

Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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28 September 2018

Dear Chancellor

AUTUMN 2018 BUDGET: CMI SUBMISSION

I am writing to outline the CMI's priorities ahead of the Autumn budget. This budget comes at a critical time with Brexit just a few months away and the prospect of no deal a serious threat.

Government must use this budget to boost productivity and accelerate growth. This means focusing on the key drivers of productivity, particularly management skills and management practice.

Businesses continue to face acute skills shortages, including in management and leadership, which needs to be addressed through investment in education and skills. **We need an education system that develops enterprise, leadership and business skills alongside academic and technical excellence. We also need stability and certainty in the skills system so that employers and providers have the confidence to invest in apprenticeships.** Now is not the time to review or reduce apprenticeship funding bands.

To deliver on the Prime Minister's commitment to a fairer society, **the Government must use this budget to accelerate work to close the gender pay gap, increase diversity in the workplace and promote social mobility. This also includes corporate governance reforms to curb runaway pay and rewards for failure.**

I would welcome the opportunity to discuss our priorities with you.

Yours sincerely

Ann Francke
CEO

1. CMI

- 1.1 CMI is the chartered professional body for management and leadership. We are dedicated to improving managers' skills and growing the number of qualified managers and leaders across the UK.
- 1.2 With a member community of around 100,000, CMI provides individual students, managers and employers with access to the latest management thinking and with practical support to help them embrace change, build high-performing teams and improve individual and organisational performance. We are a UK awarding body for management and leadership qualifications and the only body that awards Chartered Manager - the hallmark of any professional manager.

2. BOOSTING PRODUCTIVITY

- 2.1 Although the UK has many world-leading businesses, we have a long tail of poorly managed and unproductive organisations. CMI has long argued that closing this gap means recognising the pivotal role of management in improving productivity and a national focus on replacing our 2.4m "accidental managers" with competent, confident, conscious leaders.
- 2.2 We welcome the growing consensus that management skills are key to boosting productivity. The Bank of England cite a lack of management quality as an explanation for the UK's poor productivity and the ONS, when scoring UK companies on management effectiveness, found that merely improving that score by 0.1 per cent was linked to a near 10 per cent increase in productivity. Indeed, the Government's own Industrial Strategy highlights the importance of management skills in closing the productivity gap.
- 2.3 To improve productivity, Government should:
 - **increase the number and standard of qualified managers and leaders across the UK.** This would provide a huge boost to UK productivity. CMI and Government [research](#) shows that businesses with a more qualified management workforce and a more structured approach to management development perform better; and
 - **provide funding to support additional research into management practices and to encourage the adoption of good practice.** This should focus on management skills and practice in SMEs, which form the backbone of the economy and which also make up the bulk of the long tail of unproductive businesses. This could be channelled through Innovate UK, as the current Business Basics Fund has been.
- 2.4 Management apprenticeships have a critical role to play in improving management skills and boosting productivity. Indeed, since the introduction of the apprenticeship levy, they have the potential to radically transform

employers' approach to management and leadership development in England.

2.5 We are already starting to see this shift with just under 20,000 learners now registered on management apprenticeships programmes right across England. This is welcome news, although more management apprenticeships will be needed if the UK is to match the quality of our major international competitors post-Brexit. In global comparisons of management skills, the UK is ranked well behind countries such as the US, Japan and Germany, and ONS surveys of management skills show foreign-owned firms score higher than domestic-owned firms.

2.6 Government should therefore:

- **set targets for increasing the number of management apprenticeships.** These should be set in consultation with employers and providers to ensure that targets are realistic, skill both new and existing managers and are properly aligned to the needs of industry and the economy. The Government should also lead by example by increasing the number of management apprenticeships in the public sector.

2.7 The Department for International Trade (DIT) recently launched an export strategy to support businesses looking to export post-Brexit. Whilst we welcome this in principle, this was a missed opportunity to recognise the export potential of Chartered status. Our international competitors and their governments understand the value of Chartered status in raising professional standards, as evidenced by a recent and highly successful DIT mission to Asia Pacific to promote the work of six UK Chartered bodies.

2.8 The Government should therefore:

- **harness the export potential of Chartered status and provide funding and resources to support a “*Chartered is Great*” campaign to export Chartered status and qualifications.** This should be rolled out in time for the planned professional bodies' mission to Hong Kong and China scheduled for early next year.

3. INVESTING IN EDUCATION AND SKILLS

3.1 The UK will need 1.9m new managers by 2024. To ensure that the next generation of managers and leaders are better qualified and more productive than the current generation, young people should be taught management and leadership skills as early as possible.

3.2 Government should:

- **ensure all school and college-leavers and graduates have access to leadership and management development as a core part of their studies.** As things stand, CMI [research](#) shows that around two thirds of employers believe graduates lack the interpersonal skills to manage

people and nearly three quarter want all students to have access to management, enterprise and leadership training; and

- **make sufficient funding available for the successful roll-out of T-Levels.** A T-Level in business and administration is scheduled for roll-out in 2022. This has the potential to provide management and leadership skills and experience to young people, but CMI [research](#) shows a lack of awareness around T Levels and businesses have questioned whether the planned minimum work experience placement of 45 days per student is feasible.
- 3.3 The new apprenticeships have a critical role to play in skilling our managers and plugging some of those long-standing skills gaps. No longer are apprenticeships restricted to introductory and lower-level programmes for new starters – the new trailblazer management apprenticeships are high-level, prestigious, popular and are being used to skill and upskills employees of all ages. They also promote social mobility and widening participation. For example, of the 1,500 or so apprentices on the Chartered Manager Degree Apprenticeship, 47% are from the most socio-economically deprived regions of the UK and 54% are women.
- 3.4 We should be accelerating take-up of management apprenticeships. However, the Institute for Apprenticeships is proposing to cut the funding available by reducing the funding bands for management apprenticeships by between 10-20%. These cuts come at the worst possible time, just as employers are waking up to the potential of the new apprenticeship system. Management apprenticeships are fundamental to the Government's productivity agenda but cuts of the nature proposed will stall or even reverse the achievements of the last 18 months. Employers and providers need certainty and stability.
- 3.5 Government should therefore:
- **maintain a strong commitment to the new trailblazer apprenticeships and to the apprenticeship levy.** The levy is a huge opportunity to support employer investment in skills and address the UK's long-standing productivity problem. There is scope to make the levy more flexible and less bureaucratic and we have set out how this might be achieved in a joint 10-point [plan](#) with the British Chamber of Commerce;
 - **halt the review of management apprenticeship funding bands.** Cuts of the nature proposed will seriously damage the market for management apprenticeships, stall investment in management development and undermine efforts to boost UK productivity. **Any decisions on funding bands should be delayed until the overall levels of skills funding has been properly considered in the next Spending Review;** and
 - **improve awareness by creating a new national communications campaign** to better raise awareness of the professional pathways offered by apprenticeships. This should focus on reach parents, young people and

those employers who have outdated perceptions of apprenticeships. Too many still see apprenticeships as a low-level entry route into work, as opposed to a route for investing in high-value skills, upskilling their existing workforce and attracting the best new talent.

4. CREATING A FAIRER SOCIETY

- 4.1 The evidence is increasingly clear: diversity delivers results. For example, better gender balance in the workplace could add £150bn a year to the UK economy. Companies with diverse leadership teams also generate increased returns and reduce the risk of groupthink.
- 4.2 Despite this, it is clear that the talent pipeline remains broken. For example, women make up 73% of junior managers but only 32% make it to director level, and male managers are currently 40% more likely to be promoted than female managers. Future projections show the scale of the challenge: with the economy needing 1.9m new managers by 2024, 1.5m would have to be women in order to achieve gender balance.
- 4.3 The challenge faced by ethnic minority managers is even greater, although many businesses lack data about their employees' ethnicity. Most also have less well developed approaches to increasing race and ethnic diversity than for gender.
- 4.4 In order to reap this diversity dividend, the Government should:
 - **accelerate work to close the gender pay gap.** The reporting requirements should be extended to more organisations, and employers should be required to set targets for closing the gap and to report annually on progress;
 - **extend pay gap reporting requirements to ethnicity;** and
 - **champion apprenticeships and encourage more employers to take on apprentices** as we know apprenticeships are effective at promoting social mobility and widening participation.
- 4.5 In many parts of the business world, trust is in short supply. Reforming business cultures to rebuild trust is critical for better business performance and productivity.
- 4.6 Transparency is a powerful lever for change and the new requirement for larger businesses to publish pay ratios will be a step forward, as are the wider corporate governance reforms. However the Government needs to go further to curb runaway pay and rewards for failure.
- 4.7 The Government should:
 - **revisit the role and composition of remuneration committees,** and ensure that leaders are measured on how they deliver company purpose

and their commitments to all stakeholders including customers, employees and communities. **As part of this, LTIPs in their current form should be phased out.**