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Steps to recovery

The UK economy
needs a plan

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Introduction

The UK has entered a further period of restrictions to help control the spread of the Coronavirus.

Some economists now predict a double dip recession¹ and there is no doubt that the new lockdown will mean further contraction in some sectors and a further delay to any economic recovery, causing significant economic pain for workers at every level of the economy.

The Treasury has been rightly praised for mitigating job losses through innovative policies like furlough, the government's focus has been uniformly short term.

In March the government put much store in working with unions. However, promising early engagement has not matured into a close working relationship since.

The UK government must use this period of new restrictions to get on top of the health crisis and protect the NHS. But it must also use the time to work out what's next for the economy.

The future of work needs to be fair, inclusive and anchored around the notion of good work. The actions and leadership of government in these coming months will set the direction of the recovery and its implications for workers and communities. The backdrop for the recovery is not just about the pandemic, it also includes political choices around the kind of Brexit we get.

The UK economy needs a plan which helps it grow and thrive while living with the virus. We urge ministers to engage with unions and employers to map out a plan for the economy into the Spring. This is the only way to avoid catastrophic levels of job losses and deep damage to the social fabric of our country.

Any plan must take a four nations approach, with administrations in London, Edinburgh, Cardiff and Belfast working together, recognising that we need to see recovery right across the UK. The UK government must learn from the devolved administration's approach to engaging with trade unions, resulting in better policy making rooted in the experience of workers on the front line.

¹ 'UK on brink of double-dip recession', *The Times*, 2 Nov 2020 <https://www.thetimes.co.uk/article/uk-on-brink-of-double-dip-recession-dhhghgd5t>

1. Job support schemes

Transition from Job Retention Scheme to Job Support Scheme

The Job Retention Scheme (furlough) has been extended until the end of March, but businesses and workers need clarity on the level of payments for February and March as well as what comes next.

Businesses must be given a clear early indication that when they face high levels of restrictions full furlough will be available.

Last minute decisions about tiers and other restrictions may lead to companies planning for a worst-case scenario, which sees workers who could have been supported by government schemes being made redundant.

A good start in England would be to publish clear criteria area to enter the various tiers in future.

The UK government must also make sure that support for workers properly matches the health restrictions in each of the four nations, to avoid workers paying the price for political disagreements between administrations.

Sectors that will take longer to reopen

The Job Support Scheme will not be enough to support some sectors which have been particularly badly affected by the pandemic and were barely able to reopen in 2020.

These sectors (some of which we highlight below) need bespoke support which goes beyond the current support schemes to avoid a loss of jobs, skills and infrastructure that could take many years to rebuild.

Supporting the self-employed

The pandemic has exposed the risk taken by self-employed and freelance workers, many of whom have suffered a significant economic hit. The government's Self Employment Income Support Scheme (SEISS) offers support to many in this situation. It is vital that there is clarity that this support will continue to be extended alongside the JSS while restrictions continue.

However, flaws in the SEISS, including the exclusion of millions of workers and the poor targeting of the scheme at workers in sectors that require more support, mean that the extension will be insufficient. The government must urgently look at the operation of the tax and benefits systems to find creative ways to support these workers. This should include making the suspension of the minimum income floor for universal credit permanent, pending a wider review of the support and contribution of the self-employed.

2. Supporting the hardest-hit industries

Not all sectors have been affected equally by the pandemic. Policy aimed at stimulating an economic recovery in 2021 must be targeted at those hard hit. One-size-fits-all support will not act as a platform on which to rebuild. Many of the issues faced by these sectors would be alleviated by access to mass rapid testing facilities and we would argue that sectors that require such tests to reopen should be prioritised for the supply of these tests when they become available.

Aviation

The sector has been a UK success story in recent years however the pandemic has seen airlines like Flybe collapse and traffic fall to unprecedented lows.

The winter is traditionally the hardest time for the aviation sector, with more limited leisure travel than the summer months.

The sector undoubtedly needs specific short-term government support in the same way as other European countries. This will help maintain key skills and infrastructure for example regional airports and air traffic control, recognising that they are critical national infrastructure.

The lockdown period must be used to put in place the changes needed for safe and rapid reopening. For example, establishing rapid testing on departure in agreement with other countries to establish safe travel corridors and give travellers certainty.

Government also need to deliver on promises to agree the recovery deal they have promised and quickly implement the recommendations of the Global Travel Taskforce.

Theatres, cinemas, and live events

Theatres, cinemas and live events have been effectively closed by the pandemic thanks to a combination of social distancing rules and perceived risk leading to lack of demand (for cinemas the lack of new releases was an additional factor). There have been large scale redundancies, especially of lower paid staff, and the government's Cultural Recovery Fund has provided funding focused on preserving institutions but not on saving jobs and skills or on assisting with reopening the sector.

Rapid testing could transform the outlook for these sectors, enabling them to reopen without social distancing and return to profitability. However, there may still be lag time, for example to rehearse performances or sell tickets, and some initial support may be needed to facilitate this. In addition, there are very real concerns about initial demand that may need to be overcome, for example through a mooted Seat Out to Help Out scheme to subsidise cultural activity.

The government have previously offered support to the cultural sector in obtaining insurance cover which had become a major barrier to reopening. This support must be extended until the commercial insurance is once again a viable option.

Heritage

Restrictions have seen most museums, galleries and other heritage sites close once again in England, Wales and Northern Ireland. While furlough will support some payroll costs it will not be enough to avoid some permanent closures, and once lost our heritage cannot be replaced. This argument was recognised by government in the summer with the establishment of the Culture Recovery Fund. The government now needs to provide significant further money to the fund recognising that significant support will be needed for a time to come.

3. Building a lasting recovery

Health and safety and public health

Any economic recovery will require confidence that workplaces are safe to access for staff and the public. Following the first lockdown the government promised a programme of workplace inspections by the Health and Safety Executive, however it quickly became apparent that after a decade of deep cuts the HSE was not resourced to a level necessary to take on this additional responsibility.

Good employers have implemented Covid-secure guidelines rigorously, working with trade unions. However, they are now to some extent paying for the price for those who have not, choosing to ignore guidance and failing to engage with their workers.

The government and HSE should use this lockdown to assess what a more effective workplace inspection programme would look like in 2020 and put in place the necessary resources to make it a reality, both now and in the long term.

The crisis has also exposed the need for a properly resourced public health agency. Public Health England has seen its funding cut significantly over the last ten years², with labs closing and expertise lost. Now reconstituted as the National Institute for Health Protection it must be properly resourced in the public sector, recognising that billions of pounds spent with the private sector on NHS Test and Trace have largely failed to deliver results.

Supporting workers working from home

As we approach Christmas some workers will have been wholly or partially working from home for over nine months. While it has offered flexibility for some, it is increasingly clear that it presents real challenges for work-life balance and workers' mental health.

Prospect is leading calls for a Right to Disconnect to help broker a conversation between workers and employers on work life balance, and on the boundaries of technology and our rights. Government should recognise the long term health implications of the current situation and support these efforts.

There is also a real risk that some employers move the cost of providing workspaces onto workers in the long term, which unless it is addressed by government could bake in inequality and further reduce social mobility and access to key professions.

The government should commission a review looking at the implications of mass remote working for workers and the economy, including an examination of whether workers' rights and the regulation of workplace technology are fit for purpose.

Long-term infrastructure

If the economy is to recover significantly during 2020 then it is essential that the government provides a stable environment to encourage investment decisions.

The government must stop putting off decisions over the long-term infrastructure of the country off. Getting them moving is key to delivering certainty. The government's 10 Point Plan for a Green Industrial Revolution provides a template for some of this action, however it requires more focus and funding to make this plan a reality. Some key projects include:

- New build nuclear – All but one of the UK's existing nuclear power stations are set to close by 2030. A commitment to a full generation of new nuclear power stations

²Prospect analysis of annual reports shows funding for the Health Protection Agency was cut by 23% in real terms from 2009-10 to 2012-13. From April 2013 the Health Protection Agency (excluding the National Institute for Biological Standards and Control) was merged along with the National Treatment Agency and Control) and functions previously carried by SHAs and Primary Care Trusts to form Public Health England. PHE gross operating expenditure fell by 14% in real terms, between 2013-14 and 2018-19.

beyond Hinkley Point C has the potential to deliver up to 25,000 jobs as well as supporting an electrified Net Zero economy.

- Broadband – The pandemic has illustrated the new for Gigabit broadband, where the UK lags many developed nations. However, the government looks likely to miss its manifesto pledge to deliver it by 2025.³
- Renewables – business is investing in significant renewable energy capacity – particularly offshore wind. But there is more for government to do, despite warmer rhetoric the government has now removed the planning barriers to onshore wind, and it has failed to put in place funding or regulation to ensure our electricity grid can connect and manage the amount of renewable generation that we need.

Research and development

The challenges posed by the pandemic have highlighted the value of the UK's historic strengths in science, research and development, as well as the role it could play in stimulating the development of innovative industrial clusters and high quality, high skilled jobs in every region and nation.

Prospect has welcomed the Government's ambition to make the UK a "scientific superpower" and its commitment to increase public investment in R&D to reach £22bn per year by 2024-25. It is vital that this ambition, and these spending plans, do not become a casualty of the Covid pandemic.

It is also essential that public funds are used effectively to reverse recent declines of investment in R&D in key areas of the private sector such as energy and telecoms, as well as building capacity and capabilities in the UK's network of publicly owned laboratories and research centers which, it is increasingly understood, have a pivotal role to play in ensuring the UK's scientific expertise can be used to advance our economic, social and environmental goals.

Supporting public sector workers

Public sector workers suffered under a pay freeze from 2010 onwards which has seen wages fall behind the private sector and has precipitated a recruitment and retention crisis, especially in areas with specialist skills. While this cap was lifted from 2018-20, public sector workers now face the reimposition of a cap which will only exacerbate this problem and hold back projects as diverse as environmental regulation and defence procurement.

Strengthening the UK's place in the world

The Covid-19 pandemic is likely to further accentuate trends towards increased insecurity and risks of conflict around the world today.

Analysis by Prospect of Treasury spending statistics⁴ confirms that defence spending (TDEL) fell by 15% in real terms between 2010-11 and 2016-17. There has been some recovery since then but the budget (TDEL) for 2020-21, set at last year's spending round, remains 7% below the level of 2010-11, or £3.3bn in today's prices. The government has made a welcome commitment to a significant uplift in defence spending in the coming years, it is essential that this funding boost is used to maximise jobs and skills in the defence industries.

Investing in our defence capabilities brings wider economic benefits that should be particularly welcome at a time when jobs, skills, and "levelling up" opportunities across the country is a priority for the Government. Oxford Economics have found that investment in the defence industry creates more jobs, of a higher skill level, than most other sectors – the majority outside the "Greater South East".⁵

³<https://www.cityam.com/boris-johnsons-gigabit-broadband-target-will-be-missed-by-years-warns-bt-boss/>

⁴ <https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa>

⁵ <https://www.oxfordeconomics.com/my-oxford/projects/128878>

Defence spending has been central to developing the UK's capabilities and competitive position in key sectors such as electronics,⁶ aviation,⁷ and cybersecurity,⁸ and delivering innovations with applications beyond defence in areas such as health and life sciences, oil and gas, precision agriculture, supply chain management, and autonomous vehicles. RUSI have recently highlighted key areas for investment and procurement that could form part of an effective post-Covid stimulus and recovery plan that would strengthen the economy and increase future tax revenues, including accelerating the development of TEMPEST, renewing tank production, expanding production of Type 26 Frigates, and developing cutting edge ballistic missile defence, as well as rebuilding civilian capacity and expertise in the Ministry of Defence.⁹

Equalities

It should be no surprise that in a society which is already plagued by inequalities that the impact of this pandemic has not been felt equally. For example, the disproportionate health impact suffered by Black Asian and Minority Ethnicity (BAME) workers has been much publicised this year.

The future of work must be inclusive, fair and with good jobs at its core. As part of efforts to learn from this crisis the government should commission a wide-ranging audit of the unequal impact of this pandemic. This must include the health impacts, for example on BAME workers, the economic impact, for example whether some groups were more likely to be furloughed than others, particular challenges faced by workers with disabilities, and other hidden impacts such as the unequal burden of childcare caused by school closures or the impact that working from home has had on younger workers with inadequate accommodation.

It is also essential that progress on subjects such as gender-pay gap reporting is not stalled and that the quality agenda is not considered to be a secondary issue when thinking about economic recovery.

Skills/job transition

While it may be possible for many sectors to return to their previous size and shape at some point in 2020, there will inevitably be a large degree of movement of workers between jobs and sectors as a result of the pandemic.

The government still lacks a comprehensive skills and job transition strategy to attempt to help workers and businesses through this process. In fact, the government are attempting to cut the UnionLearn fund which is a model of successful cooperation between unions and businesses to help upskill workers.

The government should learn from successful job transition programme around the world and dramatically step up efforts to support workers through this process, underpinned by the concept of a Just Transition which is already widely used in the energy sector including in the Scottish Government's Just Transition Commission.

⁶ <http://electechuk.net/wp-content/uploads/2017/08/ESCO-Annual-Report-2014.pdf>

⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/502588/bis-16-132-uk-mrol-analysis.pdf

⁸ <https://www.kcl.ac.uk/policy-institute/assets/benefit-not-a-burden.pdf>;
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693989/CCS151_CC_S0118810124-1_Cyber_Security_Export_Strategy_Brochure_Web_Accessible.pdf

⁹ <https://rusi.org/publication/rusi-newsbrief/uk-stimulus-spending-defence-economic-benefit>