

EMPLOYMENT LAW REVIEW

Annual Update 2012

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EMPLOYMENT LAW REVIEW - ANNUAL UPDATE 2012

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EXECUTIVE SUMMARY

- 1. According to the OECD, the UK has one of the most lightly-regulated labour markets amongst developed countries, with only the US and Canada with lighter overall regulation (OECD Indicators of Employment Protection 2008).
- 2. But we are not complacent, and recognise that the perception among employers (particularly small firms) has been affected by the frequency of change often European in origin over recent years.
- 3. That is why we committed to a Parliament-long review of UK employment laws to ensure they provide the flexibility that businesses need to grow, without compromising fairness for employees.
- 4. We are making important reforms and taking forward changes to reduce the burden of unnecessary employment legislation.

EMPLOYMENT LAW REVIEW SUMMARY

Announced a package of reforms to streamline and modernise the employment tribunals system in the *Resolving Workplace Disputes Government Response* in November 2011. These will deliver benefits of more than £40 million p.a. to business – including extending the qualifying period from one to two years.

Called for evidence on dismissal processes, including Compensated No Fault Dismissal for micro-businesses and the Acas Code of Practice on Discipline and Grievance.

Re-launched the Employer's Charter to give confidence to employers about what they can already do to deal with staff issues.

Called for evidence on the TUPE and collective redundancy rules; we are now considering next steps.

Reforming how the employment and recruitment sector is regulated.

Universal portability of CRB checks available online by 2013.

Consolidating National Minimum Wage Regulations.

Closing a loophole, created by case law, around whistleblowing.

Committed to review the paperwork obligations for the Agency Workers Regulations.

Developing an online tool to provide advice and guidance to employers.

Introducing fees to employment tribunals.

Working on measures to simplify and promote Compromise Agreements.

1. Introduction

- 1.1 In May 2010, the Government committed to review employment laws for "employers and employees, to ensure they maximise flexibility for both parties while protecting fairness and providing the competitive environment required for enterprise to thrive".
- 1.2 Since then, we have been carrying out a Parliament-long review of employment-related legislation under the umbrella of the Employment Law Review. The Employment Law Review is a wide-ranging examination of laws and regulations that affect the functioning of the labour market. It is co-ordinated by the Department for Business, Innovation and Skills, and brings together policies from across Government, with involvement from the Home Office, including the Government Equalities Office, the Department for Work and Pensions, the Department for Environment, Food and Rural Affairs, and the Ministry of Justice.
- 1.3 The Government's Red Tape Challenge has provided an additional lens through which to view the obligations on businesses in employing people, by focusing on specific regulations. We have drawn on the views gathered through the Red Tape Challenge from individuals, businesses and other interest groups, on what we need to do to reduce or improve the existing stock of employment-related regulation, as part of the ongoing Employment Law Review.
- 1.4 This progress report outlines how we have taken forward the Employment Law Review over the last year, and since publishing the discussion document *Flexible*, *effective*, *fair*: *promoting economic growth through a strong and efficient labour market*. The report outlines the current programme, and looks ahead to further areas we are proposing to consider as part of the Review. This is the first in a series of annual updates on the Review for the remainder of this Parliament.

Why we need a review of employment laws

- 1.5 We believe that the UK economy should be supported by a framework of laws that ensures that the labour market is both strong and efficient. By strong and efficient, we mean that we want a labour market that is:
 - flexible, encouraging the creation of jobs by making it easy to get people into work and to stay in work;
 - effective, enabling employers to manage their staff productively; and
 - fair, with employers competing on a level playing field and workers provided with a strong foundation of employment protections.
- 1.6 The UK is internationally recognised as a 'successful employment performer', achieving a steady rise in employment, despite cyclical peaks and troughs, since the significant reforms introduced in the 1980s (2006 OECD Jobs Study Review). A key driver of the strong performance of the UK labour market is our light-touch system of employment regulation. The labour market, like other markets, needs a framework of rules but the UK framework is less onerous than most. The OECD set out in its Indicators of Employment Protection 2008, that the UK labour market is one of the

most lightly regulated amongst developed countries, with only the US and Canada having lighter overall regulation. Our system of employment regulation is an important element of the UK's comparative advantage.

- 1.7 But we are not complacent and there is more we can do to ensure that our employment laws provide the framework this country needs to ensure economic growth. We hear from employers, employees and their representatives that employment laws are not working and need to change. The strong focus in the past on the rights of the employee and the responsibilities on the employer has also led to a perception held by many that the relationship is one-sided with all the onus on the employer and none on the employee to make the relationship work and give of their best.
- 1.8 The Employment Law Review seeks to address the reality that businesses see that the cost and complexity of employment laws impact on their ability to take on staff and grow. However, the Review also aims to tackle perceptions about employment law and dispel myths about what employers can or cannot do in the workplace in managing their staff. We want to ensure that these reforms are not at the expense of compromising fairness for individuals, responding to the concern of employees and their representatives that individuals will be exposed to unfair practices if employment regulation is weakened or removed.

BUSINESS VIEWS ON UK EMPLOYMENT LAWS

Employers are deterred from hiring people due to fear of being taken to tribunal should the business requirement for that person change;

Difficulties in navigating the immigration system;

Small employers find the most burdensome aspects to managing staff are the uncertainty for business planning, for example due to maternity leave rights or sick leave rights;

Those businesses also cite the costs associated with these rights, particularly the accrual of paid holiday, as unaffordable;

In relation to letting people go, employers fear the threat and costs of tribunals. A large number describe situations where they have felt they have been unable to dismiss an underperforming employee. They also point to the paperwork that must be created and maintained to prove proper processes have been followed as time consuming and costly;

In terms of compliance and enforcement, there is a general feeling that money and time is wasted trying to understand how employers must comply with the law (in many cases paying for external advice to achieve this).

Adrian Beecroft's work on employment-related law

1.9 As part of the Red Tape Challenge process, Adrian Beecroft was asked to provide his thoughts to the Prime Minister on how employment-related law can be changed so that smaller businesses are encouraged to take on staff and grow. Although that report was not published, Mr Beecroft's thoughts were considered as part of the Red Tape Challenge process, alongside views from other interested parties.

2. Employment law reforms underway

Resolving Workplace Disputes

- 2.1 The business community have consistently told Government that their biggest concern in relation to taking on staff is the employment tribunal system and that this fear ultimately acts as a barrier to growth.
- 2.2 On 27 January 2011, the Department for Business, Innovation and Skills and the then Tribunals Service jointly consulted on a series of detailed proposals on how the system should be changed the *Resolving Workplace Disputes* consultation. The aim was to support and encourage parties to resolve disputes earlier (where possible in the workplace) but, where there is a need to have the matter determined, to ensure that the system works efficiently and effectively, to bring things to a conclusion more swiftly.
- 2.3 On 23 November 2011, we published the *Government Response to Resolving Workplace Disputes*, with a package of measures that will deliver a more streamlined and efficient employment tribunal system. The Secretary of State for Business, Innovation and Skills announced that Government intends to provide both employers and employees with greater access to methods of early dispute resolution and support growth by giving employers more confidence to take on new workers.

RESOLVING WORKPLACE DISPUTES – SUMMARY OF PLANNED REFORMS

- All claims will to go to Acas to be offered early conciliation before going to an employment tribunal.
- The unfair dismissal qualification period will rise from one to two years in April 2012.
- A consultation will be published later this year on protected conversations which could allow employers to discuss issues like retirement or poor performance in an open manner with staff - without this being used in any subsequent tribunal claims.
- Steps will be taken to simplify the use of compromise agreements, where employers pay an agreed amount to an individual if both parties agree the employment contract should end.
- We will explore options for a rapid resolution scheme an alternative system to determine straightforward tribunal cases, perhaps involving nonjudicial determination, or a paper-based judgement, speeding up the resolution process for all parties.
- The tribunal system will be streamlined removing state-funded witness expenses, taking witness statements as read and allowing judges to sit alone when hearing unfair dismissal cases.
- Mr Justice Underhill will also undertake a Fundamental Review of the Rules of Procedure governing employment tribunals and will report back to Ministers later this year.
- The use of mediation will be encouraged between parties by introducing a best practice project in the retail sector and running a regional project with SMEs.

These reforms to tribunals will deliver £10.1 million of savings to business and additional wider benefits of £33 million to all employers (this includes public sector employers). Conciliation could reduce the number of claims going to an employment tribunal by 25 per cent.

2.4 The legislative measures outlined in the *Resolving Workplace Disputes* package are being taken forward as quickly as Parliamentary time permits.

2.5 At the time of publishing this report, the following changes were being implemented through secondary legislation and are due to come into force on 6 April 2012.

CHANGES IN FORCE FROM APRIL 2012

Unfair Dismissal and Statement of Reasons for Dismissal (Variation of Qualifying Period) Order 2012 (Employment Rights Act 1996)

This change means that employees starting new employment from April 2012 must be employed at their workplace for a minimum of two years before they are able to make a claim for unfair dismissal. It is possible to estimate the likely impact on employment tribunal claims. We have estimated this will lead to a reduction of around 2,000 claims per annum, which brings net direct benefits to employers of around £4.7m per annum.

The Employment Tribunals Act 1996 (Tribunal Composition) Order 2012

This amends the composition of employment tribunal hearings for unfair dismissal cases to be heard before 'a judge sitting alone'. Parties will be able to request a tripartite panel and this will be accepted or rejected at the judge's discretion.

Amendments to Employment Tribunals (Constitution and Rules of Procedure) Regulations 2004

These amendments make the following changes:

- When a judge considers that a claim has a limited chance of success at tribunal, to increase the maximum limit at which deposit orders can be made from £500 to £1,000.
- To increase the maximum limit at which judges can award costs to either party from £10,000 to £20,000.
- To change the rules on witness statements in the employment tribunal so that they shall be 'taken as read', meaning that a witness statement will not be read out in its entirety - unless the judge directs otherwise.
- To administratively remove automatic witness expenses.

3. Other Resolving Workplace Dispute reforms

Mediation

3.1 The first sector-based mediation event has taken place with the retail industry, with a discussion of best practice between companies such as Arcadia, BT, Tesco, John Lewis and Marks & Spencer. The Department for Business, Innovation and Skills (BIS) has also issued an invitation to tender, to provide workplace mediation training, for two regional mediation network projects. This invitation closed on 17 February and we are currently in the process of evaluating the tenders received.

Compromise Agreements

- 3.2 BIS is committed to pursuing measures to facilitate the use of compromise agreements. Responding to evidence from the *Resolving Workplace Disputes* consultation, we intend to produce a 'model agreement' to address concerns (particularly among small firms) about the cost and approach to compromise agreements. We are also planning to rename them as 'settlement agreements' to emphasise the benefits that they can offer as a way of resolving and bringing finality to disputes. We will bring this change forward as soon as Parliamentary time allows.
- 3.3 BIS has been working with the Government Equalities Office (GEO) to bring about changes to Section 147 of the Equality Act 2010 to respond to concerns from the HR and legal communities, as well as businesses, that it is currently unclear in its effect and may lead to compromise agreements being used less to resolve workplace equality disputes. We have brought forward a change to Section 147, so that there is clarity that compromise contracts can be safely used in resolving employment disputes relating to alleged discrimination. This change is due to come into force on 6 April 2012.
- 3.4 The Government published draft legislation for consultation including Extra Statutory Concession A81: Termination payments and legal costs on 6 December 2011. This included an additional amendment to the proposed section 413A Income Tax Earnings and Pensions Act 2003. The amendment replaces the term "compromise agreement" with "settlement agreement" and removes the definition of compromise agreement from the legislation. The consultation closed on 28 February 2012 and the responses are being reviewed.

Financial Penalties

3.5 Following the *Resolving Workplace Disputes* consultation, the Government intends to introduce a provision for employment tribunals to levy a financial penalty on employers found to have breached employment rights. The penalty will be payable to the Exchequer. As a result of feedback to the consultation, it is intended to allow employment judges the discretion about whether to exercise this power, to ensure that employers are not penalised for inadvertent errors. We will bring forward the necessary primary legislative changes as soon as Parliamentary time allows.

Fundamental Review of Rules of Procedure for Employment Tribunals

- 3.6 Mr Justice Underhill, the outgoing President of the Employment Appeal Tribunal, has been appointed to lead a Fundamental Review of the Rules of Procedure for Employment Tribunals. Mr Justice Underhill is being supported by a small Working Group, and an Expert User Group made up of a broad range of stakeholders. The Review commenced in December 2011 and Mr Justice Underhill has been invited to report back to Ministers with recommendations by end April 2012. As set out in the Terms of Reference, it is intended that the Review will develop and recommend a revised procedural code, with a view to ensuring that robust case management powers can be applied flexibly and proportionately in individual cases coming before employment tribunals.
- 3.7 The Review is making good progress, with five Working Group meetings and two Expert User Group meetings having taken place to date. Mr Justice Underhill has confirmed that he sees the principles underpinning the Review as shorter Rules, using simpler language, and supported by practical guidance. The substance will include facilitating effective case management so that there is the ability to settle or dismiss cases/responses, as appropriate, at the earliest stage, by avoiding unnecessary complication and with shorter and simpler prehearings and hearings.

Grown-up / Protected conversations

- 3.8 Employers are, of course, already allowed to have conversations about sensitive workforce issues with their staff. However, feedback from businesses suggests that many employers are reluctant to engage in these conversations as they believe they are not allowed to do so, or are fearful that doing so will lead to an employment tribunal claim. As a result, some employers feel that they are unable to manage effectively, particularly in relation to poor performance and workforce planning.
- 3.9 We want to encourage individuals and managers to have open and frank conversations as issues arise, allowing employers to manage their business, and individuals their careers, more effectively whilst minimising the number of situations that develop into formal disputes.
- 3.10 The Government is considering how best to encourage open and frank conversations between employer and employee and is developing proposals on which to consult later this year, including potentially introducing a system of protected conversations where the content of that conversation cannot later be used in an employment tribunal.

Rapid Resolution

3.11 The Government has committed to consider whether and how a 'Rapid Resolution scheme' could be introduced to provide quicker, cheaper determination for low-value straightforward claims. BIS will work with the Ministry of Justice to develop detailed policy options and will issue a full public consultation once this work is complete and, in the meantime, take the necessary enabling power that will allow us to introduce a process of this order at the earliest opportunity.

Charging fees in employment tribunals and the Employment Appeal Tribunal

3.12 The Government announced its intention to introduce fees into the employment tribunals and the Employment Appeal Tribunal in the *Resolving Workplace Disputes* consultation. A Ministry of Justice consultation published in December 2011 sought views on two options for fee structures in employment tribunals and one in the Employment Appeal Tribunal. The consultation closed on 6 March 2012 and the Government response will be published later this year.

The Employment Law Review Business Challenge Panel

3.13 To support policy making on the Employment Law Review, the Department for Business, Innovation and Skills has set up the Business Challenge Panel – a mix of employers of small, medium and large business owner-managers and legal experts to bring challenge and ensure that the ideas for change coming out of the Review will make a difference to businesses. The Business Challenge Panel is chaired by Steve Sharratt, who is also the Sector Champion for the employment-related law Red Tape Challenge theme.

4. Future work

Tackling perceptions of employment law

- 4.1 In January 2011, BIS produced an Employer's Charter to dispel many of the myths about what an employer can and can't do in managing their staff reasonably, fairly and lawfully.
- 4.2 BIS will, alongside this progress report, publish an updated Employer's Charter to reflect feedback from businesses on what they would find useful to include in the Charter and changes since the Charter was first published. The Charter is available on www.bis.gov.uk/assets/biscore/employment-matters/docs/e/employerscharter.
- 4.3 We have also had feedback from businesses that they find it difficult to access accurate information on what they need to do to comply with their employment obligations when taking on staff. BIS, in conjunction with businesslink.gov, will shortly be launching an online tool for first-time employers to address these concerns by clearly identifying core legal obligations, dispelling common 'myths' surrounding existing regulation and providing access to further information and guidance where necessary.

Collective redundancies consultation periods – call for evidence

4.4 Employers have said during the Employment Law Review that the current rules on collective redundancy consultation slow their ability to restructure effectively and can put future business success at risk. They report that the difficulty in effecting redundancies has a negative impact on employers' confidence in hiring people, slows employees' reengagement in the labour market and makes it harder for businesses to restructure to react effectively to changing market conditions. Ongoing uncertainty can also have a serious impact on workforce morale and productivity.

4.5 BIS has run a call for evidence on the potential for simplifying and improving the collective redundancy rules, which closed on 31 January 2012. The Department is conducting a detailed analysis of the responses and, if the evidence shows a clear case for change, we will formally consult on policy proposals later this year.

Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE)

- 4.6 Some businesses have raised concerns that the current TUPE arrangements are overly bureaucratic and may in some areas, such as service provision, unnecessarily gold-plate European rules.
- 4.7 This is a complex area of legislation and it is important we gather evidence from a wide range of stakeholders in considering the case for change. BIS has therefore run a call for evidence on the potential for simplifying and improving the regulations on TUPE. This closed on 31 January 2012 and the Department is reviewing the responses. There will be a consultation on any proposed changes later in the year should the call for evidence indicate that there is a case for change.

Dismissal processes

- 4.8 Businesses have consistently told us that the process for dismissing an employee for poor performance reasons is time-consuming and can inadvertently lead to an employment tribunal case. We are clear that we need to strike a sensible balance between the need to give workers enough support and clarity about what is expected of them to perform to an acceptable standard, and employers, especially SMEs, the ability to dismiss poor performers without unnecessary red tape and bureaucracy. We therefore want to undertake a full analysis of the evidence, the views of employees and employers, and the implications for job creation and productivity. We also want to hear the different views of employees, business organisations and all other interested parties.
- 4.9 The Government is therefore running a call for evidence on dismissal processes, which will seek views on the concept of compensated no-fault dismissal for microbusinesses and on the Acas Code of Practice on Discipline and Grievance.

Whistleblowing

- 4.10 It has come to light through case law that employees are able to blow the whistle about breaches to their own personal work contract, which is not what the legislation (Public Interest Disclosure Act (PIDA)) was designed for. Case law has led to the Employment Appeal Tribunal opinion that there is no reason to distinguish a legal obligation that arises from a contract of employment from any other form of legal obligation. The implications of this case raise the possibility that any complaint about any aspect of an individual's employment contract would be enough to lay the foundation for a protected disclosure.
- 4.11 The Government has committed to make the necessary amendments to whistleblowing legislation. We intend to bring forward a primary legislative proposal when Parliamentary time allows.

The recruitment sector

- 4.12 The Red Tape Challenge process identified the regulations governing the recruitment sector as in need for improvement. The Regulations play an important role in protecting individuals, but they are highly complex and difficult to understand. The Regulations also intervene in business to business relationships which may be better left to the businesses themselves.
- 4.13 We will be consulting later this year on changes to simplify and improve how the recruitment sector is regulated.

The Agency Workers Regulations

4.14 The Government intends to review the paperwork obligations of the Agency Workers Regulations in 2013. This review will look to expose any unnecessary and burdensome paperwork obligations which are not required by law, with a view to removing them.

Workplace Rights, Compliance and Enforcement Review

- 4.15 The Government reported to Parliament in October that an initial analysis of the government-enforced workplace rights had uncovered significant fragmentation, largely as a consequence of the underpinning regulations.
- 4.16 There is no common rationale for determining those rights that are governmentenforced and those that are enforced by individuals through tribunals. We are reviewing where the risk associated with specific workplace rights is sufficient to warrant government enforcement.
- 4.17 There are significant differences in the powers and sanctions available to the bodies that enforce workplace rights. These powers and sanctions include financial penalties, civil recovery proceedings, criminal prosecution, prohibition for a defined period of time and naming. We are reviewing the scope for harmonising these powers and sanctions, to ensure that they are deployed in a way that is both effective and proportionate.
- 4.18 The Government will report back to the House again on progress in the spring and consult on changes to improve government enforcement of workplace rights.

National Minimum Wage

4.19 BIS will produce a draft set of consolidated regulations – merged from the current 17 separate regulations – on the National Minimum Wage by March 2013.

Sickness absence

4.20 On 17 February 2011 the Government called for a major review of the sickness absence system in Great Britain in order to help combat the 140 million days lost to sickness absence every year. The review was jointly chaired by David Frost, former Director General of the British Chambers of Commerce and Dame Carol Black, the then National Director for Health and Work and was published on 21 November 2011.

- 4.21 The review provided an important analysis of the sickness absence system including factors which cause and prolong sickness absence and which, in too many cases, mean that employees move out of work entirely and on to benefits.
- 4.22 The review examined the current system and the roles that healthcare professionals, employers and government services play and made a number of recommendations aimed at helping people return to work from periods of sickness more quickly, and allowing employers to manage periods of sickness absence more effectively. We can confirm that we are already implementing the Report's recommendation to add sickness absence advice to the Employer's Charter. Later this year we will publish further Fit Note guidance for GPs and employers and respond in full to the other recommendations. The Report also called on the Government to consider options around the use of 'protected conversations' and look at compensated no fault settlements. The Government has committed to consulting on protected conversations this year and we will shortly launch the call for evidence on Compensated No Fault Dismissal for Micro-businesses. The full sickness absence report is available at: www.dwp.gov.uk/docs/health-at-work.pdf.

Criminal Records Bureau checks

- 4.23 Work to radically improve the portability of Criminal Records Bureau (CRB) checks between posts and reduce the need for the same person to undergo repeated checks is firmly on track. The necessary changes to legislation are included in the Protection of Freedoms Bill which is currently before Parliament and the new arrangements are expected to be in force from early in 2013.
- 4.24 These will allow applicants for CRB disclosures to subscribe to a service that will enable them to authorise employers to make a simple and immediate online check, which will indicate whether any new and relevant information is known about that person since their last disclosure was issued. In the vast majority of cases there will be no new information. Whether the check is being made by a new employer or by an existing employer seeking to update a disclosure, the absence of any new information will remove the need for a full scale application, thus saving both time and money. The need to seek a further full disclosure from the CRB will be limited to the small proportion of cases where new information has arisen since the last check.
- 4.25 The legal, technical and organisational changes linked to introducing these improvements are all in hand. They will benefit volunteers and the voluntary sector as a whole, as well as those in paid work and their employers. In particular, it will often be much easier and less expensive for one individual to take on more than one role requiring CRB checks (for example, a teacher who might also want to volunteer as a scout leader).

Review of discrimination awards

4.26 In May 2011 the Government committed to reviewing discrimination awards as part of the Employment Law Review and has considered a number of approaches in this area. This is in response to business concerns about the uncapped nature of awards in cases of discrimination.

- 4.27 As discrimination law derives from European legislation, it is prohibited to set a fixed cap on discrimination awards, which effectively restricts the policy options available to address concerns in this area. We have considered other legislative options which we believe would be possible, but do not believe that these would address business concerns in a meaningful way. These include:
 - A flat-rate cap applicable to all compensation for discrimination in employment cases, but with an obligation on employment tribunals to exceed it where necessary to put the claimant in the position they would have been in if the discrimination had not occurred; and
 - A flat-rate cap applicable only to compensation awarded to job applicants who wouldn't have got the job notwithstanding discrimination.
- 4.28 A major feature of the business fears is that they are often based on misperceptions that discrimination awards will automatically mean large payouts. The awards made by tribunals are intended to recompense the individual for what they have lost (salary, pension etc) and cover injury to feelings. Generally, it is the high earners who receive the larger awards, and exceptionally high awards are few and far between. In 2010/11 the median discrimination award was under £6,500 and there were fewer than 10 awards of over £100,000 and only 40 awards of over £30,000.
- 4.29 In the Ministry of Justice consultation on the introduction of fees in tribunals that was launched in December 2011 (see paragraph 3.12), we included an option in which claimants submitting an employment tribunal claim would have the choice of paying a lower fee to be able to receive compensation up to a threshold of £30,000 if their claim is successful. Individuals could choose to submit a claim for a potential award above the threshold (i.e. £30,000 or more) and would then pay a higher fee. This approach is intended to encourage claimants to make a more accurate assessment of the value of their claim before submitting it, and give businesses more certainty about the size of the award they actually face. The consultation closed on 6 March and the Government is currently considering its response.
- 4.30 We have also undertaken to introduce more information through the employment tribunal claim forms on median awards for employers and employees, as claims are lodged, to give individuals a more informed view of the realistic value of their claim, and give employers more certainty about the size of their potential liability.

The Red Tape Challenge

4.31 The Employment-related Law theme will remain on the Red Tape Challenge website for the duration of the Red Tape Challenge programme. Comments submitted to the website are being monitored, and are being considered as part of the ongoing Employment Law Review. At present, there are no plans for focused activity via the programme and website on this theme, but the Employment-related Law page will be updated from time to time to reflect progress on the Employment Law Review.

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