Changing the world of work for good

TUC submission to the Autumn 2017 Budget

Investing in the future

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Section 1

Introduction and summary

The Autumn Budget 2017 is an opportunity to invest in a better future, and an economy and society that works for everyone.

At present, Britain's economy is ill prepared for a future outside the EU:

- **Our public services and the public servants who deliver them are suffering from significant under-investment.** An NHS paramedic, to take one example of public servants under pressure, is almost £4,000 worse off in real terms than in 2010.
- **Our economy is growing more slowly than most of our major competitors:** GDP growth in the UK in the first half of 2017 was 31st out of 34 OECD countries, and the UK economy is expected to grow at half the rate of the Euro area in 2018. Growth in the UK still benefits some regions far more than others, with London and the South East set to account for 40 per cent of the UK's growth by 2022 on current trends.
- **Our workplaces are not fit for the future:** UK productivity has flatlined for a decade, and we are ill-equipped to take advantage of new technological developments. Poor quality employment practices, weak enforcement of labour rights and low investment in training leave British companies lagging behind.
- **Falling real pay and the squeeze on household benefits mean that household finances are badly squeezed:** TUC polling found that one in eight workers have skipped meals to make ends meet.

The first step to ensuring a prosperous future when we leave the European Union is to ensure that the deal we negotiate on our future trading relationships puts jobs, rights and investment first. The TUC has been clear that we need a transition period after we leave the EU in 2019, during which the UK remains a member of the single market and customs union during the transition period.

As we enter negotiations for a long-term settlement outside the EU, we believe in keeping all options on the table and ruling nothing out. At present we should not rule out unrestricted access to the single market through continued membership outside the EU as this meets our tests of protecting jobs, rights and investment.

Government also needs to make clear how it is preparing for the impact of new trading arrangements, with sector by sector assessments of the potential impact on jobs, rights and investment, and a clear plan to protect these.

But alongside the Brexit negotiations, is vital that this Budget takes action at a domestic level to start to address Britain's long-standing economic challenges. The TUC is calling for:

Investment in our public services and public servants

- Government must scrap the public sector pay cap for all public service workers and provide new money to fund pay awards, without adding pressure to existing over-stretched public service budgets.
- Public services need a new financial settlement, with real terms increases in funding across the public sector.

An upgrade to our economic model to deliver better growth

- The government should aim to significantly raise the level of UK public investment. A starting point would be to meet the OECD average of spending 3.5 per cent of GDP on investment, up from the current level of 2.7 per cent.
- Housing, transport infrastructure and science, research and development are all urgently in need of investment, and the government should prioritise these in the Autumn Budget.
- The Industrial Strategy White Paper, due to be published shortly, needs to put the workforce at its heart, and recognise the importance of working people in delivering higher productivity across the UK. The government should pilot new sectoral bodies bringing together business, workers and government, to drive up pay, working conditions and productivity across the country. And it must include a strategy to back Britain's manufacturing industry which is key to our export performance. There is nothing to stop the UK from trading with other countries now but Germany for example, exports three times more to China than the UK.

A plan to get our workplaces fit for the future

- The Government should set out action to deliver great jobs for everyone. The TUC's Great Jobs Agenda sets out actions to expand voice at work, raise levels of pay, ensure regular hours, strengthen action to promote equality at work, improve health and safety at work and ensure everyone has the ability to learn and progress.
- This budget should prioritise spending to improve enforcement of existing rights, including the National Minimum Wage. This must cover those in the social care sector who are currently waiting for back pay owed for sleep-ins.
- Government must also ensure that sufficient resources are in place to deliver the intention of the Supreme Court's verdict that Employment Tribunal fees are illegal, that those who have paid them should be refunded and that employment tribunal cases should now be free of charge.
- It should also look to expand rights for parents, to help them better combine work and family life. This should include expanded paternity pay, and the introduction of paid parental leave.
- Investment in skills for those already in work will be vital to take advantage of new technological developments, and ensure they benefit everyone. Government should set an ambition to increase investment in both workforce and out of work training to the

EU average within the next five years, including by investing in a new life-long learning account.

Tackling the living standards squeeze

- Government should recognise the important role that trade unions play in boosting pay and living standards, and give trade unions new rights to access workplaces in order to tell people about the benefits of joining a trade union.
- In addition to taking action to boost pay across the economy, government should recognise the particular pressure faced by the low paid, and raise the National Living Wage to £10 an hour as quickly as possible. This rate should also be paid to those aged 21-24.
- Government should tackle unfair pay differentials that leave working people worse off. The gender pay gap regulations should be expanded to companies with 150+ employees, and government should set out a plan to tackle the pay gap between white and BAME workers.
- Government should reverse universal credit cuts set to leave families significantly worse off, and pause on the implementation of the Minimum Income Floor for the self-employed.
- To ensure that those hit hardest by the living standards squeeze do not face lower incomes when they retire, government should appoint a standing pensions commission to ensure adequate retirement incomes for everyone.

The question is often asked whether we can afford this level of investment in the future. We believe that the question we should be asking is whether we can afford not to tackle these challenges now.

But there is also good evidence that a different approach to public spending could deliver more healthy growth, and help restore the public finances to balance. The OECD has called for the UK to deliver an increase in investment, to boost both demand and the productive capacity of the economy.

Even within its existing fiscal envelope the government has choices. At the spring budget, the Chancellor suggested that his plans set out £26bn of fiscal headroom, dwarfing the cost of a public sector pay increase, for example. And with no signs that Corporation Tax cuts are encouraging business investment, the (at least) £16bn annual price tag for these is hard to justify when working people are experiencing a severe squeeze on their living standards.

The following sections set out these arguments in more detail.

1. Looks at the challenge for public services and public servants, and the investment needed.
2. Looks at the UK's economic performance, and the investment and reform necessary to turn this around.
3. Looks at the problems within the workplace – and how we can move to a higher productivity model of work that offers more secure jobs;

4. Looks at how to tackle the living standards squeeze faced by too many workers; and
5. Tackles the question of whether we can afford to make the changes we need

Section 2

Investing in public services and public servants

Public servants have now suffered almost a decade of pay restraint, and there is a clear impact on public sector recruitment, retention and morale. The loss of public sector earnings also exacerbates regional inequalities. For example, the loss of public sector earnings between 2010 and 2016 represents 3.6 per cent of GVA in the North East, compared to just 1.2 per cent in the South East.[1]

But public services more generally are also under pressure. The impact of austerity across the health, education, social care and prison sectors is increasingly clear, with services failing to deliver key targets or to meet need.

Without action, these pressures are likely to intensify, leaving the country with struggling public services, at a time when workers are already feeling under economic pressure.

The public sector pay cap must be scrapped across the board. But public services need wider investment too.

The challenge: The public sector pay cap is leaving workers significantly worse off, and affecting recruitment, retention and morale.

In 2011/12, the government imposed a two year pay freeze which was followed by a 1 per cent pay cap on the public sector pay bill until 2015/16. The 1 per cent cap was renewed for a further four years in the 2015 Spending Review.

Almost a decade of pay restraint has had a significant impact on the standard of living of public sector workers. The table below shows real terms loss of earnings for a variety of public sector occupations Mapping pay growth at the top of the relevant pay band for each of the occupations against both CPI and RPI inflation, we are able to show how much less each occupation is earning in 2017 compared to 2010 – using today's prices. Public sector workers across a wide range of occupations have seen their real levels of pay cut by thousands of pounds.

[1] TUC analysis.

Real terms pay cuts by public sector worker, 2010-2017[2]

Occupation	Pay in 2017 (£)	Pay in 2010 at CPI in 2016 prices (£)	Nominal real terms pay cut at CPI (£)	Pay in 2010 at RPI in 2016 prices (£)	Nominal real terms pay cut at RPI (£)
NHS Paramedic	35,577	39,435	3,858	41,717	6,140
Teacher	33,160	35,574	2,414	37,633	4,473
Prison Officer	29,219	33,038	3,819	34,930	5,731
Lifeguard	22,658	24821	2,163	26257	3,599
NHS Specialist Dietician	35,577	39,435	3,858	41,717	6,140
Firefighter	29,638	32,526	2,888	34,408	4,770
Nuclear Maintenance Engineer	33,633	36,224	2,591	38,320	4,687
Crown Prosecutor	58,679	63083	4,404	66,735	8,056

This is leading to a considerable squeeze on the living standards of public service workers and a decline in workforce morale as a result.

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 said they felt worse off than they did 12 months ago.[3] Many of the 21,000 health service members responding a 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. Seventy-three per cent of those had asked for financial assistance from family or friends; 20 per cent had used a money advice service, 17 per cent had pawned items, 16 per cent had used payday loans and just over 200 respondents had used a food bank in the last year.[4]

Public v Private Sector Pay

Discussions of public sector pay often suggest that public servants can afford to take a pay cut, because at times their pay has increased faster than in the private sector. However, analysis by the TUC shows that real terms pay growth in the public sector is set to decline significantly against real wage growth in the wider economy, according to OBR forecasts at the time of the 2016 Autumn Statement. The chart below shows that public sector pay will have declined by 15 per cent from its pre-crisis peak, lagging behind growth in the wider economy from 2016 onwards.

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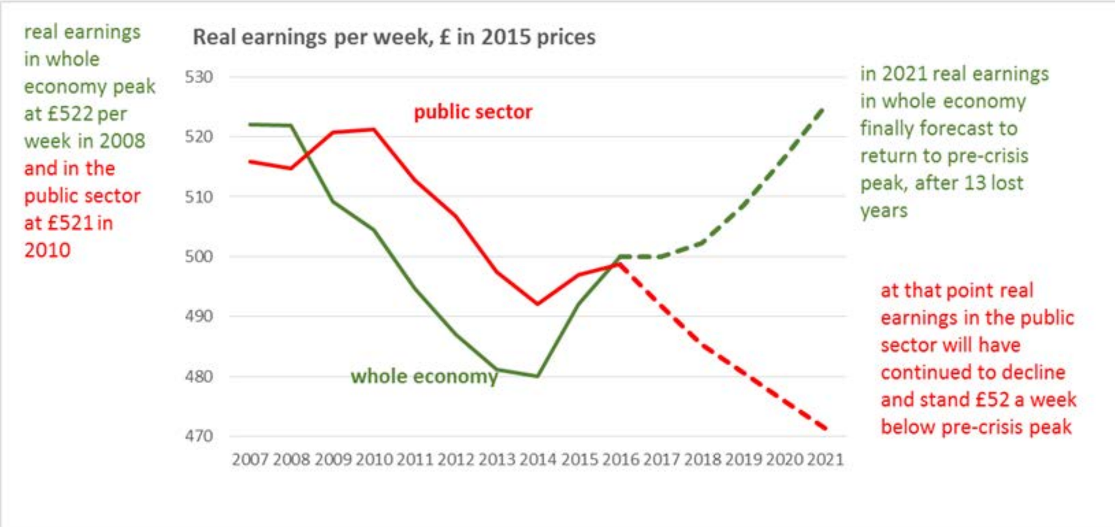
[2] TUC analysis, July 2017
[3] Staff side submission to NHS Pay Review Body 2017/18
[4] Annual survey of health staff, UNISON, October 2016

Public sector v whole economy real earnings growth 2007 – 2021[5]



In their analysis of public sector pay in September 2017, the IFS argue that:

> continuing to increase public sector pay scales by only 1% per year in 2018–19 and 2019–20 would likely lead to growth in public pay falling significantly behind growth in private sector pay, exacerbating the emerging recruitment, retention and motivation problems in the public sector. Increasing public sector pay in line with prices or private sector earnings would likely mitigate these problems.[6]

Addressing the challenge: investment in public servants

The TUC is clear that the public sector pay cap must end now. In September, we set out five key tests that the government would need to meet to ensure fair pay for public service workers:

- Scrap the pay cap for all public service workers.
- Provide the freedom for employers and unions to determine appropriate pay awards for each sector either through collective bargaining or genuinely independent pay review bodies.
- Use the autumn budget to provide the new money to fund pay awards, without adding pressure to existing over-stretched budgets.
- Ensure new pay awards provide an element of catch up, recognising the loss of earnings over the last seven years.
- Eradicate poverty pay by ensuring that no public service worker earns less than the real Living Wage.

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[5] TUC analysis of ONS and OBR Average Weekly Earnings estimates
[6] Public sector pay: still time for restraint?, IFS, September 2017

In the final section of this report we discuss the government's options for funding these measures.

The challenge: Public services are struggling following seven years of reduced funding

Public service providers from government departments to schools, local authorities, NHS trusts and prisons are finding it increasingly hard to deliver effective, safe and sustainable services.

As funding fails to keep pace with demand, a snap shot of different public service sectors shows a consistent picture of service cuts and rationing, cash-driven closures and reconfigurations, plummeting staff morale, increasing recruitment and retention problems and a growing funding gap.

And funding is being used to plug gaps in budgets rather than invest in the transformative change we need to deliver integrated, joined up public services that are able to meet the demographic and technological challenges we face. Below we look briefly at evidence of pressures in local government, social care, the NHS, education, prisons, and the civil service.

Local government

Local authorities have been particularly hard hit by spending cuts, with English local authority spending reduced by 26 per cent since 2009/10[7] . Current spending by UK local government is now below the previous post-1979 low point. By 2020 current and capital spending combined as a proportion of GDP will be lower than at any time since 1948.[8]

This burden has much been greater on more grant-dependent authorities, those tending to serve more deprived communities, with average cuts of 33 per cent for the tenth most grant-reliant councils compared to just 9 per cent for the tenth least reliant.[9]

Not all local authority services have been cut equally. Spending on planning and development, housing, and culture and related services has been cut by more than 40%, on average, while spending on social services has been cut by around 10%, on average, in England.[10]

This has led to considerable cuts to 'neighbourhood services', defined by the Association of Public Service Excellence (APSE) as highways and transport, cultural services, environmental services and regulatory and planning services. These are the services that collectively enhance neighbourhoods, building well-being and cohesion and positive environmental outcomes, the key components of resilient communities that can attract investment and support economic growth. Yet these neighbourhood services have seen spending cuts of up to 40 per cent, with severe outcomes in the most deprived authorities. APSE report that in the most deprived fifth of local authorities support for bus services is down by two thirds,

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[7] British local government finance in the 2010s, IFS, October 2016 – the figure excludes specific education grants. The 26 per cent figure is the net cut, taking into account locally raised revenue through council tax, business rate retention and other charges. Cuts to central government funding of local authorities has been 38 per cent in this period.

[8] Sustainable local government finance and liveable local areas, APSE, March 2016

[9] Ibid

[10] British local government finance in the 2010s, IFS, October 2016

spending on crime reduction, safety and CCTV down by a half, road safety and school crossings down by a third and food and water safety down by a quarter.

These cuts are clearly being felt by the general public. Polling by Survation found that 42 per cent of the public perceived a decline in local services in their area, compared to just 16 per cent who said that services had improved.[11]

Social care

While social care has seen less severe cuts than other local government services, the funding gap continues to grow as spending fails to keep pace with demand. Despite the £2bn additional funding provided by the budget in March 2017 and the increased care precept on council tax, the Local Government Association points to a £2.3bn funding gap in adult social care by 2019/20.[12]

As such, the Association of Directors of Adult Social Services (ADASS) reports that in 2017/18 English local authorities will making savings of a further £824m in adult care budgets, meaning that they will be spending £6bn less per year than in 2010. Funding is failing to keep pace with 2.8 per cent growth in demand per year and increasing costs. Councils are reporting care providers handing back contracts and two thirds appear to be using funding set aside to specifically ease discharge pressures in NHS trusts to plug funding gaps.[13]

This is having a profound effect on older people and their families, with the proportion of over 65s receiving state funded care falling from 15.3 per cent in 2005/06 to just 9.2 per cent in 2013/14.[14]

Moreover, as Age UK report and the table below shows,

> *"services that have experienced particularly deep cuts are those most associated with prevention, support for independent living and support for informal carers"*[15]

– exactly the sort of areas that require the most support if the health and social care system is to transform itself in line with the stated aims of the government and NHS England's Five Year Forward View.

[11] Neighbourhood Services Poll, Survation, November 2016

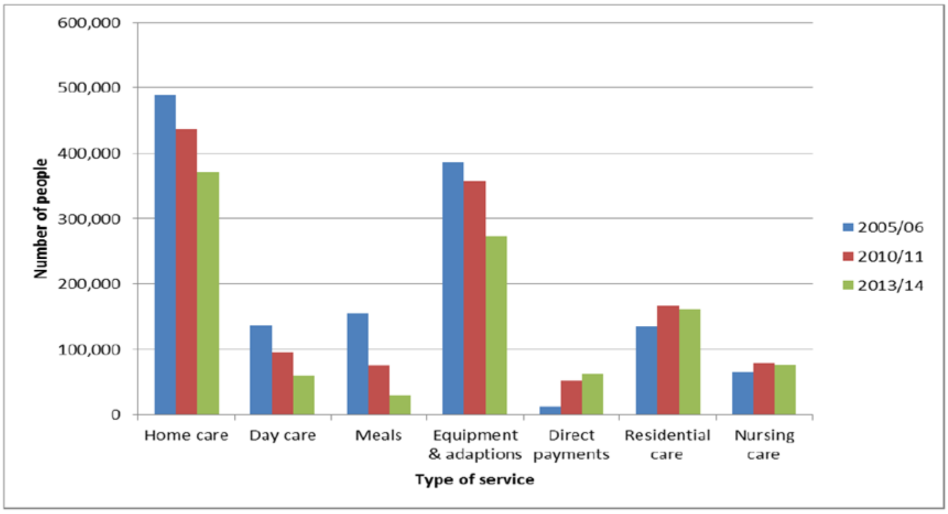
[12] Local government finance and arrangements beyond 2020, LGA, July 2017 – the £2.3bn adult social care gap includes £1.3bn estimated to be required to stabilise the adult social care provider market.

[13] Social care cuts to continue in spite of £1bn boost English councils say, The Guardian, 28 June 2017

[14] Health and care of older people in England 2017, Age UK, February 2017

[15] Ibid

Number of older people supported by social services department by type of social care support, England, 2005/06 to 2013/14[16]



The impact that this is having on older people in our communities is a national scandal. Age UK's analysis shows that there are now nearly 1.2 million people over 65 who don't receive the help they need with essential activities. This represents a 48 per cent increase since 2010. Nearly 1 in 8 older people now live with some level of unmet need with vital everyday tasks.[17]

The picture is also stark for children in need. As child poverty reaches its highest level since 2010 – with around 30 per cent of children in relative poverty[18] – demands on children's services are increasing. The Association of Directors of Children's Services (ADCS) report that initial contacts to children's social care have increased 53 per cent since 2007/08, child protection plans have increased by 78 per cent and the number of children taken into care has risen by over a third.[19]

The LGA report a funding gap of £2bn in children's services by 2019/20[20] and a survey by MPs found that 89 per cent of directors of children's services were finding it increasingly difficult to fulfil their statutory duties towards vulnerable children.[21]

National Health Service

In their manifesto for the 2017 general election, the Conservative Party committed to increase spending by a minimum of £8bn in real terms over the next five years, delivering an increase in real funding per head of population every year of the parliament.

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[16] Ibid
[17] Health and care of older people in England 2017, Age UK, February 2017
[18] Households below average income, DWP, March 2017
[19] Safeguarding pressures, ADCS, December 2016
[20] Local government finance and arrangements beyond 2020, LGA, July 2017
[21] MPs slam funding crisis and 'postcode lottery' of children's services, The Guardian, March 2017

While this was a welcome change of direction from existing plans set out in the 2015 spending review, which TUC research showed resulted in a real terms reduction in funding per head from 2018 to 2020[22] , the revised spending plans still leave a funding gap of £21bn by the end the end of this parliament.

Analysis by the Health Foundation compares government spending plans set out in the manifesto with spending pressures of 4 per cent per year estimated by the Office for Budget Responsibility[23] . The following table demonstrates the funding gap that results

Year	**Conservative spending plans (2017/18 prices)**	**OBR estimated spending pressures (2017/18 prices)**	**Funding gap**
2017/18	£124bn	£124bn	-
2020/21	£128bn	£141bn	£13bn
2022/23	£132bn	£153bn	£21bn

This represents a diminishing proportion of the nation's wealth being spent on health care over the next five years[24] , despite increasing demand from a growing and ageing population with increasing complex needs and NHS funding featuring as one of the most important issues identified by voters in the general election.

	Conservative spending plans	**OBR forecast need**
% of GDP in 2017/18	7.3%	-
% of GDP in 2020/21	7.2%	7.9%
% of GDP in 2022/23	7.0%	8.2%

The Department for Health and NHS England continue to expect this funding gap to be made up through efficiency savings delivered through integration and new models of care set out in Sustainability and Transformation Partnerships. But few share that optimism. While there is much to welcome in the objectives and intentions of STPs, the plans remain opaque and overshadowed by the need to find heroic financial savings in the context of the longest squeeze in funding in the history of the NHS.

[22] Real NHS spending to fall per person, Daily Mirror, 5 March 2017
[23] General Election 2017: what the manifestos might mean for health care funding, Health Foundation, May 2017
[24] General Election 2017: what the manifestos might mean for health care funding, Health Foundation, May 2017

Chris Hopson, Chief Executive of NHS Providers says that

> *"trusts will work more efficiently and continue to reduce unwarranted variation in what they do. But even if they manage an ambitious 2% efficiency gain there will still be a yawning gap just to keep services ticking over as they are."* [25]

These pressures will impact even further on safety and standards of care.

Feedback from those working in the service suggests that this is a uniquely difficult time for both health and social care. In November 2016, a joint TUC and NHS Support Federation report *NHS Safety: Warnings from All Sides*[26] found that throughout the last 12 months there had been an unprecedented wave of organisations flagging up significant concerns about the growing crisis in the NHS. Fifteen different groups issued reports in 2016 sounding the alarm, including Royal Colleges, trade unions, NHS providers, health experts and the government's own Mental Health Taskforce.

The report carried findings from a YouGov poll of 1,000 NHS workers, commissioned by the TUC, which 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 latest Quarterly Monitoring Report from the Kings Fund confirms the deteriorating performance of NHS trusts across a range of performance metrics. They report that:

- Just under half of trust finance directors and CCGs (49 and 48 per cent respectively) feel that patient care has worsened in their local area in the past year.
- In quarter four 2016/17 the proportion of patients waiting more than four hours from arrival to discharge, admission or transfer in all A&E departments was 12.4 per cent, the worst performance ever recorded for this target.
- Ambulance call out targets have been missed for 22 consecutive months.
- The proportion of patients waiting more than 18 weeks to begin their treatment improved marginally in the last quarter but it is the 13th month in a row that the target has been breached.

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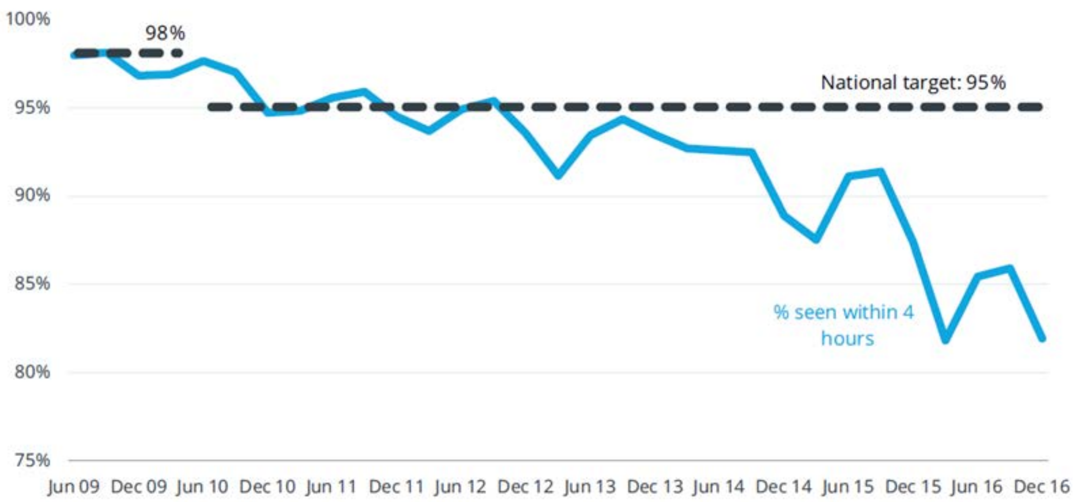
[25] Mission impossible: the NHS can't deliver in 2017/18, NHS Providers, March 2017
[26] NHS Safety: Warning from all sides, TUC and NHS Support Federation, November 2016

- At the end of March 2017, 6,622 patients were delayed in hospitals. Though a decrease on previous months, this is the highest number published for this time of year since the data began and is an increase of 16 per cent since March 2016.[27]

Percentage of emergency admissions seen, transferred or discharged within four hours, 2009–2016[28]



Education

Despite the government's claims of record funding levels for schools, since 2015 funding has failed to keep pace with inflation, pupil numbers and additional cost pressures facing schools. This has resulted in large gaps in school budgets that have forced schools to increase class sizes, restrict curriculum choice, cut back on essential resources, support for vulnerable and high needs pupils and lose teaching and support staff.

Under spending plans set out in the 2015 spending review, per pupil funding was set to decline by 8 per cent between 2015 and 2020. In July 2017, the Secretary of State announced further funding of £1.3bn for schools, to be taken from other parts of the existing Department for Education budget.

While this had the effect of freezing per pupil funding from 2017 to 2019, the Institute for Fiscal Studies points out that this will still entail a real terms reduction of 4.6 per cent in school funding from 2015 to 2020 due to inflation and rising pupil numbers.[29] This means that plans to provide a fairer and more transparent funding system through the National Funding Formula, announced in September, will not be able to provide sufficient funding to plug the funding gap in the overall school budget. Nor will it make up for real terms funding cuts of over £2bn inflicted on schools since 2015.

In addition to real terms reductions in schools funding we are also seeing up to £800m cut from the Education Services Grant, which funds school improvement, management of

[27] Quarterly Monitoring Report 23, Kings Fund, June 2017
[28] Performance Tracker, Institute for Government, Spring 2017
[29] Greening's funding pledge amounts to 'real-terms cut over four years', TES, 18 July 2017

school buildings and tackling non-attendance between 2015 and 2020, over a third cut from capital spending on schools and colleges since 2010/11, and a further eight per cent real terms reduction in 16-19 funding from 2015/16 to 2019/20.[30]

These funding pressures are having very real consequences for children's education.

In March 2017 the NUT and ATL surveyed their members on funding cuts in their schools, as already experienced and expected. The findings showed:

- 76 per cent of respondents said their school had already experienced a budget cut for 2016-17. Only 4 per cent were able to say that their school's budget had increased - in almost all cases due to rising pupil numbers.
- Half of all respondents reported that class sizes had risen since last year.
- Half reported that teaching posts had already been cut and almost two thirds reported that classroom support staff posts had been cut – with further staffing cuts expected next year.
- Almost three quarters reported cuts in spending on books and equipment.
- Almost half reported cuts in special educational needs provision.
- One in six reported that their school had been driven to ask parents for financial contributions to help with funding.

Prisons

The prison service has seen spending cuts of 21 per cent from 2009/10 to 2015/16. While the prison population has remained fairly static - remaining between 106 and 109 per cent of its capacity or 'certified normal accommodation' in that period – there has been a more serious mix of offender groups and the number of prison officers has been drastically reduced.[31]

Between 2010 and 2014, the total number of core operational staff in public sector prisons – band 3 prison officers, band 4 officer specialists and supervising officers, and band 5 custodial managers – decreased by 27 per cent.[32]

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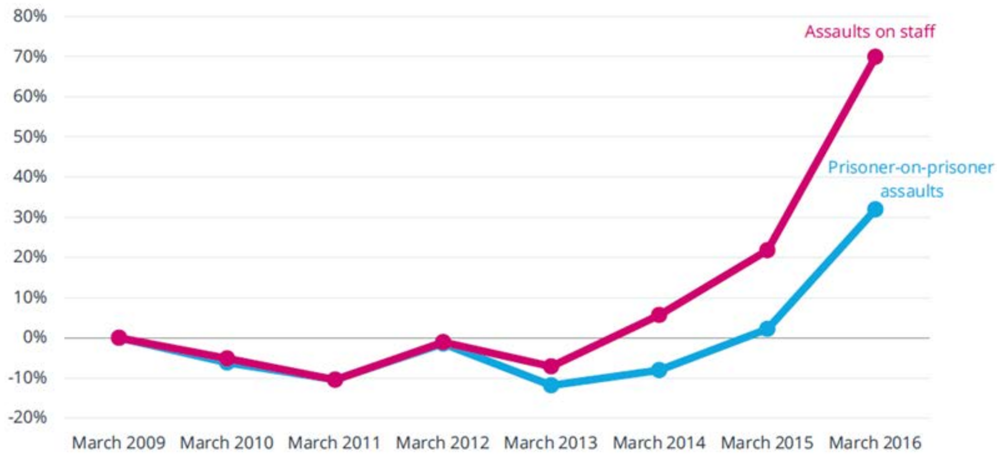
[30] https://www.teachers.org.uk/edufacts/education-funding
[31] Performance Tracker, Institute for Government, Spring 2017
[32] Performance Tracker, Institute for Government, Spring 2017

Percentage change in the total number of core operational staff 20110 – 2016 [33]

During this period, prison violence has escalated at an alarming rate. The Institute for Government paints a disturbing picture:

"In the 12 months to March 2016, there were 22,195 assaults in prisons – an increase of 40.7% since 2009. During this period, the number of prisoner-on-prisoner assaults rose by nearly one-third from 12,674 to 16,724. However, the sharpest rise was seen in the number of prisoners assaulting staff, which increased by around 70% from 3,191 to 5,423. Of these, assaults designated 'serious' more than doubled, from 282 to 646, with some managers having been taken hostage in their own prisons. In extreme cases, order has completely broken down – as the riots at HMP Bedford and HMP Moorland in November 2016 demonstrate."[34]

Percentage change in the number of prison assaults, from year ending 31 March 2009[35]



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[33] Ibid
[34] Ibid
[35] Ibid

Despite an emergency intervention by the Chancellor in the 2016 Autumn Statement to provide funding for an additional 2,500 prison officers by 2018, this still represents only half the loss of officers in the preceding 5 years and the situation is likely to take some time to turn round.

Civil Service

There were 384,950 civil servants in September 2016 – a reduction of 18.5 per cent since 2010. The Institute for Government contends that the civil service continues to perform "reasonably well" with departments functioning, ministers continuing to receive policy advice, legislation passed and information requests answered. "The business of Whitehall" they state "continues even after reductions to staff numbers, reductions to budgets and – in some cases – major changes to departments and how they do it".[36]

While this is testament to the professionalism and dedication of civil service staff, it has come at a price as fewer civil servants are being asked to deliver increasing workloads. The FDA's Working Hours Survey showed that 91 per cent of members work over their contracted hours a week - with over a quarter working a full day's unpaid overtime each week – more than two thirds of members had worked while on sick or annual leave and half of those surveyed were unable to take their full annual leave entitlement in the past 12 months.[37]

This over-stretched workforce is now expected to deliver the hugely complex and resource-intensive task of Brexit. The Public Accounts and Constitutional Affairs Committee has pressed the government

> *"to ensure that the civil service is appropriately skilled, resourced and focused to meet the significant challenges that it faces both over the course of the negotiations and following the UK's exit from the European Union."*[38]

Others have called for a significant increase in civil service staffing of up to 30,000 additional staff.[39]

But the civil service cuts go beyond Whitehall – with major impacts on capacity and access for the public as offices are closed down across the country. The National Audit Office has criticised HMRC's plans to move from 170 offices to 13 regional centres as unrealistic and posing too great a risk to its service delivery.[40] MPs and unions have condemned plans to close 1 in 10 jobcentres by 2018[41] , as well as the closure of over 80 courts across the country.

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[36] Ibid
[37] Working Hours Survey, FDA, 2017
[38] The work of the civil service, key themes and preliminary findings, PCAC, April 2017
[39] Brexit: former civil service head Lord Kerslake calls for independent review of civil service capacity, Civil Service World, November 2016
[40] Managing the HMRC Estate, NAO, January 2017
[41] MPs: jobcentre closures are attack on vulnerable, PCS, January 2017

Addressing the challenge: a new settlement for public services

What this snapshot across the public sector shows us is that spending cuts have real consequences, with the quality of services from social care to prisons falling sharply.

The TUC believes that the Chancellor should reflect on this and use the Autumn Budget to change direction and build the foundations for a new public service settlement – one that is based on a genuine assessment of need, assessment of demand, analysis of performance and a commitment to provide the funds needed to provide sustainable, world class public services.

The Institute for Government is right to point to a growing disconnect between Treasury spending decisions and public service performance. As it point out, at the time of the 2015 Spending Review "significant demand and quality pressures – particularly in hospitals, adult social care and prisons – were already clearly evident … but there is little sign that the settlements handed to departments were fundamentally driven by an assessment of how services had fared after 2010."[42]

Austerity is pushing services to breaking point and, in the case of some areas of social care and prisons, beyond. Savings have largely been achieved through the unsustainable false economies of pay restraint and job cuts which have led to recruitment and retention problems and expensive agency spend to fill gaps. In the NHS, social care and prisons, the government has had to resort to emergency bail outs to cope with emerging crises.

And the wider public service reform agenda of integration, technological change and new models of delivery has failed as resources and investment has been diverted to short term fixes. The use of the NHS Sustainability and Transformation fund as a bail out mechanism for in-year provider deficits is a case in point.

We think there is some merit in exploring further the Institute for Government's three recommendations for more effective decision making through:

- Greater matching of spending in public services to an assessment of demand, scope and quality.
- The publication of Treasury assumptions underpinning spending decisions - available for Parliamentary scrutiny.
- Subjecting those assumptions to independent review.

Fundamentally, however, there needs to be a new financial settlement in place. We need to see real terms increases across the public sector that enable providers to meet on-going demand and address the significant cuts to resources experienced since 2010.

[42] Performance Tracker, Institute for Government, Spring 2017

Summary

- **Government must scrap the public sector pay cap for all public service workers and provide new money to fund pay awards, without adding pressure to existing over-stretched public service budgets.**
- **Public services need a new financial settlement, with real terms increases in funding across the public sector.**

Section 3

Upgrading our economic model to deliver better growth

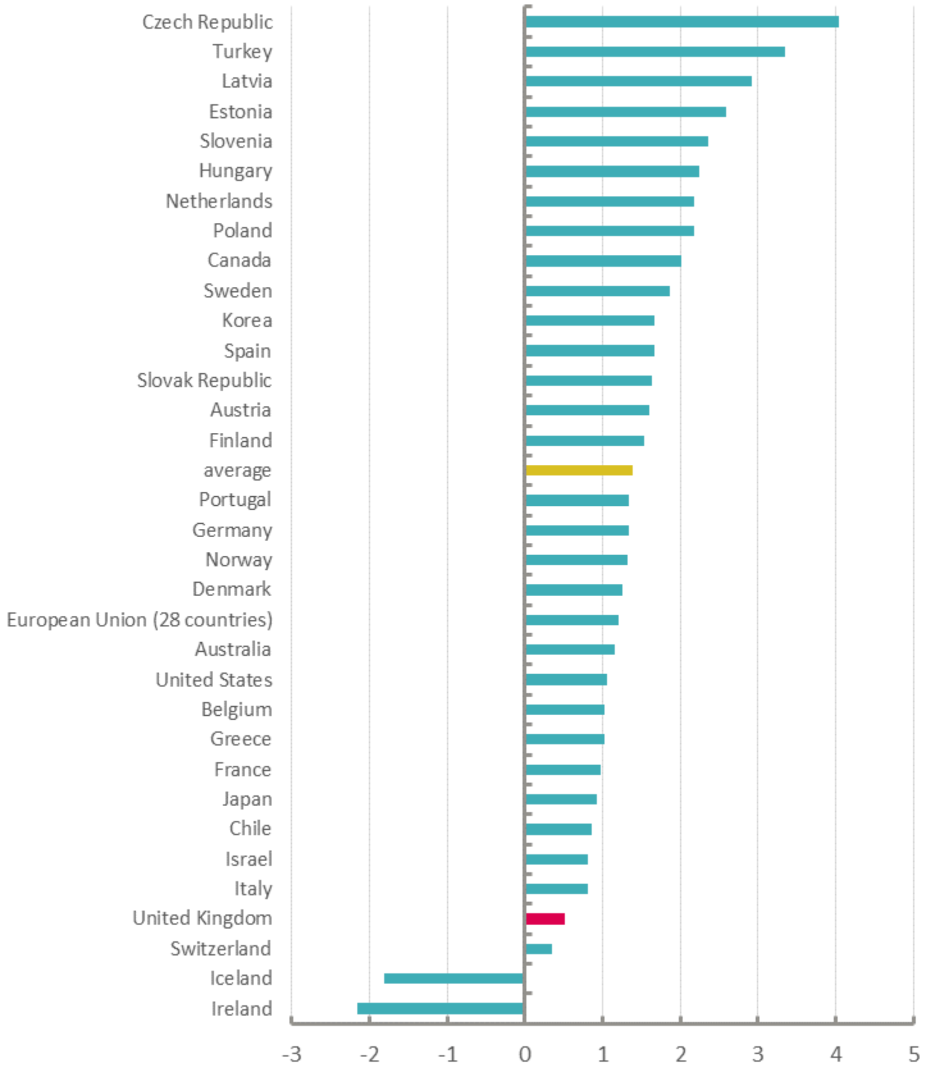
GDP growth in the UK over the first half of 2017 has been among the weakest in advanced economies. But though the uncertainty surrounding our future trading relationship with the EU must bear some of the responsibility for this poor performance, the UK's long standing low levels of investment and the prolonged weakness of aggregate demand since the financial crisis are also holding our economy back.

The Budget must take action to upgrade our economy with a renewed push for investment, and a commitment to an industrial strategy that puts working people at its heart.

The challenge: economic growth in the UK is weaker than our major competitors

Growth in the first half of 2017 reached just 0.5 per cent. This puts us 31st in a league table of 34 OECD countries (for which we have data), with only Ireland, Iceland and Switzerland recording lower growth figures. Economic growth during this period was over twice as fast across the EU (at 1.2 per cent) and in the US (1.1 per cent). Even Greece saw its economy grow twice as fast as the UK in the first half of this year (at 1.0 per cent).

GDP growth in OECD countries in the first six months of 2017



Source: TUC analysis of OECD figures

The OECD predict that Britain's weak performance is set to continue into next year, forecasting GDP growth of 1 per cent for the UK in 2018, almost half the rate expected in the Euro area of 1.9 per cent. [43]

And the growth that the UK does deliver does not benefit all regions of the UK equally, with London and the South East set to account for 40 per cent of the UK's growth by 2022 on current trends.[44]

[43] OECD (2017) Interim Economic Outlook release of 20 September 2017 http://www.oecd.org/economy/outlook/economic-outlook/

[44] See https://www.tuc.org.uk/news/london-and-south-east-set-account-40-economy-end-next-parliament-says-tuc

Analysis of the UK's poor performance over the last 12 months has focused on the impact of the vote to leave the EU. Data shows the UK suffering not only from stalling growth, but from falling real wages, low investment, and a growing dependence on consumer debt over this period.

But many of these trends were in place before the referendum, and reflect longstanding weaknesses in the British economy, exacerbated by spending cuts imposed since 2010. GDP growth has fallen fast this year. But the trend since 2010 was already for weaker growth, with average GDP growth averaging 2.0 per cent in the last seven years, well below the longer-term average[45] of 2.7 per cent.

The impact on incomes and wages

Weak overall growth has seen nominal wages rise significantly more slowly than their long term average. In the last year, nominal pay increases of around 2.1% were roughly in line with the post-2008 average of approximately 2%, but well below the pre-2008 figure of approximately 4%.

Coupled with higher inflation, this has led to a return of the wage squeeze. The most obvious impact of the EU referendum has been the effect of the sterling devaluation of around 20% on inflation. This has fed through into higher prices as companies pay more for overseas goods, with CPI rising from 0.3 per cent in May 2016 to 2.9 per cent in August 2017.[46] The Bank of England forecasts inflation will increase to around 3 per cent in the autumn, while wage growth will average 2 per cent in 2017.[47]

The combination of weak nominal wage growth and rising inflation has seen wages falling for five consecutive months. Combined with a freeze in the value of most social security benefits, this has seen real household disposable incomes fall, with the annual decline of 1.3 per cent since the second quarter of 2016 the steepest for over five years.[48]

As we discuss further in section four, this has a significant impact on household living standards. But it also matters for the health of the economy, and on the back of slowing incomes, consumer demand has weakened significantly. The hope was that the fall in the value of sterling would lead higher exports, and an improvement in the balance of trade. But the balance of trade has in fact deteriorated, as export gains in goods have been outpaced by increases to imports and service exports have stalled.[49]

And despite corporation tax cuts, business investment has remained flat over the last year, leaving consumer demand as the main driver of economic growth. The latest figures show that over the last four quarters, consumer demand accounted for three quarters of overall GDP growth.

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[45] This average is taken from 1956, when the ONS series of quarterly figures begins.

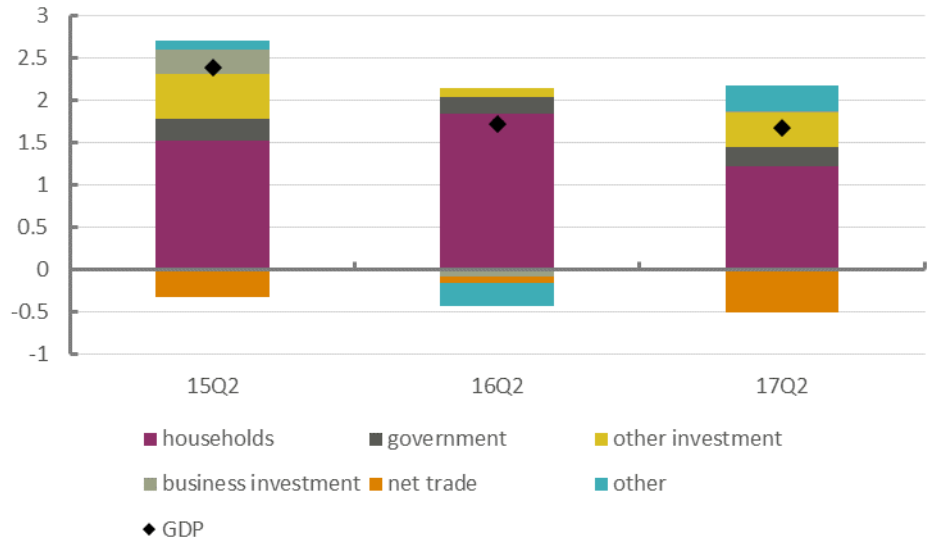
[46] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/aug2017

[47] http://www.bankofengland.co.uk/publications/Documents/inflationreport/2017/aug.pdf

[48]https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/quarterlysectoraccounts/jantomar2017#real-households-and-non-profit-institutions-serving-households-npish-disposable-income-rhdi-fell

[49] See TUC (2017) 'How are we doing: the impact of Brexit at industry level' for more detail: https://www.tuc.org.uk/research-analysis/reports/how-are-we-doing

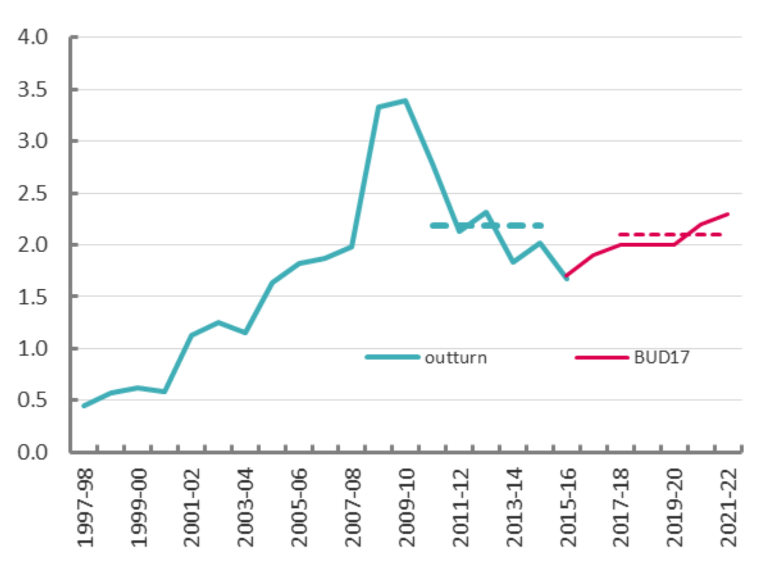
Contributions to GDP four quarter growth



With household incomes squeezed, and household debt rising, relying on consumer spending to prop up the economy looks like an increasingly risky strategy. The 2016 Autumn Statement made a tentative step towards a different approach, with the announcement of the National Productivity Investment Fund, investing a total of £23 billion between 2017-18 to 2021-22.[50] But even with this additional spending, the OBR's measure of public sector net investment in the UK averages just 2.1 per cent of GDP over the current parliament. This is still lower than the average expenditure of 2.3 per cent over the coalition government.

[50] https://www.gov.uk/government/publications/autumn-statement-2016-documents/autumn-statement-2016

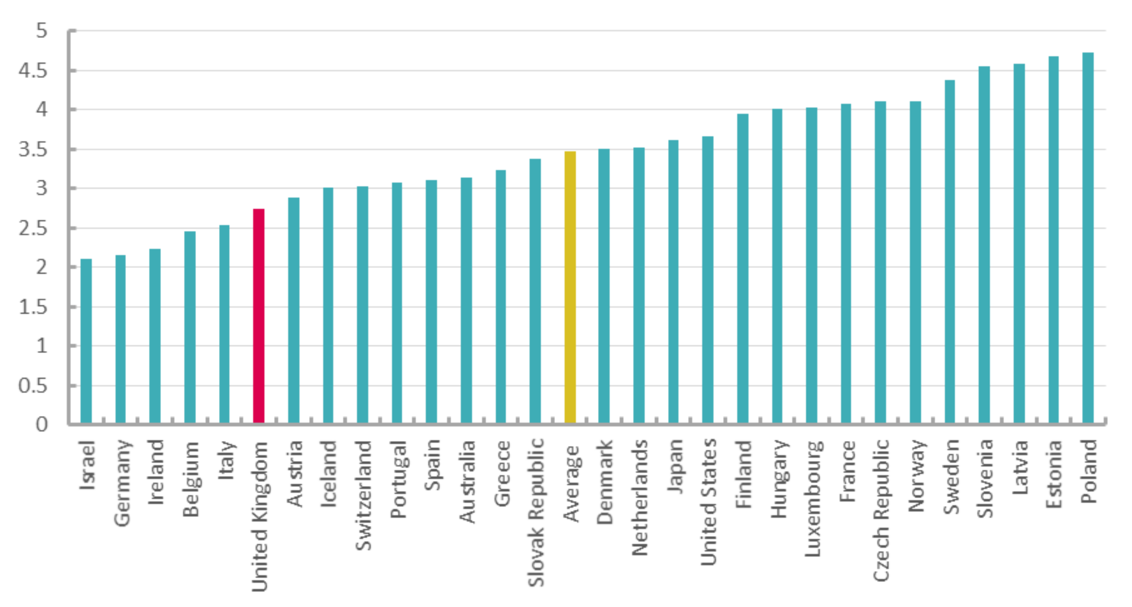
Public sector net investment, % GDP



Source: OBR and TUC calculations

As a country, the UK is also investing significantly less than our international competitors. Using a slightly different measure of government investment based on National Accounts definitions, the latest data (for 2015) suggests that UK investment spending was just 2.7 per cent of GDP, against an OECD average of 3.5 per cent.

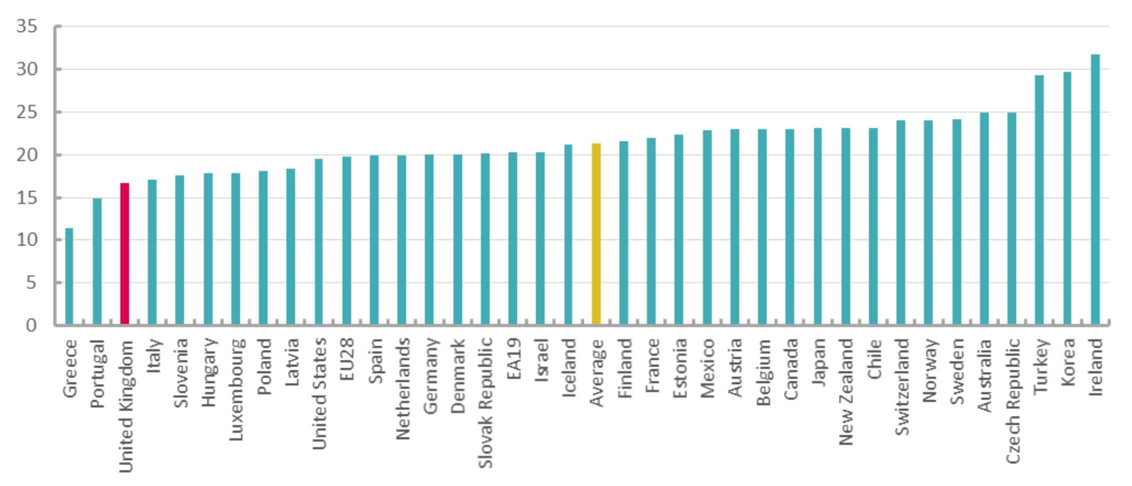
General government gross fixed capital formation, % GDP



Source: OECD

When private investment is taken into account, the UK falls even further behind. In 2016 the share of total investment spending in the UK was 16.6 per cent of GDP, with only Greece and Portugal spending less. The UK is nearly 5 percentage points of GDP lower than the OECD average of 21.4 per cent, corresponding to a gap of over £90bn a year.

Total gross fixed capital formation, % GDP



Source: OECD

Addressing the challenge – strategic investment

International commentators are clear that the UK needs to up its investment level in order to deliver sustainable growth. The OECD's Economic Forecast Summary for the UK published in June stated that:

> *The budget deficit is projected to remain broadly unchanged this year, but fiscal consolidation is planned for 2018 despite a weaker growth outlook. Instead, further fiscal initiatives to increase public investment should be considered to support demand in the near term and boost supply in the longer term.*[51]

As we set out above, some of this investment must clearly go to staving off a crisis in public service provision. But further investment in physical infrastructure is also necessary. As the OECD put it:

> Enhancing regional and urban transport links would increase firms' access to the best technologies and lower export costs, improving their ability to tap new markets and suppliers.[52]

And tackling the UK's long term productivity problems will also require additional investment in science, research and development (R&D). In 2015, the UK invested 1.7 per cent of GDP in R&D, compared with 2.8 per cent in the US, 2.9 per cent in Germany, and 3.5 per cent in Japan.[53]

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[51] http://www.oecd.org/eco/outlook/united-kingdom-economic-forecast-summary.htm
[52] Ibid
[53] IPPR (2017) Time for change: a new vision for the British Economy https://ippr.org/research/publications/cej-time-for-change

There is also particular need to target investment in housing.

The UK has suffered from an entrenched housing shortage. Lack of decent housing at genuinely affordable prices has a detrimental effect on the nation's health, education and labour mobility. About 1 million homes have damp problems in England alone,[54] whilst 678,000 homes are overcrowded.[55] Ill health and accidents resulting from poor housing costs the NHS and estimated £2 billion per year.[56] Poor housing is also associated with lower educational achievements, estimated to cost the current generation in poor housing £14.8 billion in lost earnings during their lifetimes.[57] Regional disparities continue to make it hard to move to find work. For example, at £482,000, average house prices in London are now 3.7 times prices in North East of England.[58]

Yet housebuilding stalled in 2016, with 170,450 new homes completed. This figures was a few hundred below the previous year, but just 76.2% of the number of homes completed in 2007.[59]

The autumn budget presents the government with an opportunity to turn the situation round. Government has already promised to make some increases the DCLG housing budget in 2018-2019, but with the housing recovery running out of steam it is now time to do more.

The building of social homes has also gone down again. 32,790 new homes were built by housing associations and local authorities in 2016, which was 4,910 less than the previous year.[60]

In order to put an end to homelessness, insecure private renting and low income families being driven out of city centres, the government should budget for investment in a substantial local authority social housing programmes. The TUC believes that the government should both increase the DCLG's housing budget allocation next year so that more help can be given to combat the housing crisis, and increase financial support for local government home-building and lift the borrowing caps that apply local authorities so that they can build more social and affordable housing.

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54 English Housing Survey, 2015-16, p30: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/595785/2015-16_EHS_Headline_Report.pdf

55 IBID, p19. Note - overcrowding is measured by the "bedroom standard" – see p47 of the report for definition.

56 The Building Regulation Executive, "The cost of poor housing to the NHS (2015), p9: https://www.bre.co.uk/filelibrary/pdf/87741-Cost-of-Poor-Housing-Briefing-Paper-v3.pdf

57 ECOTEC, "Social impact of poor housing", 2010, p1: http://southdevonrural.co.uk/userfiles/file/JC-JC13-Social-impact-of-poor-housing.pdf

58 The Land Registry, UK house price index summary June 2017 (published august 2017), table 3.2: https://www.gov.uk/government/publications/uk-house-price-index-summary-june-2017/uk-house-price-index-summary-june-2017

59 DCLG, "Permanent dwellings started and complied, by tenure, UK (quarterly) – live table 211: https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building

60 Ibid

Overall, the government should aim to significantly raise the level of UK investment. A starting point would be to meet the OECD average of general government spending 3.5 per cent of GDP on investment.

Spending strategically

For additional government spending to fulfil its potential to deliver more sustainable economic growth, the government needs a clear strategy to deliver better jobs across the country.

The TUC welcomed the government's conversion to the cause of industrial strategy, and the broad brush Green Paper published in January 2017. This set out 10 pillars on which the Government's policy would be based. Those pillars were: investing in science, research and innovation; developing skills; upgrading infrastructure; supporting businesses to start and grow; improving procurement; encouraging trade and inward investment; delivering affordable energy and clean growth; cultivating world leading sectors; driving growth across the whole country; and creating the right institutions to bring together sectors and places.[61]

The TUC welcomed the fact that some aspects of the Green Paper supported workers in all industries – including training and investment – while others recognised the need to support specific high value sectors, as evidenced by the focus on science. In addition to additional investment in infrastructure, we also need to see a more strategic approach to procurement policy and a social partnership approach to developing skills.

But there were two critical elements missing from the Green Paper and we call for those elements to be addressed in the forthcoming White Paper.

First, as we set out further in the section below, more focus needs to be given to the role that workers and their unions can play in raising the quality of working life and delivering productivity gains. Workers' participation in UK company decision making is poor compared to other European countries, despite clear evidence of the impact of workers voice on improving productivity. The European Trade Union Institute compiles a European Participation Index (EPI) which measures three sources of workers' influence on companies: firstly, board-level employee representation; secondly, workplace representation; and finally, collective bargaining strength, as measured through the percentage of the workforce covered by collective bargaining and trade union membership.[62] The most recent version of the EPI puts the UK sixth from bottom of the EU28 Member States in terms of workforce participation; only Cyprus, Lithuania, Latvia, Bulgaria and Spain perform worse.[63] The TUC therefore calls for an eleventh pillar to the White Paper, to address the need for workforce participation to deliver successful industries;

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[61] https://beisgovuk.citizenspace.com/strategy/industrial-strategy/supporting_documents/buildingourindustrialstrategygreenpaper.pdf

[62] The European Participation Index is described in Sigurt Vitols (2010). The European Participation Index (EPI): A Tool for Cross-National Quantitative Comparison, ETUI

[63] ETUI, Benchmarking Working Europe 2017 http://www.etui.org/Publications2/Books/Benchmarking-Working-Europe-2017

Second, whilst it is necessary to expand high productivity sectors of the economy, we also need to raise our performance in low paid sectors where insecure work has grown. It is also in the low paid sectors where our productivity gaps with other European countries is largest. The IPPR estimate that "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".[64] One way to do this would be to introduce new sector bodies in the low paid sectors, charged with increasing pay, efficiency and general business success in each of the low paid industries. A strategy for better jobs and fairer pay should be combined with a vision of business success. The forthcoming White Paper should announce sectoral pilots of this initiative.

And the White Paper must include a strategy to back Britain's manufacturing industry which is key to our export performance. There is nothing to stop the UK from trading with other countries now but Germany for example, exports three times more to China than the UK.

Meanwhile, the UK should support the development of more high skill, high productivity jobs by expanding the UK's role in low-carbon technologies. The government should aim for 50 per cent of energy coming from renewables by 2030 and should seek an international collaboration to finance the development of new carbon capture and storage facilities. Of course, a successful steel industry will be vital to supporting low carbon sources of energy. The Government should support the steel industry through an energy efficiency fund, and implement a robust trade defence regime.

In taking forward the industrial strategy, government should be ambitious about the ability of the UK to take advantage of new technology. We recommend that the government set an industrial 'mission' for the UK to become a top five digital economy by 2030. To meet the challenge of digitalisation in a way that benefits working people, however, the Government should build on Germany's example by establishing a year-long inquiry looking at the future of work, in the context of the so-called 'fourth industrial revolution, to which businesses, unions and other interested parties should be invited to give evidence.

Summary

- **The government should aim to significantly raise the level of UK investment. A starting point would be to meet the OECD average of spending 3.5 per cent of GDP on investment, up from the current level of 2.7 per cent.**
- **Housing, transport infrastructure and research and development are all urgently in need of investment, and the government should prioritise these in the Autumn Budget.**
- **The Industrial Strategy White Paper, due to be published shortly, needs to put the workforce at its heart, and recognise the importance of working people in delivering higher productivity across the UK. The government should pilot new sectoral bodies bringing together business, workers and government, to drive up pay, working conditions and productivity across the country.**

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

- **The White Paper must include a strategy to back Britain's manufacturing industry which is key to our export performance. There is nothing to stop the UK from trading with other countries now but Germany for example, exports three times more to China than the UK.**

Section 4

Getting the workplace fit for the future

UK productivity has flatlined for a decade, and our workplaces are significantly less productive than our major competitors.[65] While the lack of investment in the economy is an important part of the explanation for this, poor workplace practices also play a role.

The rise of insecure work in the UK, the lack of decent support for working parents, and the UK's failure to invest in workplace skills not only limit working people's prospects, they hold our economy back. Getting our workplaces fit for the future, and ready to take advantage of new technological developments, means we need to turn this around, with an agenda for great jobs for everyone.

The challenge: poor quality employment is bad for workers and bad for business

Despite record employment rates, too many people still face significant insecurity at work. In December 2016, we set out new research which showed 3.2 million people[66] face insecurity at work, one in ten of the UK workforce. Not only do they often face uncertainty about their working hours, they also miss out on rights and protections that many of us take for granted.

How the TUC estimates the number of people in insecure work

Zero-hours contracts workers (excluding the self-employed and those falling in categories below)	810,000
Other insecure temporary work including agency, casual, seasonal and other workers, but not those on fixed-term contracts	730,000
Low paid self-employment (using the Social Market Foundation estimate of low-paid self-employed workers)	1.7 million
TUC estimate of insecure work	3.2 million

Source: ONS 2016 Q2 data

[65] See for example https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/ukproductivityintroduction/jantomar2017 and https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/internationalcomparisonsofproductivityfinalestimates/2015

[66] https://www.tuc.org.uk/economic-issues/labour-market/living-edge

Our analysis[67] has also shown the increase in insecure work is compounding existing labour market disadvantage, with women, minority ethnic groups and those in poorer regions of the UK more likely to be working this way.

- Around 11 per cent of women are in insecure employment compared to just over 9 per cent of men. The majority (58%) of the increase in insecure work since 2011 has come from women.
- One in 13 Black, Asian and minority ethnic employees are in an insecure job, compared to one in 20 white employees. Black workers in particular face insecurity at work, one in eight black workers are in these forms of work.
- Workers in the North-East, the region with the lowest GVA per head in 2015, are most likely to have seen employment in their area dominated by insecure work. Since 2011, two out of three jobs created in the North-East have been in insecure forms of work.

Not only do this workforce miss out on rights they also experience a significant pay penalty.

- Median annual earnings for the self-employed are worth around 60 per cent of those of an employee.
- Those in casual work have a 39 per cent hourly pay penalty, and those in seasonal work a 37 per cent lower hourly rate.
- Workers on a Zero Hour Contract experience a 34 per cent hourly pay penalty.
- Workers in agency work see a 20 per cent hourly pay penalty.[68]

Despite some signs that the labour market is tightening, the risk is that high levels of insecure work have become a 'new normal'. Self-employment continues to rise, the number of temporary workers (excluding fixed term contracts) remains elevated as does the number of people on zero hour contracts (despite a small fall in the most recent data).

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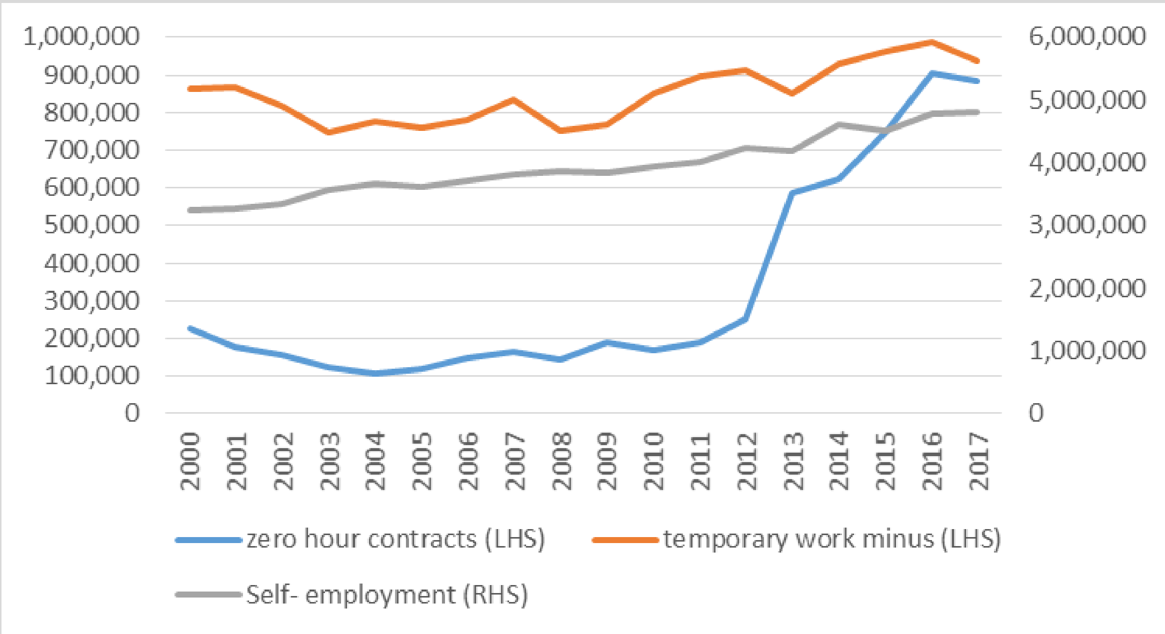
[67] https://www.tuc.org.uk/research-analysis/reports/gig
[68] https://www.tuc.org.uk/economic-issues/labour-market/living-edge

Numbers in self-employment, temporary work (minus those on fixed term contracts) and on zero hour contracts 2000-17



Source: ONS data[69]

There are clear disadvantages of this type of work for workers, including missing out on rights, pay and entitlements such as sick pay. TUC research this year into the experiences of young parents also made clear how difficult many of those in more insecure jobs find it to combine this type of job with caring for their families:

- One in four (26%) parents told the TUC they had their shifts changed at short notice, and one in five (19%) had been given their rota less than a week in advance, making planning childcare very difficult.
- In addition, more than half (58%) of mums and dads working in low-paid sectors like retail, hospitality and social care said that they didn't know what rights at work they were entitled to. Nearly two in three (63%) weren't aware of their right to unpaid parental leave.
- As a result half (49%) weren't using one or more of their legal rights to time off. That meant they ended up taking sick leave or holiday to cover childcare – nearly one in three (29%) had resorted to taking annual leave to cover their child being sick in the last year – and some were even prevented from leaving to look after their children in an emergency.[70]

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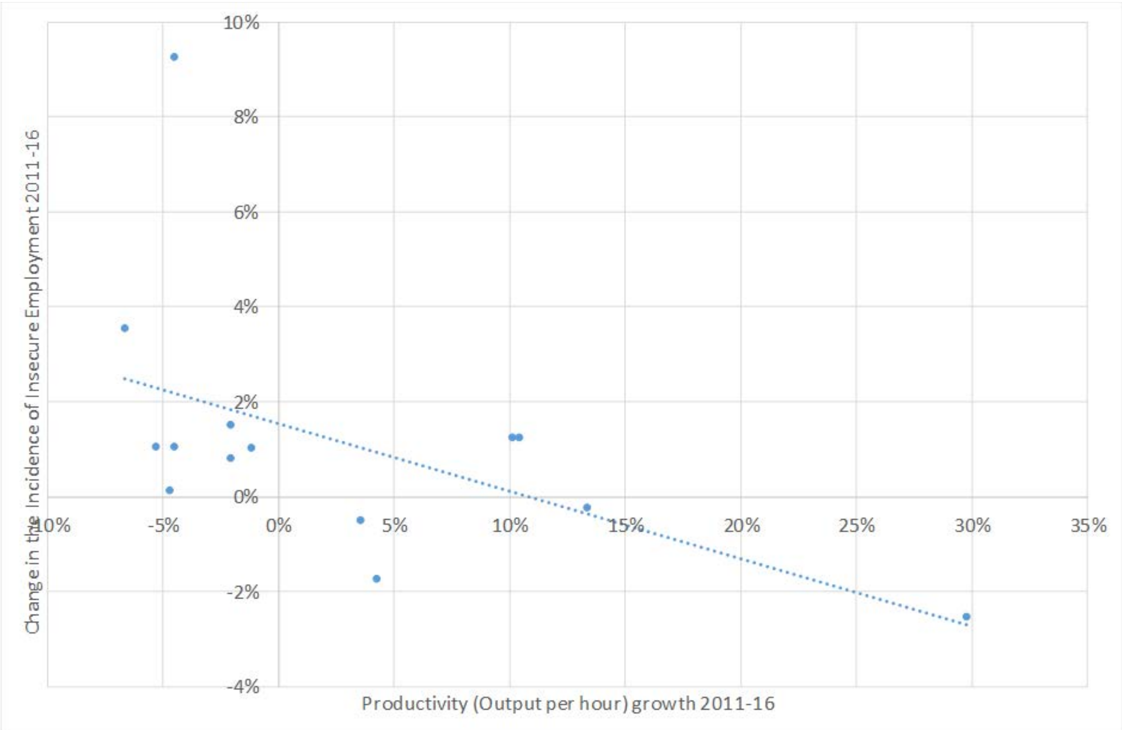
[69] Data used is Apr- June quarters, except for the ZHC measure which uses Oct – Dec until 2013 then Apr-June due to the data series changing.
[70] TUC (2017) Better jobs for mums and dads https://www.tuc.org.uk/research-analysis/reports/better-jobs-mums-and-dads

But there is also evidence that Britain's reliance on a poor quality employment model may help to explain our poor productivity performance. Analysis for the TUC by the Learning and Work Institute looked at the relationship between productivity growth and the change in insecure employment between 2011 and 2016.[71] They find that:

> *"…the pattern that emerges is a negative association between productivity growth and changes in the incidence of insecure employment. Thus, sectors which saw higher increases in productivity tended to experience falls, or smaller increases in insecure employment than other sectors. There is a reasonably strong correlation between lower productivity growth and higher increases in the incidence of insecure employment."*[72]

Productivity Growth and Change in the Incidence of Insecure Employment 2011-16



Source: Learning and Work Institute (2017) What is driving insecure work? A sector perspective: report to the Trades Union Congress

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[71] The analysis was only able to look at this relationship for 14 1-digit SIC 2007 industries, as productivity data was not available for mining and quarrying; electricity, gas, steam and air conditioning; water supply, *sewerage and waste management; and data was available only for government services which covers the thee 1-digit sectors of: health and social work; education; and public administration and defence, and not these sectors separately.*

[72] *Learning and Work Institute (2017). What is driving insecure work? A sector perspective: report to the Trades Union Congress http://www.learningandwork.org.uk/wp-content/uploads/2017/07/What-is-driving-insecure-work-_-July-2017.pdf.* The research finds that the correlation coefficient between increases in insecure work and increases in productivity variables is -0.52. A correlation coefficient of -1 would indicate a perfect negative linear correlation while a coefficient of 0 indicates no linear correlation.

While the research is clear that this correlation cannot imply causation, it seems highly likely that workers who are not sure when they will be working, how much they will be paid, or whether they have access to any rights at work are likely to be less productive than those in more secure employment. And as Matthew Taylor's government commissioned review of 'Good Work' set out, poor quality employment practices have direct costs for businesses too, with 15 million working days lost in 2016 due to stress, anxiety or depression.[73]

Addressing the challenge: a Great Jobs Agenda

The TUC believes that everyone should have access to a great job, and that this would deliver significant gains for business and government, as well as for working people. The TUC's Great Jobs Agenda[74] sets out six areas where government needs to act:

- **Expanding voice at work,** including new rights for trade unions to access workplaces, and rights for workers to speak for themselves on company boards
- **Fair and decent pay,** including ending the Swedish Derogation that means agency workers can be paid less than the going rate for the job.
- **Regular hours** including banning the regular use of zero hours contracts, and ensuring that all workers receive premium pay for non-contracted hours, and compensation when shifts are cancelled at short notice.
- **Fair treatment and respect:** including strengthening protection from harassment at work
- **Healthy workplaces:** including placing a duty on company directors to ensure good health and safety; and
- **Learning and progression,** including, as we set out further below, promoting new ways for people to learn throughout their lives.

There are two areas in particular where we think the Treasury will need to provide additional funding in order to achieve this aim.

Enforcing rights

First, enforcing the rights we have. One key lesson to be learned from the National Minimum Wage regime is that increasing the funding for proactive enforcement has had a substantial positive impact.

The previous government increased the budget for enforcing the National Minimum Wage. As a result, the amount of arrears recovered for underpaid workers has increased from around £3.5 million in 2014/15 to £10.9 million in 2016/2017.[75] As the NMW expected to

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[73] Good Work: The Taylor Review of Modern Working Practices (2017) https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices
[74] https://www.tuc.org.uk/sites/default/files/great-jobs-agenda.pdf
[75] "Government evidence to the Low Pay Commission on compliance and enforcement", July 2017, p22: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/630197/nmw-nlw-lpc-evidence-compliance-enforcement-2017.pdf

cover around 200,000 more workers in the coming year,[76] further increases in this Budget are warranted.

At present, Government has suspended enforcement of the National Minimum Wage in social care, due to claims of funding pressures from social care providers including MENCAP. The TUC believes that the impact of the failed MENCAP case on sleep-ins has been overstated. This case concerned workers in social care who must now be paid the NMW for periods when they are required to stay on the employers premises to ensure that round the clock is available. A number of inflated estimates of the amounts of back pay owed by employers have been bandied around, including a figure of £400,000 million.[77] The TUC's estimations, using data from the ONS Labour Force Survey, suggests that the figure is more likely to be very much smaller, perhaps around £30-£50 million.

Nevertheless, Government might consider making some contingency provision for increasing the budget for commissioning social care, which is a process that has already been started, in order to be sure that workers do not lose out on the National Minimum Wage and that social care providers do not use their liabilities as an excuse to trim their services to vulnerable people.

The lesson of the National Minimum Wage regime has obvious implications for other rights at work. The new Director of Labour Market should have a say on how budgets are directed, but it is clear that putting more money into enforcement has a positive impact on workers being able to access their statutory rights, and this Budget should make provision to roll this out more broadly.

The ability for workers to enforce their rights received a boost this year, when the Supreme Court ruled that Employment Tribunal Fees were unlawful. Government now needs to ensure that sufficient funds are available for this judgement to be realised. This means including ensuring that people who have paid funds receive speedy refunds, that those who have been deterred from taking a case due to fees can now do so, and that the system continues to have adequate funding to deal with an expected higher volume of claims.

Expanding parents' rights

Our research with young parents clearly found that many parents cannot access their existing rights. In some cases, this was due to a lack of awareness, but in others, the level of pay accompanying periods of leave was too low to enable them to afford to take time off.

The TUC is calling for extended periods of parental leave with improved levels of statutory pay. We believe this would encourage more parents, and in particular, young fathers, to take leave and spend time with their children when they are first born and as they grow up. We are calling for:

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[76] House of Commons briefing paper 7,319, "Economic Impacts of the National Living Wage, (March 2016) restates the earlier OBR analysis. It estimates that the NLW will cover a million extra workers by 2020. For the purpose of the current budget our estimate assumes that this increase will take place at a steady rate of 200,000 per year.

[77] https://www.mencap.org.uk/get-involved/campaign-mencap/stopsleepincrisis

- An increase in paid paternity leave from 2 to 6 weeks. The statutory pay rate for paternity pay should increase from £140.98 to at least the rate of the National Minimum Wage. Current levels of statutory pay mean that taking paternity leave is an unaffordable option for a lot of fathers.
- An increase in statutory shared parental pay to at least the rate of the National Minimum Wage.
- Parental leave should be a paid right. It is not affordable for many low paid parents to take time off unpaid to look after their child when they are sick or when childcare falls through. The government should start by introducing a period of 5 days paid parental leave, be paid at least at the relevant rate of the National Minimum Wage.
- Similarly, the right to time off for dependants should also be a paid right. Every parent should have a clear entitlement to 5 days paid leave, which would help them look after their child in an emergency situation such as illness. The government should start by introducing a period of 5 days paid parental leave. It should be paid at least at the relevant rate of the National Minimum Wage.

The challenge: We are failing to invest in the training we need to prepare people for the jobs of the future

Under-investment in workforce skills by government and employers has been a perennial feature of the UK labour market for a number of years. However, we now face a looming skills crisis. The combined impact of Brexit and other factors, including rapid technological change, will accelerate the demand for skilled workers in a wide range of sectors to a much greater degree than we have witnessed in recent decades. Without urgent action by government on this front it is highly likely that skills shortages will escalate and the long-standing productivity gap with other major economies will widen further.

Welcome as they are, the reforms to boost investment in apprenticeships and develop new technical education qualifications can only be part of the solution to meeting the skills challenge. The overall picture on adult skills investment remains very weak. As highlighted in a recent IPPR report,[78] employer investment in continuing vocational training per employee in the UK is half the EU average and investment in training and learning per UK employee fell by 13.6 per cent per employee in real-terms between 2007 and 2015. Government spending on adult skills and FE has also been cut sharply – a recent analysis by the House of Commons Library identified a cut of 41 per cent in the adult skills budget between 2010/11 and 2015/16.[79]

We also have a long tail of low-productivity UK employers that fail to train their staff and which tend to be congregated in low-waged sectors. This group of employers are a key

[78] IPPR (July 2017) Another Lost Decade: building a skills system for the economy of the 2030s (available at: www.ippr.org/files/2017-07/another-lost-decade-skills-2030-july2017.pdf)
[79] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7708

contributory factor behind the depressing statistic that one third of UK employers admit to training none of their staff, a trend that has seen no improvement since 2005.[80]

To make sure workers have the skills they need to take advantage of new opportunities in the labour market, government needs to focus on those in the workplace now as well as increasing investment in apprenticeships and new technical courses. For example, it is estimated that two thirds of the 2030 workforce have already left full-time education and these people are most at risk of being left behind in a rapidly changing labour market.

Responding to the challenge: Invest in skills for those already in the workplace to help people manage and thrive when jobs change

As the recent TUC report - Shaping Our Digital Future – has highlighted, the pace of technological change affecting the labour market demands that government builds on its reform of apprenticeships and technical education by developing a much more expansive "skills offer" for the existing adult workforce. We have much to learn from other countries on this front as evidenced in a recent World Economic Forum (WEF) report[81] looking at how countries can reskill their workforces for the digital revolution.

According to the WEF analysis some countries (e.g. Sweden, Finland, Japan and Germany) are more successful at pushing forward with automation and digitisation processes across their economies in combination with workplace training programmes that support workforce adaptation. In effect this is largely attributed to "the multifaceted lifelong learning systems many of these countries have put in place to support and develop adult skills over the course of their lifetime." The analysis also highlights the importance of a strategic collaboration between government, employers and unions to deliver skills programmes to help employees develop new or adapted career trajectories.

The TUC has welcomed the boosted funding for apprenticeships through the introduction of the levy and the government's commitment to an additional £500M of funding per annum for the new T levels when they are fully up and running. However, this in itself will not be sufficient to deal with the potential skills crunch facing the nation as employers and employees face up to rapid technological change and the skills fallout from Brexit. Due to phasing in, the full set of new T levels will not be available to students until autumn 2022 at the earliest and the reformed apprenticeship system will not have the capacity to generate enough skilled labour to meet demand in the economy.

Unlike the increased funding for youth skills programmes, the FE and adult skills system has witnessed a major contraction in recent years with the adult skills budget cut by two fifths since 2010. In this period governments have also instigated and subsequently expanded a new FE tuition fee loan system – Advanced Learner Loans - which now applies to all people aged 19 years+ taking up college courses at Level 3 and above. The combined impact of the cuts to funding and the introduction of this loan system has severely curtailed the

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[80] This finding is from the government's biennial Employer Skills Survey series – the latest edition is available at: www.gov.uk/government/publications/ukces-employer-skills-survey-2015-uk-report

[81] World Economic Forum, "Accelerating Workforce Reskilling for the Fourth Industrial Revolution", White Paper, July 2017, www.weforum.org/whitepapers/accelerating-workforce-reskilling-for-the-fourth-industrial-revolution

capacity of the FE system to support adults to take up retraining programmes on an independent basis.

In order to boost opportunities for retraining and upskilling significantly, the TUC is calling on the government to take a number of steps, including

- setting an ambition to increase investment in both workforce and out of work training to the EU average within the next five years
- introducing a right to a mid-life career review and face to face guidance on training
- introducing a new life-long learning account, providing the opportunity for people to learn throughout their working lives
- introducing a new targeted retraining programme aimed at certain groups (e.g. those facing redundancy due to industrial change).

The Conservative Party election manifesto included a commitment to launch a national retraining scheme to "help workers stay in secure jobs as the economy changes". The manifesto said that the costs of this training would be met by government whilst companies would be "able to gain access to the Apprenticeship Levy to support wage costs during the training period." Whilst little more has been heard about this policy proposal since the election, the Department for Education website confirms that one of the Skills Minister's responsibilities is to take forward the National Retraining Scheme (NRS).

Since the levy was originally announced there have been a range of calls, predominantly from employers, for wide-ranging flexibilities to allow Apprenticeship Levy funding to be spent on other forms of workplace training. There are potentially huge dangers in such an approach, not least that it would potentially result in high levels of "deadweight". In other words, given the opportunity some employers would resort to funding the same mix of training as before the levy was introduced and this would completely weaken the principal policy objective of driving up the number of high quality apprenticeships.

However, the TUC is of the view that, providing adequate safeguards are put in place to prevent deadweight, there are two priority areas where the government could consider some flexibilities. One is the urgent need to boost retraining and upskilling opportunities through a government-sponsored scheme like the NRS. The other flexibility should be focused on boosting the supply of apprenticeships by allowing employers to use some of their levy funding for innovative high-quality pre-apprenticeship programmes. These programmes would help young people with specific challenges to get the support they need to prepare for enrolment on a full apprenticeship.

When considering any new schemes to support retraining and upskilling, it will be important for government to draw on key actors in the workplace that are adept in this field, including union learning reps. For example, the WEF report cited above identifies a number of best practice case studies on lifelong learning from various countries, including the Mid-Life Career Review initiative that was launched in the UK in 2013 with government support and which TUC unionlearn played a leading role in. Whilst the original pilot has ended, unionlearn continues to promote this approach by supporting union learning reps to provide career and training reviews for workers, particularly those over the age of 50.[82]

Summary

- **The Government should set out action to deliver great jobs for everyone. The TUC's Great Jobs Agenda sets out actions to expand voice at work, raise levels of pay, ensure regular hours, strengthen action to promote equality at work, improve health and safety at work and ensure everyone has the ability to learn and progress.**
- **This budget should prioritise spending to improve enforcement of existing rights, including the National Minimum Wage. This must cover those in the social care sector, currently waiting for back pay for sleep-ins.**
- **Government must also ensure that sufficient resources are in place to deliver the intention of the Supreme Court's verdict that Employment Tribunal fees are illegal, that those who have paid them should be compensated, and that employment tribunal cases should now be free of charge.**
- **It should also look to expand rights for parents, to help them better combine work and family life. This should include expanded paternity pay, and the introduction of paid parental leave.**
- **Investment in skills for those already in work will be vital to take advantage of new technological developments, and ensure they benefit everyone. Government should set an ambition to increase investment in both workforce and out of work training to the EU average within the next five years, including by investing in a new life-long learning account.**

[82] For more information, go to: www.unionlearn.org.uk/supporting-midlife-development

Section 5

Tackling the living standards squeeze

Falling real pay, coupled with the freeze on household benefits is putting families' living standards under pressure. Cuts to Universal Credit are set to intensify the squeeze in the following years.

Action is needed across the economy to boost pay. In addition to ending the public sector pay cap, and investing to give businesses the confidence to award pay rises (as outlined above), it is increasingly clear that expanding the coverage of trade unions is one of the best ways to stave off rising inequality.

The government can also make a real difference to the lowest paid by setting an ambitious target for the National Living Wage to rise to £10 an hour as quickly as possible. And with a sharp rise in the cost of living, there is an even stronger case for rethinking cuts to working age benefits. Finally, in order to prevent the living standards squeeze today being translated into a pensions squeeze when today's workers retire, the successful pensions auto-enrolment programme needs to be expanded to cover more low paid workers.

The challenge: living standards under pressure

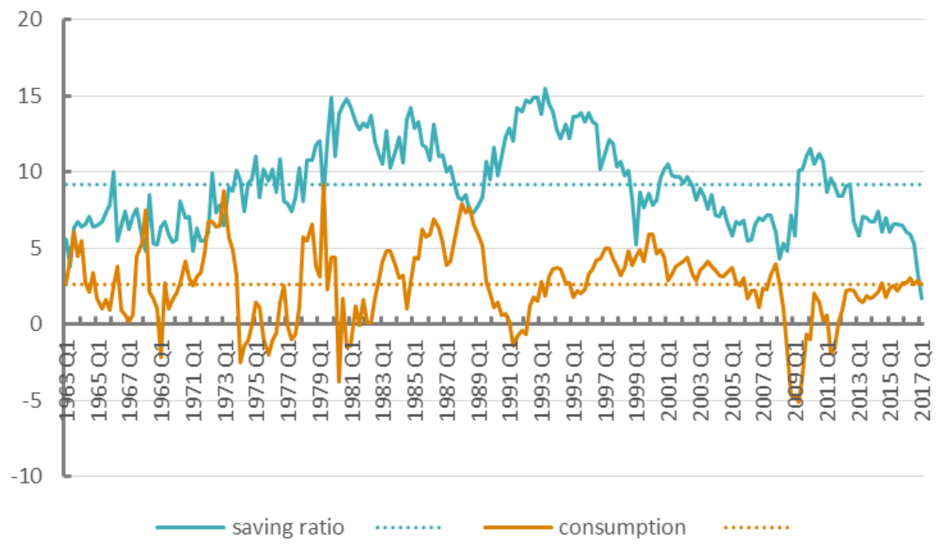
Despite record employment levels, working people remain trapped in one of the longest pay squeezes in living memory, with average wages still significantly below the peak reached before the financial crisis.[83]

The prolonged pay squeeze is having a clear impact on households' ability to save. The savings ratio of 1.7 per cent in Q1 2017 was the lowest on record by some margin. It has been below 4 per cent only on two occasions, the previous quarter and in 1963 Q2; it has never before been below 3 per cent and the long-term average is 9 per cent.

It's important to note that this is a result of low incomes, rather than excessive spending. While saving is well below the long-term average, consumer spending four quarter growth of 2.6 per cent in the corresponding quarter (2017Q1) was exactly at the long-term average.

[83] The ONS gives figures for pay in 2015 prices showing that regular pay in July 2017 was £14 below its pre-crisis peak.

Household spending annual growth and the saving ratio, per cent



Source: ONS

In parallel to the decline in the saving ratio, unsecured credit is growing at an alarming pace. This year, household unsecured debt is set to be higher than ever before – with TUC analysis of OBR figures showing a rise to a record £13,900 per household in 2017.[84]

Alongside the fall in real pay, cuts in the value of working age benefits are also contributing to the income squeeze. IFS analysis published in October 2016 found that the fall in sterling was having a significant impact on the size of the hit experienced by families due to the freeze in the value of working age benefits. While at March 2016 the freeze was set to see 11.5 million families lose an average of £260 a year, by October, inflation forecasts suggested that these families would lose £360 a year.[85]

TUC polling[86] undertaken in August 2016 revealed the stark impact of the living standards squeeze on working families:

- 1 in 8 workers (13%) are skipping meals to make ends meet.
- Close to half (44%) are worried about meeting basic household expenses, such as food, transport and energy.
- A third (36%) think cost of living pressures are getting worse.
- One in four workers (24%) said they would not be able to pay an unexpected bill.

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[84] https://www.tuc.org.uk/news/household-debt-will-reach-record-high-first-year-new-government-says-tuc

[85] https://www.ifs.org.uk/publications/8699

[86] GQR Research conducted an online poll of 3,287 respondents in work in Great Britain, during 11-22 August 2017. The results were weighted to the national profile of working people, by age, gender, ethnicity, region and job characteristics: full/part time contract, public/private sector and industry.

These pressures are expected to intensify over the coming years, as Universal Credit is rolled out, and with it significant cuts in the level of support for working families. IFS analysis[87] estimates that if all planned benefit reductions were in place, nearly three million working households with children on tax credits would be on average £2,500 a year worse off, with larger families losing more.

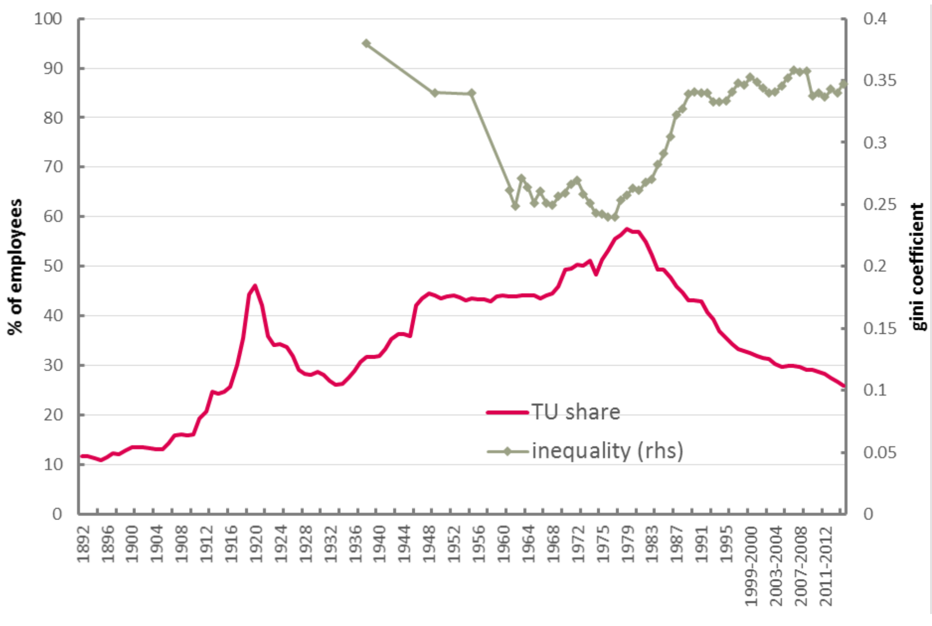
Universal credit cuts will also affect self-employed people, with the introduction a new 'minimum income floor' (MIF) for the self-employed. This means they must earn the equivalent of 35 hours a week at the NMW before qualifying for any in-work support. This £1.5bn saving for the Government is in effect coming out of the pockets of the low paid self-employed.

Addressing the challenge: boosting pay, pensions and incomes

The measures set out earlier in this submission to lift the public sector pay cap, and invest in infrastructure are vital to help get wages rising. But they will not tackle the living standards crisis on their own.

First, government should recognise the role that Trade Unions have to play in boosting pay. With evidence increasingly suggesting a strong link between trade union coverage and inequality, there is a clear case on living standards grounds alone for making it easier for trade unions to recruit workers, including by giving them access to workplaces.

Trade union coverage of the workforce and inequality in the UK



Source: TUC analysis of ONS data on trade union coverage and World Income Inequality database[88] on the gini co-efficient

[87] https://www.ifs.org.uk/publications/9164
[88] See here: https://www.wider.unu.edu/database/world-income-inequality-database-wiid34

Next, government should recognise the particular pressure on the low paid, raising the National Living Wage to £10 as quickly as possible. And with young people particularly under pressure, it is vital that the unfair exclusion of 21-24 year olds from the new NLW rate is ended.

The UK's gender pay gap still stands at over 18% and at current rates won't be eliminated in under four decades. Further action is needed urgently and the government should build on the gender pay gap information regulations, by including companies with 150+ employees, requiring organisations to provide an explanation of figures submitted and produce an action plan to eliminate pay gaps and introducing sanctions against those who do not provide the required information. Action is also needed to tackle the pay gap that exists between white and BME employees. Gender and race pay differentials should have no place in the 21st century British economy.

Government also needs to think again about proceeding with Universal Credit and other cuts that will hit particularly hard in the context of rising prices. The Government should use this Budget to truly acknowledge the financial pressure working people are under, and reverse the current working age benefits freeze, and the cuts to Universal Credit. Government should reverse the cuts to the work allowance in full, and reverse the unfair 'two- child' policy and the removal of the first child premium.

The cuts in the income of the self-employed through the Minimum Income Floor are likely to come as a shock to many self-employed people. While there may be a case for examining how we can ensure that the self-employed are in high-quality, productive employment, removing £1.5bn in support seems like a particularly blunt tool to do this. This is particularly the case when employers continue to benefit from a clear tax subsidy when they contract with workers on a self-employed rather than employee basis. As the Taylor review set out *'differences in the tax system create incentives for both the individual and the company to move towards a self-employment model, whether or not it is most appropriate for their circumstances.'*[89]

The Work and Pensions Select Committee[90] recently recommended that:

> *"The incoming government should commission an independent review of the MIF with a view to improving its sensitivity to the realities of self-employment. Until this is complete, the MIF should not apply to self-employed UC claimants."*

The TUC endorses this recommendation

Pensions

Great progress has been made in recent years in extending access to workplace pensions through the automatic enrolment initiative. However, too many low paid workers, especially women remain excluded. And average contribution rates are at levels insufficient for a decent standard of living in retirement. The ongoing review of automatic enrolment must

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[89] Good Work: The Taylor Review of Modern Working Practices (2017) https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices

[90] https://publications.parliament.uk/pa/cm201617/cmselect/cmworpen/847/847.pdf

tackle these issues if most low and middle earners are to have a chance of a decent standard of living in retirement.

The decision to accelerate the planned increase in the state pension age to 68, especially without mitigating reforms to social security and labour market policy, risks leaving many future retirees dependent on working age benefits.

Tax relief remains an essential part of the current system, helping to bolster savers' retirement pots and sending a strong signal that society values long-term saving. 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.

However, retirement policy is hindered by its fragmentation: elements like the state pension, defined benefit, defined contribution pensions and retirement income considered in isolation. 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.

Summary

- **Government should recognise the important role that trade unions play in boosting pay and living standards, and give trade unions new rights to access workplaces in order to tell people about the benefits of joining a trade union.**
- **In addition to taking action to boost pay across the economy, government should recognise the particular pressure faced by the low paid, and raise the National Living Wage to £10 an hour as quickly as possible. This rate should also be paid to those aged 21-24.**
- **Government should tackle unfair pay differentials that leave working people worse off. The gender pay gap regulations should be expanded to companies with 150+ employees, and government should set out a plan to tackle the pay gap between white and BAME workers.**
- **Government should reverse Universal Credit cuts set to leave families significantly worse off, and pause on the implementation of the Minimum Income Floor for the self-employed.**
- **Appoint a standing pensions commission to ensure adequate retirement incomes for everyone.**

Section 6

But can we afford it?

This submission sets out the case for additional spending on public services and public servants, renewed investment in infrastructure including housing, spending to help enforce workplace rights and enhance training, and to support family incomes at a time of a living standards squeeze.

Debate about these issues has been framed over the last seven years as a question of their affordability. We believe that in preparing for a future outside the EU, the question should be rather whether the UK can afford not to invest. As the OBR set out in their Economic and Fiscal Outlook in November last year, questions about the UK's future productivity performance pose a greater risk to the public finances than even the risk to our future trading relationships from changes as a result of the decision to leave the EU.[91]

We believe that the investment we set out above is a vital tool in improving growth and productivity. But even if this account is not accepted, it is clear that the government could make different choices. First, even within the tight fiscal envelope they have set, around £26bn headroom remains. And second, it is increasingly clear that Corporation Tax cuts are not having the desired impact on business investment. In the light of the stark need for investment elsewhere, these cannot be a priority for spending.

How public spending can help deliver a stronger economy

There is significant evidence that spending on public services can boost demand, leading to higher economic growth. And as the OECD set out, investing in infrastructure can boost both the supply and demand side of the economy, boosting productivity across the board.

It is clear that the current approach of cutting spending and hoping that the private sector will step in to produce growth is not working, either to boost the economy, or to repair the public finances.

Public finances have been hit by lower than expected cash receipts resulting from weak GDP growth since 2010. This has led to a significantly lower pace of deficit reduction than government planned for, and the public debt ratio has not been reduced. The coalition government inherited plans from Labour that had the debt ratio peaking at 74% of GDP. Under the coalition's initial (2010) plans, debt was set to peak sooner (2013-14) and at a lower 70% of GDP. The debt ratio is now set to rise to a peak of 89% of GDP this financial year and so not be reduced until 2018-19.

There is considerable evidence that cuts in public spending have damaged rather than enhanced GDP growth. The chart below illustrates how nominal figures for GDP growth (Y) have slowed alongside government spending growth (G).

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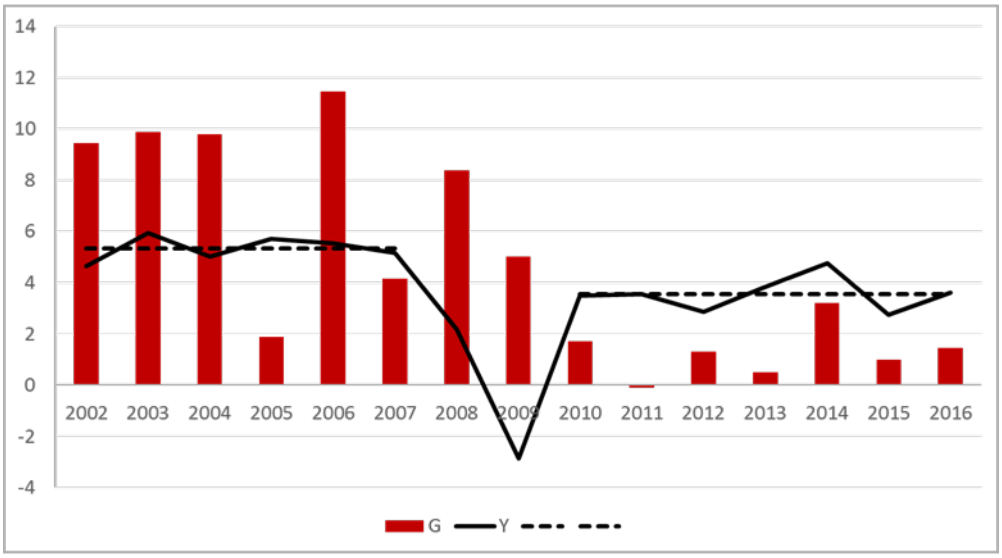
[91] See, for example, Robert Chote's opening remarks to the presentation of the November 2016 Economic and Fiscal Outlook http://cdn.budgetresponsibility.org.uk/Speaking-note-November-2016.pdf

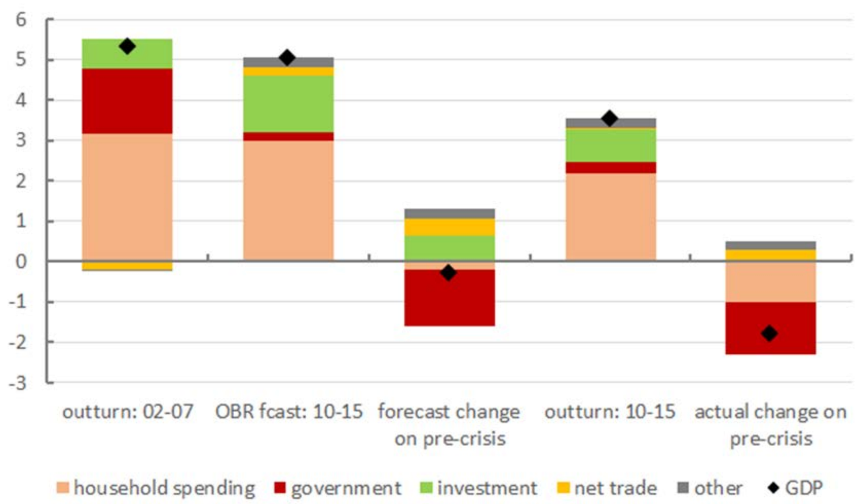
Government spending (G) compared to GDP, % nominal growth[92]



Source: ONS

The fuller story follows from comparing the contributions of different types of spending to GDP growth over the period of the coalition government with the years before the crisis.[93]

Contributions to GDP growth, annual averages in percentage points[94]



Comparing pre-crisis and post-crisis outcomes, (nominal) GDP growth slowed by 1.8 percentage points a year (from 5.4 to 3.6 per cent a year). The contribution of government expenditure was down 1.3 percentage points. The OBR expected the reduction in public

92 ONS accounts

93 See TUC (2015), 'The Price of Austerity', https://www.tuc.org.uk/sites/default/files/ThePriceofAusterity.pdf

94 TUC calculations on OBR and ONS figures

spending to be almost entirely offset by a revival in private expenditure, i.e. investment and net trade (column 3). And they base these judgements on as assumption that the 'multiplier' effect of cutting public spending is no more than one. But the chart above suggests that cuts to public spending were more damaging (column 5). The actual reduction in GDP growth of 1.8 percentage points a year in growth was very close to what might have been expected if the multiplier was around 1.5.[95]

As a first step towards reassessing the impact of public spending we would expect the Treasury and OBR to re-evaluate their approach to the multiplier effect – as other leading organisations such as the IMF have already done.[96] If the evidence indicates, as we believe it does, that there is a multiplier effect of public spending in the region of 1.5, this has serious implications for fiscal policy.

A higher multiplier opens up the possibility that the correct way to improve the public finances is to increase rather than reduce spending. It is perfectly possible that expanding public sector activity will lead to stronger private sector activity. In the meantime, erroneously operating with a too low multiplier means that the economy is being badly damaged for no sound economic reason at all.

Using the headroom

In his March 2017 budget, the Chancellor confirmed that

> *"the OBR expects cyclically adjusted public sector net borrowing to be 0.9% in 2020-2021, giving us £26 billion of headroom against the headline 2% target in our new fiscal rules, maintaining our fiscal resilience over the period".*[97]

While the Chancellor has stressed the need to use this flexibility to provide resilience in the face of potential economic challenges arising from Britain's withdrawal from the EU, there is scope to use some of that to invest in the social infrastructure that we need to weather those exact storms. For example, the IFS estimate that increasing public sector pay in line with either prices or private sector earnings, for example, would have a cost of around £6billion,[98] just under two per cent of resource departmental expenditure.[99]

Making different choices

Finally, even sticking within its existing spending envelope, the government could make different choices.

The IFS estimates that the reduction of corporation tax from 28 per cent in 2010 to 17 per cent by 2020 has reduced government revenue by at least £16.5bn per year - although this could be considerably higher, possibly up to £19.7bn a year if HMRC's most recent calculations on the potential revenue raised as a result of a 1 per cent raise are accurate.

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[95] Geoff Tily (2017), 'Why multipliers matter', ToUChstone blog. http://touchstoneblog.org.uk/2017/07/why-multipliers-matter/

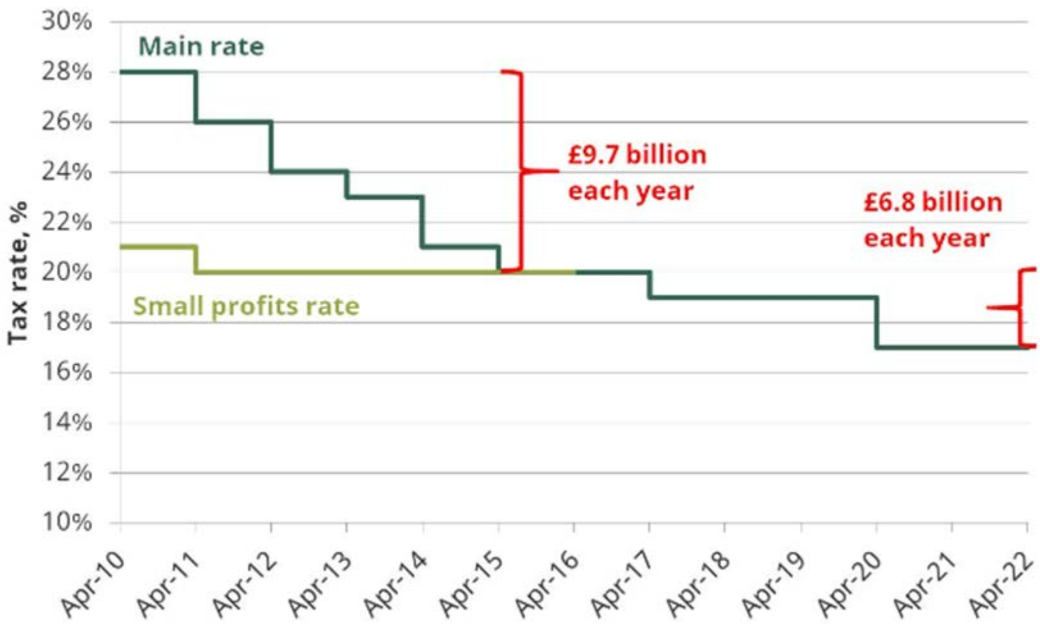
[96] World Economic Outlook, IMF, 2012

[97] Chancellor of the Exchequer Rt Hon Philip Hammond, March 2017

[98] https://www.ifs.org.uk/publications/9805

[99] TUC analysis of IFS public sector pay cost estimates and HMT PESA 2016

Rates of UK corporation tax and revenue cost of rate cuts in 2017–18 terms[100]



Source: What has been happening to corporation tax?, IFS, May 2017

With HMRC calculating that a 1 per cent raise in corporation tax could increase government revenue by £2.3bn in 2020/21, it is clear that maintaining corporation tax at its current very low rate, without the further 2 per cent cut, would free up almost £5bn extra to invest in public services by 2020[101] - let alone raising it back to the OECD average of 24 per cent.[102]

If the trade-off for this vast tax giveaway was a significant increase in either domestic or foreign business investment, there could be a case for pursuing ever lower corporation tax rates. However, business investment growth has been modest over this period, virtually flat-lining since 2015 and the UK continues to languish near the bottom of OECD rankings.[103]

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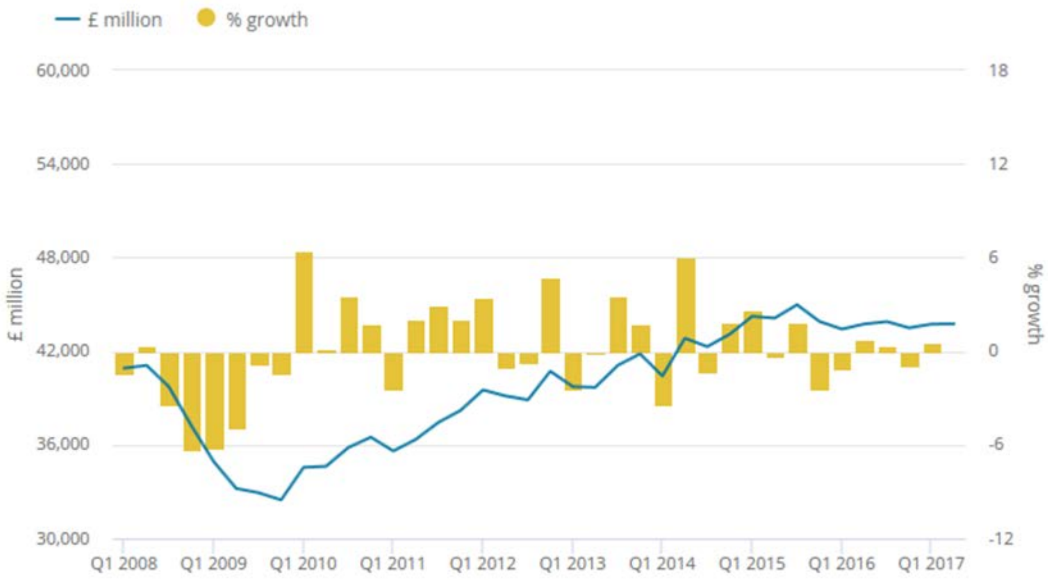
100 What has been happening to corporation tax?, IFS, May 2017
101 Ibid
102 KPMG
103 UK languishing near bottom of OECD rankings for investment in vital infrastructure, TUC Touchstone, November 2016

Quarterly levels and quarter-on-quarter growth of business investment, chained volume measure, seasonally adjusted[104]



There is clearly no direct causal link between cuts to corporation tax and business investment. As the TUC has argued before, 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.[105] Investment decisions are based on a mix of factors, including access to markets, labour and inputs – including strong social infrastructure that improves the skills, health and well-being and environmental outcomes in our communities.

If the government is concerned about funds, it is hard to see why cutting corporation tax further can be justified.

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[104] Business investment in the UK, Office for National Statistics, August 2017
[105] Why cutting corporation tax would make things worse, not better, TUC Touchstone, June 2016