



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 23 September 2015



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**ECONOMY, ENERGY AND TOURISM COMMITTEE**  
**22<sup>nd</sup> Meeting 2015, Session 4**

**CONVENER**

\*Murdo Fraser (Mid Scotland and Fife) (Con)

**DEPUTY CONVENER**

\*Dennis Robertson (Aberdeenshire West) (SNP)

**COMMITTEE MEMBERS**

\*Chic Brodie (South Scotland) (SNP)

\*Patrick Harvie (Glasgow) (Green)

\*Johann Lamont (Glasgow Pollok) (Lab)

\*Richard Lyle (Central Scotland) (SNP)

\*Gordon MacDonald (Edinburgh Pentlands) (SNP)

\*Lewis Macdonald (North East Scotland) (Lab)

\*Joan McAlpine (South Scotland) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Neil Carberry (Confederation of British Industry)

**CLERK TO THE COMMITTEE**

Douglas Wands

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 23 September 2015*

*[The Convener opened the meeting at 09:00]*

### Decision on Taking Business in Private

**The Convener (Murdo Fraser):** Good morning, ladies and gentlemen, and welcome to the 22nd meeting in 2015 of the Economy, Energy and Tourism Committee. I welcome members, our witness and those in the public gallery. I remind everyone to turn off—or at least to turn to silent—any mobile phones or electronic devices. We are short of three members, although I know that one of them is on his way. I am sure that the others will join us shortly.

Under item 1 on the agenda, I ask whether committee members are happy to take item 4 in private and to consider further draft reports on our security of supply inquiry in private at future meetings. Is that agreed?

**Members** *indicated agreement.*

## Work, Wages and Wellbeing Inquiry

09:00

**The Convener:** Under item 2, we will continue our evidence sessions for our inquiry into work, wages and wellbeing. I welcome Neil Carberry, who is the director for employment and skills at the Confederation of British Industry. Thank you for coming along, Mr Carberry. I know that you need to be away at 10 o'clock sharp, and we will respect that. Members have a range of questions to ask on issues such as the flexibility of the labour market, the fair work convention that the Scottish Government has established, the business pledge that has been created, the national living wage, zero-hours contracts and training. I hope that we can cover that ground in the time that is available.

I will start by picking up on a point that you make in the written submission that you have made on behalf of CBI Scotland. You talk about the importance to employers of having a “flexible labour market” and say that it is “critical to future growth”. Can you elaborate on what you mean by a “flexible labour market”? What are its characteristics and why is it important? What are the challenges to the labour market being flexible?

**Neil Carberry (Confederation of British Industry):** Good morning, everyone. Before I start, I should say for the record that I am a member of the council of the Advisory, Conciliation and Arbitration Service and of the Low Pay Commission, which are both public appointments. However, any comments that I make this morning purely represent the views of the CBI, and of CBI Scotland in particular.

In the opening part of our written evidence, we make the important statement that it is our strong belief that the point of economic growth is to raise the living standards of the population of the country. Economic growth and that goal are not in conflict; in fact, the two are mutually reinforcing. The reason why we focus particularly on flexibility is that it is important to ensuring that companies in Scotland are able to compete, grow and create the kind of work that the committee is focusing on.

The regulatory framework needs to maintain elements that provide an incentive for companies to create jobs. If one moved to diminish the relative flexibility of the labour market in both the United Kingdom and Scotland—for example, by removing zero-hours contracts—that would risk making the best the enemy of the good by making it less likely that companies would take staff on in different circumstances. However, I would not want to define labour market flexibility only in regulatory terms. A lot of it is about how

companies use skills and how companies and public authorities work together to develop skills.

There has been a big focus on productivity in the economic debate, both in Scotland and in the wider United Kingdom, over the past year and a half, and it is a critical goal of the CBI to support action to improve productivity. I am currently working with the Mayfield review, which the UK Commission for Employment and Skills set up to look at things such as how productivity in manufacturing can be improved through the improvement of manufacturing skills and, in particular, leadership skills.

Those things also fit into our definition of a flexible workforce, which is a workforce in which people are—to borrow the academic term—polyvalent. That means that they can do different things and can therefore be more productive, which enables the business to do more, to produce more and to pay people more, which, as I said at the start of my answer, is an important part of the equation.

**The Convener:** So you think that it is very much a case of having a partnership approach between employers and employees.

I want to pursue the line of questioning on a flexible labour market. How would you characterise the UK or Scottish approach to these issues, as opposed to what we might see in other countries? Are we better or worse than other countries? Are there other countries from which you think that we could learn as regards flexibility?

**Neil Carberry:** If we compare the experience on pay and employment creation in Scotland and in the wider UK with the experience in other European Union nations, we can see that, over the long term, there tends to be more real wage growth and more employment creation here. Therefore, I think that the broad status of the labour market as it relates to the ability of businesses to operate and create jobs is reasonably good.

Where we face more challenges—I know that this is a focus of the committee's work—is on making sure that workplaces capture the best management, job design and skills investment and training to make the best of the situation. I am fond of saying that we do not need to copy the German vocational education system; we need a Scottish system that works effectively. However, it is clearly the case that there are jurisdictions in Europe that are doing some of that development and progression stuff better than we are. Last November at the annual conference of the UK organisation, the CBI published a major report, "A Better Off Britain", which focused clearly on the need for companies to attach as much importance

to their people planning as they do to their financial planning.

**The Convener:** I think that Johann Lamont is keen to ask some questions on the same theme.

**Johann Lamont (Glasgow Pollok) (Lab):** I hear what you say about flexibility. In your submission, you make great play of the fact that flexibility was a response to the recession. Is it still a suitable response, now that we are moving out of recession?

**Neil Carberry:** There was a high level of flexibility in the British labour market before the recession. If we go back a decade to well before the recession, there were certainly tens of thousands, if not 100,000, temps in Scotland. An element of the flexible part of the labour force is about bringing people into work who have been unemployed and helping people to choose different forms of work. Fundamentally, it is also about helping businesses to meet demand peaks, for which they would otherwise have had to bring in longer working hours or use other coping mechanisms. That element was always there before the recession, but it is certainly the case that it grew during the recession.

There were probably two phases. First, the labour market here reacted better than the labour markets in most of our competitor nations, in that unemployment did not rise very high. Broadly speaking, there was an unspoken deal between employees and their representatives in companies that recognised that things were pretty tough and that it might be best to trade off a bit of pay growth to maintain employment rates. That is largely what happened in the labour market as a whole.

I think that that trend is reversing and that it will continue to reverse. For example, involuntary part-time levels are going down. That said, many sectors are in a fundamentally changed market that is deeply competitive. I know that most members of the committee went to Paisley earlier this week to talk to businesses that are competing internationally, and I know from meeting businesses in the Parliament just before the summer recess to talk about the national living wage—when I had my Low Pay Commission hat on—that their capacity to invest large sums of money is not as great as it was before the recession.

That puts pressure on good employment relations and it is important that companies think about that. It also puts some pressure on the other side of the table, with regard to realistic expectations. However, the one thing that will help is companies being clear and honest. For instance, with regard to zero-hours contracts, our organisation is clear that the challenge concerns not the existence of flexible contracts but

situations in which people have been misled with regard to the terms of their engagement with their employer and are treated badly within that framework. The general view in the business community in Scotland on that has been that we should go after the bad practice and see what we can do about it but that we should not damage the principle of being able to offer flexible contracts. After all, figures from the Office for National Statistics suggest that two thirds of people who are on zero-hours contracts get all the hours that they want every week.

**Johann Lamont:** However, they do not know from one week to another that they are going to get those hours, which might have an impact on them.

From your submission, I noticed that CBI makes a big issue of skills, and I presume that it also views in-work training as important.

**Neil Carberry:** Absolutely.

**Johann Lamont:** Do you think that there is a contradiction between having a highly flexible jobs market, where people are not really guaranteed anything but at least they are in work, and an expectation that people should be skilled and involved in improving their skills? How should companies manage that situation?

**Neil Carberry:** I think that, if you get it right, it is not a contradiction. Companies invest a great deal of money in skills, although it is probably fair to say that not all of that is spent as effectively as it might be. There is a real challenge in moving away from the idea that you can buy things rather than make things. Particularly in areas such as manufacturing, we are beginning to see the realisation that, although we need a lot of degree-educated university graduates, the focus on having lots and lots of them is not helpful, as they are not enough, on their own. Our members will tell you that they need 10 skilled technicians for every graduate they need. That is where we have a real issue.

If you look at the CBI's messages for the new regional colleges, you will see that there is a real sense that we want to build a partnership to help young people head for the technical skills that are really in demand and ensure that, for instance, programmes such as modern apprenticeships are focused on those areas. There is absolutely a message for businesses, which is that they will have to step up to be part of that.

**Johann Lamont:** The evidence that we have shows that there are benefits to the economy if people have security and progression within the work that they do. I do not know whether those elements contradict having zero-hours contracts.

In your submission, you say:

"Flexible working practices are a driver of employee engagement—and three fifths of businesses in Scotland see a direct link between high levels of employee engagement and improvements in productivity and performance."

How can you have that increase in employee engagement if people feel very insecure about their work?

**Neil Carberry:** More important than the contracts that people have is the fact that you are giving people what they expect and want from the workplace. Some of the highest employee engagement scores among the CBI's membership are held by companies that use contract models that are quite significantly flexible. They are very up front about those contracts. Among other things, they give people seven days' notice on shifts and are clear about the fact that young people doing exams at university need not work for them for a month or two if that is what they want.

A lot of the issues in this area concern not regulation that might be passed in Parliament but how people are treated in the workplace and the building of positive relationships there. The real challenge for businesses involves ensuring that they invest in line management skills that allow that to happen.

**Johann Lamont:** The Institute for Public Policy Research makes the point that if, rather than investing in training and skills, companies use a workforce that is not guaranteed work, they end up not increasing productivity, although they keep wages low. That means that we end up with an economy that is based on using a larger pool of workers who have no guaranteed work, rather than having a trained workforce that has some expectations of its employers. Do you accept that that is potentially what is happening, and do you think that it is good for the economy?

09:15

**Neil Carberry:** It is quite difficult to give some legitimacy to a dichotomy of good work and bad work in the labour market. The most important thing is that people have genuine routes to progression. Also, if people in a company are in low-skilled jobs that attract low pay, the company should think about how it can change its business model. That is where many of the retailers are at present. The question is largely one of how to pay people more while maintaining in stores the customer service levels that people are looking for. Retail businesses are labour intensive, especially small and medium-sized retailers, which are particularly affected by the issue and tend to pay a rate that is close to the existing national minimum wage.

The question is primarily about the need for progression and for companies to be able to demonstrate that they are thinking about the issue. It has never been sustainable for a nation such as Scotland to compete on low-wage labour.

**Johann Lamont:** Among the evidence that the committee has received, there is some that suggests that, given the effect of some working practices on people's health, it is better for people to be unemployed than to be in those jobs. Are you aware of that? Would the CBI take a view on it? If it is indeed the case that uncertainty and insecurity affect people's health, and therefore presumably the economy, would you find that acceptable?

**Neil Carberry:** The evidence broadly suggests that it is usually better to be in work than not to be in work, although I am not surprised that you have heard about specific situations that are negative for individuals.

We put a premium on how companies think about and manage their workplaces. Employee health has been a big focus for us over the past 18 months or so, and we have published a CBI good practice report to help our members think about that aspect.

Job design is clearly a big element. One issue is the need to ensure that there is a debate about flexibility that focuses on giving staff what they are looking for, because often the stresses and unhealthy situations come about where the demands of the workplace and the demands on people outside work are completely in conflict. It is very important that businesses think intelligently about that and about how they invest for health in their workplaces.

In the UK, and in Scotland in particular, we are proud of our record on health and safety. We have one of the best health and safety records in the world. Having said that, if we are honest, the safety element has always been much louder than the health aspect. There is now a sea change in the business community's thinking about the impact of the workplace on employee health. The change will come with time, but there is certainly genuine interest in business in what more we can do.

**The Convener:** A couple of members want to come in with follow-up questions before we move on.

**Joan McAlpine (South Scotland) (SNP):** I want to go back to Neil Carberry's point about businesses responding to the recession in the way that they deal with their employees. At the roundtable event in Paisley that the committee held earlier this week—contributions were anonymised, so I will keep them anonymous—I spoke to an individual who was unemployed and

had previously been employed by a large international company. It was the sort of company that I would expect to be a member of Mr Carberry's organisation, although I do not know for sure that it is.

That gentleman said that the company's response to the recession was to downsize. He said that he had a career with the company with which he was satisfied and that he was happy in his work, but the company's response to the international recession made his working life extremely difficult because it set worker against worker. As he described it, the whole atmosphere in the company changed as people wondered who was going to be made redundant next. Certain people did certain things to keep their jobs, and the whole atmosphere became poisonous. That happened in a large company that I would have said had a good brand reputation. What is your response to that, Mr Carberry?

Some of the organisations from which we have heard have spoken about modern management techniques affecting the quality of jobs, and that man's experience seems to be a good example of that issue.

**Neil Carberry:** The top-line response is that there comes a time when you have to take cost out of a business in order for the business to survive.

**Chic Brodie (South Scotland) (SNP):** Not just labour, though.

**Neil Carberry:** Indeed. At certain points you need to think about whether you have the right set of people to enable the business to continue to survive and to be commercially successful, and therefore to continue to employ as many people as it can.

There is a quite a lot of good evidence in the academic literature about the difference between distribution and procedure, in the sense of what people get out of the process. People often understand that companies have to do things to survive and that they have to be competitive. Having said that, businesses can run things such as redundancies in different ways.

That brings me back to my earlier comment about the need to ensure that effective people management—the way in which businesses treat their people—is an important board-level issue, and that behaviours are modelled by the senior team. Businesses can deal with redundancy rounds in different ways. Such things are always difficult for companies to deal with, but they can do them in better ways or in less good ways.

In the work that we do with ACAS, one issue that comes up is the need to ensure that the approach to such things is clearly set out. For



instance, if people are engaged in behaviours that are destructive to colleagues in the redundancy process, they must not be rewarded for that. A lot comes down to the individual company and how it manages the process.

**Joan McAlpine:** I want to ask about trade unions—

**The Convener:** A number of members want to follow up specifically on the issues that have been raised, so I will come back to you later.

**Joan McAlpine:** Okay.

**The Convener:** I will bring in Patrick Harvie just now.

**Patrick Harvie (Glasgow) (Green):** Good morning, Mr Carberry. You have made some specific comments about zero-hours contracts, which put me in mind of the words that we heard from John Cridland during the UK general election. He defended the existence of zero-hours contracts, but he said:

“Of course action should be taken to tackle abuses”.

What abuses exist, and what action does the CBI call for to eradicate them?

**Neil Carberry:** One critical issue is that the action should be proportionate and appropriate. That said, it is pretty clear that we would have some concerns about situations in which people turn up at the workplace expecting work and do not get it, or are texted the night before a shift starts. Unless there is some clarity around that or those are additional hours, we would have some concerns as we do not think that such behaviour reflects good business practice.

There are situations in which short-notice shifts are important. We have a member who makes ice cream—

**Patrick Harvie:** Sorry—I am aware of the pressure of time and I am asking a specific question. You mentioned two examples of abuses: short notice, and the disrespectful attitude of using text messages to say that somebody is not wanted or needed. Are there other abuses?

**Neil Carberry:** Another example would be our support for the removal of exclusivity clauses—

**Patrick Harvie:** That had already been announced the previous year, before Mr Cridland made his comments.

**Neil Carberry:** Yes, and we supported that. We are happy to look at evidence from trade union colleagues and others on things that are not good practice. We have demonstrated already that we will support measures that we feel are proportionate.

It is really important to remember that, if employers can create full-time or steady part-time employed jobs, they tend to do so, because they like to keep hold of people. They tend to use flexible contracts where those are a necessity, but that means that the deal changes for the employer, too. They cannot ask as much of employees—

**Patrick Harvie:** You have mentioned two examples and you have not given any other examples. I suspect that a lot of people who are working on zero-hours contracts would be able to add to the list. What action should the Government take to eradicate those two abuses?

**Neil Carberry:** We are happy to look at issues around notice, whether there should be a notice period and how that would be done. To return to my ice cream example, there are sectors in which people are able to give only 24 hours notice that work is available or not. The order by Sainsbury's for ice cream doubles if the weather forecast suggests that it will be sunny on a Thursday, for example. The question to think about in those sectors is what is reasonable and what the legitimate expectation of employees is. It is not right for employers to expect total loyalty in the way that they might with someone who has worked for them for a long time.

**Patrick Harvie:** So you are suggesting a legally enforceable minimum notice period.

**Neil Carberry:** I am very happy to look at minimum notice periods, but the challenge is the demands of different sectors, taking my ice cream example into account.

**Patrick Harvie:** I think that the challenge is the lived experience of people who are doing that work, but I thank you for the suggestion.

**Chic Brodie:** Good morning. Your submission says:

“It is not, however, advisable for politicians to determine job quality or to attempt a definition.”

I will take off my politician's hat and put on my business hat. I have run eight companies in Europe, employing 550 people, and 14 manufacturing company turnarounds in Scotland; I also ran other manufacturing companies in Scotland before I went down south. Let us talk on that basis.

I find your assertions absolutely implausible. You have talked about the labour market and we are talking about flexibility. The best kind of flexibility comes from cross-training people in permanent jobs and getting maximum productivity.

While we are talking about the labour market, what has the capital market done? Why is capital investment so poor in Scotland? Is that because it

is easy to pay people on zero-hours contracts or to pay people less than the applicable minimum wage? Is it easier to employ them on that basis than to invest in capital because the costs of that and of depreciation are much greater than what you are getting away with in how you pay labour?

**Neil Carberry:** I am not sure that I entirely buy the labour substitution argument. I return to the discussion that Mr Harvie and I have just had. An important issue is that there are substantial differences in labour and capital demand between sectors. I agree entirely that cross-training staff on permanent contracts for multiple different functions is an essential part of any—

**Chic Brodie:** Why are you putting so much emphasis on flexible work being a source of better productivity and job protection? That is not the case.

**Neil Carberry:** It is a question of the different parts of the labour market. That will always be the case. I have worked in labour markets for 20 years. If we listen to the trade unions, we hear that the mass casualisation of the Scottish labour market is always just around the corner, but that does not seem to be the case. If we look at the position, we see that employers favour creating permanent jobs, because they can invest and look at skills. A portion of the labour market will always need to be flexible to allow companies to try new things and respond to demand, and there is a mirroring demand for that.

On the point about the lived experience of people on zero-hours contracts, most people who are on zero-hours contracts report that they are perfectly happy with their arrangement. I know that there are abuses, but we should remember that many workers' experience of the flexible labour market is positive, because flexibility should be a win-win. It should deliver the kind of things that people need if they can work for only 15 or 20 hours a week, but it should also provide the arbitrage to do a bit more and create jobs where the permanent stuff—

**Chic Brodie:** You know that that is not the condition, Mr Carberry. You say that we utilise people to try things out, but you say in your submission:

“a balance of ... 50% of businesses plan to increase the size of their workforce and a balance of”

only

“28% plan to increase recruitment to permanent posts”.

Twenty-two per cent of the increase will be in the flexible, temporary area that you are talking about. The issue is that the approach affords businesses an opportunity to maximise their profitability and retain their cash.

Again, your assertion that the capacity to use available money is difficult just now is not true, because money in the commercial market has never been cheaper. The current landscape of using flexible labour and zero-hours contracts is not for the benefit of the employees, is it?

09:30

**Neil Carberry:** That is not what employees tell us. Let us be clear: the majority of employees who use zero-hours contracts say that they are happy with the arrangement. I am sure that they want to move on and progress, but the way to do that is by being in the workplace, not out of it.

On the specific question of business investment, that is a recovery story. Five, six or seven years ago, cash was king and you kept it in your business because you did not know where we were going—there was a big move to hold on to cash. However, we are moving beyond that now and business investment is picking up. When that happens, it is a critical part of addressing the productivity issue. I am very clear that one of the reasons why we might expect unemployment to drop a little more slowly, if it continues to drop over the coming months, is that additional capacity will be created by business investment.

**Chic Brodie:** But you said that there was not the capacity to use available money in the marketplace. Which is it: there is money to invest, or there is not money to invest?

**Neil Carberry:** It depends on which sector you are in.

**Chic Brodie:** I have no more questions, convener.

**Lewis Macdonald (North East Scotland) (Lab):** I am interested in what you said around flexibility in the labour market since the 2008 recession in your written submission and in your original answer to the convener. You said in relation to what happened when companies came under pressure in 2008-09 that there was an “unspoken” agreement that traded off some pay growth against jobs retention and that that had made a significant difference to both companies and employees in the short term. Can you give us an estimate of how widespread that unspoken agreement or trade-off was within the Scottish economy in that period? Was it something that you would regard as typical of what happened in your member companies, or was it exceptional and confined to large engineering and other manufacturing businesses?

**Neil Carberry:** I think that it was fairly typical and that it extended into medium-sized businesses. Clearly, the trade unions played an important role in the larger businesses where they

are present. From my sense of what I was seeing and hearing at the time in member companies, it is probably fair to say that there was a bit more of that agreement in Scotland, which largely reflects the fact that there has always been slightly greater focus on employee relations in businesses in Scotland.

**Lewis Macdonald:** You will be aware that in the current year there has been a very significant downturn in the oil and gas sector and across the supply chain, which includes many engineering companies across Scotland. Do you have a sense that that trade-off pattern is being repeated, or is it more typically the case that employers are simply reducing head count in order to reduce costs?

**Neil Carberry:** I was discussing that yesterday morning with a couple of major employers in Aberdeen. There are clearly on-going discussions in all those businesses with the workforce. Those are difficult discussions, because they involve the company making proposals to change the way in which work is organised and to change different aspects of the workplace in the interests of maintaining both the competitiveness of the organisation and head count in what is a very tough time. Those discussions are certainly taking place.

**Lewis Macdonald:** Indeed. Would it be unfair to say that if lessons were learned in the 2008 recession about the benefits of keeping people in employment in order to see everyone through difficult times, those lessons are not being applied by many of the employers in the oil and gas sector today?

**Neil Carberry:** That was not the impression that I took from the conversation that I had yesterday morning. Different organisations have different approaches and I cannot speak for each of them, but the general sense that I took from colleagues was that they were looking to change things internally to maintain head count, rather than make large-scale downsizing decisions. However, to return to my earlier answer, the scale of the downturn is significant and ultimately companies' hands are forced on these issues.

**Lewis Macdonald:** I guess that the scale in relation to parts of the economy is as great as it was six years ago and the impact is potentially as great.

**Neil Carberry:** Yes.

**Lewis Macdonald:** You have described some of the clear benefits of the approach six or seven years' ago, in terms of job retention. Have you done, or are you aware of, any work to measure whether there were significant downsides regarding things such as sickness absence and staff turnover, in terms of both employee

satisfaction and employee retention in the medium term?

**Neil Carberry:** What was interesting about what happened six years ago was that the sickness absence figures did not change very much. The trouble with statistics is that they can be used to argue both sides of the argument. The reason for those figures not changing might have been that employee engagement was handled well and therefore people did not feel stressed or go off sick. Alternatively, it might have been that people feared for their jobs and stopped taking time off. It is very difficult to prove that conclusively, one way or the other. However, the trend in sickness absence six years ago was largely flat.

**Lewis Macdonald:** Many workplaces reduced hours of work at that time. Does that practice have a measurable impact on productivity?

**Neil Carberry:** It can do. One must always measure that against the question of work intensification. The business community must be very clear that if someone works four days a week that means that they are working four days a week, not doing five days' work in four days. That brings challenges.

Again, the issue comes down to management skills and understanding. There are real challenges about managing a flexible workforce. Leaving aside the question of zero-hours contracts, the flexibility that businesses and employees are looking for requires a very different management culture from one in which everyone is expected to be in the workplace between two specific times on every day of the working week. The issue of management skills and handling the issue effectively is playing out very clearly right now.

**Lewis Macdonald:** In response to earlier questions, you mentioned one or two of the abuses or negative aspects of zero-hours contracts. You also mentioned the sign of change for the better that involuntary part-time work was going down, at least in most of the economy. Should that be left to the market to sort out, or should Governments say that the time for involuntary part-time work has passed and that employers should restore full-time employment to people who were previously employed in their jobs full time?

**Neil Carberry:** Businesses know whether they can afford to employ people full time. The Government should certainly pull out of the system things that discourage people from working full time—a lot of our members found the old 16-hour rule to be a real issue. However, no Government can effectively legislate for every business in a jurisdiction and decide whether a job is a full-time or a part-time job. That must be left to businesses.

We are making some progress on that issue and on private sector pay, which has recovered quite significantly over the past six months.

**Lewis Macdonald:** That would take us on to a different issue.

We have considered the 16-hour rule from the employee angle in previous evidence sessions. Have you done any work on the 16-hour rule from an employer point of view and can you offer the committee any evidence on that?

**Neil Carberry:** In the CBI we are fond of getting into contentious arguments, but the subject of welfare is probably going too far, even for us, most of the time. We have done some work with members and there is some clear feedback towards the lower end of the pay scale that people will turn down promotions and more hours because of the effect that it will have on the benefits that they get. Even where companies have done the work to set out very clear progression paths, setting people on those paths can occasionally be difficult because of benefits issues. We would be keen to see those issues addressed.

**Dennis Robertson (Aberdeenshire West) (SNP):** Good morning. I want to talk about the living wage but, before I do so, I want to come back to the point that you made to Mr Macdonald about the oil and gas industry. My understanding is that we are still trying to be as positive as possible. With the regional college in Aberdeen and the universities, we are trying to send out a positive message that the energy sector still has a future and to ensure that we have the skilled workforce to maximise productivity for the next 40 years. That balance needs to be maintained. Do you agree that we still need to send out a positive message to our young people?

**Neil Carberry:** Absolutely. This is large-scale engineering that we are talking about, and there are very few sectors that Scotland and the wider UK need more. We must continue to be positive about the potential for the kind of skills that colleges and universities are developing for the North Sea to continue to be relevant in that area and more widely. As a result of what happened six years ago, there has been a lot of progress with companies concentrating on skill retention in such situations. As far as the current situation in the North Sea is concerned, quite a lot can be learned from what the automotive sector was able to do six years ago, and we strongly support such moves.

**Dennis Robertson:** Thank you for that.

Earlier this year, the CBI participated in the living wage summit that was held by the First Minister, and we welcome the fact that quite a number of CBI members have signed up to the living wage. What discussions is the CBI having

with its members on increasing the number of members becoming accredited living wage employers and signing up to the Scottish business pledge?

**Neil Carberry:** First of all, we should define the terms. Just to be clear, I will call the chancellor's initiative the national living wage—or the NLW—and the Living Wage Foundation's living wage concept the living wage.

We have always taken the view that a voluntary standard that is clear about the income required for people to have a certain level of quality of life, as set by the Living Wage Foundation, is a good thing. Many businesses have been able to step up to that but, equally, there are many businesses that simply cannot do so or which will take a long time to be able to get there. With that in mind, the Living Wage Foundation itself says that the living wage could never be a statutory requirement.

That framework includes a lot of businesses in a few key sectors, such as food manufacturing and hospitality, smaller and medium-sized retailers and small business generally. One of the things that, as a low pay commissioner, I understand—and which does not often get a lot of play in the political debate—is that the national minimum wage is, in large part, a small business issue; it is a much more effective policy in terms of the impact on small businesses than on large businesses. In retail, most of the supermarkets' starting rates are already well above £7 per hour, while smaller or medium-sized retailers tend towards a rate of £6.50.

**Dennis Robertson:** My question was about the discussions that you are having with your members to encourage them to becoming accredited living wage employers and to sign up to the Scottish business pledge. You have explained the situation for businesses, but you did not answer the question.

**Neil Carberry:** I was just coming to the answer. It is important that I reflect the fact that we are a membership organisation and that CBI policy is made not by myself, Hugh Aitken or John Cridland but by our members.

The sectoral differences in this respect are very difficult, but we have done work on the matter. For example, last year, we welcomed the Archbishop of York, who is a great campaigner on these issues, to our national conference. We have been very clear that businesses should be discussing their entry level of pay, but we are equally clear that a large section of our membership just cannot do this.

09:45

**Dennis Robertson:** Cannot or will not?

**Neil Carberry:** Cannot. If you are in, say, food manufacturing and you are competing against international supply, the situation is very difficult. I have had meetings with people from mid-market hotels in Scotland for which the chancellor's initiative will, over the next four or five years, halve their earnings before interest, taxes, depreciation and amortisation. The situation there is critical. There is a balance to strike, because those hotels might very well be able to remain profitable by employing fewer people.

One of the questions that we need to deal with is where the trade-off is. Both of the goals that we are talking about are valid. The CBI has always supported a raise in minimum wages; indeed, we put our shoulder to the wheel with regard to the creation of the national minimum wage. The challenge is the pace at which it happens, and how it happens.

Would you like me to talk about the business pledge?

**Dennis Robertson:** Yes. That would be fine.

**Neil Carberry:** There is a lot in the business pledge that our members like. The language on engagement, diversity, internationalisation, prompt payment, innovation, youth and community points to themes that we think businesses should be thinking about and on which they should be taking action.

However, there are two particular issues to deal with. You already know our position on zero-hours contracts. The other issue is about pay. It is very difficult for many businesses to be able to sign up to the living wage, which is why the business pledge presents some challenges for many of the CBI's medium-sized and smaller members.

**Dennis Robertson:** How many of your members might sign up to the pledge and pay the accredited living wage? Would it be, say, 40 or 80 per cent, or have you not really been able to measure that yet?

**Neil Carberry:** We have not done that work yet.

**Dennis Robertson:** Are you prepared to do it?

**Neil Carberry:** I am happy to take the issue away and then discuss it with the committee in due course.

I would add one other comment about the business pledge. It is really important that, when we talk about the living wage, we understand what it is. The chancellor's announcement raises real challenges for the Living Wage Foundation, because the living wage rate does not allow a family with children to achieve the standard of living that the foundation has set out. That rate actually needs to be higher than that. The Living Wage Foundation has already discounted the

living wage, and it is important for the committee to understand that even it has made a judgment based on its point of view about what the appropriate level would be. There is no black and white on this issue; there are different goals and things that need to be arbitrated. It is important to record that point.

**Dennis Robertson:** Is the main challenge not that what people earn needs to allow them to maintain their health and wellbeing? We are looking at standards here. Business has a responsibility to pay a fair wage and ensure that people have a reasonable standard of living and do not have to work three or four jobs just to pay the bills.

**Neil Carberry:** As I have said, we have always supported raising the minimum wage. We have never demurred from what the LPC has done. The chancellor decided to raise the bite of the minimum wage to 60 per cent of median income, but the LPC has been raising the bite progressively through the recession and beyond. We have just had the first recession ever in which the bottom 10 per cent of earners did better than the rest. Given that, typically, they do a lot worse, that has been a great success of the policy as it has been pursued. The other thing to remember is that raising the minimum wage does not necessarily benefit the poorest.

**Dennis Robertson:** You are talking about the minimum wage, but we are talking about the living wage.

**Neil Carberry:** It is the same thing—raising the living wage does not necessarily benefit the poorest either. Incomes are based on household—

**Dennis Robertson:** But it can give them a degree of certainty, can it not?

**Neil Carberry:** Certainly, and it is an important part of the mix. However, let us consider the tax credits argument. Frankly, a lot of businesses were deeply frustrated by the argument that tax credits subsidise low wages. First, businesses do not know the benefit status of their employees, and nor should they. Secondly, only 40 per cent of people who are on the national minimum wage—by which I mean the very minimum pay—receive any tax credits at all, because they live in households with higher earners. Those issues need to be taken into account in the setting of wage policy.

**The Convener:** Given that we have 10 minutes left and four members still want to ask questions, we will need to be sharp.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** Thank you, convener, and I apologise for arriving late. I was caught in traffic.

Before I ask my questions, I want to come back to your comment that the CBI has always put its shoulder to the wheel in relation to the minimum wage. It is funny you should say that, because when I looked back at what was said before the minimum wage was introduced by the last Labour Government, I found that you said:

“even a low minimum wage would reduce job opportunities and create major problems for wage structures in a wide range of companies”.

Is there any evidence of that, or were you just scaremongering then as you are scaremongering now?

**Neil Carberry:** You will remember that the living wage that was on the table in the early to mid-1990s and which the Trades Union Congress was going for was half the male manual median wage, which is an interestingly old-fashioned definition of what the minimum wage should be. In 1998, that was £6 an hour. Would that have cost jobs? Yes. Did the one that we introduced cost jobs? No, because it was introduced responsibly as a result of our putting our shoulder to the wheel with others, including trade unions. We built one of the strongest social partnerships that the UK as a whole has ever seen. We then raised it quickly to a much more—

**Gordon MacDonald:** Is the reality not that increasing the living wage has made it easier to recruit and has led to better-quality staff and lower labour turnover? Because employees are more satisfied in their jobs, productivity has increased, and that means that there has really been no cost to companies as a result of this.

In addition, people on low pay have, through necessity, to spend that additional wage; they spend it predominantly on retail; and retail then has to purchase more from manufacturers. There is therefore a knock-on effect on the economy, which grows by virtue of the fact that money is being fed not to bankers but to people who are living on the minimum wage and who, through necessity, have to spend that money.

**Neil Carberry:** Bearing the convener's injunction in mind, I must come back to my previous answer: we have always supported rises in the minimum wage. We supported it when it went up 10 per cent. However, the issue for us has always been the impact on affected sectors and small businesses. The grocers and the bakers in the high streets in the small towns in Scotland need the ability to remain competitive. There is a balance to strike with regard to timing and the affordability path. That has always been our concern.

**Gordon MacDonald:** I have two questions about zero-hour contracts. First, should such contracts not be the choice of the employee? In

some instances, they will benefit, for example, a nurse who works full time and wants to do a couple of bank shifts or a student who wants to work around exams. However, the vast majority of people are looking for certainty in order to manage their household bills. Is it right for individuals to be forced to take zero-hour contracts, and would you support a moratorium on people being pushed into accepting them?

Secondly, is there a time period after which people on zero-hours contracts should be offered full-time employment? I recall a TUC survey from August 2013, which found that 44 per cent of people on zero-hour contracts had been on them for two years or more and 25 per cent for five years or more. From those results, I do not think that we are talking about companies that are not sure of their profitability.

At the event that we had in Paisley on Monday, which Joan McAlpine has already mentioned, I spoke to an individual who is working for a large company that is making fantastic profits, and he said that he turned up for a night shift only to be told, “By the way, we don't need you.” He said, “Well, that's fine, but am I getting paid?” He had just started. However, he was told, “No, you just need to go home.” He said, “Wait a minute—I was told that I had a job here.” He did not realise that he was on a zero-hours contract. The company said that he would be paid if he stood at his bench and did not move. He could not use the facilities or the staff room, and he survived for three hours before leaving. He got paid for those three hours, but that is how he was treated.

**Neil Carberry:** That is not the picture of good employer relations that I referred to earlier. We have said to colleagues in the trade union movement that we are happy to have a discussion with them about what an appropriate transition point is. However, we would be very resistant to anything that either banned zero-hours contracts or did not allow companies to hire people on them. That said, I am very happy to make it clear that someone who has been working nine to five Monday to Friday for three years has a full-time job.

**Gordon MacDonald:** Why would such a person be kept on a zero-hours contract? Is it about employers evading their responsibilities to the individual? Is it driven by evading employee costs and keeping overheads down?

**Neil Carberry:** I assume that it is all about a desire to maintain maximum flexibility.

**Gordon MacDonald:** Or maximum profitability.

**Neil Carberry:** I do not understand why a company would do that.

**The Convener:** We will need to move on as we are now very short of time.

**Patrick Harvie:** You have claimed that the most recent recession is the first in which lower earners did better than higher earners in terms of pay growth. I have to admit that, when I read that in your written submission, I immediately got my red pen out. You make the claim on the basis of minimum wage increases, but in the past five years, the minimum wage has gone up by 38p an hour for 18-year-old workers and 77p an hour for workers over 21 years old. If the person is working a full-time week, that might amount to something like £1,500 a year. Can you tell me how much FTSE 100 chief executive officer pay has gone up over the same period?

**Neil Carberry:** Not off the top of my head, no. The point that I was making was a distributional one. Nobody is arguing—

**Patrick Harvie:** The average pay of CEOs in the FTSE 100 has gone from £4.1 million to £5 million. I repeat—that is the average pay. Are you really telling me that the lowest earners have seen their pay increase by more than the highest earners?

**Neil Carberry:** I was making a point about 30 million people, not about 80. The point is that the bottom 10 per cent of the labour market has had higher rates of pay increase over the past few years than the other deciles.

**Patrick Harvie:** Can I show you this graph in the Scottish Government's "Scotland's Economic Strategy" for 2015?

**The Convener:** We do not have time to pursue that line of questioning. I promised Joan McAlpine that I would let her in.

**Patrick Harvie:** I simply ask Mr Carberry to reflect on whether his statement is not only flat out wrong but offensive to those at the bottom of the pile.

**The Convener:** Thank you, Patrick. Joan McAlpine, you will need to be brief.

**Joan McAlpine:** Have you finished, Patrick?

**Patrick Harvie:** It seems so.

**The Convener:** I am sorry, but I made it very clear at the start that we had to stop the session at 10 o'clock. We have one and a half minutes left. Please carry on.

**Joan McAlpine:** One of the things that comes across strongly in the written evidence that the committee has received is that lack of control and participation leads to poor health outcomes for workers. In addition to what governments can do, we have found that, in countries where there is a lot of collective bargaining in workplaces, workers

feel that they can participate more and have higher wages. What is your response to that? Can you tell us, for example, what the trade union membership is among your members?

**Neil Carberry:** The trade union membership among CBI members largely accords with the national average. Off the top of my head, I think that, in Scotland, trade union presence is about 48 per cent in workplaces and collective bargaining coverage is about 30-something per cent.

We have always been clear that there is a role for trade unions where employees choose to be represented by them. We have a statutory recognition mechanism. It is rarely used, because companies usually do a deal in advance that works for them and the workplace. That is one way to achieve a good employee voice, but there are others and we are committed to the idea that employee voice, input and perceived control in the workplace are critical to successful workplaces.

10:00

**Joan McAlpine:** What is your organisation's attitude to the United Kingdom Government's Trade Union Bill?

**Neil Carberry:** That is a different matter, because it is about strike action.

**Joan McAlpine:** Well, not really. It will discourage unions from being active in the workplace. Are you saying that you are in favour of it?

**Neil Carberry:** As far as the private sector is concerned, it is not unreasonable to ask a quarter of union members to demonstrate that they want to go on strike before the union can go on strike. Perceived control works more than one way. Unions have to represent the views of their members.

**Joan McAlpine:** The trade unions have said that they are prevented from consulting their members in modern ways—for example, through the internet—and that the Government should encourage them to communicate better with workers. On the one hand, you say that you are supportive of trade union membership, which we know from our evidence raises wages and the wellbeing of workers; on the other hand, you say supportive things about a piece of legislation that will damage the ability of trade unions and workers to organise.

**Neil Carberry:** We have published joint work with the TUC in the past on the importance of facility time and of building good relationships with and supporting workplace reps. That is all vital stuff. However, I am sorry, but if union leaders cannot demonstrate that a quarter of their people want to go on strike, we do not believe that that is

a mandate. That is all that the bill does. It is half of 50 per cent of the electorate.

10:02

*Meeting continued in private until 11:30.*

**Joan McAlpine:** That is not the view of the TUC or the STUC, but I will leave it at that.

**The Convener:** We are at the end of our time, Mr Carberry. Thank you very much for your time this morning.

We will now go into private session.



This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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