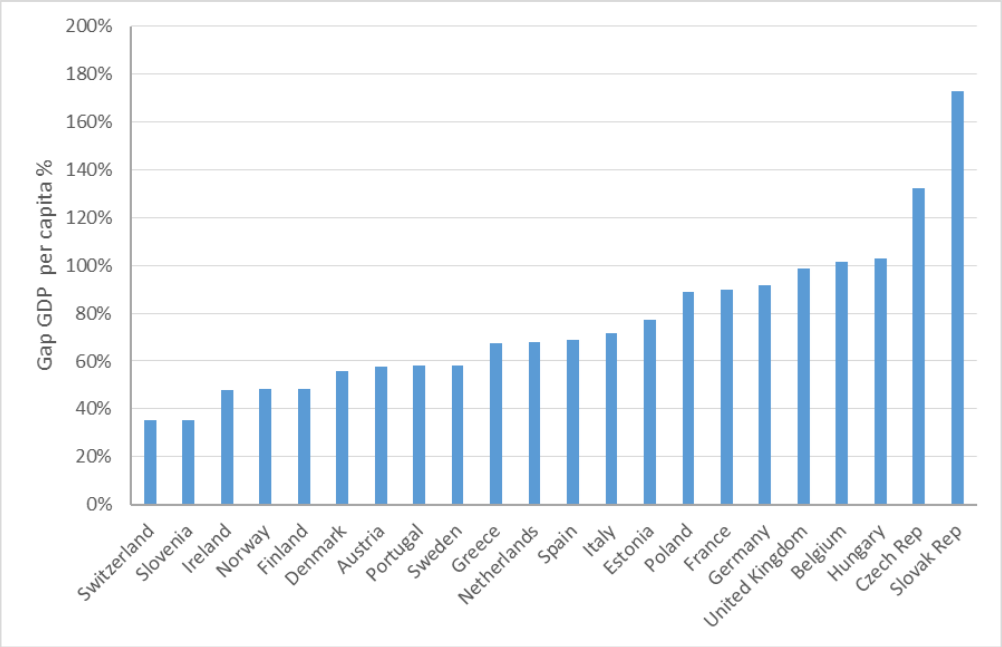


Source: ASHE 2016

There is nothing inevitable about this level of regional disparity, and Britain clearly could do better. Chart 7 below shows that the gap between the richest and poorest region of the UK is larger than most other OECD countries, behind only Belgium, Hungary, and the Czech and Slovak republics. But at present, there is no sign of Britain diverging from its current path; in both 2014 and 2015, London's growth (measured as GVA) per capita was double that of the average across the rest of the UK.[6]

[6] http://touchstoneblog.org.uk/2016/12/last-two-years-london-per-capita-income-double-rest-uk/

Chart 7: GDP per capita gap between richest & poorest region



Source: OECD

The Rise in insecurity at work

The weakness of the British economy is being experienced by working people not just as a downgrade in their pay, but as an increase in the level of insecurity faced at work. Employers have sought to manage the financial risk that comes from the inability to guarantee a constant demand for a product or service by employing workers on contracts that offer flexibility for the employer, at the expense of pay and certainty for the employee. And because these contracts often come with lower pay and fewer rights and protections, the risk of being unable to work due to sickness or caring responsibilities, is also transferred to working people.

Research by the TUC suggests that 3.2 million people, one in ten of those working today, now face significant insecurity at work. This includes:

- Over 800,000 people are now employed on a Zero Hours Contract,[7] an increase of over 700,000 since a decade ago.
- There are over 760,000 people in non-standard forms of temporary work, including agency and casual work.

[7] Our figure for those on a zero hours contract is slightly lower than that given in the official statistics to avoid double counting those who also say they are engaged in agency or casual work.

- 1.7m people are in low paid self-employment, paid below the level of the government's living wage.[8]

A large part of this group – those on zero hours contracts and in insecure temporary work, risk missing out on key rights – including family friendly rights such as the right to request flexible working - even while working for an employer, and the size of this group has doubled over the last decade.

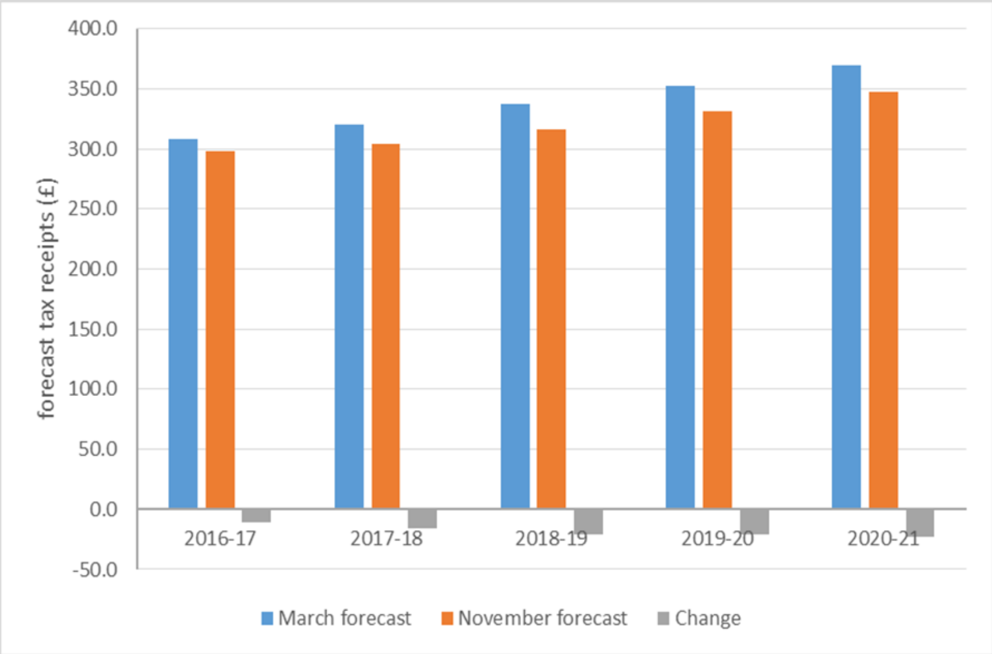
Moreover these workers face significant pay penalties, and there is evidence that the size of these penalties is increasing:

- Self-employed people now earn an average of 60 per cent of the median annual rate of an employee per year, down from around 70 per cent a decade ago.
- Median hourly pay for those on a zero-hours contract in 2016 was worth just 66 per cent of the median for all employees.
- Median hourly pay for those working for an employment agency was worth just 80 per cent that of the average employee; for those in casual or seasonal work, pay was worth just 60 per cent of the employee average.

These pay penalties mean that not only are workers missing out on decent living standards, the exchequer is suffering too, with this exacerbated by the fact that employers are taking advantage of tax structures which incentivise less secure forms of employment. As the OBR set out at the time of the Autumn Statement (see Chart 8), income tax receipts have consistently disappointed expectations, and have now been downgraded from forecasts produced in March.

[8] TUC (2016) Living on the edge: the rise of job insecurity in modern Britain

Chart 8: Forecasts for income tax receipts (£bn)



Source: Table 4.11, Office for Budget Responsibility

Falls in earnings are driving a large part of these changes, but the increase in incorporations – where formerly employed or self-employed people incorporate as a business and pay lower rates of taxation- are also causing a fall in income tax receipts.

These four related challenges, weak real pay growth, reliance on consumer spending, regional imbalances and the rise of insecure work suggest that the British economy is far from being fit to deliver stable living standards in the coming period of uncertainty as we negotiate our exit from the EU. The next sections of our submission set out how we believe the government can address these challenges.

3. Addressing the living standards challenge

Improving pay and conditions at work

Addressing the weaknesses across the British economy, driving up pay, and protecting living standards requires a concerted effort across a wide range of policy areas, and the recommendations we set out below to improve our corporate governance, and deliver an effective industrial strategy, will be an essential part of this effort.

In this section we set out the measures that will be particularly important to address insecurity in the workplace. We welcome the establishment of the Taylor review of modern employment practices, and will be making sure that working people have a chance to contribute by sharing their experiences of the current world of work. However, there is plenty that the Government could do to improve living standards for those facing insecurity now. We think action is needed across five areas: improving collective rights and involvement, increasing the floor of employment rights, ensuring that our social security and pensions systems respond to the changing world of work, reviewing the tax treatment of different forms of employment, and ensuring that rights can always be enforced

Improving collective rights

The increase in insecurity in the workplace has involved a shift of power away from working people, who have been asked to shoulder the burden of additional risks – whether the risk of there being insufficient work, or the risk of the worker themselves falling sick.

Collective rights – to be represented by a union, or be informed and consulted at work, can help redress this balance, and, as we set out further below, have the additional benefit of leading to more engaged and productive workforces. At present, too many employers remain stuck in a low pay growth model, despite high profitability,[9] to the detriment of both long term productivity growth and the economy as a whole.

Unions are already delivering improvements for workers across the country: today's totemic examples of insecurity, Sports Direct, Uber, or ASOS have come to prominence because unions have been organising in their workforces for better terms and conditions. But there is more they could do with a better framework of rights, and greater institutional support. One simple change the government could make is to give Trade Unions better rights to access workplaces, in order to tell workers about the benefits of joining a workforce.

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[9] Profitability of private UK owned non-financial corporations rose last year, and the net profitability figure is at its fifth highest level for Q3 since 1997. See https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/profitabilityofukcompaniesreferencetable

Thinking longer term, Government should also examine the potential for new industrial bodies in low paid sectors, drawing on lessons learned from the old wages councils as well as the current Low Pay Commission, to work with unions and business to help boost pay and productivity across large sectors of the economy.

Raising the floor of individual employment rights

While the structure of employment rights may be outside the remit of the Treasury's budget preparations, there are clear exchequer benefits to be gained from a better floor of employment rights for everyone.

Increasing security at work, by giving those currently classified as workers full access to an enhanced floor of rights including family friendly rights, and the right to protection from unfair dismissal,[10] could enhance job retention, and reduce reliance on both in and out of work benefits. We look forward to working with the Taylor review to examine how this could be put into practice.

Ensuring that social security and pensions respond to the changing world of work

At present, 500,000 people on a zero-hours contract or in insecure temporary work do not qualify for Statutory Sick Pay because they earn less than £112 a week, nearly a third of all those in this category. These workers are also excluded from full maternity pay and have no right to paternity pay. While new mothers can claim the Maternity Allowance benefit as an alternative, new fathers in the insecure workforce have no right to financial support enabling them to take time off. There is also no right for these workers to be automatically enrolled into a workplace pension.

We hope that the Taylor review will take a comprehensive look at the interaction of the tax and social security system, how it can best support secure and stable employment, and protect people when they cannot work. However, there are some clear areas for reform.

Sick pay

It cannot be right that some people are too low paid to be able to afford to be ill. The TUC believes that low-paid workers should have equal rights to SSP, paid at the normal rate, or at a rate equivalent to their normal weekly earnings if that is lower.

Provision for fathers

Provision for fathers is clearly out of date, with no income protection for new fathers who are self-employed or earn too little to qualify for statutory paternity pay. The government should set out plans to introduce an allowance similar to Maternity Allowance for new fathers, adoptive parents or new parents who opt to take shared parental leave in the first year after birth or adoption.

[10] Further details of how employment rights currently work

Universal Credit

The low pay faced by those in insecure work means they are particularly likely to need to rely on in-work benefits, including Universal Credit. Despite the reduction in the taper rate introduced at the Autumn Statement, cuts to Universal Credit over the course of this parliament are set to leave families significantly worse off. The IFS estimate that for example, a working lone parent will be over £2,000 a year worse off in 2020 compared to 2015 because of the impact of tax and benefit reforms, including Universal Credit.[11] Government should reverse the cuts to the work allowance in full, in order to avoid a damaging hit to families' living standards at a time when prices are rising. The unfair 'two child' policy and the removal of the first child premium should also be reversed.

Families with a self-employed earner are also likely to face reductions cuts in the level of support they receive if they do not meet the 'minimum income floor' requiring them to earn the equivalent of 35 hours a week at the National Minimum Wage. With the introduction of this expected to lead to a £0.8bn saving for the exchequer by 2021,[12] it is clear that the self-employed are set to experience a significant hit to their income. If government wants to reduce the numbers of those self-employed, it should do so by ensuring that there are alternative high quality employment options, not by sharp reductions in the level of support.

Pensions

Pensions are deferred pay, and those who face insecurity and low pay in their working life, are more likely to face inadequate pensions in retirement. The introduction of automatic enrolment has led to a welcome increase in the overall number of people enrolled into a workplace pension. But, as it is currently constituted, many low-paid and part-time workers are missing out. Women and those from certain ethnic minorities are most likely to fall into this category.

Contribution levels remain inadequate for a decent standard of living in retirement, for those across the income distribution. But the distorting impact of operating bands of qualifying earnings under automatic enrolment means that low earners are particularly hard hit, with only a small portion of income being taken into account for pension contributions. Even when contribution rates increase in future years, the amount being contributed will be far less than the headline eight per cent.

TUC analysis of official data shows that the eligibility criteria for automatic enrolment has a particularly dramatic effect on the eligibility of part-time workers and shows that this overwhelmingly means women. Of the 26.4 million employees in the UK, 4.6 million (or 17.6 per cent) earn less than the £10,000 trigger level. Of these, 3.4 million (around three quarters of the total number of workers earning less than the trigger level) are women. Indeed, more than a quarter of female employees earn less than the auto-enrolment trigger.

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[11] https://www.ifs.org.uk/uploads/publications/budgets/as2016/as2016_tw.pdf see slide 7.
[12] OBR, Economic and Fiscal Outlook, March 2016.

The problem is particularly acute for part-time workers. More than half – 56.8 per cent – of part-time workers earn less than £10,000. Their number includes more than three million female part-time employees compared to fewer than one million men. The problem has been caused by linking the earnings trigger to the threshold for paying income tax. This threshold has been raised substantially in recent years as a deliberate government policy aimed at helping low-paid workers.

Addressing the problems of those in low-paid and insecure jobs should be at the heart of the government's review of auto-enrolment, alongside an overall effort to raise contribution levels. It is therefore a positive step that the 2017 review of automatic enrolment being overseen by the Department for Work and Pensions will consider both the position of those holding multiple jobs, and the impact of automatic enrolment thresholds, including the earnings trigger and qualifying earnings.

However, this is insufficient to ensure that workplace pension savings will play a sufficient role in providing for adequate pensions for low and middle earners in the future.

We need:

- A more sophisticated understanding of pensions adequacy and the impact of trends such as growing private renting into later life and rising care costs.
- To consider means of bringing the self-employed into the auto-enrolment system, given the growing evidence that many workers are saving nothing for their old age.
- A long-term routemap for raising overall minimum contribution levels to a point where savers have a decent chance of decent income in retirement. The Pensions Policy Institute has found that at minimum contribution rates, a median earner has just a 49 per cent chance of amassing enough savings for a decent standard of living.
- A coherent government approach to savings so that new initiatives do not undermine efforts to encourage long-term saving.

It is crucial that efforts to bring workplace pensions savings to a greater portion of the workforce are accompanied by efforts to safeguard the valuable, and highly valued, savings many workers have in defined benefit pension schemes. Some 11 million people have DB pension savings. And they will play a crucial role in tackling the challenge of pensions' adequacy for decades to come.

Given the fall in workplace savings from the 1980s, the State Pension will play an increasingly important part in sustaining the living standards of future pensioners. The continuation of the Triple Lock is vital in helping to re-establish the State Pension at a decent level over time.

Government should resist efforts to increase the State Pension age as a crude mechanism for encouraging people to remain in the workforce for longer. TUC research has shown that:

- There remains an enormous drop in participation in the labour market from well before State Pension age. Barely half of 60-64 year olds are economically active.
- There are nearly half a million people within five years of State Pension age who are too ill or disabled to work, this is one in eight.
- Up to a third of older people from manual occupations who are economically inactive ahead of retirement cite sickness or disability as the reason. This is twice the rate of those in some white collar categories.

The government should also take a cautious approach towards any reform of pensions tax relief. The TUC believes that improvements could be made to the current system and more support provided to lower and middle earners. But there should not be a shift away from the important principle of providing upfront relief or a reduction in the overall support given to savers.

Securing pensions adequacy for workers is an enormous challenge. And there is a risk that fragmented policy initiatives will fail to meet this goal. We therefore believe there is a strong case for appointing a standing pensions commission, including representatives of trade unions and employers. Evidence-gathering and consensus-building should be at the heart of pensions policy making.

Reviewing the tax treatment of different forms of employment

Self-employment is a positive choice for many who take it up, with the self-employed often experiencing higher levels of job satisfaction. But self-employment should be a choice made by the individual based on what's best for them, not by the employer based on what minimises their costs.

There is significant evidence of false self-employment. Citizens Advice, based on survey evidence, estimate that there may be up to 460,000 people in this category. Further evidence comes from a survey undertaken by the Business Energy and Industrial Strategy department (then BIS), which found that at least 100,000 people who were encouraged into self-employment by their previous employer, and now work principally for them. We think that this is a minimum estimate of the number of people who are falsely self-employed.[13]

We welcomed the review announced in the Autumn Statement of different forms of remuneration and "how the system could be made fairer between workers carrying out the same work under different arrangements." We hope that an update on this work at the Budget will set out explicitly how it intends to consider the incentives for employers to encourage people into bogus self-employment.

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[13] https://www.gov.uk/government/publications/understanding-self-employment

Ensuring that rights can be enforced

In addition to new collective and individual rights, more resources are needed to ensure that existing rights can be enforced.

Employment tribunal fees

The first priority in this area must be the abolition of employment tribunal fees, which are having a clear impact on access to justice. In the year before fees were introduced (2012/13) on average 16,000 people a month took a claim against their employer. However, by 2015/16 the average number of people taking claims dropped to 7,000 a month[14] –a drop of 9,000 a month. The Chair of the Justice Select Committee, following its recent review of tribunal fees concluded "the timing and scale of the reduction following immediately from the introduction of fees can leave no doubt that the clear majority of the decline is attributable to fees." He also stated that "where there is conflict between the objectives of achieving full cost recovery and preserving access to justice, the latter must prevail".

The remission scheme which the government said would mitigate the impact of tribunal fees on low-paid workers has been of limited benefit. Fewer than one in five tribunal claimants have been able to claim a reduction or exemption from paying fees under the scheme (even fewer than the one in four the government predicted).

The introduction of early conciliation has not replaced the need for the ultimate backstop of access to a tribunal. According to figures from ACAS for the year to March 2016, out of the 91,585 cases they received for early conciliation, an early settlement was reached in 17% of cases, 18% progressed to tribunal but 65% were unresolved. This means tens of thousands of workers with potential employment rights breaches are being left with nowhere to go once they exhaust workplace procedures for resolving disputes and early conciliation.

More resources should be provided for the employment tribunal service so that tribunal fees can be abolished and access to justice restored. If the government is serious about improving workers' rights, this should be its first step.

Enforcement agencies

We welcomed the additional investment in the Autumn Statement in enforcing the national minimum wage. This will help the new Director of Labour Market Enforcement to be more effective in ensuring that everyone gets the pay they are entitled to. But if the potential of this role is to be fulfilled, the other agencies under its purview, including the Gangmasters and Labour Abuse Authority, and the Employment Agency Standards Inspectorate also need more resources.

The TUC cautiously welcomed the expansion of the remit of the Gangmasters Licensing Authority to enable it to tackle worker exploitation across the whole economy. But, as we stated in response to the government's consultation on labour

[14] http://touchstoneblog.org.uk/2016/11/action-tribunal-fees-key-test-theresa-mays-commitment-workers-rights/

market enforcement, the new Gangmasters and Labour Abuse Authority will fail in its ambitions without a substantial increase in resources to reflect its new task.

The GLA currently licenses labour providers in the agriculture, horticulture and food processing sectors, which account for about 1% of the total UK workforce. Even if the new GLAA focuses on using its new investigatory and enforcement powers in the sectors that it has identified as being high risk (construction, hospitality, warehousing, logistics, cleaning and retail), this will be a substantial increase in its remit as these sectors account for about a third of the UK workforce.

The GLA currently regulates sectors that are worth £100 billion on a budget of £4 million (0.004 per cent of the value). It has 67 frontline staff which is 25 per cent less than in 2010/11.[15] The expansion of the GLA's remit means that its staff will have new powers and a new offence of aggravated labour law breach to investigate and prosecute. The HMRC estimates that a single prosecution of a criminal offence under the NMW Act costs at least £50,000. The GLA estimates that over the last five years in the farming and food processing sectors alone, it has revoked 119 licences all of which could have been considered for prosecution under the new offence.[16]

There have been some increases in the resources of the Employment Agency Standards Inspectorate's in 2014/15 and 2015/16, bringing the number of inspectors to 9.[17] However, at its peak there were more than 20 inspectors in post and significant cuts imposed by the coalition government have only been partially reversed.

The TUC therefore believes that the government must greatly increase the resources available to the GLAA to match the task that it has set for the new body. It must also ensure adequate funding for other statutory agencies responsible for enforcing basic rights at work like the Employment Agencies Standards Inspectorate and Health and Safety Executive.

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[15] GLA Annual Report and Accounts 2010/11 and 2014/15 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/444757/50616_HC_273_GLA_Annual_Report_web.pdf

[16] GLA Contextual Briefing on the BIS/Home Office Consultation (October 2015)

[17] Employment Agency Standards (EAS) Inspectorate Annual Report 2011/12 (BIS, February 2013)

Improving corporate governance to improve workforce engagement and productivity

The TUC welcomes the Government's green paper on corporate governance, and the recognition that improving the health of the British economy requires a long term approach, and one that fully engages the skills and talents of the workforce in raising productivity and contributing to business success.

If we are to address the unbalanced and short-termist nature of our economy, the lack of training and investment in the workforce, and the proliferation of insecure forms of work, it is clear that we need a review of how companies are governed and run.

We will be submitting a full response to the green paper, outlining in more detail the reforms that we think would help deliver a better model of doing business. Here however, we briefly touch on three areas where the Chancellor could indicate the Government's direction of travel; worker representation on company boards, executive pay, and the need for worker involvement throughout the company.

Worker representation on company boards

The Prime Minister has repeatedly said that she wants to see workers represented on company boards.[18] The current proposals in the Green Paper do not deliver on this commitment.

Worker board representation operates in 19 countries across Europe, including in countries such as Sweden with a UK style unitary board system. Those countries with strong workers' participation rights perform better on a wide range of the factors that we will need to weather the current period of uncertainty, including higher R&D expenditure, and higher employment rates.[19]

We know that it is in the interests of the economy for companies to take a more long term approach to decision making, and that worker board representation can help to deliver this. Given the correlation of workers' interests with the long-term success of their company, the inclusion of workers on company boards can help boards to focus on strategies to promote long-term, organic growth, rather than being distracted by short-term financial engineering, as happened for example in the financial sector in the run-up to the crisis. Workers also bring with them an in-depth knowledge of how the company operates which makes them well-placed to contribute to discussions on strategy and operational matters.

Workers' experience within the company is likely to give them an understanding of the need to foster positive relationships with other stakeholders such as customers,

[18] See, for example, her speech to the 2016 Conservative Party conference http://press.conservatives.com/

[19] TUC (2016) All aboard: making worker representation on company boards a reality https://www.tuc.org.uk/economic-issues/corporate-governance/workplace-issues/all-aboard-making-worker-representation

suppliers and so on that are critical to company success. Indeed, a Danish study[20] found that worker board representatives were more likely than shareholder representatives to take broader stakeholder interests – including community interests and environmental impacts – into account.

Importantly, including workers on company boards brings people a very different range of backgrounds and skills into the boardroom. Board members, both executive and non-executive, are currently drawn from a narrow constituency and the addition of workers would bring immediate benefits in terms of diversity and challenging 'groupthink'.

The Budget represents a good opportunity for the Chancellor to return to the Government's initial promise to recognise that worker representation could contribute significantly to company success. Indeed, in the Prime Ministers questions held before the Autumn Statement the Prime Minister re-iterated her own commitment to this policy, stating that "I believe that we should see workers' representation on boards. I make no apology for the fact that this Government are going to deliver on that"[21]. We hope that the government will ensure that they do indeed deliver on this promise, with mandatory representation for worker representatives (not directors speaking on their behalf) on company boards.

Tackling excessive executive pay

Top bosses had already made more money by the first Wednesday of 2017 than the typical UK worker will earn all year; and the average pay ratio between FTSE100 CEOs and the average total pay of their employees in 2015 was 129:1.

We welcome the government's proposal to begin to tackle excessive executive pay by requiring companies to publish pay ratios. But there is more needed to lead to a step change in the trend for executive excess. Worker representation on remuneration committees (in addition to their role on the broader board) is a key part of the change needed; one study showed that, among the largest 600 European companies, the presence of board level worker representation is correlated with lower CEO pay and a lower probability of stock option plans. A second study showed that, within large German companies, stronger employee representation on the board led to lower CEO pay and less use of stock-based remuneration.[22]

The TUC also believe that a more radical rethink is required on the level of 'long term incentive related' pay or LTIPs, which have grown much faster than any other element of Directors' pay. There is increasing agreement that this approach is flawed,

[20] Caspar Rose, "Medarbejdervalgte bestrelsesmedlemmer I danske virksomheder" in Tidsskrift for Arbejdsliv, 2005

[21] https://hansard.parliament.uk/commons/2016-11-23/debates/C4C012CE-5811-42CA-9637-ADEFBF4577F4/Engagements

[22] Board Level Employee Representation, Executive Remuneration And Firm Performance In Large European Companies, Sigurt Vitols, March 2010; and Arbeitspapier 163, Beteiligung der Arbeitnehmervertreter in Aufsichtsratsausschüssen, Auswirkungen auf Unternehmensperformanz und Vorstandsvergütung, Studie im Auftrag der Hans-Böckler-Stiftung, Sigurt Vitols 2008; both available from the TUC

and a different approach needed. We will submit more evidence on this in our response to the Green Paper, but in brief, we believe that the incentive-related element of remuneration should be a much lower proportion of total remuneration than is generally the case at present (we suggest around 10%) and should not dominate the total package; no more than one incentive-related element should be used; and targets should be long-term only (at least five years) and should include non-financial indicators.

Investing in the workforce to improve engagement and productivity

Britain's poor productivity performance when compared to its major competitors can be traced in part to its lack of an effective system for developing the skills of the workforce, and to lower levels of worker participation, which mean that British businesses are failing to get the best out of their workforce.

Investing in skills

The TUC has welcomed the general thrust of some ongoing reforms of apprenticeships, especially the introduction of regulatory measures – the apprenticeship levy and new procurement regulations - to address long-term under-investment by UK employers. We have also supported many of the recommendations of the Independent Panel on Technical Education chaired by Lord Sainsbury, including that the Institute for Apprenticeships should have its remit extended to cover technical education.

A major priority in the coming months must be to ensure that implementation of the apprenticeship levy next year leads to a significant improvement in the quality of apprenticeships as much as expanding provision in line with the three million target. The establishment of the Institute for Apprenticeships and Technical Education presents a real opportunity to adopt the principles of social partnership that govern similar bodies in other European countries, where employers and unions agree the standards for apprenticeships and wider technical education. The Institute should work closely with sector skills bodies that continue to facilitate high level dialogue between employers and unions on skills strategies and standards and it should also tackle those parts of the economy where this is currently not the case. Nationally agreed standard-setting in conjunction with a strong sectoral and industrial input from employers and unions would go some way to developing a high quality skills pipeline that would greatly contribute to a sustainable industrial policy.

It is vital that government invests in developing the skills that companies need. Whilst the 2015 Spending Review included a degree of protection for the adult FE and skills budget during the remainder of this Parliament, the legacy of major cuts since 2010 has resulted in a greatly contracted college sector. In addition, further rationalisation is expected in the near future, with a number of college closures and mergers likely to be triggered by the ongoing Local Area Reviews. The government will be making major savings to its skills budget over the coming years as apprenticeship funding (approximately £1.5B per annum) is wholly replaced by revenue from levy-paying employers. There is a strong case for using these saving to boost opportunities for adults to retrain, especially people on a low income who are averse to taking out a FE student tuition loan (these are now mandatory for an increasing number of college courses aimed at adults).

Improving workforce representation and engagement

In order for this investment to be fully realised and lead to an increase productivity, it is also essential that working people have the opportunity to utilise these skills effectively in the workplace. At present, many of our low wage high employment sectors fall behind on how they utilise the skills of their workforce. Evidence published by the Institute for Public Policy Research (IPPR) in May 2016 showed how low wage sectors are also low productivity sectors in the UK. Retail, accommodation, food and administrative services employ a third of all workers, produce 23 per cent of the UK's gross value added, but are on average 29 per cent less productive than the economy as a whole.[23]

This need not be the case: if we were able to raise productivity levels among low wage firms to the levels seen elsewhere, the UK could close a third of its average productivity gap with Belgium, France, Germany and the Netherlands. Some of the answer lies in skills and innovation. Workers in low paid sectors tend to not only be lower skilled but are less likely to be offered training. Low wage sector firms also invest less in innovation, including information and communication technologies.

But reforming our low wage low productivity sectors so that they invest more skills requires a wider approach to encouraging workplace involvement and participation at work. Boosting workers' voice in the workplace, specifically collective bargaining and collective consultation, has a direct impact on skills utilisation, work organisation and workforce motivation, all of which play an important role in raising productivity. Where unions negotiate with employers over training, not only are training rates significantly higher, but there is also an impact on the critical area of skills utilisation, with research showing a direct association with higher wages, better job security and improved organisational performance.[24]

Collective consultation and representation also play a vital role in successful change management, with staff are much more likely to embrace change and have the motivation and confidence to adapt to changing requirements if they have been involved in discussions on how change will be implemented. There is also a positive impact on innovation; research has found that collective bargaining at workplace and firm-level is positively associated with product innovation. A contributing factor is likely to be the fact that team-working and functional flexibility are more likely to be found in union than non-union workplaces today.

Thus addressing the economic drag of low skills and low productivity should include a focus on boosting collective voice among workforces that are often badly paid and insecure. As we set out above, Government should examine the potential for new

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[23] http://www.ippr.org/publications/boosting-britains-low-wage-sectors-a-strategy-for-productivity-innovation-and-growth

[24] Professor Mark Stuart et al (2015) Skills and Training: the union advantage, TUC Unionlearn.

industrial bodies in low paid sectors, drawing on lessons learned from the old wages councils as well as the current Low Pay Commission, to work with unions and business to help boost pay and productivity across large sectors of the economy.

An industrial strategy that delivers decent pay and jobs across the country

The TUC has welcomed the government's conversion to the need for an industrial strategy. As we set out in section two of this document, the imbalances in the UK economy require us to take a strategic approach to addressing them, and the success of the government's industrial strategy will be judged on whether it delivers good jobs on good wages in the parts of Britain that need them most.

This response is submitted prior to the Government's expected Green Paper, setting out its new approach. We believe that the strategy should set out to:

- Deliver an increase in decently paid jobs, raising the level of wages across the country;
- Retain and develops the industries that the UK needs to remain competitive in the age of globalisation, including our high quality manufacturing industries;
- Do so in a way that delivers balanced growth across the country; and
- Meet the urgent necessity of tackling climate change and, in particular, the commitments we have signed up to under the Paris Agreement

In order to do this we believe there are four key areas where the government needs to act. First, it needs to consider how the Brexit negotiations can best support jobs in our key industries, securing the maximum possible tariff free access to our key trading partners in the EU. But domestic action is also vital, including investing in infrastructure, building the skills of the workforce and utilising these effectively, and ensuring that every pound of government spending is used to support the aims of the strategy.

We will respond in detail to the Government's Green Paper, but believe there is action the Chancellor could take under each of these areas to ensure the success of the strategy.

Ensure the Brexit negotiations protect jobs

The TUC was a strong supporter of the UK remaining in the single market and we were concerned at Theresa May's announcement that this will not be pursued. Across the UK, almost one in ten jobs are linked to EU exports. If we really are leaving the single market, we need to negotiate maximum access to that market, both for our manufacturing industries and for the service sectors providing jobs across the country, without tariffs and with the regulatory compliance that will allow maximum access for services.

We also need to avoid a race to the bottom on workers' pay and rights. While the Prime Minister's commitment to protect existing workers' rights is welcome as far as it goes, more detail is needed on how to prevent working people's protections in Britain falling behind those in Europe so that rights in the UK will always be as good as, or better than, workers' rights in the rest of the EU.

Invest in the infrastructure we need

Major infrastructure projects are a priority to protect the UK in the run-up to and following Brexit. We welcomed the announcement of the £23bn National Infrastructure and Productivity fund in the November 2016 Autumn Statement, to be invested in housing, high speed broadband, rail and roads.

However, the scale of this investment should not be overestimated. These new plans take the average investment across the parliament to two per cent of GDP, up from 1.7 per cent under previous plans. This still falls short of the 2.2 per cent share of spending in the last parliament, when Britain saw its level of infrastructure spending fall to among the lowest in the OECD.[25] It's clear that a further boost to infrastructure spending is needed, with housing a priority area for spending.

Develop the skills the workforce needs, and ensure that they are effectively utilised

As we set out above (in section five), the skills of the workforce, and their ability to make best use of them through engagement and voice in the workplace are a critical ingredient to company success.

Expanding worker voice and involvement – at every level of the company, must therefore be seen as a critical part of an industrial strategy that seeks to improve productivity in every sector and firm. Many of our highest productivity and performance firms including Rolls Royce and Nissan, are those in which unions have long representation, and are proud to contribute to company success.

Ensure that government spending is supporting the aims of industrial strategy

The TUC rejects Philip Hammond's threat of a new economic model based on low levels of Corporation Tax if we do not get what we want from Brexit negotiations. Apart from anything else, this would be counterproductive: private sector profitability (excluding the financial and oil extraction sectors) is at its highest since 1998 yet annual growth in business investment has been in negative throughout 2016. This does not suggest that boosting corporate profits will encourage UK companies to invest: If corporation tax were a decisive factor, Bulgaria, with a rate of 10% corporation tax, would be a magnet for inward investment – which it is not.[26]

Instead, government should take the opportunity to examine how it is getting the best return – in terms of jobs and growth – out of a given level of corporation tax, and how it can use tax reliefs strategically. We know that research and development spending, for example, produces a good rate of return. But the evidence is that this spending is concentrated in London and the South East (perhaps due to companies being headquartered in those areas), and a further examination of the best way to use

[25] http://touchstoneblog.org.uk/2016/11/uk-languishing-near-bottom-of-oecd-rankings-for-investment-in-vital-infrastructure/
[26]

tax reliefs to support jobs and growth across the country is required to ensure that government is getting the best return on its investments.

A more strategic approach to procurement

Government spending could also be used more strategically when it comes to procurement. The UK has a poor record of strategic procurement policy, and could do far more to use this to support strategic industries. For example, the Welsh Government has highlighted the potential of procurement policy in its new programme for government, 'Taking Wales Forward', which will run from 2016 until 2021. The Welsh Government will pilot a 'Better Jobs, Closer to Home', project, designed to create employment and training hubs in areas of high economic deprivation, and have committed to continue to use procurement 'to bring economic social and community benefits to Wales'[27]

Ensuring that every region shares in the economic benefits from migration

Finally, in seeking to redress regional inequalities, the government should ensure that every part of the country is benefiting from the positive economic impacts of migration through an expanded Migration Impact Fund. At the Conservative party conference in October, home secretary Amber Rudd MP announced a £140m Controlling Migration Fund, with spending spread over four years, and only £25m a year provided to local authorities in England, less than the £70 million a year Migration Impacts Fund established by the previous Labour government and abolished in 2010 as part of the coalition government cuts.[28]

While it is welcome that the government has accepted the need to change course, the budget for the fund is clearly inadequate[29]. It is some distance from distributing fairly the £2bn annual contribution to the exchequer that EU migrants make[30] and controlling migration is not the same as managing migration or ensuring that its benefits are fairly shared.

The TUC therefore believes the Chancellor should at least double the £140 million pledged by the Home Secretary to a locally controlled Migration Impacts Fund. This funding could help support strong and cohesive communities, relieve the pressure on public services, provide more homes for local people, support labour market skills and enable measures to tackle particular hotspots of worker exploitation.[31]

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[27] Welsh Government Taking Wales forward: 2016-2021 see http://gov.wales/docs/strategies/160920-taking-wales-forward-en.pdf

[28] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7673

[29] www.gov.uk/government/uploads/system/uploads/attachment_data/file/566951/Controlling_Mig
ration_Fund_Prospectus.pdf

[30] See Dustmann and Frattini (2014) http://www.cream-migration.org/files/FiscalEJ.pdf

[31] TUC (2016) A fairer deal on migration: managing migration better for Britain https://www.tuc.org.uk/sites/default/files/A%20fairer%20deal%20on%20migration.pdf

4. Investing in public services

As the UK enters its seventh year of public spending cuts, the pressure on services is intensifying to a point where informed opinion is pointing to a growing crisis of provision across parts of the public sector.

This has been most evident in key sectors such as health, social care and education. This is particularly significant in that even in relatively 'protected' areas, flat-lining funding is failing to keep pace with escalating costs and rising demand for services.

Below we outline the need for further investment in health and social care, and education, and explain why this must be a priority for the coming budget.

Health and social care

The TUC believes that in order to prevent a crisis in the health service, the government must find additional funding for health and social care, and bring UK health spending in line with our other major European competitors.

As the Health Foundation[32] put it "the NHS in England is currently halfway through the most austere decade in its history" with the £4.5bn net increase in Department for Health funding provided in the 2015 Spending Review meaning that real terms annual increases will have been an average of 0.9% from 2009/10 to 2020/21 – "the lowest ever rate of funding growth over a 10 year period".

These financial pressures mean that providers are struggling to keep pace with demand, as the Health Foundation continue "pressures on NHS providers grow by around 4% every year, due to a growing and aging population as well as rising costs, expectations and prevalence of long-term conditions. At the levels of funding provided, the NHS is struggling to meet these demands and cost pressures"[33]

Social care funding has fared even worse. Between 2009/10 and 2014/15, adult social care received a real terms funding cut of 9%. This has led to a fall of more than 25% in the numbers of people aged over 65 receiving community-based, residential and nursing care services. That's 400,000 fewer older people getting the paid-for care that they need and forced to turn to over-stretched NHS services or informal care instead.[34] As the Kings Fund point out, with a 29 per cent increase in the number of delayed discharges in 2016, "the number of patients ready to be discharged but delayed in hospital is at a record level and rising faster than ever before, underlining the impact of cuts in social care on the NHS"[35]

This is the financial context within which NHS performance is clearly deteriorating, despite the best efforts of staff. To take some examples from the latest Quarterly

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[32] http://www.health.org.uk/publication/perfect-storm-impossible-climate-nhs-providers%E2%80%99-finances
[33] ibid
[34] https://www.kingsfund.org.uk/publications/briefings-and-responses/spending-review-submission-health-social-care-funding
[35] http://qmr.kingsfund.org.uk/2016/21/

Monitoring Report from the Kings Fund from November 2016 (prior to the winter peak period):

- In September 2016, 32 per cent of ambulances failed to respond within eight minutes – the worst ever performance against this target
- In the second quarter of 2015/16, over half a million patients, almost 10 per cent of the total, spent over 4 hours from admission to discharge, admission or transfer in A&E – the worst performance since 2003/04
- The proportion of patients waiting more than 18 weeks to begin their treatment increased to 9.4 per cent in September 2016 - the worst performance since this target was introduced in April 2012.

Feedback from those working in the service suggests that this is a uniquely difficult time for both health and social care. A YouGov poll of 1,000 NHS workers, commissioned by the TUC, found that:

- 7 in 10 (69%) NHS workers said that reductions in staffing and resources are putting patient care at risk
- 9 in 10 (88%) NHS staff believe the health service is under more pressure now than at any time in their working lives.
- Three-quarters (77%) of NHS workers think resources and staffing in the NHS have gone down in the past five years
- Two-thirds (60%) of NHS staff say their employer has cut patient services to make financial savings

The Chancellor's commitment in the Autumn Statement to stick to departmental spending plans set out in the 2015 Spending Review was met with dismay from sector leaders and organisations representing health and care professionals and service users.

The Local Government Association stated that "councils, the NHS, charities and care providers have been clear about the desperate need for the Chancellor to tackle the funding crisis in social care". Richard Murray of the Kings Fund pointed to a growing crisis undermining government's wider policy objectives "the absence of new money for health or social care means that the already intense pressures on services will continue to grow. The lack of extra money for social care funding, in particular, means we are likely to see an already threadbare safety net stretched even more thinly. This will impact on some of the most vulnerable people in society, and so goes against the government's commitment to creating a country that works for everyone."

Perhaps most significantly, Julie Wood of NHS Commissioners stated that "the lack of investment in either social care or the NHS in today's Autumn Statement means that it is now critical that we have an open and honest conversation about what the NHS can reasonably be expected to achieve for patients with the resources available to it" (our italics).

It is our concern that without significant additional investment, the current NHS system of universal access, free at the point of use, will become increasingly unsustainable. And yet, looking ahead, the funding situation seems even more uncertain.

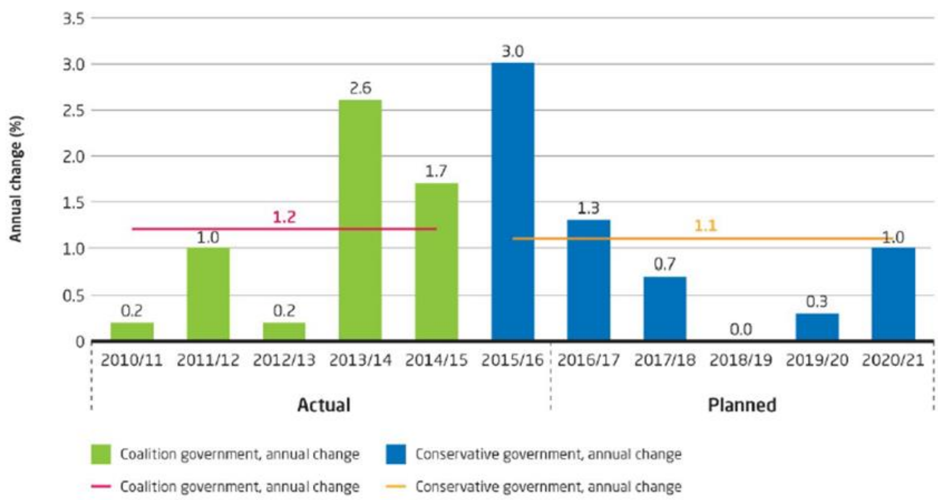
In response to outrage from the social care sector after the Autumn Statement, the government adopted some new measures to increase funding through allowing councils to increase the care precept on council tax by 3 per cent in 2017/18 and 2018/19 and through an additional £240m generated through reforms to the New Homes Bonus.

However, these measures fall far short of what is required, provide short term injection rather than future-proofing of the sector and risk increasing inequality between regions as high council tax yielding authorities raise far more in revenue than those with lower yields and often higher needs.

Despite a combination of bail outs and new control measures, NHS providers may be facing another significant year end deficit. As the Kings Fund reports "with 47 per cent of trusts overall still fairly or very concerned about meeting their control totals by the end of the financial year and more than half concerned about whether they will be able to meet their cost improvement targets, there is a risk that the end-of-year deficit will worsen further and exceed the £644 million forecast at quarter one"[36]

This presents intense challenges for the health service given the spending profile outlined in the 2015 Spending Review, where front-loading of NHS England funding means near zero growth in coming years, as the chart below indicates:

Chart 9: English NHS spending 2010/11 to 2021, real annual changes



Source: Kings Fund

[36] http://qmr.kingsfund.org.uk/2016/21/overview

In line with the aspirations of the NHS Five Year Forward View, the government and NHS England are looking to plug the growing mismatch between funding and activity through very large savings to be made through Sustainability and Transformation Plans (STPs) that are intended to deliver a step change in NHS efficiency and productivity through greater integration and the reconfiguration of services.

STPs offer the chance to bring NHS and local government providers together, working collaboratively across different parts of the system for a more integrated service, addressing some of the dysfunctional fragmentation brought about by the government's 2012 reforms. And the stated priorities – a focus on integration, prevention and better primary, community and social care – are to be welcomed.

But there is a danger that this could be undermined by the requirement to find large scale savings that could, in many cases, lead to cuts and reconfigurations driven by financial not clinical imperatives. We are already seeing the impact of this in some of the STP plans, with controversial community hospital closures and loss of beds in Devon[37] and job losses in others such as Nottingham where there may be a 12 per cent cut in Band 5 nursing posts.[38]

Education

Education is another 'protected' area where the funding squeeze is beginning to impact on service provision. The Department for Education tells us that "the 2015 spending review recognised that transforming education is central to the government's commitment to extending opportunity and delivering social justice. It therefore protected the national schools budget in real terms for the duration of the Parliament".

This line has been repeated by schools minister Nick Gibb MP in parliament. Responding to a parliamentary question in December 2016, he reiterated that "we have protected the core schools budget in real terms overall". However, in the same answer he also admitted that schools were facing significant cost pressures, which amount to 8 per cent per pupil between 2016/17 and 2019/20.

This reflects previous findings by the Institute for Fiscal Studies[39] that forecast that "school spending per pupil is likely to fall by around 8 per cent in real terms between 2014/15 and 2019/20" as a result of funding not keeping up with the growing costs facing schools and rising pupil numbers. As they note, this will be the first time education spending has decreased in real-terms since the mid-1990s.

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[37] https://www.theguardian.com/society/2016/nov/18/nhs-cuts-in-devon-if-these-services-end-my-boys-will-for-certain-die

[38] https://www.hsj.co.uk/topics/workforce/hundreds-of-core-posts-could-be-cut-under-stp-proposal/7013689.article

[39] https://www.ifs.org.uk/publications/8027

The National Audit Office[40] report of December shows that "funding per pupil will, on average, rise only from £5,447 in 2015-16 to £5,519 in 2019-20, a real-terms reduction once inflation is taken into account". They conclude that the government's attempts to deliver educational excellence everywhere must be set "against a budget that provides little more than flat cash funding per pupil over the five years to 2019-20. This means that mainstream schools need to find significant savings, amounting to £3.0 billion by 2019-20, to counteract cost pressures" which "equates to an 8.0% real-terms reduction in per-pupil funding between 2014-15 and 2019-20".

As Emma Knights[41], Chief Executive of the National Governors Association puts it "The organisations who speak for school leaders, including business leaders, are saying the same thing as we are: there simply is no longer enough money in the total pot to sustain adequately all schools in England".

This is certainly the case for Secondary schools where the number spending more than their income doubled to over 60 per cent in the last five years.[42]

The NAO[43] shows that schools are increasingly cutting their spending on school staff, stating that they "found that across all maintained schools spending on teaching staff, as a percentage of total expenditure, fell from 56% to 51% from 2010-11 to 2014-15. Similarly, academies' spending on teaching staff, as a percentage of the total, decreased from 55% to 52% between 2011/12 and 2014/15."

In January 2017, Russell Hobby[44] the General Secretary of the National Association of Head teachers warned that "parents will start to see staff being let go this year. They will see bigger class sizes, fewer subjects on offer. They will see the person looking after special education needs go, and all those other additional services disappear. Parents will see those cuts really start to bite".

There has already been significant growth in class sizes. The BBC[45] reported this month that the number of state secondary school pupils being taught in large classes had trebled in the last five years. Their report found that according to the latest school census in 2016 there were 17,780 state secondary school children in 2016 being taught in classes with 36 or more pupils. This is the highest number for a decade.

The implementation of the National Funding Formula from April 2018 will, according to the government's own figures, lead to 49 per cent of schools in England

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[40] https://www.nao.org.uk/wp-content/uploads/2016/12/Financial-sustainability-of-schools-Summary.pdf

[41] http://www.nga.org.uk/Blog/January-2017/Financial-Challenges-—-we-need-to-remain-optimisti.aspx

[42] https://www.nao.org.uk/wp-content/uploads/2016/12/Financial-sustainability-of-schools-Summary.pdf

[43] https://www.nao.org.uk/wp-content/uploads/2016/12/Financial-sustainability-of-schools.pdf

[44] https://inews.co.uk/essentials/news/education/school-finances-will-fall-off-cliff-2017/

[45] http://www.bbc.co.uk/news/uk-england-38506305

losing funding, with over 2 million children in schools losing the upper limit of funding in the region of 2.5 – 3 per cent in the first two years.

The impact of the NFF will be felt most obviously in large cities such as London – London Councils[46] report that 70 per cent of schools across Greater London will face budget cuts in a climate when school finances are already struggling. The Times Education Supplement[47] notes that the majority of those who are set to gain out of the NFF changes will still stand to lose out as a result of the funding reductions highlighted by the IFS and NAO.

Analysis by the NUT and ATL[48] indicates that around 98 per cent of schools in England will be net losers as a result of the combination of real-terms reductions, additional costs, growing pupil numbers and the impact of the National Funding Formula.

NASUWT also expressed concerns about the impact of the National Funding Formula at a time of real terms funding reductions. Commenting on the launch of the NFF consultation in August 2016, General Secretary Chris Keates[49] said "at a time when the Government has failed to protect school budgets in real terms, there is a real risk that today's announcement (on the National Funding Formula) will create increased financial uncertainty for schools and lead to premature and detrimental actions by schools which will not be to the benefit of pupils' education."

The TUC therefore believes that the government should revisit the National Funding Formula, funding it so that no school loses out.

[46] http://www.londoncouncils.gov.uk/node/30956

[47] https://www.tes.com/news/school-news/breaking-news/new-national-funding-formula-will-see-10740-schools-gain-and-9128

[48] https://www.teachers.org.uk/news-events/press-releases-england/school-funding-cuts-worse-predicted

[49] https://www.nasuwt.org.uk/article-listing/nasuwt-comments-on-school-funding-formula-reforms.html

5. Investing in public service workers

The TUC agrees with Theresa May [50] when she used her first speech as Prime Minister to state that "our economy should work for everyone, but if your pay has stagnated for several years in a row and fixed items of spending keep going up, it doesn't feel like it's working for you."

It is our view that the government has the ability to do something about this for the 5m people who work in our public services by removing the one per cent cap on public sector pay growth and enabling employers, unions and independent Pay Review Bodies to arrive at appropriate pay levels for their sectors without pay policy being imposed by HM Treasury.

The impact of pay restraint

Six years of public sector pay restraint has had a significant impact on the living standards of 5m public sector workers, with the median public sector wage over £1k lower in real terms than in 2010.

Table 1: Average Weekly Earnings – Total Pay in Public Sector excluding Financial Services 2010 - 2016

			CPI			**RPI**
AWE in 2016 (projected)	Real AWE in 2010 (2016 prices)	Nominal annual change	% annual change	Real AWE in 2010 (2016 prices)	Nominal annual change	% annual change
£500	£516	-£811	-3.0%	£539	-£2,003	-7.2%

Public sector pay is set to decline further as the government adheres to a 1 per cent pay cap on the public sector pay bill till the end of this parliament, resulting in real terms pay cuts for nurses, midwives, civil servants, firefighters and a range of other public service occupations.

[50] http://press.conservatives.com/post/151378268295/prime-minister-the-good-that-government-can-do

Table 2: Real terms cuts in wages by public sector occupation 2015/16 to 2020/21

Occupation	Pay in 2015/16	Pay in 2020/21 at CPI in 2016 prices	Nominal real terms cut at CPI	Pay in 2020/21 at RPI in 2016 prices	Nominal real terms cut at RPI
Midwife	£35,255	£33,534	£1,691	£31,937	**£3,288**
Teacher	£32,831	£31,255	£1,576	£29,767	**£3,064**
Nurse	£28,462	£27,096	£1,366	£25,806	**£2,656**
Fire fighter	£29,638	£28,215	£1,423	£26,827	**£2,766**
Jobcentre Plus supervisor	£24,727	£23,540	£1,187	£22,419	**£2,308**
Social worker	£37,858	£36,041	£1,817	£34,325	**£3,533**
UK Border Force officer	£27,000	£25,704	£1,296	£24,480	**£2,520**
Ambulance driver	£19,655	£18,712	£943	£17,821	**£1,834**

Public sector pay is set to decline further in relation to private sector pay. As private sector pay awards outpace those in the public sector (average weekly earnings figures for November showed pay in the public sector rising at just half the level of pay increased in the private sector)[51], public sector employers are facing an increasing recruitment and retention crisis.

Pay stagnation is affecting the living standards of public sector workers, with increasing numbers failing to keep pace with cost of living and relying on other forms of income either through accumulating debt, seeking agency work or employment outside of the sector.

A significant majority of respondents to union member surveys are feeling the pinch. In the NHS, 63 per cent of UNISON members responding and 79 per cent of Unite members saying they felt worse off than they did 12 months ago.

Many of the 21,000 health service members responding to the UNISON pay survey of October 2016 stated that increased food, transport, utility and housing costs were having a serious impact on their cost of living. Alarmingly, two thirds of staff had used financial products or made a major change to their standards of living over the last year. Of that group:

- 73% asked for financial support from family or friends
- 20% used a debt advice service
- 17% had pawned possessions
- 16% used a payday loan company

[51] ONS UK Labour Market: January 2017

- 23% moved to a less expensive home or re-mortgaged their house
- Just over 200 respondents said that they had used a food bank in the last year.

Low pay in the public sector

Increasing numbers of public servants, particularly in local government and health, are working at or marginally above the National Minimum Wage.

The National Minimum Wage target is estimated to reach £8.61 by 2020 – meaning that it is likely to impact on all those working in Band 1 and around half of those in Band 2.

Analysis by the Local Government Association shows that assuming a 1 per cent annual increase in the years 2017 - 2020, the bottom 6 points on the NJC pay scale would be below the National Minimum Wage of £8.61 in 2020. 46,000 FTE staff are currently employed on those pay points in local government.

Not only is it ethically questionable that key public sector workers should be earning the bare minimum but it is also making those roles uncompetitive in relation to other low paying sectors, increasing recruitment and retention problems. Furthermore, it is making it increasingly difficult to maintain existing pay structures such as Agenda for Change as well as creating huge pressures on employers looking to fund increases in NMW at a time of a 1 per cent cap on the pay bill.

The growth of insecure work in the public sector

Public sector employers, particularly in the health and education sector, are relying on costly and inefficient use of agency labour in order to fill gaps created by staff shortages.

In their research into the use of agency workers in the public sector, the National Institute of Economic and Social Research point to a 50 per cent increase in agency spend by NHS Trusts between 2009/10 and 2014/15.

There has been considerable analysis of the reasons for the increase in agency staffing in NHS Trusts and much of it can be attributed to the increased requirement for ward staffing resulting from the Francis Review and the cuts to nurse training in 2010/11 and 2011/12 feeding through the system. However, the NIESR research also attributes this growth to other factors, including the deteriorating employment offer as a result of pay restraint.

It is worth noting that the research also points to a 15 per cent increase in the use of supply teachers in maintained schools, indicating that the use of agencies to fill staff shortages in the public sector is not exclusive to the specific circumstances of the post-Francis NHS.

Pay restraint is reducing disposable income in local economies, exacerbated by large public sector job losses, particularly in regions in the north, midlands and south west with higher reliance on public sector employment, weak local labour markets and higher unemployment.

Looking at different regions of England, we mapped the average real terms loss of earnings of public sector workers over the last six years (using CPI inflation) against the number of FTE public sector jobs in 2016 to estimate the total loss of disposable income from those local economies.

Total loss of disposable income in regional economies 2010 – 2016 through public sector pay restraint

Region	Real terms pay gap in 2016 per worker (£)	Cumulative loss of real terms earnings 2010 – 2016 per worker (£)	Total public sector FTE jobs in 2016 (000s)	Total loss of disposable income 2010 – 2016 (£bn)
North East	689	7,666	243	1.8
North West	584	5,740	643	3.7
Yorkshire and Humber	819	6,101	489	3.0
East Midlands	1,805	9,974	303	3.0
West Midlands	828	6,825	441	3.0
East	1,140	4,533	461	2.1
London	2,202	11,997	756	9.1
South East	680	5,109	617	3.1
South West	1,220	7,464	420	3.1

Addressing the impact of the pay cap

The TUC believes that the government should work with public service employers and unions to:

- Lift the public sector pay cap and allow public service wages to be determined according to the needs of each sector through collective bargaining between employers and unions or through genuinely autonomous and independent Pay Review Bodies where appropriate.
- Reform Pay Review Bodies to ensure that relevant trade unions and employer voices are included within board membership and that PRBs are able to look at a wider range of issues than affordability – focussing on recruitment, retention, market comparisons, staff morale and the impact on services.

- Place more value on all employees delivering public services by adopting the widely supported voluntary Living Wage, which is currently £9.40 per hour in London and £8.25 in the rest of the UK.
- Increase the National Minimum Wage as quickly and strongly as can be sustained. The TUC's medium-term goal is that all UK wage rates should reach at least £10 per hour.
- Develop fair and sustainable pay structures that are easy to explain, understand and operate, with shorter pay bands and that guarantee progression based on transparent and objective appraisal systems, agreed in partnership between employers and unions.

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