THE ADECCO GROUP

MarketWatch

Q3 2017

This report looks at the most important topics in the labour market from the last quarter. It draws together relevant research, facts, media coverage and opinion then provides some context and explanation.

Taylor review

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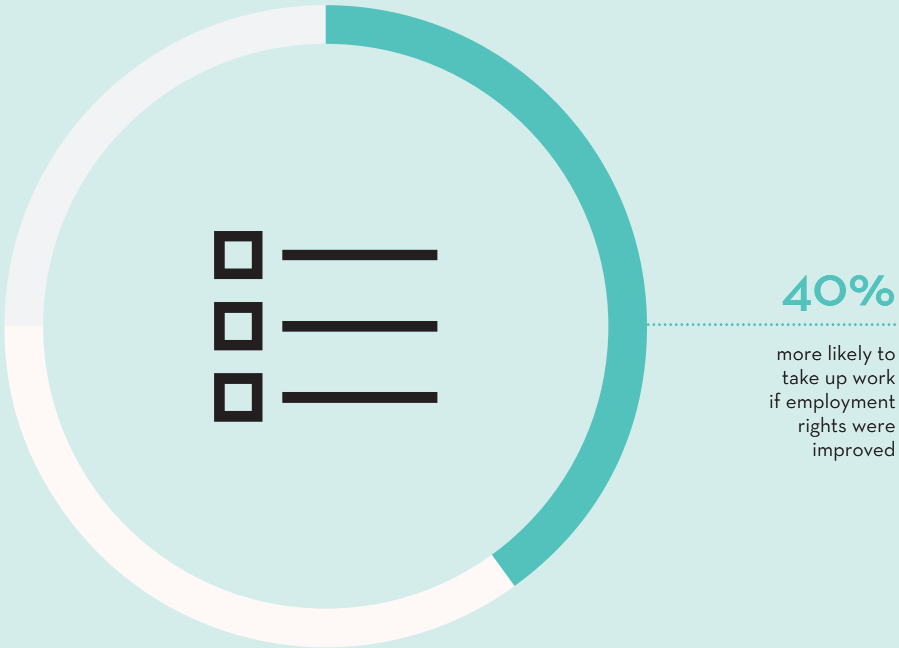


The Taylor Review on modern employment practices in the UK was commissioned by Prime Minister Theresa May in October 2016 to look at how employment regulations need to change to keep pace with modern business models. This is a keystone part of her "fairer Britain" agenda which she outlined in her first speech as Prime Minister. The report was written by Matthew Taylor, head of the Royal Society for the Arts and former advisor to Tony Blair.

This is a wide-ranging, non-binding report making recommendations to address elements including:

- Under-employment
- Responses to automation
- Zero-hours contracts and the so-called gig economy
- New categories of employees
- Cash-in-hand work and tax avoidance

The report condensed its recommendations into 'Seven steps towards fair and decent work with realistic scope for development and fulfilment'.

Clarity around the role on non-employees in the workforce was recommended with the current category of 'worker' renamed as 'dependent contractor'. Whilst not employees it was suggested that this group should enjoy some rights and additional protections to provide a "stronger incentives for firms to treat them fairly".

Although the report advocated the benefits of flexibility, and how positive it has been for the UK economy, it worried about the issue of 'unfair one-sided flexibility'.

The review stops short of suggesting all workers in the 'gig economy' should receive a minimum wage but has suggested that those on zero-hours contracts should have the right to request fixed hours. The Low Pay Commission was requested to look the application of a higher minimum wage in exchange for the lack of guaranteed hours.
This was part of an ideal of genuine two-way flexibility that benefits both the worker and company.

Enforcement of existing rights was also discussed with increased powers to be handed to existing bodies such as Her Majesty's Revenue and Customs (HRMC). These bodies all not sit under the purview of the newly created Director of Labour Market Enforcement Sir David Metcalf anyway.

While the report did not provide specific proposals it did suggest that taxation across all employment forms should be made more consistent. It seeks to make choices dependent on lifestyle choices rather than financial ones.

Within this discussion was the impact that digital payments can have in improving taxation of the self-employed but also the provision of benefits.

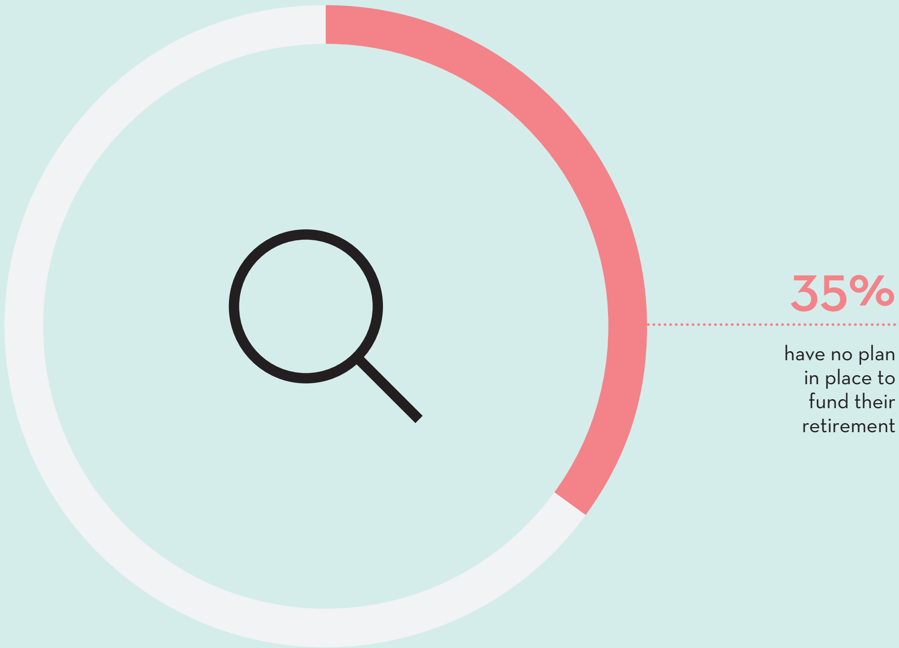
Business reaction

Reactions came in roughly two camps: those that were disappointed the recommendations did not go further and really shake things up and those that believed it was a step in the right direction.

In the former camp sit many of the country's labour unions. The GMB called it a missed opportunity, as did Labour leader Jeremy Corbyn. Unite said that zero-hour contracts should have been banned and the onus put on employers

Taylor review (cont'd)

Research by The Freelancer & Contractor Services Association (FCSA) found that one in three contractors (35%) have no plan in place to fund their retirement.



to prove employment status. The TUC's Frances O'Grady said too many gig employers would be breathing a sigh of relief this morning.

Bodies representing businesses such as the CIPD and CBI sat in the other. The Institute of Directors said Mr Taylor has struck the right balance that would allow companies to 'reap the benefits of flexible work'. The British Chambers of Commerce (BCC) recognised that a two-way bargain needed to be struck but warned against increasing costs. Manufacturers organisation EEF said they suggestions could be mutually beneficial but were ultimately unnecessary.

Professional services firm KPMG called the recommendations 'monumental but long overdue'.

Various law firms worried that far from simplifying things businesses would see increased red tape and costs.

The recruitment industry was generally positive as well. The Adecco Group UK&I submitted evidence to the review and was subsequently quoted in the report. The Recruitment and Employment Confederation was encouraged but disagreed with recommendations surrounding the Agnecy Workers' Regulations (AWR). The Association of Professional Staffing Companies (APSCo) was worried about the lack of protection for high-skill individuals.

Government response

Prime Minister Theresa May said that the government would carefully study the report's recommendations but did not promise to implement anything. As she stressed the importance of existing legislation and made no intentions towards new ones it seems likely that the government will at first attempt to persuade businesses to change their practices voluntarily.

She distinctly ruled out the option of banning zero-hours contracts.

What this means

There are definitely positives to be taken from this report – a recent PwC survey suggested that 40% of workers would be more likely to take up work in the gig economy if employment rights were improved. At the same time research by The Freelancer & Contractor Services Association (FCSA) found that one in three contractors (35%) have no plan in place to fund their retirement.

This report is non-binding and although further consultation is suggested in the report there is no timeline given. Ultimately nothing could end up coming of it and while Theresa May has thrown some weight behind it her lack of political clout currently may end up being more of a hindrance.

Adam Marshall, director general of the BCC said that a wide consultation is necessary in order to ensure any response is proportionate.

It is important to realise that while Mr Taylor provided many recommendations he also went to great lengths to praise the current system and how it has allowed the UK to flourish insisting that wholesale changes are not required.

Chris Moore, President of Group Operations at The Adecco Group UK & Ireland agreed: "the UK's contingent labour market remains one of the economy's biggest assets," Moore said. "But to harness this we need employers to be more transparent, taking further steps to enhance the rights of self-employed workers, and ensuring security goes hand-in-hand with flexibility. Any new approach will also need to be free of party politics, and constantly reviewed to ensure that it reflects and serves modern working practices and the economy. We look forward to the consultation and the opportunity to make sure all seven principles reflect the interests of workers and UK business."

Flexible working practices

Size of the gig economy: 1.1 million
(Source: Ipsos Mori for RSA, April 2017)

The Gig economy

The activities of the gig economy were an important element of the labour market looked at by the Taylor Review. Interestingly Deliveroo had asked the government to change existing regulation to allow them to provide benefits to workers without them obliged to consider them employees, even before the report was published.

Deliveroo has recently gone on a bit of a charm offensive.

They offered their couriers the option on how they want to be paid. The current system pays an hourly rate and £1 per delivery but they are providing the option to be paid purely on deliveries, around £4 each. The current system earns a courier around £9.50 an hour while the new system is predicted to pay £12 – but workers will get to decide.

Similarly, Uber has recently offered to contribute to a range of benefits to long serving drivers (more than 500 trips) in partnership with the Association of Independent Professionals and the Self-Employed (IPSE).

Legal challenges

At the same time Uber has been facing a number of legal challenges recently, many to its employment practices. Uber is currently the most recognisable name in the gig economy and right at the cutting edge of many legal challenges into its working practices.

In Europe the company has faced issues with local regulators being unclear as to whether their service constitutes a legal taxi service – in France they have been fined and in Finland parts of their service are currently 'paused'. The app is still banned in Berlin following a 2015 ruling as well.

In South Africa the Commission for Conciliation, Mediation and Arbitration has ruled that Uber drivers are employees and not independent contractors. A similar ruling was handing down in the UK during the first quarter of 2017 which the company is currently employing.

In the UK the Department for Transport has set up a working party to look at whether local authorities should be enforcing minimum standards of pay and working conditions for all providers, including Uber. Transport Minister John Hayes said that local authorities might be unaware of the extent of their powers and should be given clarity.

Employment rights was the centre of a case brought by the GMB union against Hermes couriers that HMRC has now stepped up investigation on. Two recent cases have seen courier companies (The Doctors Laboratory and eCourier) agree to reclassify drivers as employees and provide related rights.

A different courier company, The Doctors Laboratory, recently won improved employment rights during a tribunal.

What this means

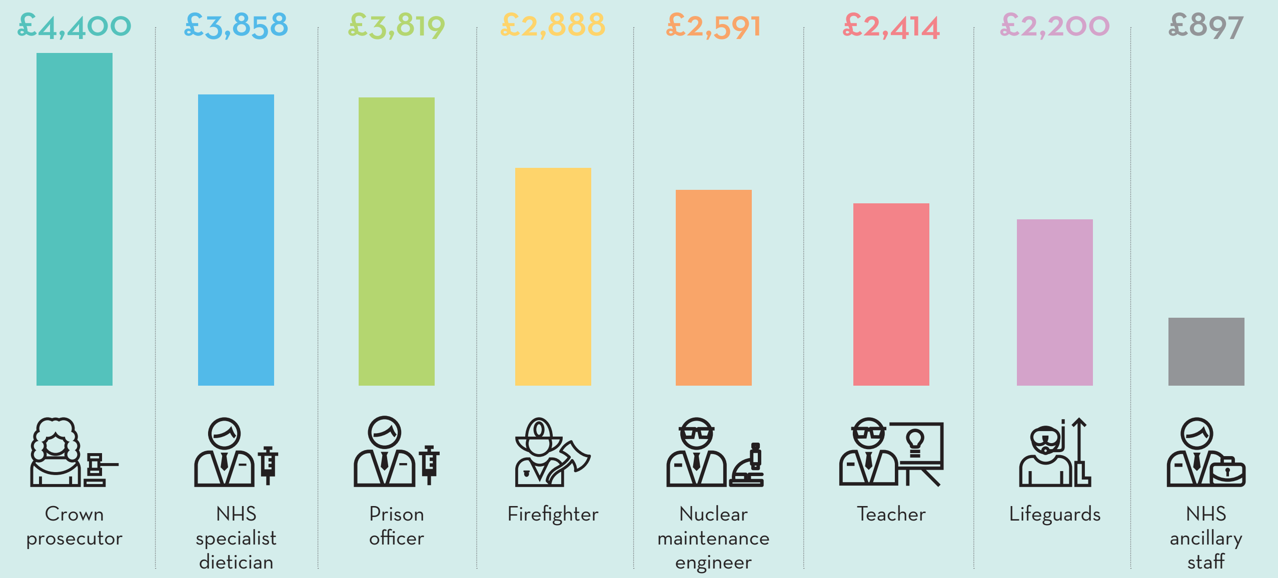
David Reade QC who recently represented Uber said these businesses are not about exploitation of a workforce but about technological change. He suggested that any attempt to argue otherwise would be dragging the conversation back into 'an economic past that doesn't exist anymore'.

The gig economy is likely to face a changing landscape of regulation in the coming months and years; it will be something that employers will have to deal with as it comes around.

For example, The Social Market Foundation recently suggested that companies should disclose the average rate that workers earn through their platforms.

Public sector pay

How much more would public sector workers be earning now if their wage had risen in line with inflation since 2013?
(Source: TUC, Public Sector Pay Restraint in England, March 2017)



Losing their majority in the House of Commons has meant that a number of the Conservatives key policies have come under fire since the election. One of these was the current 1% cap of public sector pay rises. This cap has been in place for four years now and given the level of inflation it effectively equates to a pay cut.

This topic ended up being the first vote of the new parliament as the Labour party added an amendment to the Queen's Speech. The government narrowly won the vote 323 to 309 so, for now, the cap stays in place.

The Prime Minister has also faced opposition from within her own party as Foreign Secretary Boris Johnson and Secretary of State for the Environment Michael Gove both voicing opposition.

There was some media speculation the government was considering ending the cap but this was then refuted. The Institute for Fiscal Studies suggested lifting the cap would cost £6.3bn per year, rising to £9.2bn by 2021-22.

A recent report from the Resolution Foundation suggested that allowing public sector pay to grow at the same rate as private sector pay would cost nearly £10bn by the end of the parliament in 2021-22.

Chancellor Philip Hammond has advocated in favour of keeping the cap saying Britain must 'hold its nerve'. He said he believes 'the high-wage, high-growth economy for which we strive is tantalisingly close to being within our grasp".

One place in the UK where the pay cap will not exist is Scotland as the government in Holyrood announced it would lift the 1% cap soon after the failed vote in Westminster. This will affect around 500,000 public servants north of the border.

Union pressure

Many labour unions have taken the opportunity of potential chink in the government's armour to call for the pay cap to be lifted.

The TUC published a report showing how much public sector workers have lost out by not having their wages keep up with inflation, with many roles earning thousands of pounds less than they might have expected.

Unison, Unite and GMB have called for an immediate 5% increase for all local government (council) workers as well as the introduction of the Living Wage.

Chair of the National Employers, Cllr Sian Timoney, said: 'We recognise that public sector workers have had lower than average pay awards for a few years now, but local government continues to face significant financial challenges so we are surprised that the unions are seeking such an ambitious pay award.

'Local government has lost more than half a million jobs in recent years and meeting this claim would result in many more such job losses.'

These unions joined other bodies such as Royal College of Nursing, the British Medical Association, and the British Dental Association is signing a letter calling for the cap to be lifted in the NHS as well. Every 1% rise in salaries within the NHS would cost the organisation £500m.

Chris Hopson, Chief Executive of NHS providers who also signed the letter, said that "significant numbers of trusts say lower paid staff are leaving to stack shelves in supermarkets rather than carry on with the NHS."

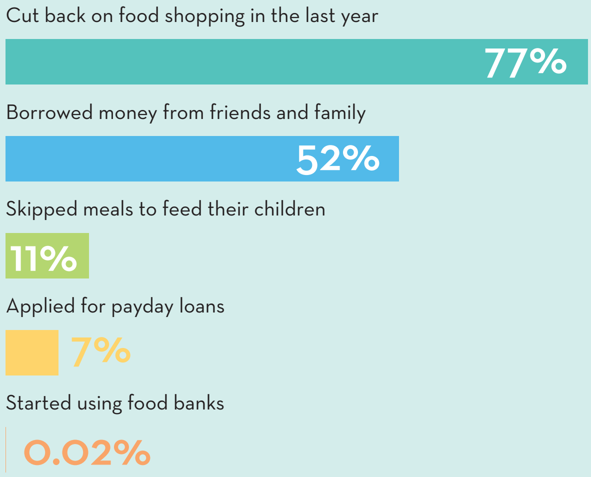
Unison surveyed their members to find out exactly how they were reacting with more than three-quarters saying they had cut back on food in the last year.

Union pressure has not led to recent strike action except in a couple of local cases, namely the Bank of England and cleaners in London hospitals.

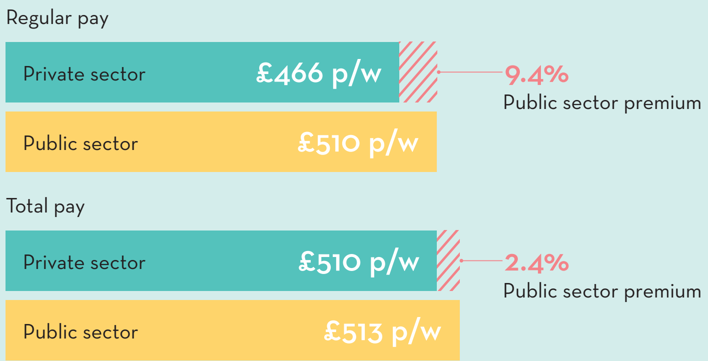
The recent publication of the 96 BBC presenters that earn over £150,000 has added further fuel to the fire with BECTU (The Broadcasting, Entertainment, Cinematograph and Theatre Union) calling for a minimum salary of £20,000 to be introduced.

Public sector pay (cont'd)

Responses to public sector pay freeze
(Source: Unison, June 2017)



Average Weekly Earnings in the UK – April 2017
(Source: Office for National Statistics, Average Weekly Earnings (AWE), July 2017)



Private sector comparison

Although public sector wages have been rising slower than those in the private sector Chancellor Philip Hammond recently claimed that those workers are still earning more. Mr Hammond claimed that when 'very generous' public sector contributions were taken into account that public sector workers earned 10% more.

On a purely earnings basis, according to recent data from the Office for National Statistics (ONS) the average public sector worker has regular pay of £510 per week in April 2017 which is 9.4% higher than private sector. When total pay (regular pay plus bonus) is taken the gap narrows to 2.4%.

The Institute for Fiscal Studies (IFS) made some adjustments for qualification and "observed differences in a set of workers' characteristics" found the gap to be a little more like 3%. It is also worth remembering that this figure grew to 6% following the 2008 recession and doesn't take into account the better pension provision and earnings-related schemes found in the public sector.

What this means

The GMB union warned before the election warned that 85 Conservative MPs could be at risk due to the public sector squeeze. Although there is no way to positively attribute this issue to their subsequent poor performance it is certainly possible that it was a contributing factor.

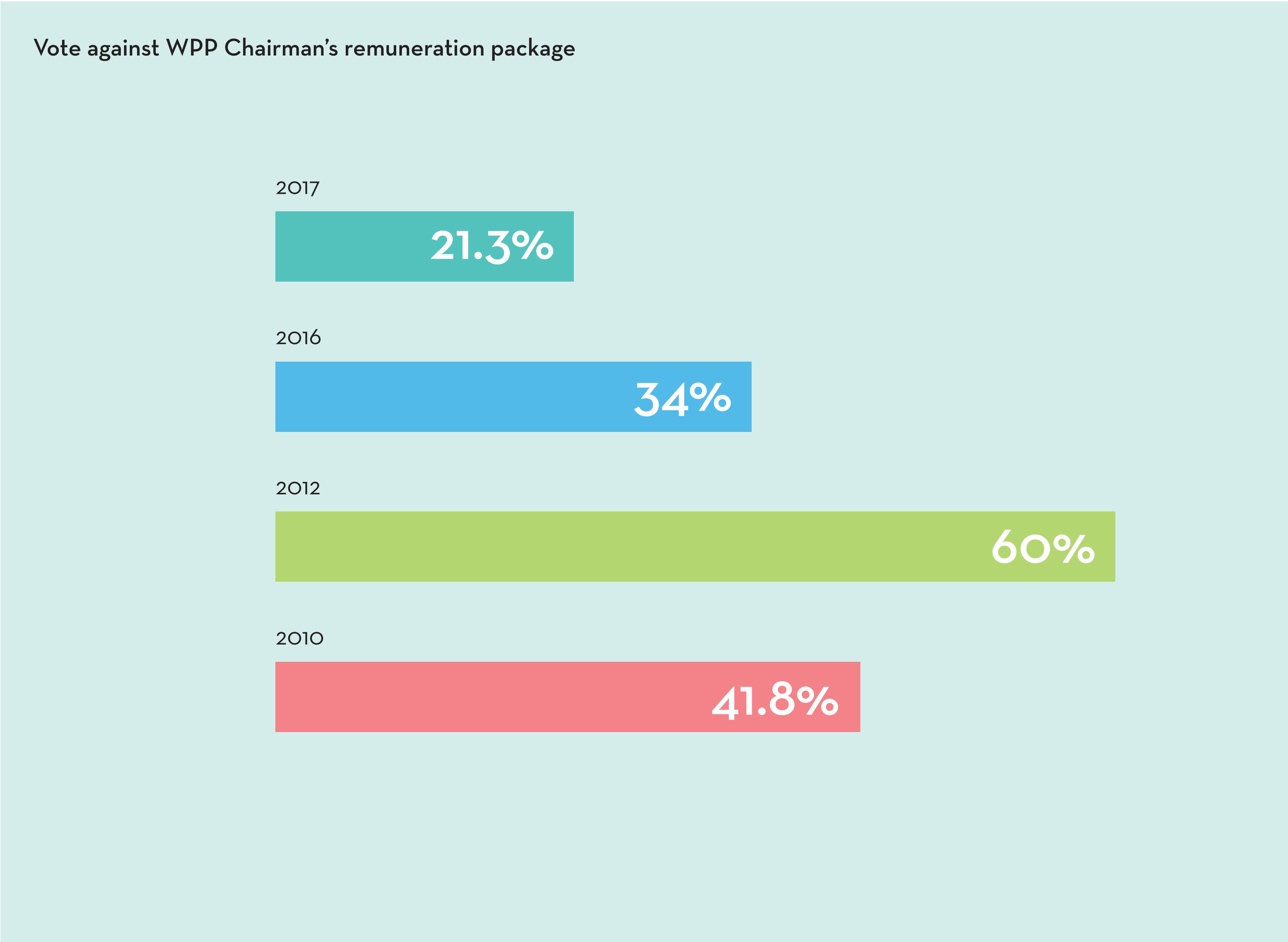
This said the outlook for pay growth across the country is not good, the TUC's own analysis predicts it is the lowest among the OECD's list of advanced economies.

The Bank of England's Chief Economist, Andy Haldane, recently told the BBC's Newsnight that workers in the UK felt 'frustrated and squeezed' with the lack of pay growth and blamed a lack of investment to grow productivity by businesses.

In fact, recent data from the ONS suggests Britain lags far behind the rest of the G7 in this area recently with output per hour currently at the same level as 2007.

Nobel Prize-winning Economist Paul Krugman once said: "Productivity isn't everything, but in the long run it is almost everything."

Exec pay backlash



There was an expectation that the second quarter of 2017 would see shareholders push back on executive pay as many company faced votes that would affect remuneration policy for the next three years. While there were some stories to hit the headlines things were relatively quiet.

Sir Martin Sorrell, chairman of WPP, saw 21.3% of shareholders vote against his £48m pay package but this was the lowest level since 2010 and far below the 60% seen in 2012.

Morrisons, Burberry and education publisher Pearson were all among the few to lose votes on their remuneration policy.

In Pearson's case it was non-binding but they have still pledged to continue engaging with shareholders for feedback. In contrast Burberry has actually scaled back its executive bonus plans given that this is not the first time the shareholders have spoken and a new Chief Executive is imminent.

Morrison's chairman Andy Higginson blamed investor lobby group ISS for attiring up trouble. He claimed that they had a 92% support before the vote so was surprised when 48% voted against.

This was not the only time that activists were involved during Q2, institutional investors PIRC voted against the 550% possible votes to ITV's chairman. At the same time Norway's sovereign wealth fund weighed in on Royal bank of Scotland's policy, but on the positive side.

One big win for the investors was Fidelity who launched a campaign in 2012 to get businesses to agree the long-term incentive plans should not be classified as such if the recipients can sell their shares within three years. Now two-thirds of the FTSE100 agree and their five-year rule is more or less considered best practice.

What this means

The fact that less happened than was expected is probably a sign not of apathy but of how much work companies have been doing behind the scenes to placate investors before votes. In all honesty it probably shows how importantly they are taking the problem, if they weren't they would just allow the votes to happen and deal with the fallout as had happened previously.