



Pointmaker

MIND THE SKILLS GAP

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SUMMARY

- Sustained weakness in labour productivity is keeping British wages low.
- In 2013 the gap in output per hour between the UK and the average of the other G7 countries reached the largest level since 1992, with the UK 17 percentage points lower.
- Without sustained productivity growth, real wages and thus living standards cannot rise in the medium and long term.
- Such growth can be achieved by increasing the skill level of the workforce. A considerable amount of international evidence has determined that increasing the skills of workers will lead to significant improvements in the innovative and productive capacity of businesses.
- There is already widespread pessimism over the level of workforce skills in Britain. Concern is growing that young people in particular are not gaining the requisite skills for employment.
- The Government must address the country's ongoing productivity crisis by promoting programmes that develop the skills of the current and future workforce.
- This paper outlines 21 proposals for policy reform, including:
 - Increasing the number of available apprenticeships and work experience schemes and tearing up regulation preventing young people from accessing them.
 - Providing more sophisticated welfare support for those unable to find employment and expanding the New Enterprise Allowance scheme to promote entrepreneurialism and innovation.
 - Extending the use of performance related pay across the public sector and improving performance incentives for teachers.



1. INTRODUCTION

The greatest challenge facing the UK economy is resolving the unprecedented weakness in productivity. Without sustained productivity growth, real wages and thus living standards cannot rise in the medium and long term.

In 2013 the gap in output per hour between the UK and the average of the other G7 countries reached the largest level since 1992, with the UK 17 percentage points lower.¹ Furthermore whilst productivity grew by 1% across the G7 in 2013, it fell again in the UK. If output per hour had grown at the pre-crisis rate it would be approximately 16 percentage points higher than it is currently.

Even though 2014 has seen much stronger output growth, productivity did not grow at all in the second quarter of the year. There will almost certainly be some demand-led improvements in productivity over time as investment rises. However it is quite possible that a combination of the diminished effects of the tech boom, severely impaired capital allocation resulting from the banking crisis, and other factors are leading to a permanent reduction in the long term growth potential of productivity.

Increasing the skill level of the workforce is vital for improving long term productivity growth. International evidence² has demonstrated that increasing the skills of workers – for example through technical training and university education – will lead to significant improvements in the innovative and productive capacity of businesses. These skills include ‘soft

skills’ such as time management as well as ‘harder skills’ such as technological, mathematical and linguistic skills.

Of the increase in net employment from Q1 2010 to Q4 2013, 75% has come from higher skilled workers. However over the first half of 2014 this has fallen to 35%, which suggests a significant shift in the balance of employment growth to lower and medium skilled workers.³ Raising the proportion of high-skilled workers in the labour market will have a significantly beneficial effect on living standards.

There is also considerable survey data showing widespread pessimism over the level of skills in the workforce. YouGov polling suggests that 64% of parents do not believe that schools are equipping children with skills such as communication and teamwork and 66% of parents do not believe that the education system is preparing children for employment.⁴

The Workforce Survey carried out by the British Chambers of Commerce⁵ found that 88% of employers do not believe that school leavers are prepared for the workforce and 54% thought the same of graduates. 57% of employers explained that it was the lack of soft skills which prevented young people from being prepared for work. This seems to be supported by a survey from Total Jobs⁶ which suggests that one in seven employers have been unable to fill jobs due to a lack of skills from newly qualified young people.

¹ ONS “*International Comparisons of Productivity – First Estimates, 2013*” 2014.

² International Labour Conference “*Skills for improved productivity, employment growth and development*” 2008.

³ Bank of England “*November Inflation Report*” 2014.

⁴ International Business Times “*UK Skills Shortage: 66% of Parents Think Education System Doesn’t Prepare Children for Work*” 2014.

⁵ British Chambers of Commerce “*Young people need more support to make transition from education to work, says BCC*” 2014.

⁶ The Courier “*Employers bemoan skills shortage*” 2014.



Training in work also appears to have fallen. The UK Commission for Employment and Skills found a 5% fall in investment in training between 2011 and 2013 from £45.3bn to £42.9bn and a 17% fall per person.⁷ The BCC survey data also suggests that 92% of businesses have a skills shortage in at least one important area.⁸

The Government should therefore carry out a package of reforms to schools, apprenticeships, universities, welfare, visas and performance pay to drive improvements in skills.

2. SCHOOLS

2.1 Allow private capital investment in schools with the opportunity to make profit.

Given the need for public sector spending restraint alongside rising levels of pupil enrolment, many schools face pressure on their capital funding. The number of primary school pupils is expected to have increased by 14% by 2018.⁹ Well-directed private capital investment in schools can provide vital funding to assist in the provision of new services and the construction of new buildings. Schools must not be treated as simply any other asset. Yet it also does not make sense to hold back potential extra funding for schools and improvements in education for children because of opposition to the earning of profit. Subject to a number of rules the Government should therefore allow sponsors of academies and free schools to earn a profit within a clear

framework. This would increase the incentive for existing school providers and potential future providers of education to set up new schools at a high quality level.

There remain significant structural inequalities in the UK education system, and in some of the most deprived parts of the country many schools are without the resources to reform and improve. Tearing down the barriers between education and enterprise would drive educational improvements and help to reduce inequality. This would promote innovation in education, provide greater financial and intellectual resources, and provide more young people with the skills to be productive later in life. Dominic Raab MP suggests three sensible safeguards¹⁰ to introduce when lifting the bar on profit making. These include a requirement for a minimum of 50% of profits to be reinvested in the school, a requirement that dividends are only paid if certain educational standards are met and also a ban on the sale for commercial gain of school assets bought with taxpayers' money.¹¹

2.2 Give schools greater guidance on the outsourcing of non-teaching services.

The primary focus of schools should be on teaching children to prepare them for life as an adult. Schools also need to provide many other non-teaching services from the provision of school meals to the maintenance of sports facilities. The great majority of these non-teaching services are crucial in ensuring the proper functioning of the school and the well-rounded experience of pupils. Nevertheless schools should be allowed to focus on the tasks which they do best. However, unlike universities, schools have not moved to a

⁷ UKCES "UK Commissions's Employer Skills Survey 2013: UK Results" 2014.

⁸ British Chambers of Commerce "BCC Workforce Survey 2014: Firms investing to counter persistent skills shortages" 2014.

⁹ Centre for Policy Studies "Capitalism for the Little Guy" 2013.

¹⁰ Ibid.

¹¹ Ibid.



model whereby non-teaching services are provided by outside bodies. Such a model might be preferable for some schools, although certainly not all or even a majority.

The Education Funding Agency (EFA) should therefore make clear that all schools, regardless of their status, should be allowed to outsource the provision of some non-teaching services to outside bodies or even to other schools willing to take them on. The EFA should have an assumption in favour of creative and innovative proposals and should make clear under what circumstances outsourcing proposals will not be accepted.

2.3 Use more varied methods to measure teacher quality.

Teacher quality cannot be measured through just one metric. Whilst the number of students gaining 5 GCSEs at between A* and C is one measure of pupil outcomes, there is a concern that this pushes teachers to encourage pupils to pursue GCSEs which are perceived to be easier and less academically rigorous. This may inflate the performance of a school and is to the detriment of pupils who may not study subjects which could equip them with productivity enhancing skills. This may also lead to a slightly distorted picture for parents choosing where to send their children. Nevertheless the provision of information about pupil attainment can be a useful way for schools to measure changes in their overall performance and thus to drive improvements. Publishing such statistics also allows parents to make better choices.

However the Government and individual schools should look for additional ways to measure the value that teachers add. It is important to be able to measure teacher performance accurately because, apart from the obvious implications for salaries and

promotions, better teachers mean better students. Teacher quality can be demonstrated in greater class attendance, as well as through teacher value added measures which look at student achievement data over time such as the GPA style continuous assessment scores. Schools should publish these aggregate figures of teacher quality to give a clear perspective of how well schools are doing.

2.4 Oblige schools to record the employment rates of their alumni.

One of the most important tasks for schools is to prepare young people for when they enter the labour market. Schools should therefore publish information on the employment rates (and relevant labour market data) of their alumni in school league tables. As well as allowing parents to make more informed choices, this would help to continue breaking down the barriers between education and enterprise. By publishing performance metrics which show how well pupils are doing once they have entered the labour market, schools would be encouraged to continue innovating and working to ensure pupils are better prepared for employment. In particular, schools would have a stronger incentive to equip their pupils with soft skills such as teamwork and communication which are so important in finding employment.

It would also give parents the reassurance that by sending their children to a specific school they could have a decent expectation that they will find a job and gain the security of a wage. In addition these statistics are sufficiently specific to avoid most reporting problems. Universities already collect this data from their alumni and schools should use the opportunity to engage in greater cooperation between themselves and universities. This could lead to



a more joined up education system with effective collaboration on improving the employment prospects of young people.

2.5 Include modern foreign languages and ICT in school league tables.

Alongside current data on GCSE performance, schools should provide details on the study of ICT and modern foreign languages in league tables. This should be both on the proportion of pupils taking those subjects and also the performance of those pupils. Technological skills are increasingly important for the employability of young people. More and more non-tech focussed industries require computer literacy in their day to day functioning. In addition technological advances are one of the key factors behind productivity growth. Quite simply, ICT education is fundamental to future economic growth. Providing data on the level of ICT education within schools will encourage greater provision and take up of the subject, something which will be of national benefit.

Employers consistently report that language ability is crucial in helping British businesses export. Firms which export have a disproportionately high productivity. However the number of school pupils studying foreign languages has fallen precipitously. In 2010 the percentage of pupils entered for a language GCSE had fallen to 43% from 78% in 2001.¹² At A-Level the number of students studying French and German has fallen by 50% over the last decade and in 2013 even other languages such as Mandarin, Arabic and Italian also fell.¹³ This has clearly fed into universities with more than a third of universities giving up offering

specialist modern European language degrees over the last 15 years.¹⁴ This places the UK at a competitive disadvantage and British workers without valuable skills. Providing data on foreign languages in league tables will therefore add to pressure on schools to increase languages education and should help in the medium term to reverse the significant fall in languages skills.

3. APPRENTICESHIPS

3.1 Reduce bureaucratic burden on employer led apprenticeships.

Apprenticeships are an important tool to ensure that young people gain vocational skills and experience which prepare them for employment. Increasingly apprenticeships are seen as a superior route to employment than three years of expensive university education and the increasing number and variety of apprenticeships reflects this. The number of apprenticeships has been rising since 2005/06 with significant increases over the last few years. In 2013/14 there were 432,400 apprenticeship starts¹⁵ and 1.92 million starts over the last four years compared to 930,000 over the four years prior to 2010/11. Developing a strong work ethic and higher skills at a younger age through apprenticeships will inevitably lead to more productive future workers.

In the 2013 Autumn Statement the Government announced a plan to give employers the freedom to manage the training for their own apprenticeships rather than being prescribed certain providers. This change is certainly to be welcomed. However the Government must ensure that the funding process does not

¹² Joint Council for Qualifications "The Decline in Uptake of A-level Modern Foreign Languages: Literature Review" 2014.

¹³ The Daily Telegraph "A-level results 2013: foreign language courses in 'freefall'" 2013.

¹⁴ The Guardian "European language degree courses abandoned by many UK universities" 2013.

¹⁵ Gov.uk "Apprenticeships Starts" 2014.



become excessively burdensome. Employers have neither the time nor the inclination to have to deal with additional bureaucracy and this is especially the case with SMEs which remain a largely untapped resource for apprenticeships.

The Government must ensure that it does everything possible to make it easier for employers to offer apprenticeships. The proposal for the funding of training costs to be made up front by SMEs would certainly have made it more difficult for some employer to take on apprentices. Indeed 94% of the SMEs surveyed by the ECA stated that the proposal would lead to them taking on fewer or even no apprentices in the future and 95% said that it would lead to greater bureaucracy.¹⁶ Despite subsequent moves to alleviate these concerns, it is clear that they still remain – in particular regarding the effect of proposed reforms on SMEs.¹⁷ These concerns must be addressed rapidly to avoid any further uncertainty and the Government should consider letting employers decide if they would prefer to be directly funded, or to have the funding and administration handled by a chosen provider – as suggested by the Association of Employment and Learning Providers.¹⁸

3.2 Introduce more sophisticated apprentice performance metrics.

There are currently three levels of apprenticeship: Intermediate, Advanced and Higher. These are approximately equivalent to GCSE, A-Level, and a Foundation degree.¹⁹ As

has been mentioned, many young people who choose not to pursue university education are still able to gain useful skills with an apprenticeship. Unfortunately there remains a chronic lack of awareness amongst young people of the great quality of many apprenticeships.²⁰

Employers increasingly demand the mix of academic and practical skills that an apprenticeship can provide. This is not only through the learning of skills specific to a role but also transferable skills, including being able to build a professional network, punctuality, communication skills and taking the initiative. In fact employers view qualified apprentices as 15 per cent more employable than those with other qualifications.²¹ The Government is introducing more ways of measuring apprenticeship performance. However in order to end the damaging divide between apprenticeships and the more traditional routes, the Government should introduce more sophisticated ways to measure how well an apprentice has performed throughout the programme. The Government should consider introducing in the medium term a standardised grading system similar to a university degree classification. This will provide more information on the relative performance of different aspects of an apprenticeship which should drive up standards.

¹⁶ ECA "Government proposals could sound the death knell for UK apprenticeships" 2014.

¹⁷ tes connect "Apprenticeships: funding concerns remain despite Government statement" 2014.

¹⁸ tes connect "Apprenticeships: funding reforms 'won't be a burden', pledges minister" 2014.

¹⁹ Gov.uk "Apprenticeships Guide" 2014.

²⁰ IB Times "UK Young People Unaware of Apprenticeships in High-Skilled Sectors" 2014.

²¹ The Daily Telegraph "The low-down on apprenticeships" 2014.



4. UNIVERSITIES

4.1 End restrictions on the provision of shorter employer led courses by universities.

The extension of the student finance scheme to part-time students is a useful promotion of greater freedom for those in employment to learn new skills which could lead to greater productivity in the workplace. However the Government should now end restrictions on the provision of shorter employer led courses. This would open up new sources of revenue for providers of higher education alongside jumpstarting skills development in the labour market. Both of these would provide boosts to productivity in the medium term. As the CBI notes, universities currently only take on 1.2% of the amount that businesses spend on workforce training.²² This shows that there is considerable growth capacity for universities in this area.

However universities do not currently have the full freedom to adapt themselves for specific courses tailored to businesses. Restrictions on the provision of these tailored qualifications should be scrapped. Greater flexibility should be allowed for the provision of accelerated qualifications in particular. Businesses will often have short and medium term needs so two year courses or even shorter courses could be a very useful tool for them. However these courses still face the £9,000 annual fee cap which may be restricting the supply of highly technical shorter courses taught by experts. Reform in the area of employer led courses should therefore be a priority.

4.2 Extend the deregulation of Higher Education service provision.

In the 2013 Autumn Statement the Government committed itself to scrapping the student quota system imposed on universities. This should make the higher education system more flexible and competitive as well as expanding and increasing the quality of education. The Government should commit to further deregulation of universities to continue the process of equipping people with higher skills. Universities should be able to make strategic decisions over the provision of education with much more freedom. For example, existing institutions should be able to merge departments with other universities more easily to expand centres of excellence. Rules should be put in place to allow universities to take over other institutions which could lead to a radical spreading of high quality teaching and research. There is significant evidence that knowledge transfer between universities and businesses leads to more innovation and faster take-up of new technologies.²³ This deregulation would lead to more specialisation and more choice for students.

4.3 Extend the deregulation of Higher Education financing.

The Government made important reforms to the financing of higher education financing in 2010. The cap on tuition fees was lifted to £9,000 per year, a level which better reflects the cost of higher education. Predictions that a higher tuition fee cap would lead to a collapse in student numbers have proven inaccurate given that the number of students admitted for 2013/14 academic year increased significantly

²² CBI "Tomorrow's growth: New routes to higher skills" 2013.

²³ Howlett "Knowledge Transfer between UK Universities and Business" 2010.



to reach a record 496,000.²⁴ Furthermore the most selective universities increased the number of places provided by 10% with young people from disadvantaged backgrounds 70% more likely to go to university in 2013 than in 2004. It must be constantly emphasised that tuition fees for the most part are not paid by students but by graduates earning above the income threshold paying a higher tax.

However the £9,000 cap has not yet led to the real price competition that would have been desired given that many universities have applied the £9,000 cap for the majority of their courses. It therefore seems clear that whilst the Government's reforms have allowed great progress, the rigidity of the cap hides the signalling function of a more flexible price. Many courses are more expensive to provide and so with limited funding from the state the cap could be acting as a barrier for some universities in the provision of some courses. Moving the funding system towards a more individual relationship between universities and students and graduates rather than block grants would also enable greater individual focus on repayment schedules. This could better reflect the different earnings potential that different degrees provide.

4.4 Exempt strategically important subjects from the Equivalent or Lower Qualifications policy.

The Equivalent or Lower Qualifications policy (ELQ) means that students who go on to study another subject at the same or lower level as their initial qualification will not be able to access the student finance system. This is of course a sensible measure to prevent moral hazard; a small number may wish to abuse the

financial support which is provided to continue studying different degrees rather than using their education to help find employment. Nevertheless, given the shortage of skills in some strategically important areas, it seems sensible to exempt some subjects from the ELQ. There are already some exemptions including for architecture, social work, teacher training and veterinary science. In particular, the Government should examine exempting IT and cybersecurity courses as well as important modern foreign languages and maths from the ELQ. Relaxing the ELQ would therefore facilitate retraining and ease the process of developing strategically important skills which are of particular value to employers.

5. WELFARE

5.1 Relax the eight week cap on the Work Experience Scheme.

Youth unemployment causes significant long term damage to employment prospects. The recent fall in youth unemployment over the last year from 19.2% to 14.2% is therefore very welcome. Welfare reform appears to have enabled younger workers to find jobs or to get back into employment. The lack of work experience in particular is a structural impediment to finding jobs for younger workers. Many employers report that lack of experience stops them from taking on younger workers²⁵ but of course this then makes it more difficult for young people to get any experience at all.

The Work Experience Scheme allows 16 to 24 year olds who are claiming Jobseekers' Allowance to obtain a work experience opportunity from Job Centre Plus. These can last between two and eight weeks and

²⁴ BBC News "Record numbers of students enter university" 2013.

²⁵ BBC News "Young people lack workplace skills, firms say in survey" 2014



participants of the scheme are expected to work approximately 25 to 30 hours a week.²⁶ The scheme helps to prevent skills depreciation amongst young people who are unemployed, at the same time as actively developing new skills in a working environment. This is important in helping them prepare for full time employment. The work experience scheme gives great flexibility both for the young people and the businesses taking them on. Many people enrolled in the work experience scheme are effectively being trialled for a full time job. Others may be involved in a longer term project and others may be developing very useful skills.

To add to the flexibility the eight week cap should be lifted if both the enrolled young person and the host business express a wish to do so. This might give the host business more time to train the young workers and decide whether to offer them a paid position as well as giving the young person more time to develop their skills.

5.2 More flexible use of payment by results in welfare reform.

The Government has made considerable progress in welfare reform and it is to be hoped that further progress in improving work incentives can be made through the gradual introduction of Universal Credit. The longer people remain out of work, the more they will experience skills depreciation which means that their productivity will be weaker when they eventually return to work. Every effort should therefore be made to help the unemployed and those who have left the labour market to get back into employment. The use of payment by results is one way to incentivise Job Centre employees as well as private sector contractors to get people back into work.

Greater flexibility in this performance pay should recognise that whilst short term work is an improvement on no work at all, it is permanent employment which delivers greater productivity. This is because more lasting employment allows people to build networks and develop greater job specific skills. The Government should therefore allow public sector employers and public sector contractors to set more ambitious and more flexible parameters for payment by results. For example, performance related pay could escalate if a client is in work for longer periods of time.

5.3 Convert part of JSA into retraining voucher for the long term unemployed.

Job Seekers' Allowance is currently set at £72.40 per week²⁷ for unemployed people over the age of 25 and the overall budget for JSA over 2013/14 was £4.9 billion.²⁸ As has been mentioned, long term unemployment is a catastrophe for those who are affected by it. It also has a negative impact on aggregate productivity partly due to skills depreciation. Some people may have become unemployed because of structural changes in the economy and so they may need to retrain in order to find employment. For those who have been unemployed for longer periods of time, the need for retraining and re-skilling becomes increasingly urgent. Provided that material needs are covered elsewhere, the Government should therefore consider converting a proportion of the JSA payment into a retraining voucher for the long term unemployed. This could encourage greater acquirement of skills which would help those who have been out of work for a long time to find a route back into

²⁶ Gov.uk "Help with moving from benefits to work" 2014.

²⁷ Gov.uk "Jobseeker's Allowance (JSA)" 2014.

²⁸ Gov.uk "Public Expenditure Statistical Analyses 2014" 2014.



employment. Ultimately this would help to create a more productive, highly skilled and flexible workforce.

5.4 Make the New Enterprise Allowance permanent.

The New Enterprise Allowance scheme (NEA) is aimed at helping unemployed people as well as lone parents on income support, and some disabled people claiming Employment and Support Allowance, to set up their own businesses. The programme is a revival of a scheme set up under Margaret Thatcher which provides business mentoring and advice and support about how to fund, start and grow a business. The NEA scheme encourages greater entrepreneurialism as well as more innovation and productivity growth. As well as this it promotes greater labour market flexibility by getting unemployed people into skilled jobs faster.

By September the scheme had empowered individuals to set up more than 53,000 businesses including 12,360 businesses being established by the over 50s and over 10,040 businesses by disabled people.²⁹ Inevitably not all of these businesses will survive but some will prosper and become market-changing enterprises. By promoting faster business growth alongside skills appreciation, the NEA scheme is helping to improve underlying productivity growth. Currently Job Centre employees identify eligible people who are interested in setting up a business and then refer them to a mentoring organisation which evaluates the applicant's business proposal. The Job Centre should take a more active role in advertising the NEA scheme as an alternative to JSA. The success of the NEA

scheme means that the Government should consider making it permanent instead of continuing it until the planned end date of March 2016.

5.5 End the ban on participants in the Work Programme from being able to use the New Enterprise Allowance scheme.

The Work Programme provides unemployed people with practical skills and experience which are crucial in finding permanent employment. However the Work Programme currently prohibits participants from being able to use the NEA scheme. Some individuals who have started on the Work Programme may then develop business ideas which could flourish under the NEA scheme. Furthermore the NEA scheme does already have safeguards in place to prevent frivolous or insincere proposals from being having time and money spent on them.

Given the many obstacles faced by start-ups and small businesses, this current prohibition serves to prevent the further spreading of skills and awareness of business fundamentals such as supply chains and customer relations. Whilst it must ensure that those enrolled in the Work Programme participate fully, the Government should consider ending the restriction on those who are enrolled on it from participating in the NEA scheme.

6. VISAS

6.1 Extend the Super Priority Visa Service.

A simplification of visa requirements for business travel would reduce the cost of business and boost trade, whilst also being entirely consistent with maintaining control over borders. It is important that Britain is able to take advantage of attractions such as the English language, free markets and clear and defined property rights. The Government must therefore ensure that international business

²⁹ Gov.uk "460 new businesses set up every week by out-of-work entrepreneurs: Government scheme reaches 50,000 milestone" 2014.



travellers from outside the EU are not discouraged from the UK because of needlessly complex visa processes. This very high value, short term travel to the UK from non-EU countries can significantly add to UK productivity because of the investment that they provide, the business activity that they generate and the unique skills and experiences that they can bring.

The Super Priority Visa Service which processes visa applications over a 24 hour period is a useful tool in encouraging and simplifying trade, tourism and the expansion of skills in the UK. Recent announcements regarding its extension beyond India and China to Turkey, South Africa, the UAE, the Philippines and Thailand are welcome.³⁰ The Government should rapidly set out a plan to extend the Super Priority Visa Service to other countries.

6.2 Extend the Gulf visa free scheme.

The Gulf visa free scheme is a useful tool to promote inward investment and tourism from Gulf businesses. The electronic visa waiver scheme has significantly reduced the cost in both time and money of investing in the UK and will certainly be encouraging innovation and trade. The scheme allows travellers to apply online rather than going through the more time consuming process involving fingerprints, visiting embassies and securing paper visas. The scheme aims to make it much easier for Emirati, Omani, Qatari and Kuwaiti passport holders to travel to the UK for up to six months.³¹ In the year to September 2013 there were increases of 39%, 32%, and 43% in

the number of visitors to the UK from Qatar, Oman, and the Emirates. Given that for the Middle East as a whole there has been a 29% increase, the Government should look to expand this measure to entrepreneurs and tourists from other Gulf and Middle East nations too. Such a measure would certainly boost trade and productivity and enhance skills development.

6.3 Further simplify the visa process for Chinese businesses.

The introduction of Super Priority Visa Service along with mobile visa services in China and the rollout of premium services such as the 3-5 day visa processing are all welcome steps to encourage global businesses to invest in the UK. It is clear that these steps taken so far are proving popular.³² However given the increasing importance of the Chinese economy as a source for potential future growth and crucially for knowledge and skills transfer, the Government should take further steps to reduce the bureaucratic burdens of visa processes specifically for Chinese passport holders.

In particular the Government should examine the case for a free visa waiver scheme specifically for Chinese entrepreneurs and investors which could be modelled on the Gulf visa waiver scheme. This would mean an entirely electronic application process which would eliminate the need for Chinese business people to have to travel to Beijing, Shanghai or Guangzhou as they are currently required. This would make it much easier for Chinese businesses not based in those three cities to undertake short term business travel to the UK.

³⁰ City AM "Britain woos rich tourists: David Cameron announces more fast track visas for visitors from New York, Paris, United Arab Emirates" 2014.

³¹ Gov.uk "Details of new visa free scheme for Gulf announced" 2013.

³² Gov.uk "Super Priority Visa service available in China from Monday" 2014.



6.4 Reform the Graduate Entrepreneur Visa scheme.

The Graduate Entrepreneur Scheme gives non-EEA graduates the ability to stay in the UK for one year to set up and run a business. Only qualified graduates with genuine and credible business ideas which can be put into practice in the UK are eligible for the scheme. The graduates who are eligible are therefore highly qualified, entrepreneurial individuals who want to create new businesses and invest in the UK having studied here already. These are the sort of talented people that the UK should aim to keep and who would significantly help skills development.

Whilst the national and university specific caps on visas do not currently seem to be a problem given the low take-up, the Government should look to raise the caps if demand rises significantly.³³ The Government should also consider extending giving applicants more time after graduating to raise capital and develop business plans. This would be more conducive to successful start-ups than trying to do so whilst studying. In addition the Government should consider allowing successful entrepreneurs to switch to a longer Tier 1 Entrepreneur visa immediately rather than at the end of a one year extension of the Graduate Entrepreneur visa.

7. PERFORMANCE RELATED PAY

7.1 Encourage the extension of performance related pay

Productivity rises if employees are motivated to improve their skills and exceed their targets at work. Numerous studies such as Bryson et al (2011) show that performance related pay has a positive impact on productivity and is

expected “to improve interpersonal relationships, raise job satisfaction, lower absenteeism and waste of intermediate material or capital, and lower turnover rates.”³⁴ There is also substantial evidence³⁵ that the productivity gains generated by performance related pay feeds into significant rises in real wages generally. Ultimately employees should see that if they spend time, energy and money on improving their skills and increasing their performance, their take home pay will increase.

Incentive pay is currently just added to an employee’s gross pay and is subject to the same income tax and national insurance contributions. ONS data shows that median gross annual earnings for full time employees (who have been in the same job for at least 12 months) are £27,200,³⁶ with incentive pay accounting for approximately 1.2% of mean full time gross weekly earnings.³⁷ The Government should therefore consider extending the use of performance related pay across the public sector and resist attempts to curtail its use within the education sector. The Government should also resist damaging regulatory attempts to end or restrict performance related pay especially for lower earners. The Government should also consider the case in the long term for separate tax treatment of productivity enhancing performance related pay for lower earners.

34 Bryson et al “*Paying for Performance: Incentive Pay Schemes and Employees’ Financial Participation*” 2011.

35 Booth and Frank “*Earnings, Productivity, and Performance-Related Pay*” 1999.

36 ONS “*Annual Survey of Hours and Earnings, Average Earnings*” 2014.

37 ONS “*Annual Survey of Hours and Earnings, The Make-up of Earnings*” 2014.

³³ The Times Higher Education “*Just 119 graduate entrepreneur visas granted in 12 months*” 2013.



8. CONCLUSION

The weakness in British productivity is holding back sustained real wage growth and the economy more generally. Boosting the skills of workers, both current and future, is crucial to increasing long term productivity growth. A higher skilled workforce will be more innovative and flexible and will be more able to compete with workers in other countries. As well as ensuring that higher performance and higher skills are rewarded in the tax system, the Government should carry out reforms to schools and universities to encourage greater skills development. Some changes can be made to the ongoing reforms to apprenticeships and welfare to encourage skills development and some targeted measures to simplify the visa system would also encourage skills transfer from abroad.



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– *International Business Times*

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“Pension tax breaks are 'ineffective' and 'inequitable', and should be replaced with a state handout of 50p for every £1 saved, according to ... Michael Johnson, an academic at think tank the Centre for Policy Studies”
– *The Daily Telegraph*

Why every serious environmentalist should favour fracking by Richard and Elizabeth Muller

“A report published by the Centre for Policy Studies argues that fracking could help reduce the global death toll from air pollution, particularly in China, where heavy reliance on dirty coal-fired power stations contributes to an estimated 1.2million premature deaths annually”

– *The Times*

Double up on Heathrow by Jock Lowe and Mark Bostock

“A report by the Centre of Policy Studies said ... that Heathrow's existing runways should be nearly doubled to 7,000 metres so that they each provide two, full-length, runways.”

– *Reuters*

Rail's Second Chance by Tony Lodge

“Think-tank slams lack of competition on railways”

– headline in *The Independent*



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