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OPPORTUNITY IN GROWTH

The 2024 CBI/Pertemps Employment Trends Survey

Contents

Foreword CBI

With the Government placing the first bets that it hopes will deliver growth, this year's survey highlights opportunities to grasp and risks to navigate. It is also a reminder that businesses continue to face the same fundamental challenges that have thwarted their efforts to grow in recent years: costs are rising while productivity isn't, shortages continue to bite to the extent that they squeeze budgets for investment, and demographic trends mean growth will need to be achieved with fewer people in the labour market.

The good news is that businesses continue to see opportunities to grow if they can scale their workforce to meet it. Falling inflation has led to workers seeing their wages rise faster than prices and pay pressures slowly easing. Continued demand to hire means that businesses will welcome the Government's ambition to tackle the causes on economic inactivity and target an 80% employment rate. The survey also confirms again that a more flexible Growth & Skills Levy can increase investment in training if it is properly funded at next year's Spending Review.

Stimulating business investment is the key to delivering long-term growth. This is where our survey highlights the challenge – increasing taxes and employment costs erode the headroom businesses need to invest, in the same way that businesses previously highlighted that the costs of labour shortages too often crowded out planned investments.

The rise in National Insurance Contributions (NICs), particularly the lowering of thresholds, will mean that there is much less money left to pay for the cost increases coming from the Employment Rights Bill. The CBI's objective remains to find a landing zone for the Bill that supports long-term growth and rising living standards. While the Budget made the landing zone smaller, it can still be found. Doing so will require the Government to acknowledge the impact of the Budget and adopt the same pragmatic approach to revising the Bill as a whole, that it took on issues like probation.

Matthew Percival

Future of Work and Skills Director

Foreword Pertemps Network Group

This report feels like the most important one we have ever done. It reflects what I am hearing in my regular conversations with businesses of all shapes and sizes and gives a snapshot of where many organisations are – poised at a crossroads with so many things to consider before setting a course.

A new government, interest rate movements, changes to National Insurance Contributions (NICs), Apprenticeship Levy reform, skills shortages, how to engage with the next generation of workers, talent attraction and retention, the Plan to Make Work Pay, inheritance tax changes – all of these things, and many more, mean recruitment is a trickier topic for many companies than I have seen for some years.

It is fair to say that employers are pessimistic about the impact of government reforms on labour costs. And yet, I still see many positives in the report you are about to read. Hiring intentions remain stable compared to last year. More than double the companies who responded to last year's survey are planning to offer colleagues an above-inflation rise. More than two-thirds think they will be able to recruit or train enough workers to meet their organisations skills needs (at least, at a low level).

Perhaps not so positive are the responses about the next generation. The future of our businesses depends on attracting young talent and blending them with the existing, experienced people we have. Both sides of the equation have much to offer. One brings new skills, energy and a fresh outlook, but they want to work in non-traditional frameworks. The other brings a wealth of expertise and experience of managing change but does not always understand the outlook of the next generation of workers.

We must blend the generations effectively, managing the fears of both while ensuring both are equipped to bring their best selves to work and contribute together to the outcomes of our businesses. As always, collaboration is the key to success, both inside organisation and with business, government, trade associations and education establishments working together to address the myriad challenges we face

Carmen Watson

Chair of Pertemps Network Group

Survey results at a glance

The employment trends survey 2024

The survey was conducted between 14th August and 2nd September

152 businesses of all sizes and sectors across the UK, responded in total.

SMEs are defined as businesses with fewer than 250 employees.

The UK needs a new approach to growth

- Over the past twelve months, the labour market has exhibited clear and consistent signs of cooling. Wage pressures have begun to ease as inflation slowed and vacancies fell, putting them on track to reach pre-pandemic levels by the end of the year.
- Unemployment levels have fallen, and the number of people identified as being economically inactivity has remained stubbornly high, which means the labour market cooling has been driven more by the drop in demand for workers as opposed to an improvement in the labour supply.
- Shortages are the new reality of the labour market and are set to worsen as demographic trends take shape and the workforce shrinks. They must be carefully managed, so there is an incentive for business to adjust to the new reality of shortages by increasing investment in productivity-enhancing technologies, rather than being tipped into survival mode. The survey's findings suggest they continue to act as a real dampener on businesses ability to operate profitably and sustainably.
- Rising employment costs add another dimension to the risk to growth by reducing the capital firms can invest in skills and automation to address their immediate and longer-term shortages. The new growth strategy requires raising productivity levels which have flatlined since 2008.

Jobs growth begins to soften

- Half (48%) of businesses intend to grow their workforce over the next year.
- The balance of businesses intending to create jobs this year (+35%) is slightly down on last year (+37%) but is significantly higher than 2022 (+29%).
- A balance of +39% smaller businesses expect to grow their staff size over the next twelve months, compared to +29% across larger businesses.

Real pay growth continues but affordability concerns rise

- 7 in 10 respondents intend to either increase pay above (20%) or in line with (50%) inflation at the next pay review.
- The proportion of respondents looking to offer a targeted pay increase for some staff only has decreased since last year (16% to 12%) and intentions to increase pay below inflation (3%) has also fallen markedly compared to this time last year (24%) and to an even greater extent compared to two years ago in 2022 (34%).
- Firms are becoming less able to absorb NLW increases through profits and feel less able to pass costs on to consumers who have already faced significant price increases. This year, the most cited action firms affected by the NLW increase have taken is absorbing added costs wholly through reduced profit (37%), followed by increasing productivity through greater investment in technologies and automation (32%) and raising prices (32%). This slightly differs from last year, when offsetting costs through raised prices (47%) ranked as the top action firms were taking at the time of surveying to combat costs associated with the NLW increase, with 4 in 10 respondents (41%) also investing in technology and absorbing the whole cost through reduced profits.
- The proportion of businesses respondents intending to finance the NLW through wholly reduced profits is set to half next year (37% to 19%). Almost 1 in 5 respondents (18%) are considering offsetting NLW costs in 2025 by reducing employment while the proportion of businesses intending to make changes to wider reward package is set to double (6% and 10%, respectively).

- The proportion of businesses respondents intending to finance the NLW through wholly reduced profits is set to half next year (37% to 19%). **Almost 1 in 5 respondents (18%) are considering offsetting NLW costs in 2025 by reducing employment** while the proportion of businesses intending to make changes to wider reward package is set to double (6% and 10%, respectively).

Inflexible employment laws now a top concern for competitiveness

- Concerns about the future competitiveness of the UK labour market are growing. While the net level of confidence is broadly in line with results from 2023 (-50% and -49%, respectively), the fears of those with negative views are hardening with fewer respondents feeling that it will become slightly less attractive and more feeling that the UK will become much less attractive.
- 3 in 4 respondents (76%) ranked access to skills as a threat to current competitiveness, while two thirds of respondents (65%) ranked access to labour as a threat to their present ability to compete and grow. This is broadly in line with findings from 2023 (77% and 66%, respectively).
- Access to labour (71%) and skills (58%) also ranked as a top threat to long-term competitiveness, but the proportion of respondents citing them as a threat has moderately fallen from 2023 (82% and 63%, respectively).
- Since the last time the question was surveyed in 2023, an additional 1 in 4 respondents (32% to 58%) have cited the impact of inflexible employment regulation as threat to future competitiveness. There has also been a slight increase in the proportion of businesses who view inflexible employment regulation as a threat to short-term competitiveness (33% to 39%), and in the threat posed by weak labour market enforcement to short-term (8% to 17%) and long-term (10% to 22%) competitiveness.
- These concerns about the future undo a slight easing in the balance of businesses who think that the UK labour market has become a less attractive place to invest today relative to five years ago (-60%, improved from -71%).

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Changes are needed to make the Employment Rights Bill compatible with growth

- Only 1 in 4 businesses (26%) are confident that they can afford the employment costs arising from the Labour's New Deal without it negatively affecting growth, business investment, jobs or discretionary employee benefits. Most firms (54%) believing that it isn't affordable, and others (20%) are still undecided. Business confidence is likely to have risen slightly following the publication of the Bill and its timetable for implementation, but the successful landing zone for the package has shrunk considerably because of the NICs increases announced at the Budget.
- While debate has focused on the questions of 'day one rights' and 'banning exploitative zero hours contracts', businesses have concerns about most aspects of the Bill and these need to be worked through before it is passed.
- When asked about the Government's proposal to remove the qualifying period for unfair dismissal, 4 in 5 respondents (80%) agreed with the statement that giving employees the right to contest their dismissal at an employment tribunal would make them more cautious about hiring staff on a permanent basis.
- The way in which the Bill proposes that firms offer workers new contracts with guaranteed hours is of significant concern to businesses with almost 9 in 10 (88%) warning that they would be less willing to offer overtime if staff had a right to guarantee these hours permanently.
- Businesses do not believe that the claim that good businesses will be unaffected by removing compensation caps and giving workers longer to bring claims to tribunal. Two-thirds (64%) disagreed with this statement because of concerns that tribunals are so expensive and dysfunctional that good businesses have already lost if they are accused, regardless of the outcome at a hearing.
- To help build confidence that trade unions are speaking on behalf of their employees, 9 in 10 respondents (90%) agreed with the statement that there should be mechanisms to ensure that unions are accountable to the people they represent. Strong accountability to the workforce is key both when assessing recognition claims and industrial action.
- 7 in 10 respondents (72%) agreed that that businesses should be able to unilaterally change employee pay and conditions without permission of trade unions in situations that would otherwise at risk the existence of those jobs.
- The Government's desired reset of industrial relations will require as much of a change of approach by trade unions as of businesses, with only 6% of businesses believing that working with UK trade unions helps to increase productivity.

Shortages remain a threat to sustainable growth

- 7 in 10 respondents (70%) have been affected by shortages over the past twelve months and is broadly in line with 2023 (71%). This means protection from the effects of shortages continues to be the exception rather than the rule.
- The impact of shortages on firms facing them have broadly stayed the same over the past twelve months, with the inability to grow and respond to new opportunities despite demand ranking as the top challenge related to shortages, affecting around 2 in 5 firms this year and in 2023 (41% and 38%, respectively). Positively, fewer respondents have reported shrinking due to shortages since last year (6% and 12%, respectively) but the proportion of firms being unable to operate profitably has doubled from 6% to 13%.
- Granting work visas for shortage sectors ranked as the top action respondents would like to see implemented to help ease the impact of shortages, with half of respondents (52%) in favour of government prioritising this measure.
- Other popular changes included introducing incentives for businesses to invest in automation to boost productivity (49%) and replacing the Apprenticeship Levy with a more flexible Growth and Skills Levy (45%).
- One third of respondents (37%) were in favour of the introduction of incentives for businesses to invest in workplace health measures to minimise sickness absence and support a healthier, more resilient workforce.
- Half of respondents (51%) agreed with the statement that a competitive tax reform package, including making Employee Assistance Programmes (EAPs) a full tax-free benefit, would reduce the number of workers permanently exiting the workforce due to ill-health.
- The survey results highlight businesses would value specific types of government support to this end, and respondents were most in favour of government increasing the scale, quality and awareness of supported employment programmes and training opportunities for young people and improving the quality and guidance employers on reasonable adjustment requests (63%), closely followed by increased government investment in the Access to Work scheme (59%).
- The results also indicate that certain proposals designed to improve workplace disability equality could have unintended consequences for businesses and fail to reach their desired goal. For example, few respondents were in favour of government increasing statutory sick pay (8%) and introduce stricter requirements for companies to progress to levels 2 and 3 (8%) and stronger rights to paid disability for assessment, rehabilitation and training (10%). Businesses were also widely opposed to the introduction of disability gap and workforce reporting (16% and 19% of firms in favour, respectively)

Young people need better support to enter the labour market

- Business respondents were on average not confident that young people entering the workforce have a good baseline of skills that can be developed in the workplace. While positive about their digital skills (+53%) and basic literacy and numeracy (+4%), concern was particularly high for different types of transferrable skills. Net confidence in young people's critical thinking (-49%) ranked lowest, followed by leadership (-48%) and adaptability (-46%).
- Respondents were least confident that they could recruit or train enough people to meet their need for workplace skills unattached to national qualifications (of which transferrable skills form a huge part).
- Overall, 3 in 4 respondents (75%) reported that they are (17%), or would be open to (58%), offering two-week work experience to secondary school pupils. Smaller businesses were slightly more likely than larger businesses to offer two-week week experience to secondary school pupils (19% and 13% offering it, respectively). This finding reflects the fact that many larger businesses have moved away from mandatory two-week work experience placements in favour of targeted and ongoing opportunities that offer young people a more detailed insight into their business.

- **When asked what would encourage firms to invest more into training and development, half (52%) of respondents cited greater flexibility through the Apprenticeship Levy.** Support for the measure was highest amongst larger firms (80%) but was also supported by many SMEs (36%).

- **Being able to find local providers with relevant courses (34%), updating funding criteria to reflect costs incurred through delivery (33%) and uplifting funding bands to reflect inflation rank (32%)** are the three priority changes businesses would like to see made to the apprenticeship system.

Unlocking skills investment starts with meaningful Apprenticeship Levy reform

- A balance of +22% of firms intend to increase their business investment in training over the next year relative to the past twelve months, which is slightly down on 2022 (+27%). Among SMEs, a balance of +16% are intending to invest more into training over the next twelve months, compared to +35% across larger businesses
- When asked what would encourage firms to invest more into training and development, half (52%) of respondents cited greater flexibility through the Apprenticeship Levy. Support for the measure was highest amongst larger firms (80%) but was also supported by many SMEs (36%).
- Almost 6 in 10 business respondents (59%) are in favour of the Growth & Skills Levy being extended out to cover accredited and modular training.
- Most businesses have continued to experience a skills gap over the past twelve months, although this is an improvement from levels recorded when the question was last asked two years ago (6% and 18%, citing they do not have a skills gap, respectively).
- Business views on the drivers of their skills gaps are largely in line with 2022, with a lack of candidates with industry-relevant qualifications and low awareness around different routes to work ranking as the top two threats to work. The third most-cited driver was candidates prioritising workplace benefits which their sector cannot offer (27%).
- The proportion of businesses who have reported that they have not experienced a barrier trying to address their skills need through adult education has increased slightly compared to two years ago from 24% to 30%. This means that most business respondents (70%) continue to experience at least one barrier in delivering or accessing adult education.
- This year, the top three most cited barriers preventing firms from addressing their skills through adult education were challenges related to finding time to train employees (31%), the prohibitive cost of training and employees not recognising training as being important to their career (both 28%).
- Being able to find local providers with relevant courses (34%), updating funding criteria to reflect costs incurred through delivery (33%) and uplifting funding bands to reflect inflation rank (32%) are the three priority changes businesses would like to see made to the apprenticeship system.

The UK needs a new approach to growth

The labour market has continued to cool

Over the past twelve months, the labour market has exhibited clear and consistent signs of cooling. Vacancies have continued to fall and are on course to reach pre-pandemic levels by the end of the year **(Exhibit 1.1)**, and inflation has fallen, meaning the decline in nominal pay growth has not stopped real pay growth increases being awarded **(Exhibit 1.2)**. But the cooler conditions are largely predicated on there being fewer vacancies in the economy, rather than an increase in the productive capacity of the UK workforce. Low levels of unemployment **(Exhibit 1.3)** coupled with stubbornly high levels of inactivity **(Exhibit 1.4)** means that there is a very real chance that vacancies are being driven by a lack of business confidence that they will be able to fill their vacancies, rather than a lack of need for new staff. The rising cost of employment suggests the drop in vacancies could also reflect more businesses being unable to afford to hire new workers, and many firms anticipate affordability barriers will grow when the Government's employment policy package is implemented. Both issues pose a real risk to growth by suggesting businesses may be holding back on recruitment and suffering the consequences of shortages on their ability operate sustainably and competitively.

Demographic changes demand a new approach to growth …

The UK's workforce is shrinking at the fastest pace in four decades, and the gap between individuals exiting and entering the labour market is growing, costing the economy £25 billion a year and adding £16 billion of fiscal pressures on the public budget.[1] For businesses to grow, a balance needs to be struck between ensuring there is enough skills and labour so that shortages are not prohibitive to the long-term investment that is needed to increase productivity. The survey's results highlight that employment costs and endemic shortages continue to be a real challenge for many businesses, preventing them from adjusting to the reality of delivering growth without there being more people to hire.

The reduction in the workforce means growth will also heavily rely on raising productivity levels per worker. This is proving to be a particular challenge; sluggish productivity has been a longstanding feature of the UK labour market and while total hours worked have increased over the past fifteen years and recovered from a sharp drop in the peak of the pandemic **(Exhibit 1.5)**, productivity output per hour of work has flatlined since 2008.[2] If the UK Government is serious about growth, their growth strategy must reflect the realities of the labour market and the need to raise productivity. This requires them to work with businesses to create a climate supportive of increasing investment in productivity blockers like skills gaps and low levels of automation.

…But does not mean the problem of inactivity should be ignored

Automation will not be able to solve every shortage. This means tackling labour market inactivity and barriers to work, from high childcare costs to excessive NHS waiting lists, should continue to be a top policy priority. But reducing inactivity levels in the long-term also demands a new and preventative approach to workforce participation which acknowledges the reasons why workers fall out of the labour market in the first place. Businesses have a clear strategic and moral imperative to be co-deliverers of such an approach, but the contributions they make will ultimately depend on how they are able to operate within the policy frameworks set by government. For example, to address the 3 million long-term and temporary sick, businesses will need to have a manageable employment cost base to be able to prioritise health investments. Likewise, having well-funded training programmes – and individuals who want to participate in them – will determine whether childcare expansion will have a tangible impact on young families' ability to work. Employers and policymakers should continue to explore these opportunities over the next twelve months, with a particular focus on identifying areas where policy is holding back firms' ability to support workers to get on and stay in the workplace.

Policy intervention is needed to address spiralling costs crowding out business investment

Businesses across the economy need to make investments across multiple fronts to deliver the new growth model demanded by demographic changes. This includes investing in productivity-enhancing technologies, developing quality upskilling and reskilling programmes, as well as offering competitive Employee Value Proposition (EVP) to attract and retain talent. Current costs and challenges in operating profitably means the investments key to delivering growth are at serious risk, particularly in the wake of the decision to raise business National Insurance Contributions (NICs) at this year's Autumn Budget. A top priority for policymakers over the next twelve months must be addressing costs that are not supporting firms' growth potential and to crowd in capital for business investment. Tackling the risk of unintended consequences presented by the Employment Rights Bill will be fundamental to this, as well as working with businesses to reduce the growing cost of employment.

Exhibit 1.1. Total vacancies (in thousands)

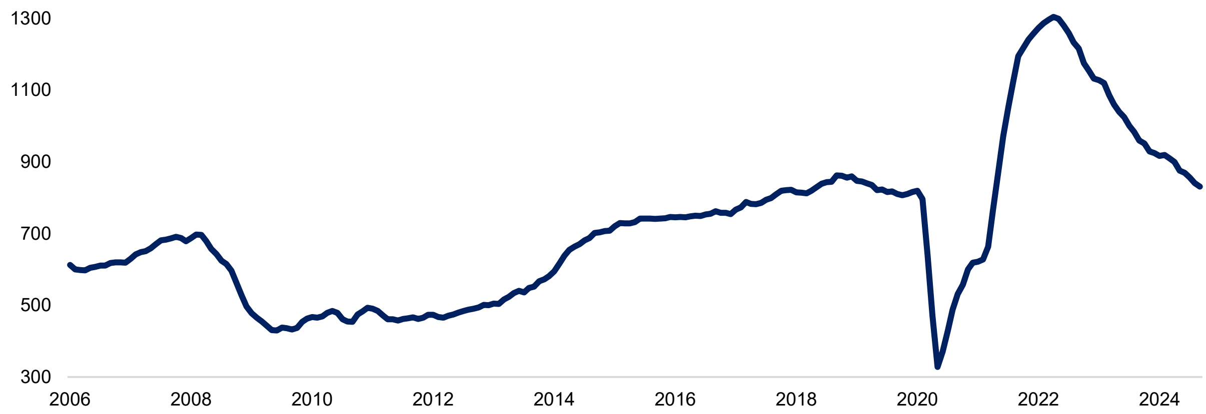


Exhibit 1.2. Nominal versus real (CPI) wage growth (%, 3 month average)

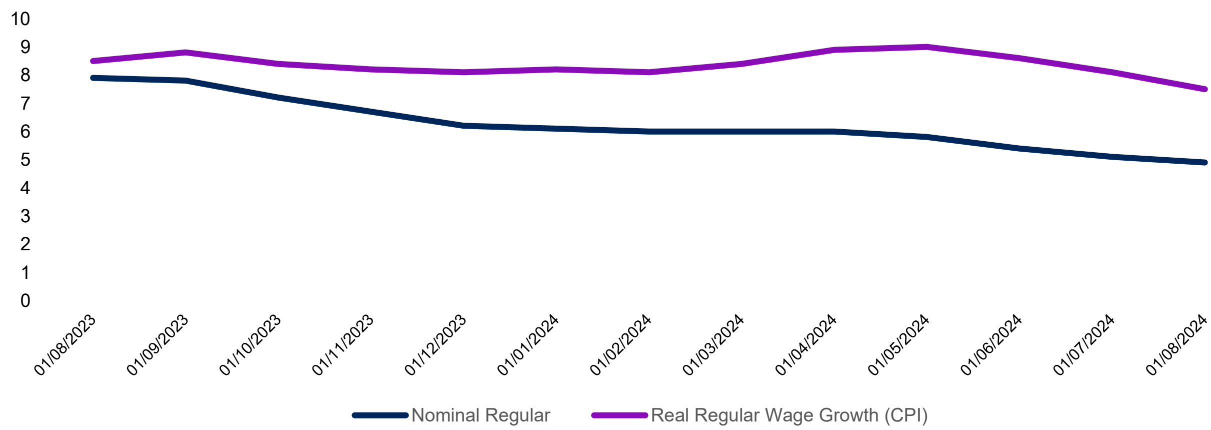


Exhibit 1.3. Unemployment rate (%, 16-64 year olds)

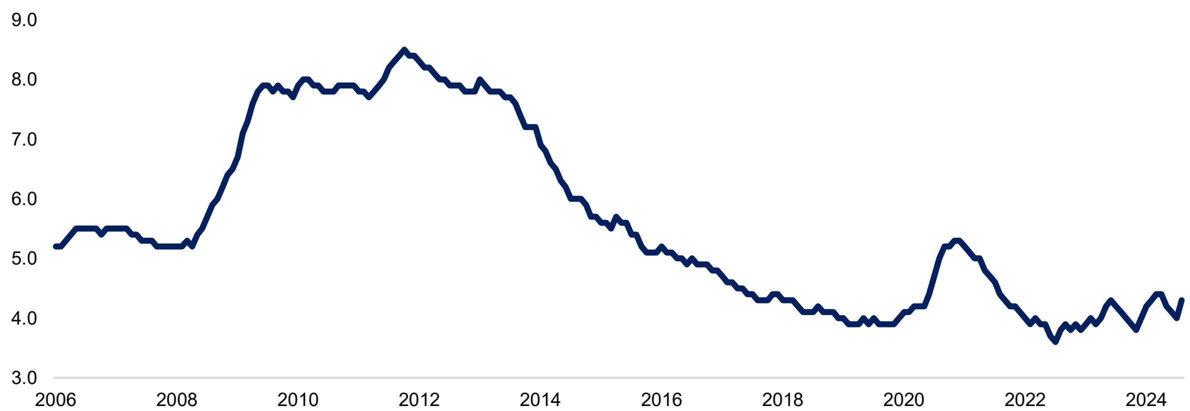


Exhibit 1.4. Inactivity (000s, 16-64 year olds)

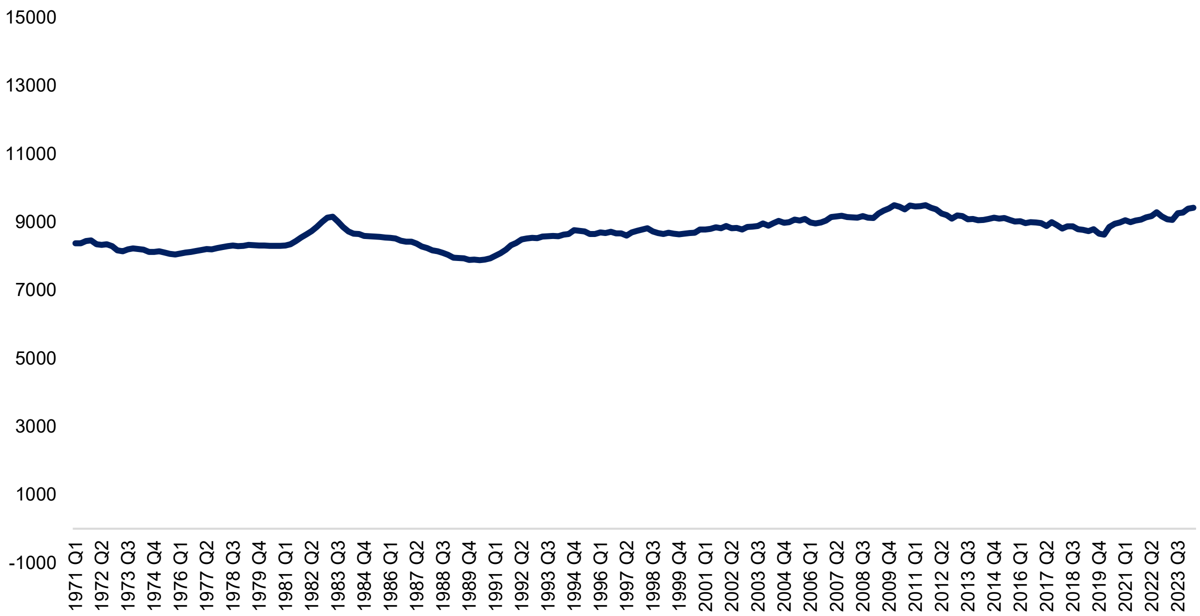
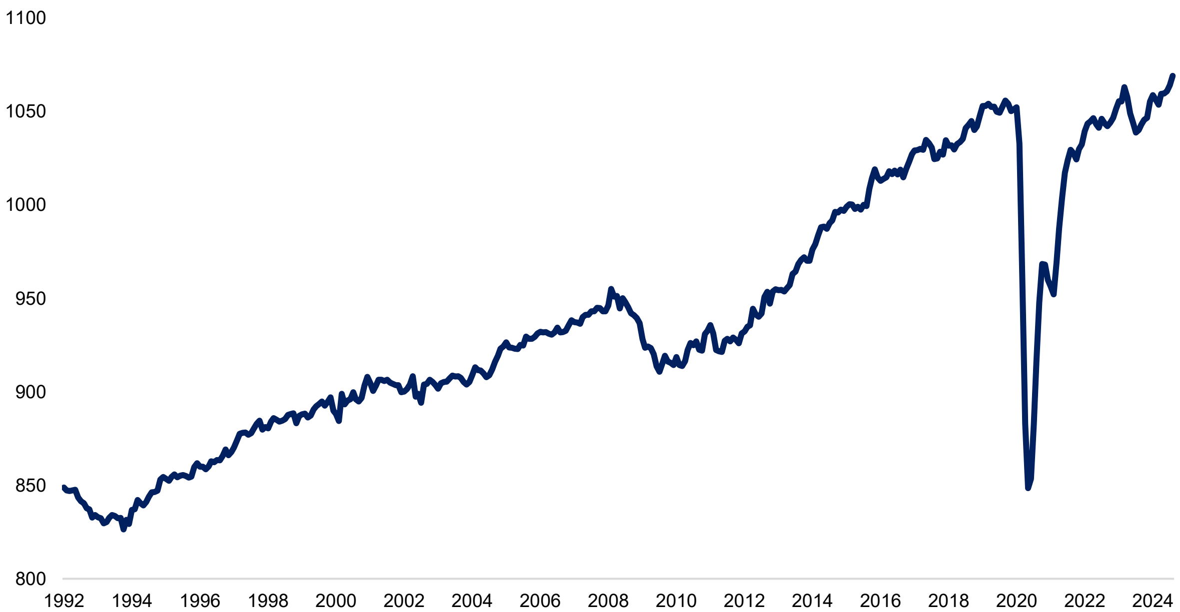


Exhibit 1.5. Total weekly hours worked (000s)



Jobs growth begins to soften

Employers continue to express a positive outlook for growth over the next year, with the decline in inflation providing more attractive conditions for businesses to consider widening their workforce. But the slight softening of job growth intentions suggests many businesses are continuing to struggle to fulfil their vacancies, with priorities shifting from recruiting to retaining existing talent. The softening of job creation intentions is likely to continue as the workforce shrinks, and employers will need help to ensure a smaller labour supply does not impede their ability to seize new growth opportunities.

Key findings:

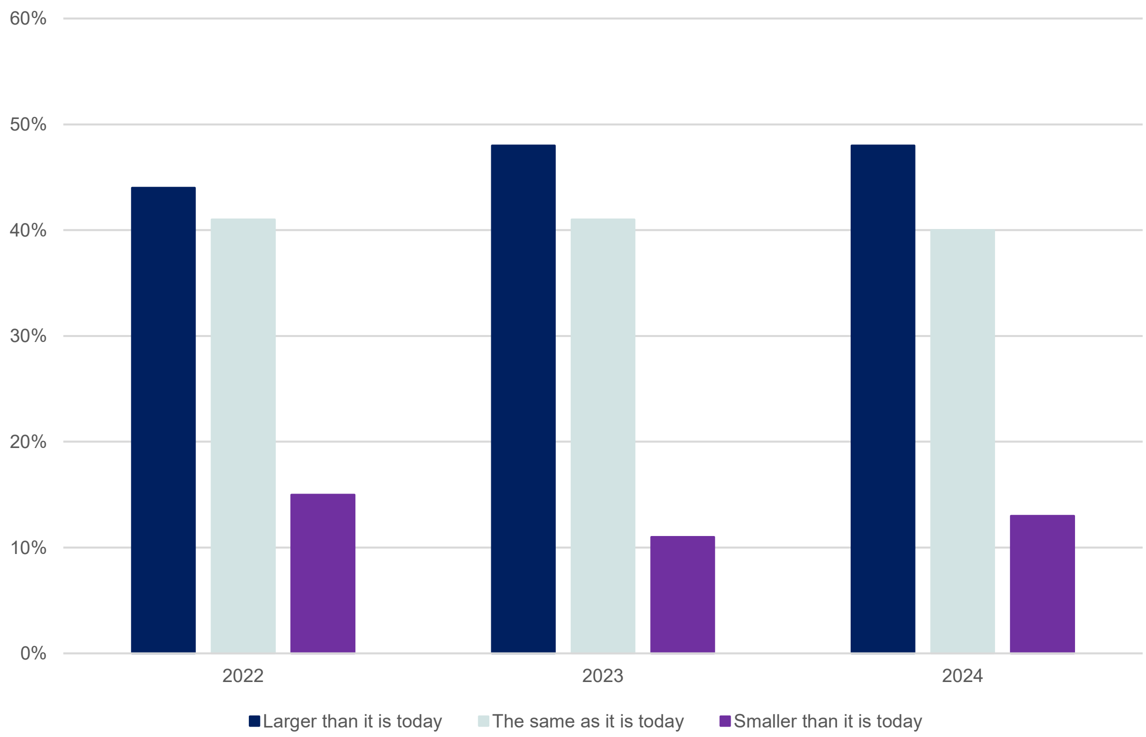
- Half (48%) of businesses intend to grow their workforce over the next year.
- The balance of businesses intending to create jobs this year (+35%) is slightly down on last year (+37%) but is significantly higher than 2022 (+29%).
- A balance of +39% smaller businesses expect to grow their staff size over the next twelve months, compared to +29% across larger businesses.

Many businesses intend to grow their workforce over the next twelve months, but intentions are slightly down on last year

Around half of respondents (48%) intend to grow their workforce over the next year in line with findings from last year, indicating intentions to hire new recruits is broadly unchanged from twelve months ago and remain positive **(Exhibit 2.1)**. However, the proportion of firms intending to reduce their workforce has slightly increased since last year (13% versus 11%, respectively) while those looking to maintain their workforce is marginally down to 40% from 41%. The balance of businesses intending to create jobs this year (+35%) is also slightly down on last year (+37%) but markedly higher than 2022 (+29%).

The slight softening of labour market intentions reflects member feedback and a general concern that vacancies will be difficult to fulfil, meaning many firms are directing more resource to maintaining their existing workforce rather than recruiting externally. Policymakers will need to continue working with businesses to address barriers to workplace participation and improve workforce supply; while also lowering employment costs so businesses can afford to grow and support more workers into the workplace. But the labour supply is finite and shrinking, and that even the most successful labour activation interventions will not be enough to prevent the workforce getting smaller. It is therefore likely that job growth intentions will continue to soften in the years ahead.

Exhibit 2.1. Expected size of workforce in 12 months' time (% of respondents)[3]



Businesses of different sizes continue to share similar expectations for workforce growth

On average, businesses of different sizes are expecting to grow their workforce over the forthcoming year. A balance of +39% SMEs (249 and below employees) expect to grow their staff size over the next twelve months, compared to +29% across larger businesses (250+ employees). This is consistent with messages that businesses of different sizes are looking to workforce expansion as a way to grow, and shortages are jointly impacting large and smaller firms' ability to increase their workforce.

Real pay growth continues but affordability concerns rise

Inflation falling below 2% for the first time in two years is a clear sign that the economy is recovering, but this year's survey findings highlight the importance of remembering that the cost of doing business is still growing, albeit at a slower rate. The fall in inflation is translating into more businesses intending to increase pay at or above inflation. But without the productivity gains to pay for it, there is a real risk that any increased demand risks inflation returning.

Key findings:

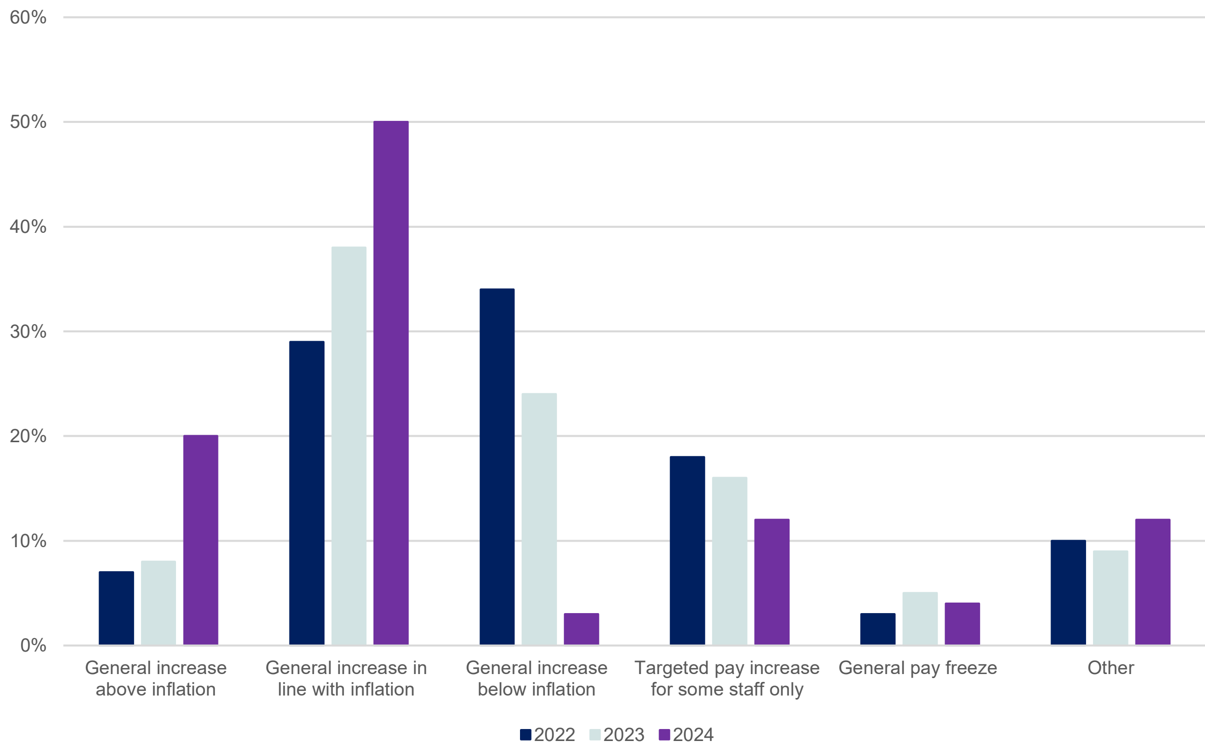
- 7 in 10 respondents intend to either increase pay above (20%) or in line with (50%) inflation at the next pay review.
- The proportion of respondents looking to offer a targeted pay increase for some staff only has decreased since last year (16% to 12%) and intentions to increase pay below inflation (3%) has also fallen markedly compared to this time last year (24%) and to an even greater extent compared to two years ago in 2022 (34%).
- Firms are becoming less able to absorb NLW increases through profits and feel less able to pass costs on to consumers who have already faced significant price increases. This year, the most cited action firms affected by the NLW increase have taken is absorbing added costs wholly through reduced profit (37%), followed by increasing productivity through greater investment in technologies and automation (32%) and raising prices (32%). This slightly differs from last year, when offsetting costs through raised prices (47%) ranked as the top action firms were taking at the time of surveying to combat costs associated with the NLW increase, with 4 in 10 respondents (41%) also investing in technology and absorbing the whole cost through reduced profits.
- The proportion of businesses respondents intending to finance the NLW through wholly reduced profits is set to half next year (37% to 19%). Almost 1 in 5 respondents (18%) are considering offsetting NLW costs in 2025 by reducing employment while the proportion of businesses intending to make changes to wider reward package is set to double (6% and 10%, respectively).

More firms are intending to increase pay above or in line with inflation at the next pay review compared to twelve months ago

Overall, 7 in 10 respondents intend to either increase pay above (20%) or in line with inflation (50%) at the next pay review **(Exhibit 3.1)**. This is up on levels recorded last year (8% and 38%, respectively). Furthermore, the proportion of respondents looking to offer a targeted pay increase for some staff only has decreased since last year (16% to 12%) and intentions to increase pay below inflation (3%) has also fallen markedly compared to this time last year (24%) and to an even greater extent compared to two years ago in 2022 (34%).

The results highlight that employers remain under pressure to deliver staff salary increases in a bid to keep and reward talent. But without government working with businesses to unlock levers to drive productivity-led growth, even small increases to pay threatens the Bank of England missing its 2% inflation target – and deciding to keep interest rates higher for longer – due to employers' needing to push higher costs onto consumers and into the supply chain.

Exhibit 3.1. Businesses approach to the next pay review (% of respondents)[4]

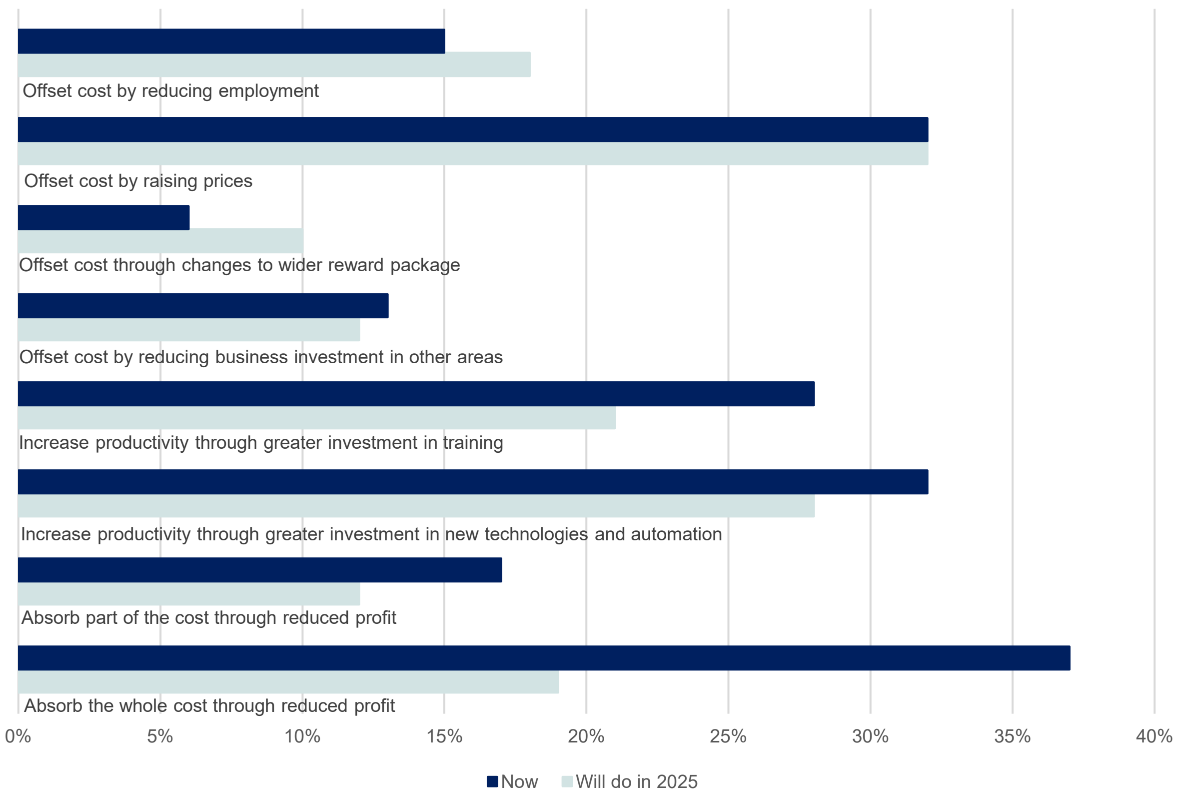


Businesses are absorbing costs through reduced profit to pay for this year's increase...

This year, the most cited action firms affected by the NLW increase have taken is absorbing added costs wholly through reduced profit (37%), followed by increasing productivity through greater investment in technologies and automation (32%) and raising prices (32%) **(Exhibit 3.2)**. This slightly differs from last year, when offsetting costs through raised prices (47%) ranked as the top action firms were taking at the time of surveying to combat costs associated with the NLW increase, with 4 in 10 respondents (41%) also investing in technology and absorbing the whole cost through reduced profits.

The results highlight the reality that many businesses are having to navigate the fine balance between increasing prices to protect the headroom to be able to invest without increasing them so far as to reduce consumer demand, forcing businesses to take difficult decisions between cutting investment and cutting jobs. The need to prioritise short-term costs further explains the drop in respondents investing in training (28% to 21%) and automation (32% to 28%), which have often been described as a 'desirable' investments which must be deprioritised when budgets are tight. If the Government intends to use the NLW policy as a lever for growth, these trade-offs must be considered in conversations around future NLW increases.

Exhibit 3.2. Actions affected businesses are currently taking and will take in 2025 in response to the NLW increase (% of respondents)[5]



… But are looking to take different action to pay for next year's rise

Financing rising employment costs – of which the NLW is only one part – from shrinking profit reserves is unsustainable, which helps to explain why the proportion of businesses respondents intending to finance the NLW through wholly reduced profits is set to half next year (37% to 19%). Instead, more firms are looking to take different and more drastic actions to cover the costs of the NLW rise, actions which will ultimately hurt both employers and their workers. Almost 1 in 5 respondents (18%) are considering offsetting NLW costs in 2025 by reducing employment which is a slight increase on levels already seen this year (15%), and the proportion of businesses intending to make changes to wider reward package is set to double (6% and 10%, respectively) between now and 2025 to cover the cost. This means while it is well-intended, the Government's NLW policy has clear opportunity costs; many affected businesses must reduce costs and investments in other parts of the business to finance a greater wage packet and can inadvertently hurt the workers it is designed to help in the process. This opportunity cost will simply becoming bigger and more problematic as the gap between businesses' budgets and the NLW threshold grows. Without working with businesses to deliver the productivity gains to finance sustainable NLW increases, everyone loses out from the minimum wage policy.

Inflexible employment laws now a top concern for competitiveness

Businesses continue to believe the UK is becoming a less attractive place to do business, with access to skills and labour continuing to rank as the top two threats to current and long-term labour market competitiveness. For the first time since the question was posed in 2008, the impact of inflexible employment regulation now ranks as the third biggest risk to competitiveness over the next five years and reflects growing business concern with how the new Employment Rights Bill will impact their ability to act competitively. Recognising the importance of flexibility and agility in how businesses navigate employment matters will be key to finding a successful landing zone and avoiding unintended consequences.

Key findings:

- Concerns about the future competitiveness of the UK labour market are growing. While the net level of confidence is broadly in line with results from 2023 (-50% and -49%, respectively), the fears of those with negative views are hardening with fewer respondents feeling that it will become slightly less attractive and more feeling that the UK will become much less attractive.
- 3 in 4 respondents (76%) ranked access to skills as a threat to current competitiveness, while two thirds of respondents (65%) ranked access to labour as a threat to their present ability to compete and grow. This is broadly in line with findings from 2023 (77% and 66%, respectively).
- Access to labour (71%) and skills (58%) also ranked as a top threat to long-term competitiveness, but the proportion of respondents citing them as a threat has moderately fallen from 2023 (82% and 63%, respectively).

- Since the last time the question was surveyed in 2023, an additional 1 in 4 respondents (32% to 58%) have cited the impact of inflexible employment regulation as threat to future competitiveness. There has also been a slight increase in the proportion of businesses who view inflexible employment regulation as a threat to short-term competitiveness (33% to 39%), and in the threat posed by weak labour market enforcement to short-term (8% to 17%) and long-term (10% to 22%) competitiveness.
- These concerns about the future undo a slight easing in the balance of businesses who think that the UK labour market has become a less attractive place to invest today relative to five years ago (-60%, improved from -71%).

Businesses maintain strong concerns around the UK's current attractiveness as a place to invest and do business

The balance of business respondents who agree that the UK labour market has become a more attractive place to invest today relative to five years ago remains negative (-60%) although a slight improvement from last year (-71%) **(Exhibit 4.1)**. On average, respondents were also unconfident that the UK would become a more attractive place to invest and do business over the next five years, with new levels of confidence broadly in line with 2023 (-50% and -49%) **(Exhibit 4.2)**. In other words, more businesses are confident that UK's competitiveness has improved compared to this time last year, but confidence levels remain dire overall.

The last time respondents were on average more confident than not that the UK would become a more attractive place to do business over the next five years was more than ten years ago in 2013. Furthermore, the last time respondents were net confident that the UK was a more attractive place to do business now relative to five years ago was between 2014 and 2016, when respondents would have been using the immediate few years after the 2008 economic crash as their baseline. Taken together, the results suggest that businesses broadly feel that the last time UK competitive conditions improved was during the immediate recovery from the financial crash over fifteen years ago, and that conditions have generally deteriorated since then.

Exhibit 4.1. Respondent views as to whether the UK labour market has become a more or less attractive place to invest over the past five years (% of respondents)[6]

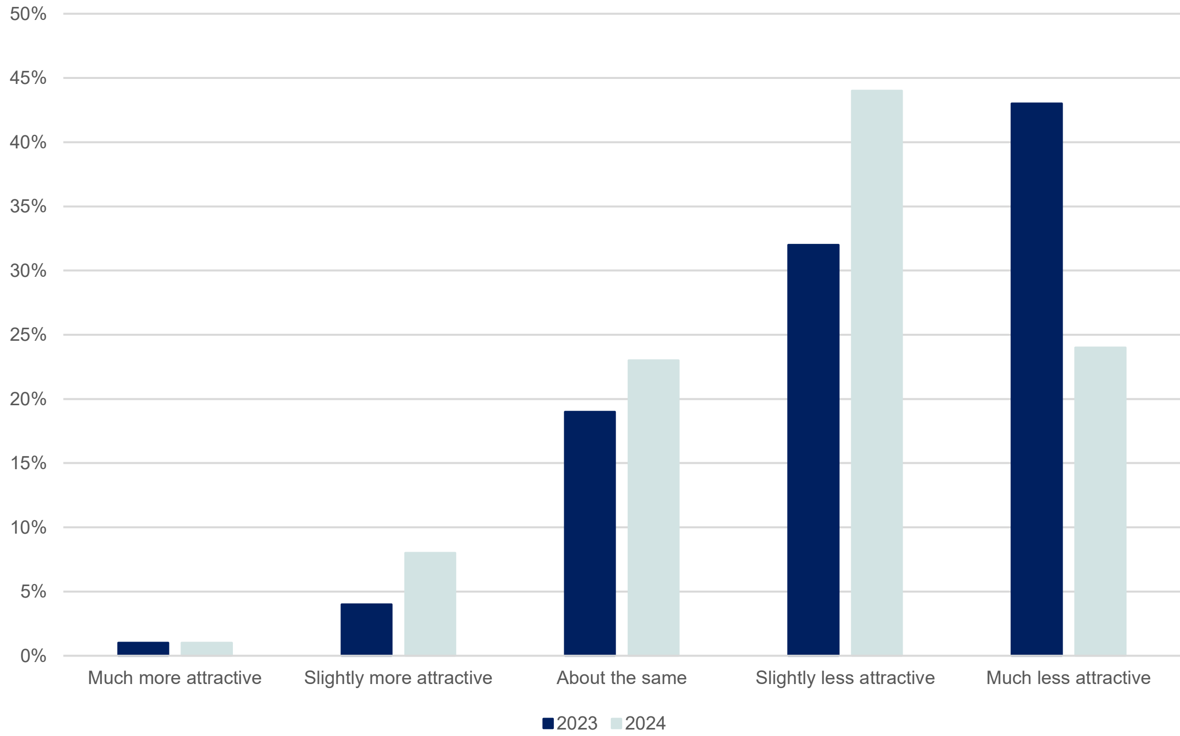
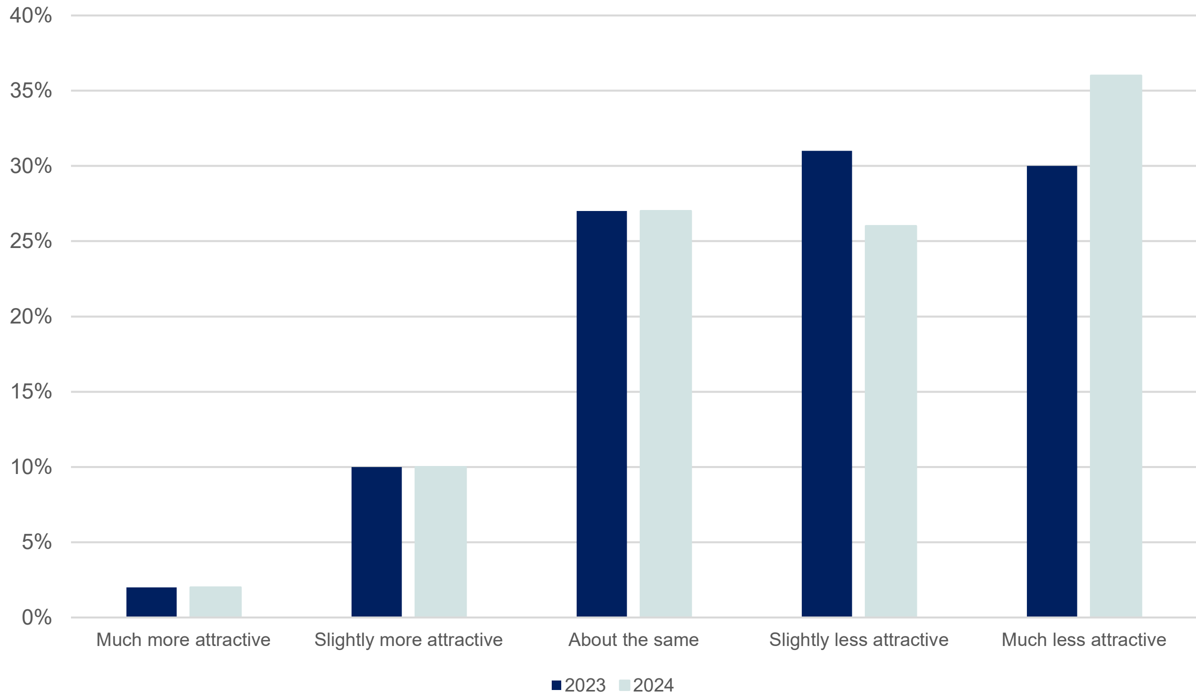


Exhibit 4.2. Respondent expectations as to whether the UK will become a more or less attractive place to invest over the next five years (% of respondents)[7]

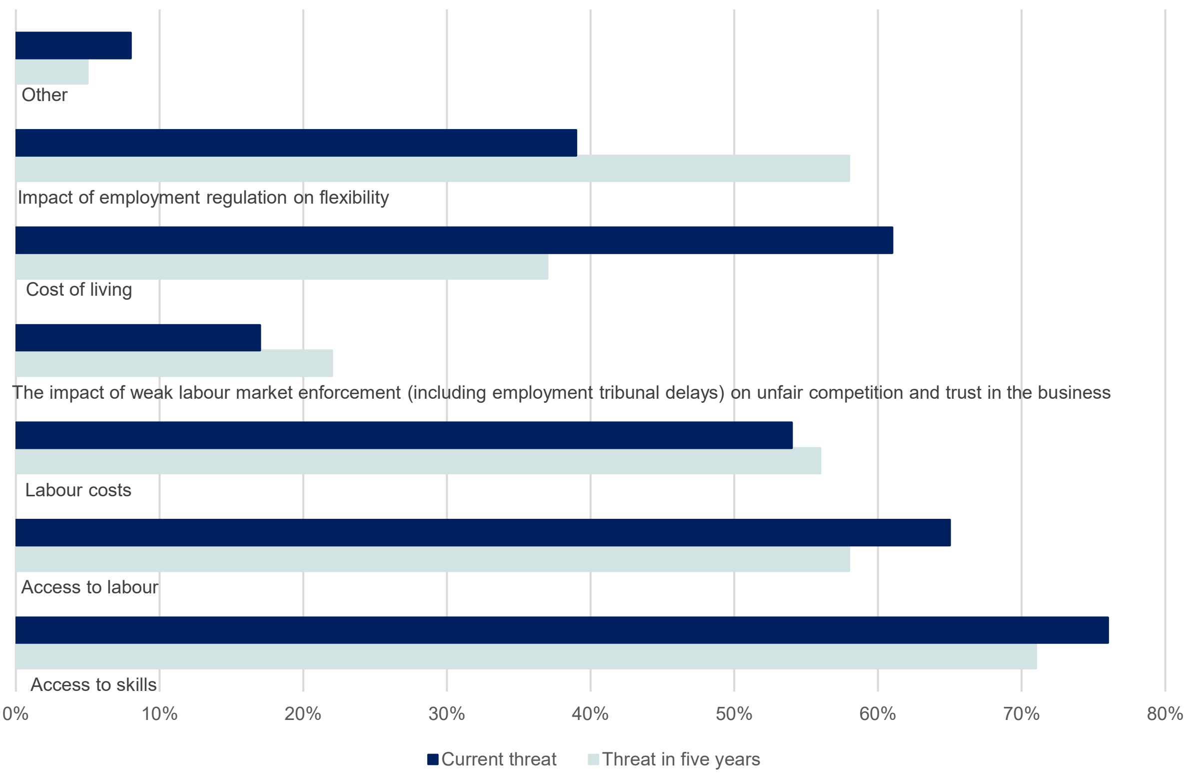


Access to skills and labour continues to rank as the top threat to current and long-term competitiveness

For the eighth consecutive year, access to skills and labour have ranked as the top two threats to both current and long-term labour market competitiveness. 3 in 4 respondents (76%) ranked access to skills as a threat to current competitiveness, while two thirds of respondents (65%) ranked access to labour as a threat to their present ability to compete and grow **(Exhibit 4.3)**. This is broadly in line with findings from 2023 (77% and 66%, respectively). Access to labour (71%) and skills (58%) also ranked as a top threat to long-term competitiveness, but the proportion of respondents citing them as a threat has moderately fallen from 2023 (82% and 63%, respectively).

Therefore, while the impact of shortages continues to bite at firms' immediate ability to capitalise on new growth opportunities, firms are slightly more confident that they will pose a lesser risk to their long-term competitiveness compared to this time last year, although still unconfident on average. To stop shortages acting as a dampener on businesses' ability to compete and grow, Government and businesses will need to work together to maximise the potential of workers in the workforce through quality upskilling and reskilling and exploring policy levers to reduce inactivity. Equally key will be supporting businesses to embrace productivity-enhancing technologies. Failure to act on the last point will be particularly detrimental, leading shortages to becoming outright prohibitive on employers' short and long-term competitiveness as the workforce shrinks.

Exhibit 4.3. Respondent views on the threats to UK competitiveness now versus in five years time (% of respondents)[8]



There is a spike in the proportion of businesses who anticipate inflexible employment regulation will pose a threat to their long-term competitiveness

Since the last time the question was surveyed in 2023, an additional 1 in 4 respondents (32% to 58%) have cited the impact of inflexible employment regulation as threat to future competitiveness. There has also been a slight increase in the proportion of businesses who view inflexible employment regulation as a threat to short-term competitiveness (33% to 39%), and in the threat posed by weak labour market enforcement to short-term (8% to 17%) and long-term (10% to 22%) competitiveness.

These findings echo growing business concerns that the new Employment Bill could hurt their ability to respond new business opportunities if the legislation passes largely unchanged from its current form. Of particular concern has been workers' ability to claim a new contract guaranteeing working pattern hours if the reference period used to calculate entitlements is less than one year (52 weeks) due to periodic fluctuations in demand. The moderate rise in businesses concerned with the impact of weak labour market enforcement on UK competitiveness is also consistent with feedback that the significant employment tribunal backlog is weakening enforcement and threatening competitiveness, with firms reducing recruitment and investments to cover new and potential claims.

Dual concerns around the risks presented by inflexible employment regulation and weak labour enforcement highlights that if implemented incorrectly, employment legislation could deliver the worst of both worlds by leading poor employment practice to go unchecked and prohibiting the positive examples of employers acting flexibly, both to the detriment of businesses' ability to grow and operate competitively. A key priority for the Government must be ensuring their employment policy package allows businesses to operate with agility and to scale-up resources to address the significant tribunal backlogs.

Changes are needed to make the Employment Rights Bill compatible with growth

The Government's Employment Rights Bill represents the most significant change to employment legislation seen for decades and will have significant ramifications on the interactions between businesses, workers and trade unions.

Businesses have supported legislation to enforce a strong floor of minimum rights and fair competition but are concerned that these proposals could hurt their ability to grow and risk significantly increasing the risks and costs of employment, which are already high. As the Bill moves through Parliament, it is key that businesses and government work together to deliver an employment policy package that is proportionate and pro-growth by addressing the unintended consequences presented by different proposals in draft legislation. Taken together with the increase in National Insurance Contributions announced at the Budget, the cumulative burden of these changes will lead to fewer employment opportunities, higher prices and employers being unable to offer work on the terms that many workers want. There can be a successful landing zone for this legislation, but it has shrunk since the Budget.

Key findings:

- Only a quarter of businesses (26%) are confident that they can afford the employment costs arising from the Labour's New Deal without it negatively affecting growth, business investment, jobs or discretionary employee benefits. Most firms (54%) believe that it isn't affordable, and others (20%) are still undecided. Business confidence is likely to have risen slightly following the publication of the Bill and its timetable for implementation, but the successful landing zone for the package has shrunk considerably because of the NICs increases announced at the Budget.
- While debate has focused on the questions of 'day one rights' and 'banning exploitative zero hours contracts', businesses have concerns about most aspects of the Bill and these need to be worked through before it is passed.

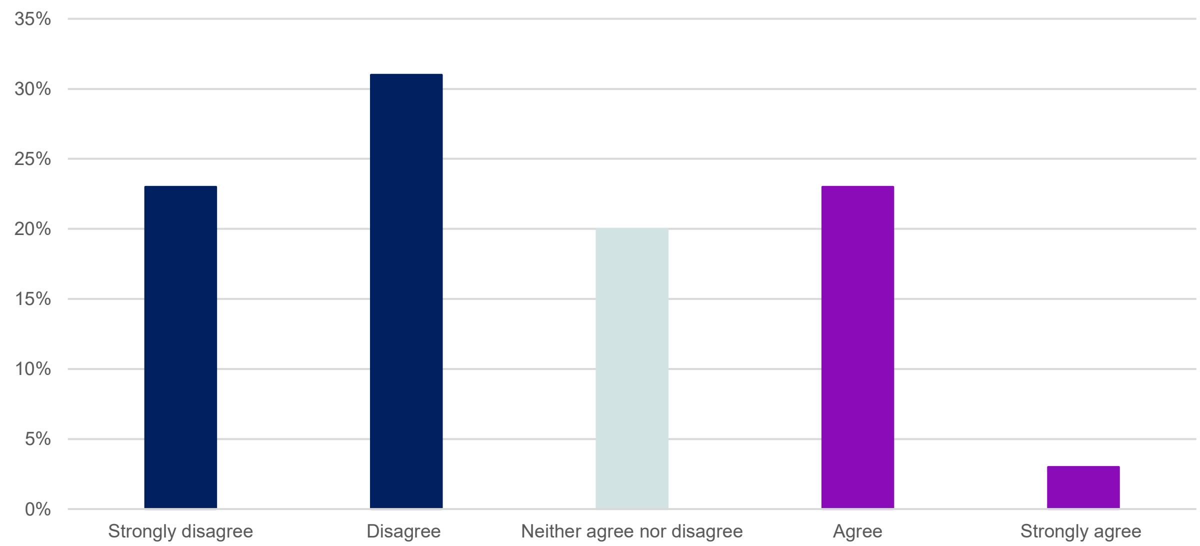
- When asked about the Government's proposal to remove the qualifying period for unfair dismissal, 4 in 5 respondents (80%) agreed with the statement that giving employees the right to contest their dismissal at an employment tribunal would make them more cautious about hiring staff on a permanent basis.
- The way in which the Bill proposes that firms offer workers new contracts with guaranteed hours is of significant concern to businesses with almost 9 in 10 (88%) warning that they would be less willing to offer overtime if staff had a right to guarantee these hours permanently.
- Businesses do not believe that the claim that good businesses will be unaffected by removing compensation caps and giving workers longer to bring claims to tribunal. Two-thirds (64%) disagreed with this statement because of concerns that tribunals are so expensive and dysfunctional that good businesses have already lost if they are accused, regardless of the outcome at a hearing.
- To help build confidence that trade unions are speaking on behalf of their employees, 9 in 10 respondents (90%) agreed with the statement that there should be mechanisms to ensure that unions are accountable to the people they represent. Strong accountability to the workforce is key both when assessing recognition claims and industrial action.
- 7 in 10 respondents (72%) agreed that that businesses should be able to unilaterally change employee pay and conditions without permission of trade unions in situations that would otherwise at risk the existence of those jobs.
- The Government's desired reset of industrial relations will require as much of a change of approach by trade unions as of businesses, with only 6% of businesses believing that working with UK trade unions helps to increase productivity.

Firms are concerned about how the employment package will impact their ability to grow

Only a quarter of businesses (26%) are confident that they can afford the employment costs arising from the Labour's New Deal without it negatively affecting growth, business investment, jobs or discretionary employee benefits **(Exhibit 5.1)**. Most firms (54%) believe that it isn't affordable, and others (20%) are still undecided. For many employers, the key growth risk presented by the policy package is high compliance costs crowding out business investment. The other big risk is that businesses will be more reluctant to hire new staff to maintain the workforce size through natural turnover and to respond to increased demand, hurting their ability to seize new business opportunities.

Conversations with CBI members at the time of the survey highlighted that uncertainty around what the final legislation would look like, and how it will influence them in practice, was already driving unintended consequences at the detriment of growth. Furthermore, while employers have noted that clarification about direction of travel has been useful and business confidence is likely to have risen slightly following the publication of the Bill and its timetable for implementation, several concerns remain unaddressed, with key questions such as whether new rules on probation will protect businesses from costly Tribunal claims, left only to subsequent secondary legislation. The successful landing zone for the package has shrunk considerably because of the NICs increases announced at the Budget, meaning there is even less capacity to absorb higher employment costs without impacting on firms' growth ambitions. It is therefore critical that businesses and government work together as the Employment Rights Bill moves through parliament to identify areas of concern and minimise unintended consequences which threaten growth.

Exhibit 5.1. Business confidence that they can afford the higher employment costs arising from Labour's New Deal without it negatively affecting growth, business investment, jobs or discretionary employee benefits (% of respondents)[9]



The policy package must strike the right balance if it is to support growth

Some elements of the package have dominated discussions ahead of and since it's publication **(Exhibit 5.2)**. The debate has focused on the questions of 'day one rights' and 'banning exploitative zero hours contracts'. However, businesses have concerns about most aspects of the Bill and these need to be worked through before it is passed. The cost of not doing so could be huge and will lead to many businesses pre-emptively working to reduce their risks where firms feel that the liabilities and risks they incur are disproportionately high. The way in which the Bill proposes that firms offer workers new contracts with guaranteed hours is of significant concern to businesses with almost 9 in 10 (88%) warning that they would be less willing to offer overtime if staff had a right to guarantee these hours permanently. **(Exhibit 5.3)**. When asked about the Government's proposal to remove the qualifying period for unfair dismissal, 4 in 5 respondents (80%) agreed with the statement that giving employees the right to contest their dismissal at an employment tribunal would make them more cautious about hiring staff on a permanent basis **(Exhibit 5.4)**. Businesses recognise the positive intentions of both policies to ensure workers have security at work. But without proportionality, the Government could inadvertently reduce employment opportunities altogether.

Exhibit 5.2. Summary of responses to employment bill questions (% of respondents)

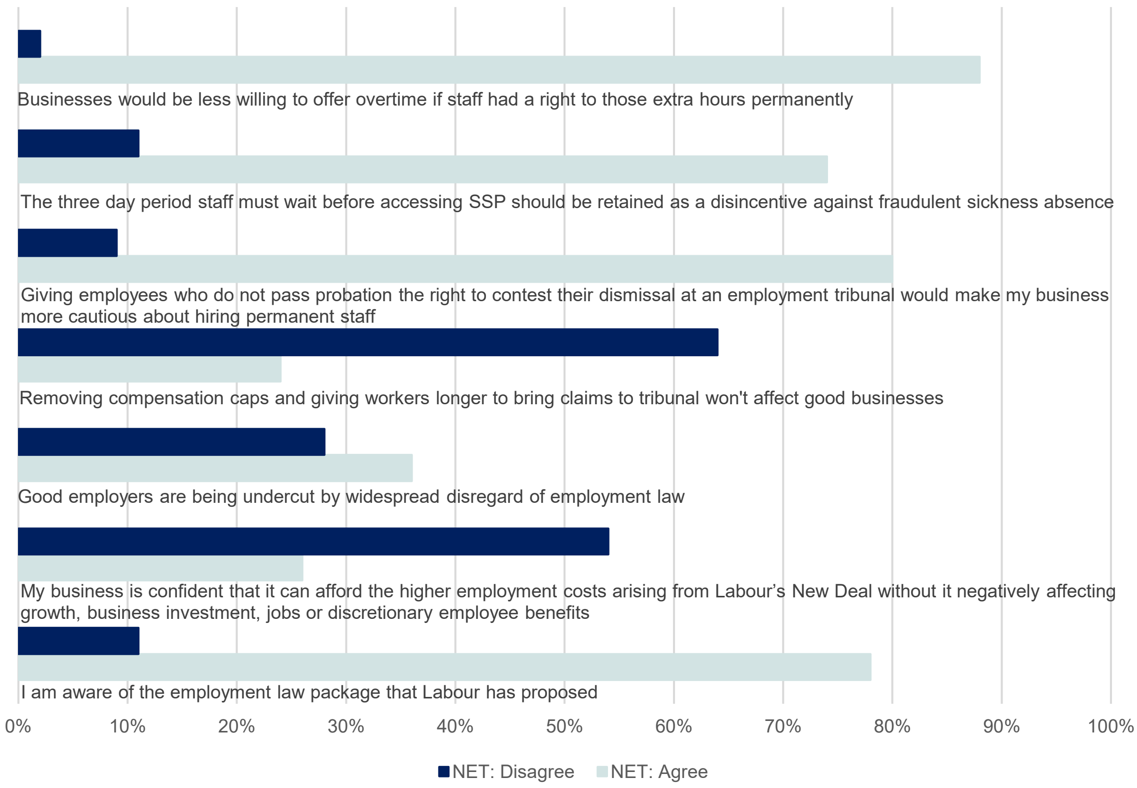


Exhibit 5.3. Business level of agreement with the statement that businesses would be less willing to offer overtime if staff had a right to those extra hours permanently (% of respondents)

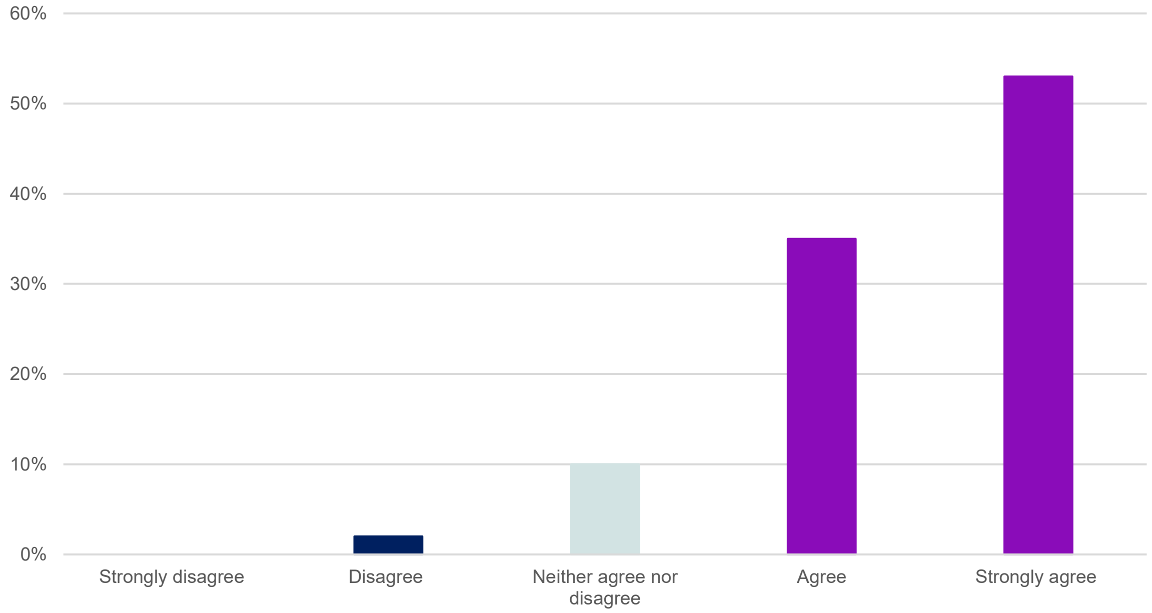
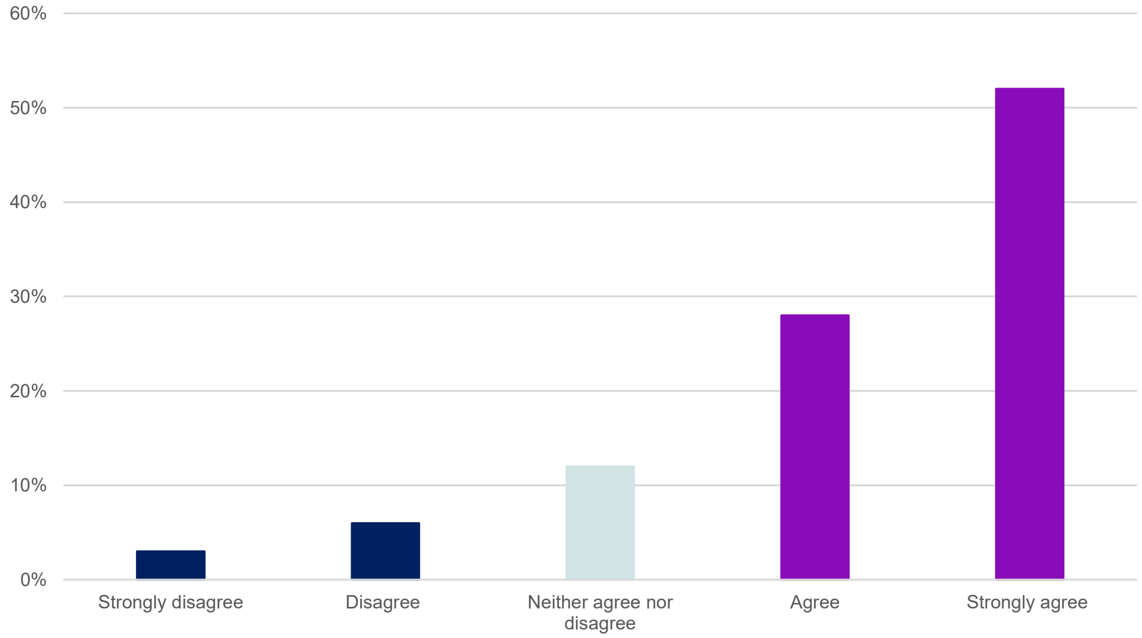


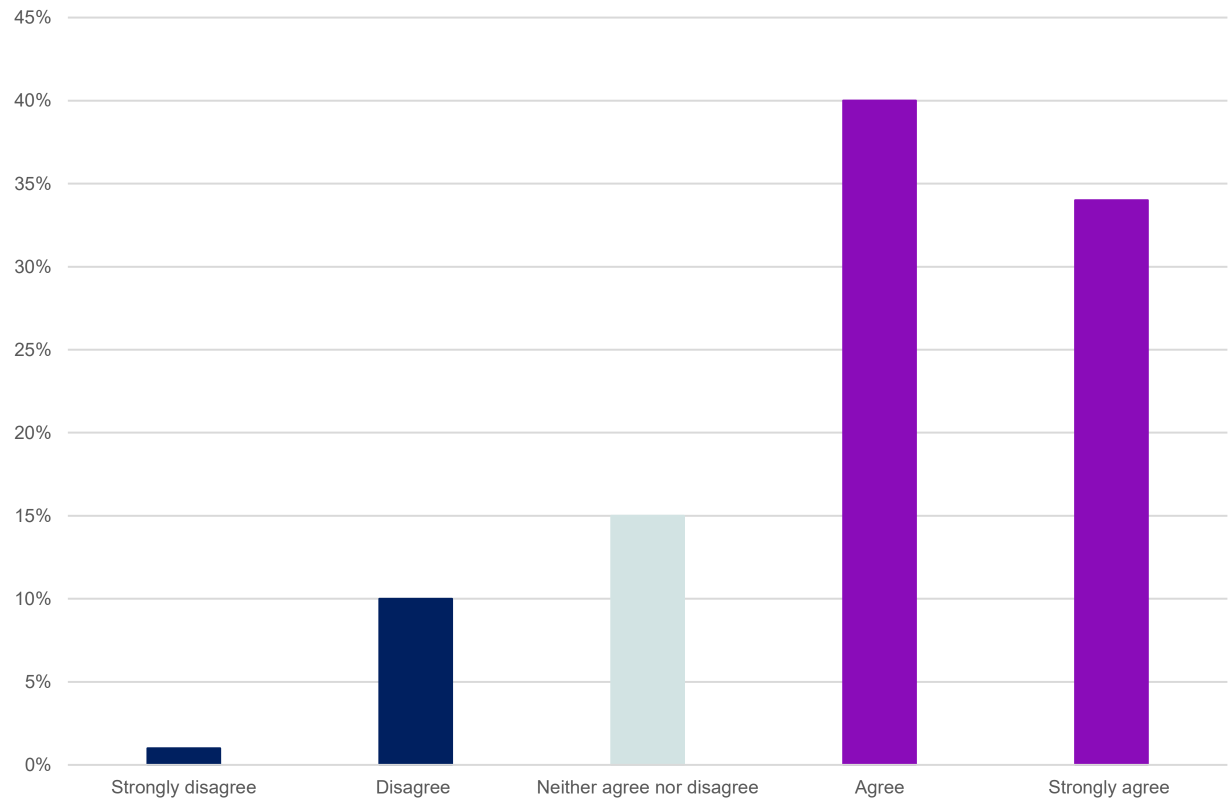
Exhibit 5.4. Business level of agreement with the statement that giving employees who do not pass probation the right to contest their dismissal at an employment tribunal would make my business more cautious about hiring permanent staff (% of respondents)



If the Employment Rights Bill is to support growth, it is important that it considers the diversity of needs across businesses and workers. Employers assume risks and costs across different areas of their business, and employment is no different. They face incurring financial and reputational damages if they recruit a worker who is disruptive or does not meet performance benchmarks, or if the worker leaves the organisation prematurely. Ensuring businesses can dismiss workers on reasonable grounds and without incurring significant costs is important, as it underpins their confidence to take a chance on growth and on the new employee.

The three-day wait period for Statutory Sick Pay is an example of checks and balances in action. Without there being a requirement for a doctor's note, as in many other countries, the waiting period is needed to disincentivise fraudulent use of sick pay. As a result, three in four (74%) respondents cite the importance of retaining the waiting period **(Exhibit 5.5)**.

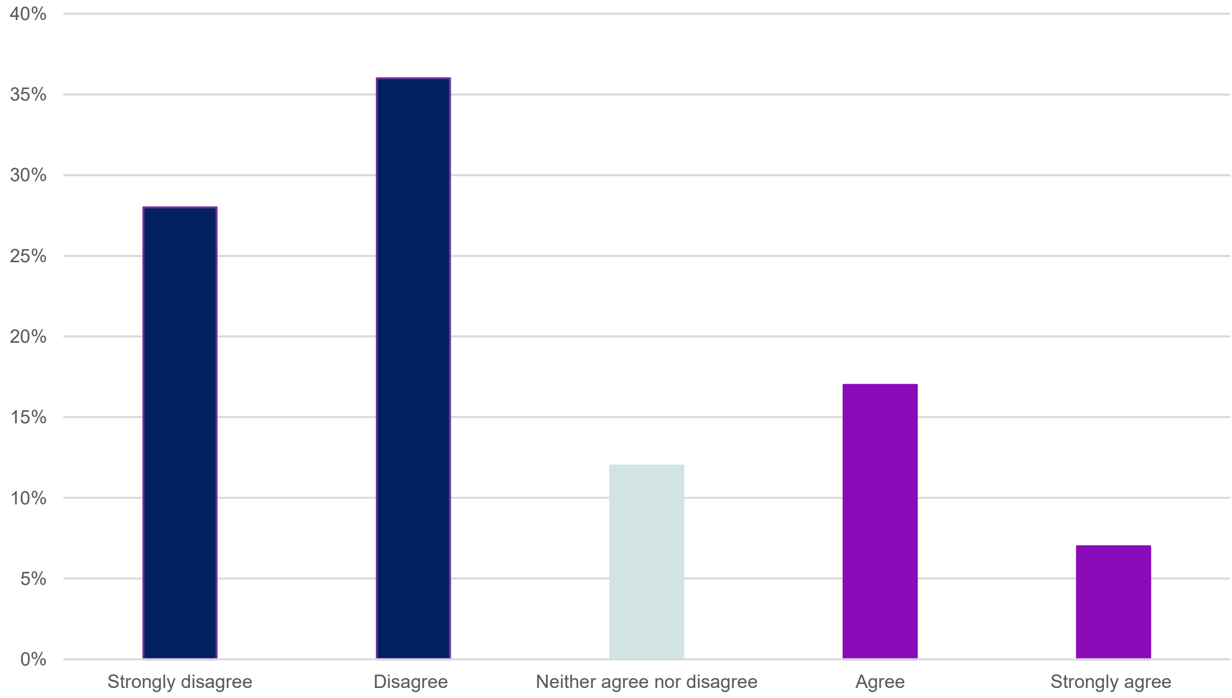
Exhibit 5.5. Business level of agreement with the statement that the three-day period staff must wait before accessing SSP should be retained as a disincentive against fraudulent sickness absence (% of respondents)



High employment tribunal costs hit good businesses not only those who have broken the law

There was considerable concern across respondents that proposed policy changes could lead to an increase in tribunal cases, and two thirds (64%) disagreed with the statement that removing compensation caps and giving workers longer to bring claims to tribunal won't affect good business **(Exhibit 5.6)**. Tribunal delays mean employers already incur huge legal costs defending a claim, and as a result many settle cases that they believe they will win. The capital set aside to support claims that have or could potentially arise within the business reduces the investment that can be put towards growth, and this opportunity cost will rise if employers believe policy changes allow more cases to be brought forward. The suite of new employment rights added by the Employment Rights Bill and the expansion of eligibility to launch claims it entails means businesses must assume the backlog of claims will increase, increasing the delays and high costs businesses incur proving that they have complied with the law. Without significant changes, the tribunal system will continue to fail to protect workers and good employers from the negative intentions of a small minority.

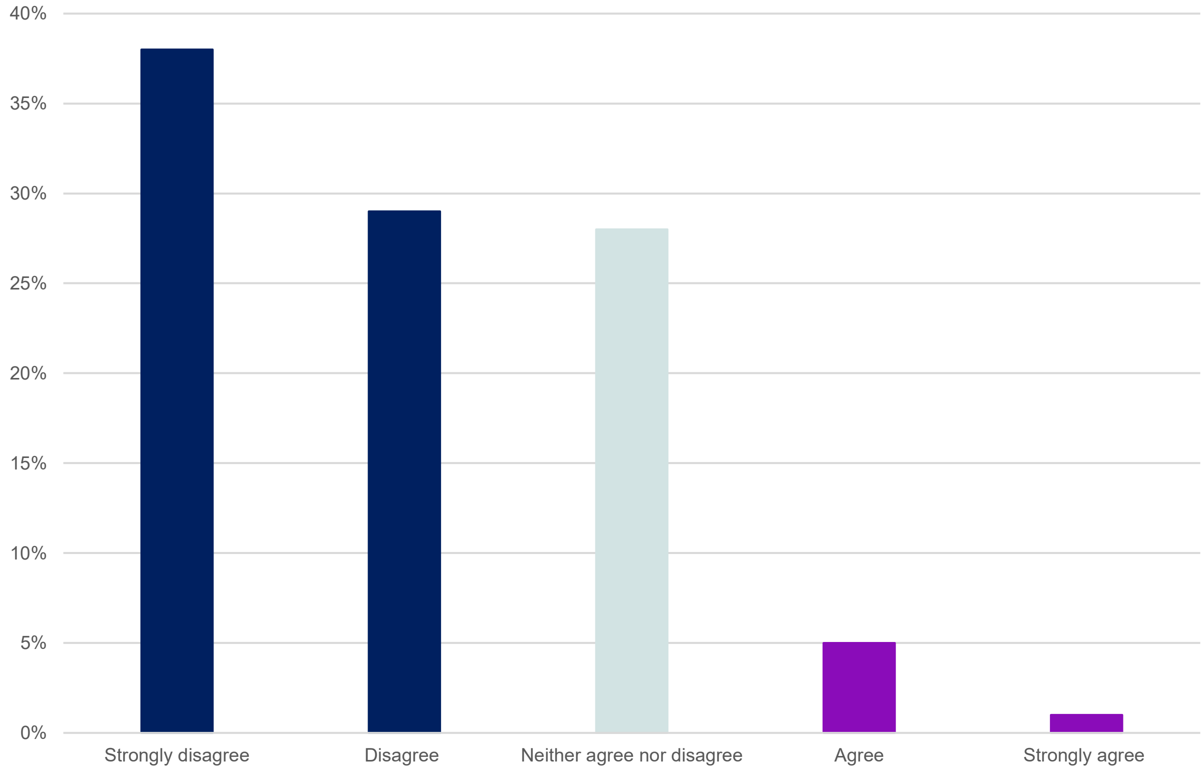
Exhibit 5.6. Business level of agreement with the statement that removing compensation caps and giving workers longer to bring claims to tribunal won't affect good businesses (% of respondents)



A reset of industrial relations requires change of trade unions as well as employers

Businesses recognise the importance of, and value in, resetting industrial relations. Periods of high inflation inevitably increases the pressure in negotiations between employers and trade unions. While the Bill has lots of measures that increase trade union power, there is no consideration of what the reasonable limits on the exercise of those powers should be. Or of how a new model for industrial relations will support the higher levels of business investment needed to deliver growth. For trade unions to become a partner in delivering the growth needed to sustainably increase living standards and fund public services, there needs to be a shared focus on investment and transformation. This is far from employers' current experience of dealing with some trade unions which is why so few believe that working with trade unions supports productivity **(Exhibit 5.7)**.

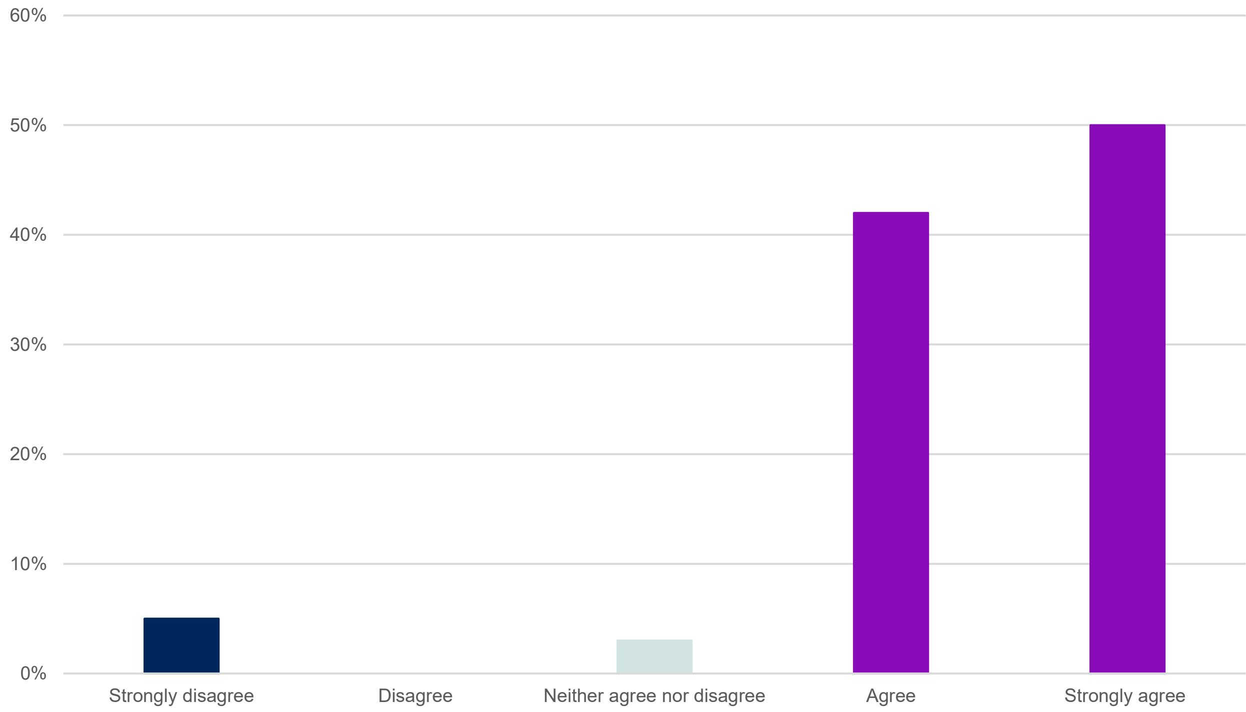
Exhibit 5.7. Business level of agreement with the statement that recognition of a trade union helps businesses to improve productivity (% of respondents)



Businesses will be looking for accountability and workplace democracy to underpin reforms to industrial relations…

Employee engagement is a top priority for many firms and trade unions can play a positive role in achieving this, but only when they have a credible workforce mandate. As with all employee engagement structures, unions need to understand and reflect the priorities of the workforce to support employers' objective of high levels of employee engagement. This builds business confidence in the messages being put forward by unions and help firms to develop a better understanding of concerns of their staff. 9 in 10 respondents (90%) agreed with the statement that there should be mechanisms to ensure that unions are accountable to the people they represent **(Exhibit 5.8)**. As currently drafted, the Employment Rights Bill, however, removes or weakens many of the legal requirements that prioritise worker voice ahead of trade union power in those situations where interests might diverge. Full repeal of the Trade Union Act 2016 means that it will again become possible for strikes to be called where only a tiny proportion of workers voted for it. The Bill could also lead to recognition of unions in workplaces where as few as 2% of the workforce wants to be represented. In addition, the Adult Social Care Fair Pay Agreement is set to be implemented with no evidence that it's what those workers want.

Exhibit 5.8 Business level of agreement with the statement that it is important that there are mechanisms that ensure trade unions are accountable to the people they represent (% of respondents)

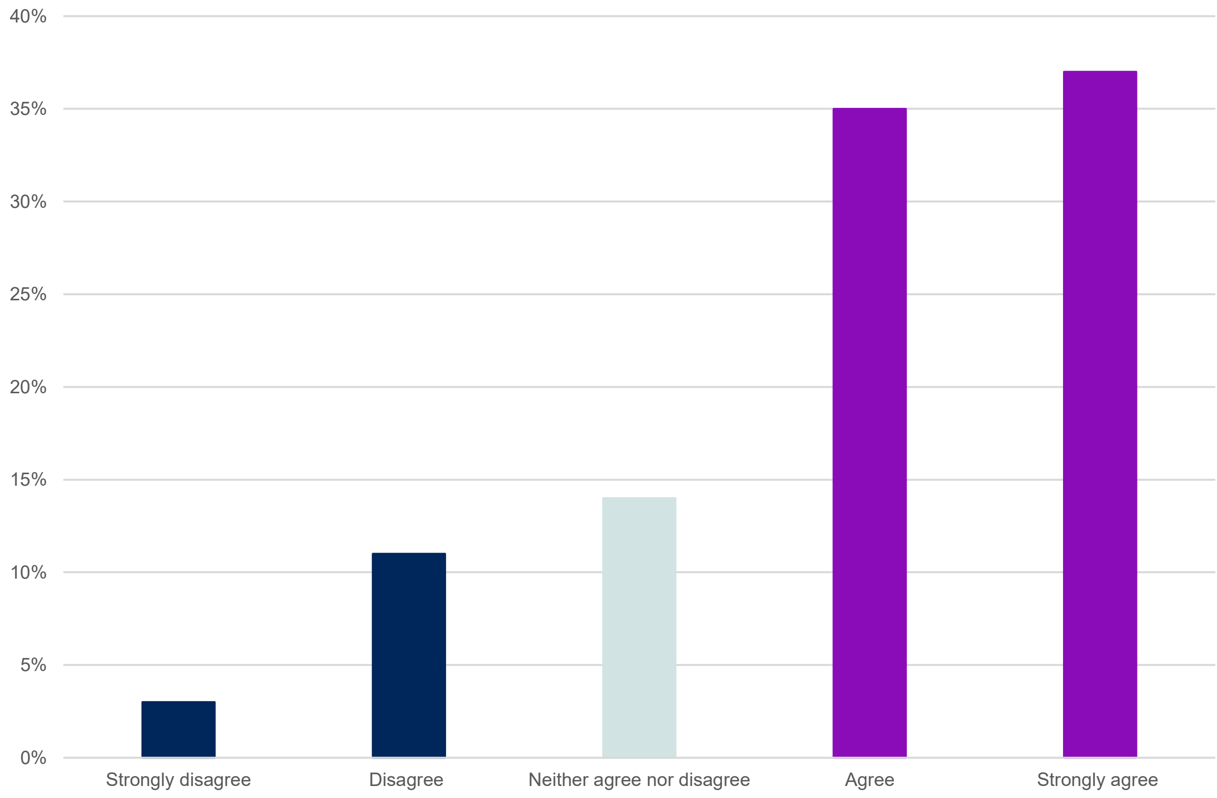


…and for unintended consequences for restructuring to be avoided

As currently drafted the Employment Rights Bill removes the requirement that thresholds for collective consultation be calculated at ‘one single establishment’. This goes significantly further than ensuring that collective consultation happens whenever there is a common business decision that links redundancies across establishments. It risks forcing large firms into collective consultation for entirely unrelated redundancies and where no collective conversation can be meaningful. The reforms to dismissal and re-engagement (also termed, ‘fire and re-hire) similarly seem to have far broader implications than seemingly intended, and there are fears this could lower business confidence to invest and create jobs in the UK.

Most businesses make every effort to change contracts through consultation and with consent. The vast majority of changes receive consent, but there are circumstances in which businesses need to enforce changes to avoid a worse outcome for the workforce as a whole. 7 in 10 respondents (72%) agreed that businesses should be able to unilaterally change employee pay and conditions without permission of trade unions in situations that would otherwise put jobs at risk **(Exhibit 5.9)**.

Exhibit 5.9. Business level of agreement with the statement that businesses should be able to unilaterally change employee pay and conditions without permission of trade unions in situations that would otherwise at risk the existence of those jobs (% of respondents)



Shortages remain a threat to sustainable growth

The demographic changes confronting the UK labour market demand a new approach to growth which capitalises on the productivity potential of technology, people and skills. Since last year’s survey, shortages have continued to be a prohibitive constraint on businesses’ ability to grow and make investments key to improving their competitiveness and productivity.

Over the next twelve months, businesses and government must continue to work together to pull on levers that improve firms’ access to people and skills so they can operate sustainably in the short-term while they adjust to the new growth model. Employers would particularly welcome changes to the immigration system to reflect the challenges presented by domestic shortages; competitive tax changes that support businesses to scale-up workforce health services; and to work through the unintended consequences of well-intended government proposals, including statutory sick pay and mandatory disability reporting.

Key findings:

- 7 in 10 respondents (70%) have been affected by shortages over the past twelve months which is broadly in line with findings from 2023 (71%). This means protection from the effects of shortages continues to be the exception rather than the rule.
- The impact of shortages on firms facing them have broadly stayed the same over the past twelve months, with the inability to grow and respond to new opportunities despite demand ranking as the top challenge related to shortages, affecting around 2 in 5 firms this year and in 2023 (41% and 38%, respectively). Positively, fewer respondents have reported shrinking due to shortages since last year (6% and 12%, respectively) but the proportion of firms being unable to operate profitably has doubled from 6% to 13%.

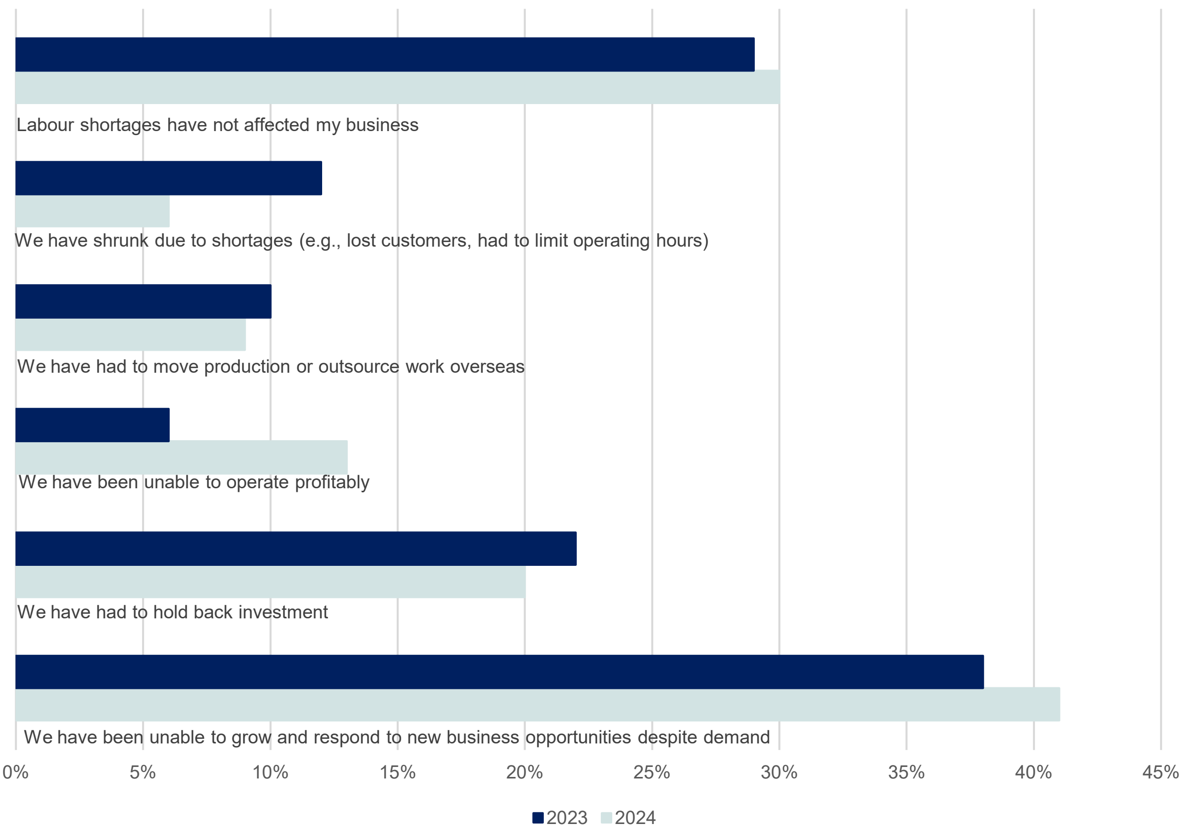
- Granting work visas for shortage sectors ranked as the top action respondents would like to see implemented to help ease the impact of shortages, with half of respondents (52%) in favour of government prioritising this measure.
- Other popular changes included introducing incentives for businesses to invest in automation to boost productivity (49%) and replacing the apprenticeship Levy with a more flexible Growth and Skills Levy (45%).
- One third of respondents (37%) were in favour of the introduction of incentives for businesses to invest in workplace health measures to minimise sickness absence and support a healthier, more resilient workforce.
- Half of respondents (51%) agreed with the statement that a competitive tax reform package, including making Employee Assistance Programmes (EAPs) a full tax-free benefit, would reduce the number of workers permanently exiting the workforce due to ill-health.
- The survey results highlight businesses would value specific types of government support to this end, and respondents were most in favour of government increasing the scale, quality and awareness of supported employment programmes and training opportunities for young people and improving the quality and guidance employers on reasonable adjustment requests (63%), closely followed by increased government investment in the Access to Work scheme (59%).
- The results also indicate that certain proposals designed to improve workplace disability equality could have unintended consequences for businesses and fail to reach their desired goal. For example, few respondents were in favour of government increasing statutory sick pay (8%), introducing stricter requirements for companies to progress to levels 2 and 3 (8%) or stronger rights to paid disability leave for assessment, rehabilitation and training (10%). Businesses were also widely opposed to the introduction of disability gap and workforce reporting (16% and 19% of firms in favour, respectively).

Shortages continue to bite at businesses ability to grow and function profitably

7 in 10 respondents (70%) have been affected by shortages over the past twelve months which is broadly in line with findings from 2023 (71%). This means protection from the effects of shortages continues to be the exception rather than the rule **(Exhibit 6.1)**. Moreover, the impact of shortages on firms facing them have broadly stayed the same over the past twelve months, with the inability to grow and respond to new opportunities despite demand ranking as the top challenge related to shortages, affecting around 2 in 5 firms this year and in 2023 (41% and 38%, respectively). Positively, fewer respondents have reported shrinking due to shortages since last year (6% and 12%, respectively) but the proportion of firms being unable to operate profitably has doubled from 6% to 13%.

This is consistent with member insight that sectors are experiencing a different severity of shortages and that those with the most acute shortages are less able to make investments to improve their productivity and adjust to a new economic model. The prohibitive effect shortages are having on businesses ability to invest also means many firms' reliance on skills and people to function will persist as shortages worsen. Policymakers have a key role to play in breaking this cycle by releasing the immediate pressure of shortages on firms' operability and supporting businesses to make the necessary investments to deliver growth with fewer people in the labour market.

Exhibit 6.1. The impact shortages are having on businesses (% of respondents)[11]

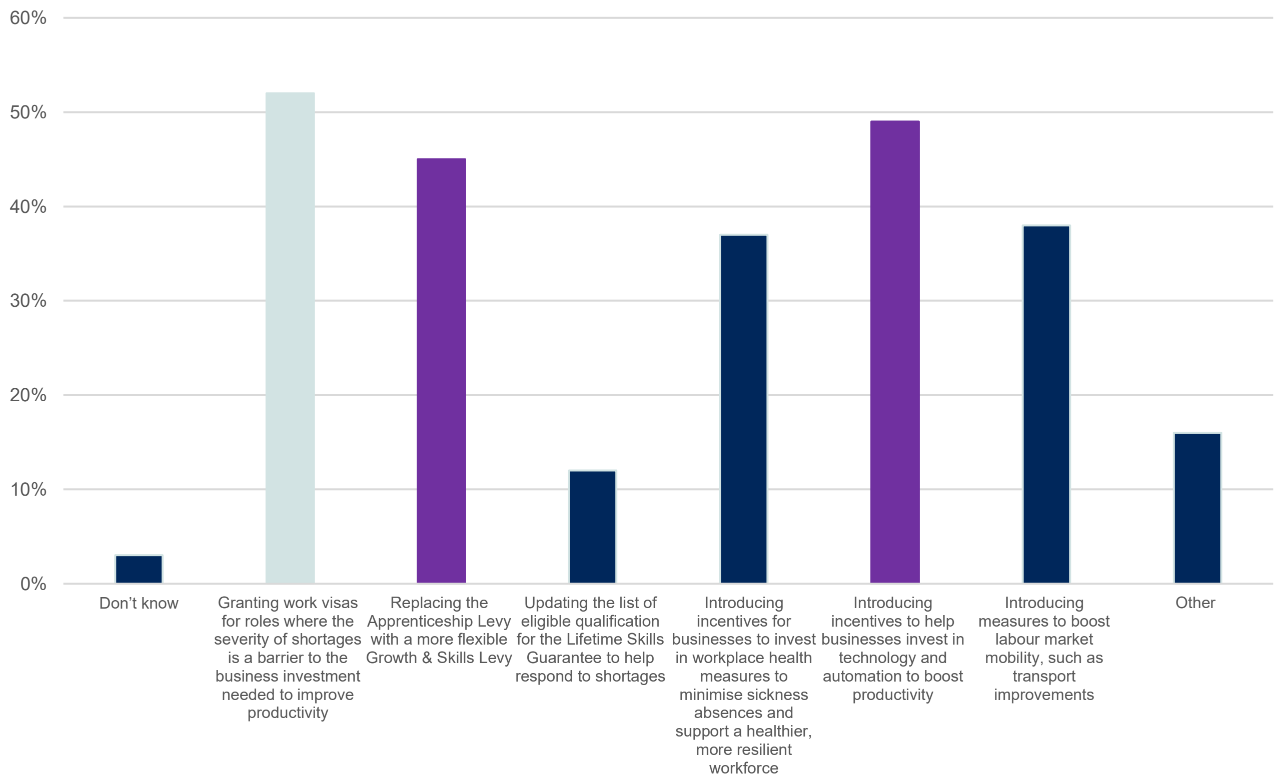


To help ease the immediate impact of shortages, businesses would most like to see changes made to immigration system

Granting work visa roles for shortage sectors was the most popular action respondents would like to see the Government take to help ease the impact of shortages **(Exhibit 6.2)**, with 1 in 2 (52%) respondents in favour of government prioritising this measure. This will be partly motivated by recent changes to the immigration visa system which took effect from April 2024. This has made it to more challenging for all, and entirely unworkable for some, sectors across the economy to access workers and has been noted to be a particular challenge for those firms recruiting at entry-level and operating in regions with lower average pay. Reforming the Migration Advisory Committee (MAC) into a tripartite body with representatives from across the UK can help ensure the new Immigration Salary List (ISL) is more strongly aligned to businesses' experience of shortages and can help ensure immigration policy supports transformation to a new economic model based on higher levels of business investment and higher productivity.

Other popular changes firms would like to see from government to help ease the impact of shortages included introducing incentives for businesses to invest in automation to boost productivity (49%) and replacing the Apprenticeship Levy with a more flexible Growth and Skills Levy (45%).

Exhibit 6.2. Measures that businesses believe should be prioritised to help ease the impact of shortages (%)



Policymakers must also take a preventative approach to shortages, which means unlocking firms' role in supporting employee health and well-being ….

While the number of individuals who are economically inactive has declined for three consecutive quarters, it is up on the year and currently just under 3 million are not looking for work due to temporary and long-term sickness. As more individuals hit retirement and the effects of an ageing population take effect, a preventative approach to illness will be key to managing the pressure of increased demand on the national health service. Businesses have a clear economic incentive to safeguard the health and well-being of working age adults, but the current tax system means employers can incur significant costs when they offer preventative treatments and services across the workforce. This helps to explain why one third of respondents (37%) respondents were in favour of the introduction of incentives for businesses to invest in workplace health measures to minimise sickness absence and support a healthier, more resilient workforce. Unsurprisingly, support for this intervention was particularly high across respondents in sectors such as human, health and social work and skilled trades including electricity and gas; sectors where sick-related absences are particularly high.

The Government has difficult decisions to take when fiscal headroom is tight and means an assured return on investment will be a key benchmark for determining how and which policies are funded. There is a strong financial case for government to prioritise investing in competitive tax incentives for employee healthcare. When asked what impact a competitive rax reform package (which includes Employee Assistance Programmes (EAPs) and occupational health referral treatments full tax-free benefits) could have on workforce participation, half of respondents (51%) agreed that it would help reduce the number of workers permanently exiting the workforce due to ill-health **(Exhibit 6.3).** Inaction will put the Government on course to incur significant healthcare-related costs over the next twelve months, threatening their ability to balance the budget. This can be prevented now by unlocking business investment in health services through the introduction of targeted tax incentives.

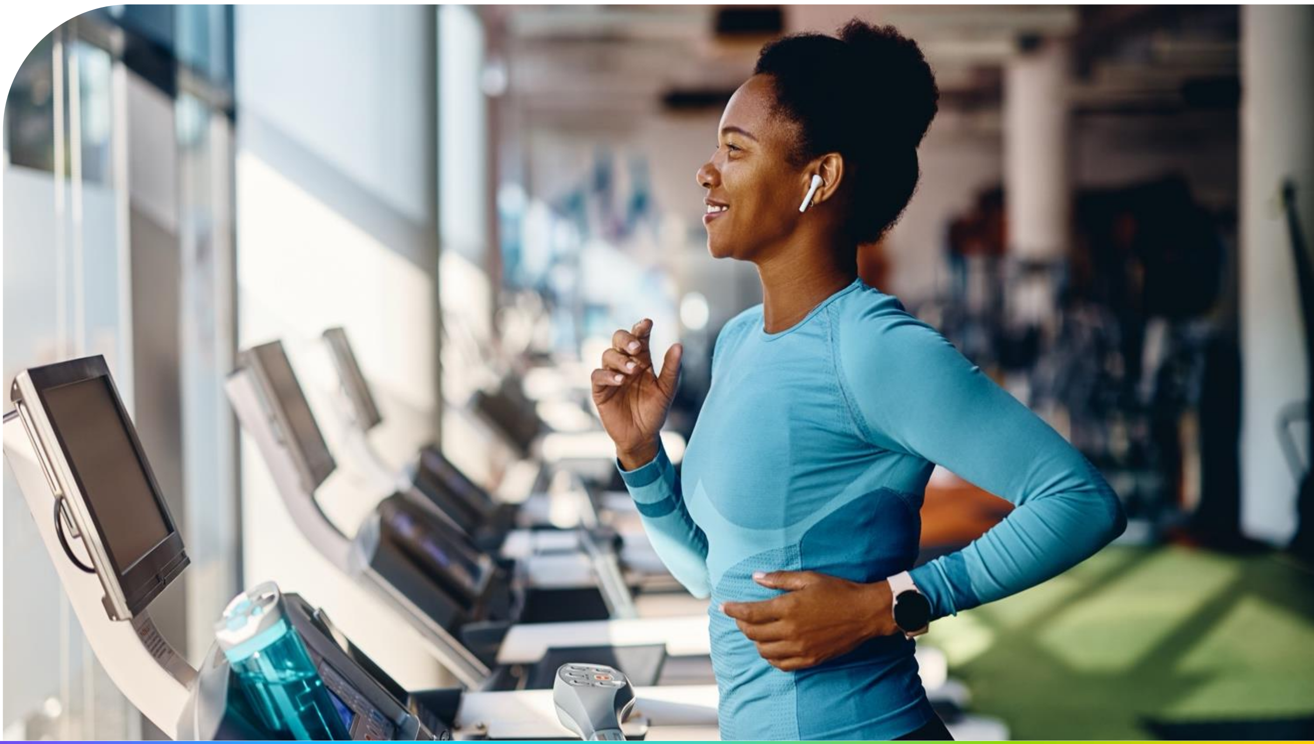
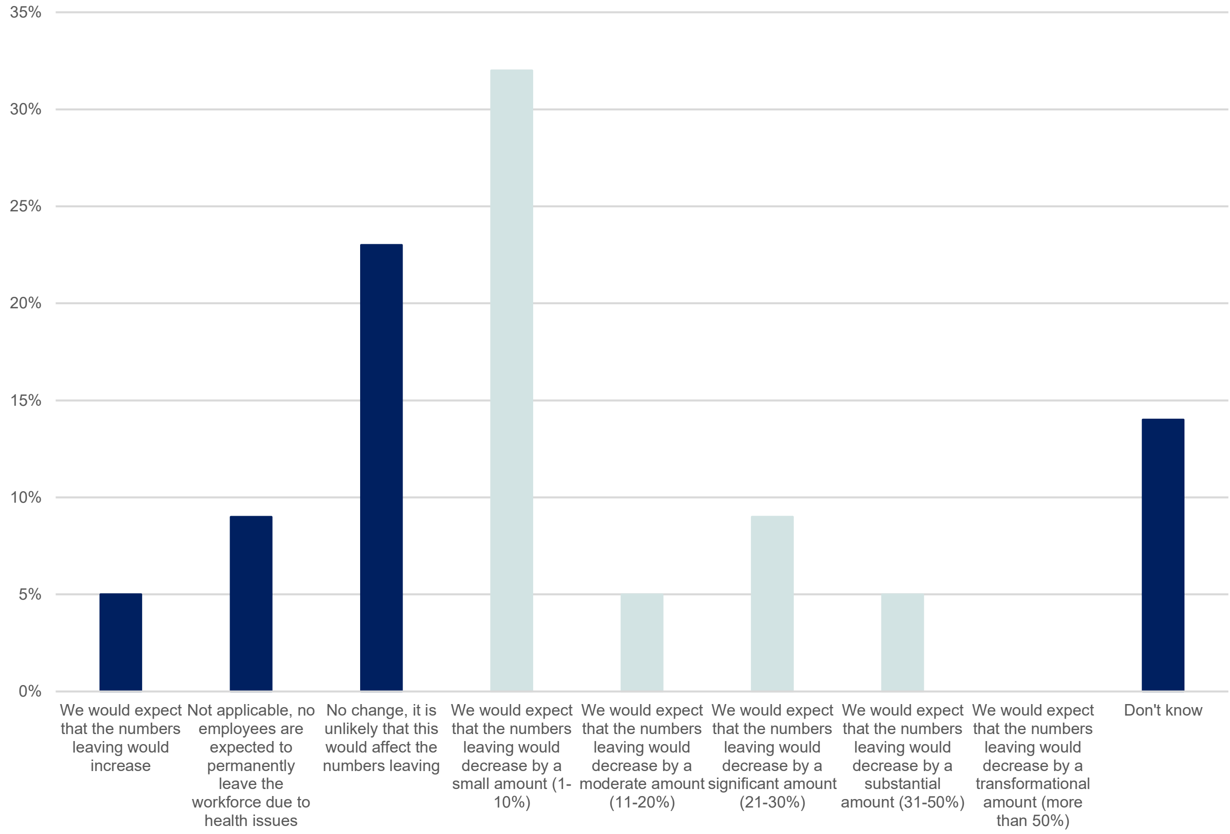


Exhibit 6.3. Business views on how increased spending directly on employee health support would impact on the number of people permanently leaving their workforce due to health issues. This includes employees who are on long-term sick leave and currently unlikely to return to work. (% of respondents)

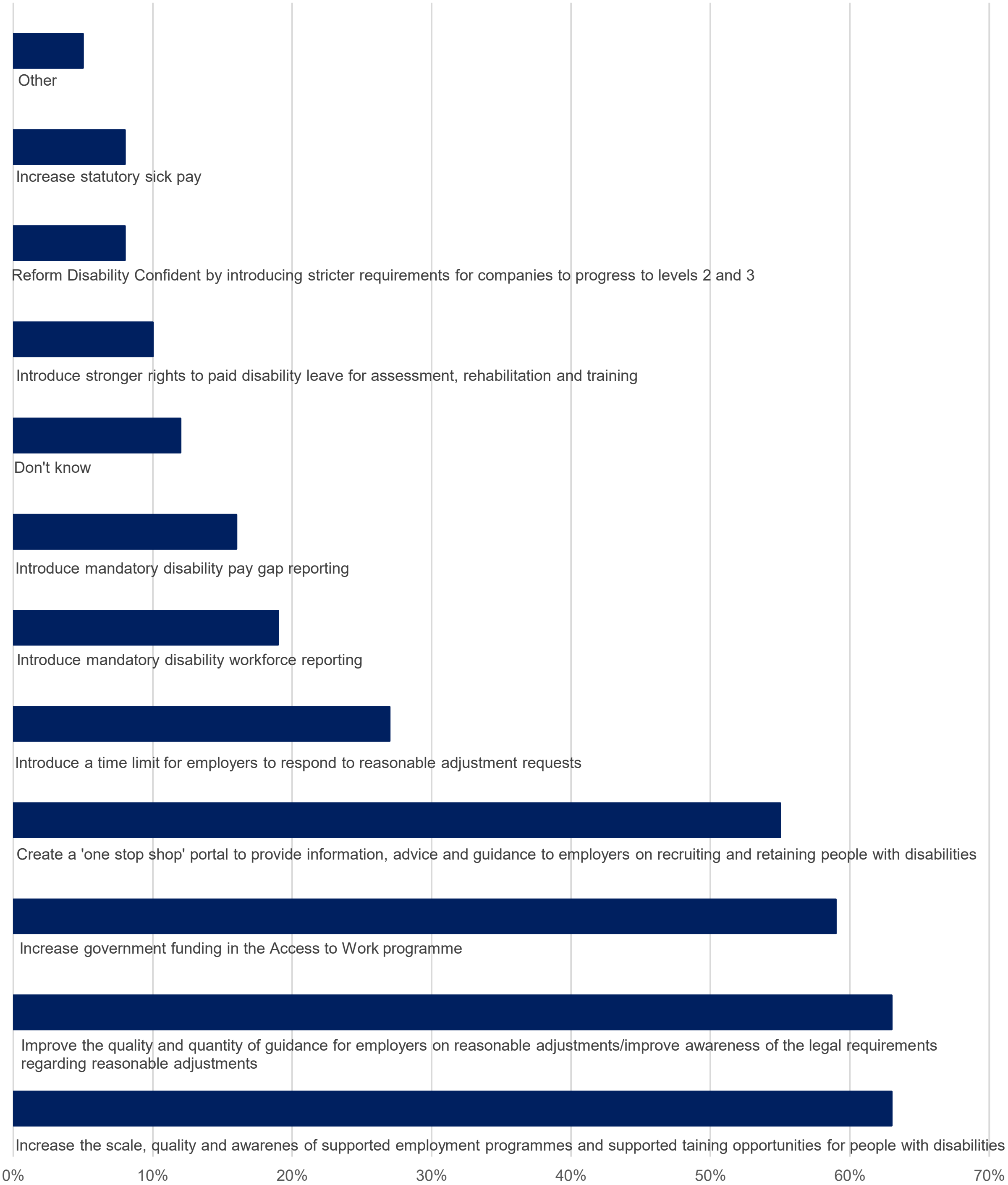


…. And supporting firms to create inclusive, equitable working environments where adults can and want to work

The survey shows strong support for increasing the employment rate of people with disabilities and reducing the barriers to work that they experience. Businesses believe that to achieve these objectives, the Government should focus on increasing the scale, quality and awareness of supported employment programmes and improving the quality and guidance employers on reasonable adjustment requests (63%), closely followed by increased government investment in the Access to Work scheme (59%) **(Exhibit 6.4)**. This reflects existing evidence around a lack of employer awareness of existing government support and suggests simplified and targeted guidance could translate into higher uptake and more businesses engaging with government schemes to positively transform their workplaces and, by extension, workforces.

The results also indicate that certain proposals designed to improve workplace disability equality could have unintended consequences for businesses and fail to reach their desired goal. For example, few respondents were in favour of government increasing statutory sick pay (8%), introducing stricter requirements for companies to progress to levels 2 and 3 (8%) or stronger rights to paid disability leave for assessment, rehabilitation and training (10%). Businesses were also widely opposed to the introduction of disability gap and workforce reporting (16% and 19% of firms in favour, respectively). This mirrors member feedback that added statutory entitlements would increase already high employment costs and reduce investment in other areas of the business designed to support workers, and headline workforce reporting could obfuscate valid reasons why disabled workers may receive less pay. For example, for completing a lower-skilled role or participating in a part-time contract. These considerations must be carefully considered to avoid unintentionally damaging employee-employer relations and providing an unrepresentative picture of the changes that businesses are making to support workplace disability equality.

Exhibit 6.4. Business views on the prioritisation of policies to support workplace disability equality (% of respondents)



Young people need better support to enter the labour market

As people become more likely to have multiple careers over their working life, transferrable skills, such as communication and critical thinking, are becoming increasingly important for employers across the economy. But gaps in provision, and the transferrable skills young people exhibit upon entering the workplace, indicates that they are a priority area for policy change. Employers have a clear part to play in supporting young people to develop these skills and adjust to the demands of the workplace and their ability to do so had been disrupted by the pandemic. Careers policy must reflect that work experience placements will need to vary to reflect firms' size, experience and capacity.

Key findings:

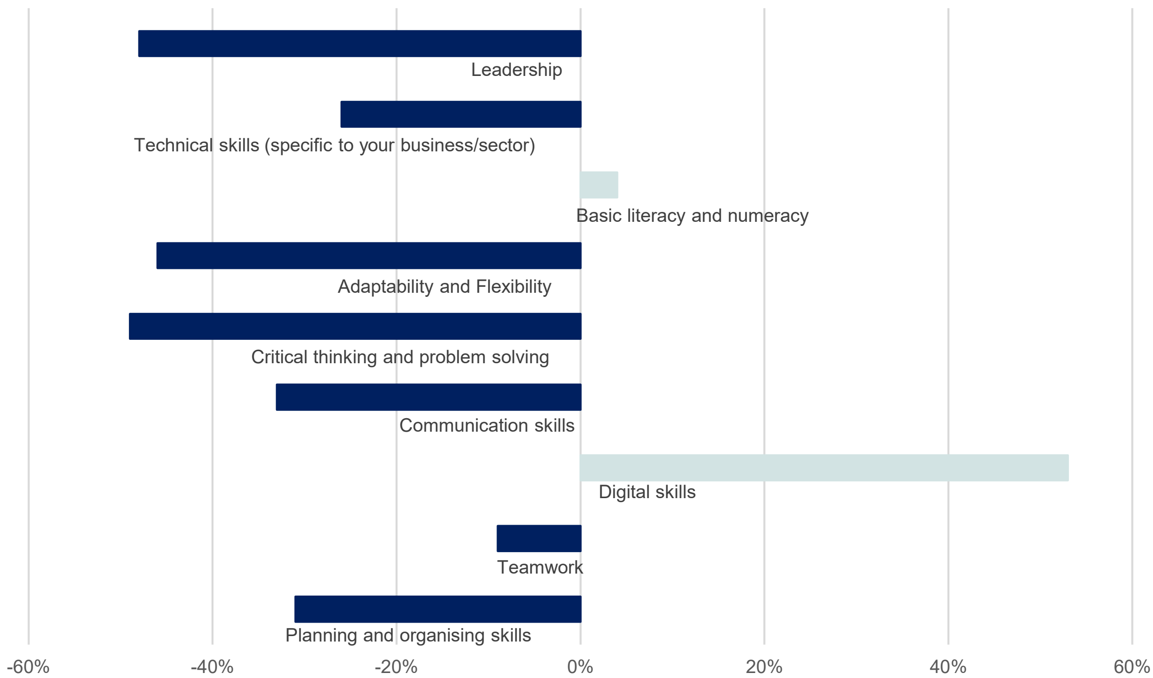
- Business respondents were on average not confident that young people entering the workforce have a good baseline of skills that can be developed in the workplace. While positive about their digital skills (+53%) and basic literacy and numeracy (+4%), concern was particularly high for different types of transferrable skills. Net confidence in young people's critical thinking (-49%) ranked lowest, followed by leadership (-48%) and adaptability (-46%).
- Respondents were least confident that they could recruit or train enough people to meet their need for workplace skills unattached to national qualifications (of which transferrable skills form a huge part).
- Overall, 3 in 4 respondents (75%) reported that they are (17%), or would be open to (58%), offering two-week work experience opportunities to secondary school pupils. Smaller businesses were slightly more likely than larger businesses to offer two-week week experience to secondary school pupils (19% and 13% offering it, respectively). This finding reflects the fact that many larger businesses have moved away from mandatory two-week work experience placements in favour of targeted and ongoing opportunities that offer young people a more detailed insight into their business.

Businesses are concerned for young people's readiness to enter the workplace …

Business respondents were on average not confident that young people entering the workforce have a good baseline of skills that can be developed in the workplace **(Exhibit 7.1)**. While positive about their digital skills (+53%) and basic literacy and numeracy (+4%), concern was particularly high for different types of transferrable skills. Net confidence in young people's critical thinking (-49%) ranked lowest, followed by leadership (-48%) and adaptability (-46%).

The transferrable skills across young people exiting formal education and transitioning into work has been a longstanding concern for businesses which pre-dates the Covid-19 pandemic. Employers have noted that the gap in transferrable skills of young people is not a blanket problem, and many young people enter the workforce with a good to excellent ability to interact with colleagues and apply these skills to their role, but it is prevalent enough that it a cause for concern for many employers recruiting school and college leavers and graduates. Educators have also noted that under-developed transferrable skills in young people can be a good predicator as to whether a young person will end up outside of education, employment and training (NEET). This indicates that transferrable skills have a key role to play in successful transitions into work and could help address the 946,000 16 to 24 year olds who were recorded as being NEET between July to September 2024.[12]

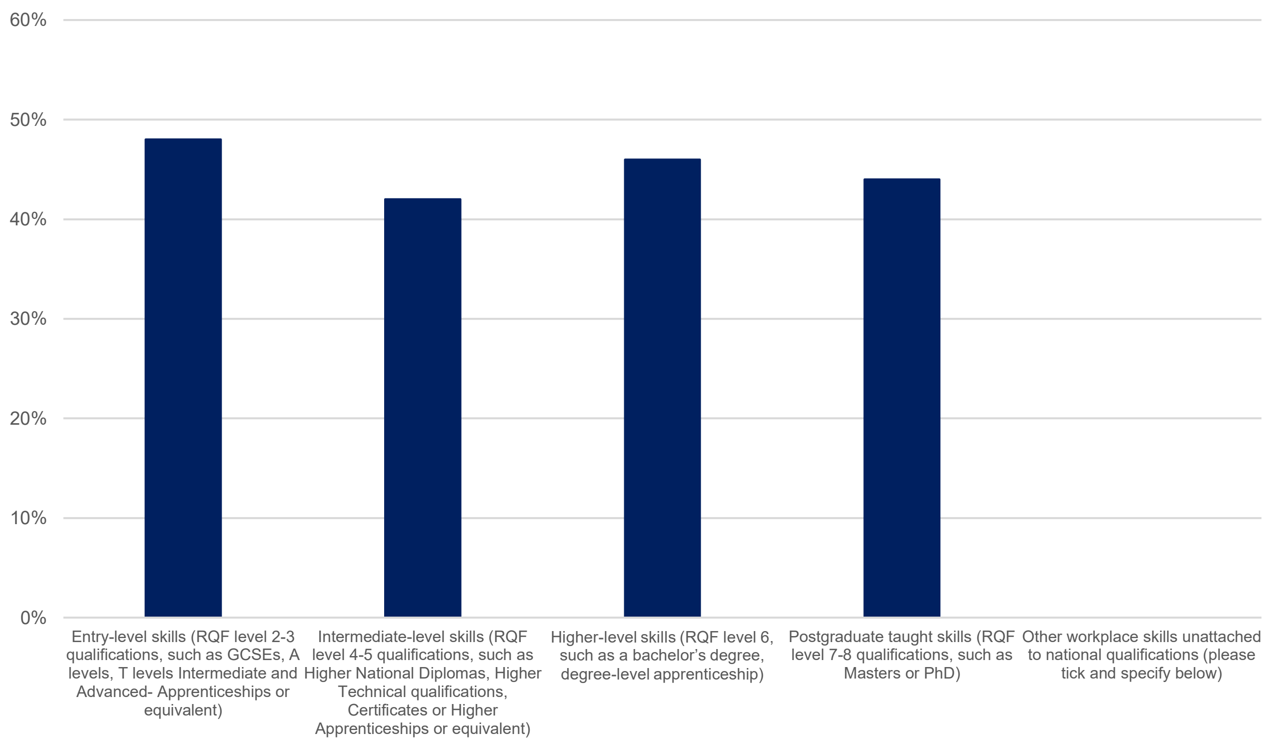
Exhibit 7.1. Net confidence that young people enter the workforce with a good baseline of skills by skill type (% balance)[13]



.. Which may be rooted in how ‘quality’ training is defined

Level 3 qualification reforms represent a policy shift towards benchmarking the quality of a course by how ‘academically rigorous’ it is. CBI members have explained that this is stunting young people’s progression by making it challenging for many students to achieve qualifications needed to access preferred career and study routes, as well as limiting the time that can be dedicated to developing young people’s transferrable skillsets during training. The fact that respondents were least confident that they could meet their need for workplace skills unattached to national qualifications through recruitment or training (of which transferrable skills form a huge part) compared to other types of qualifications suggests businesses are also struggling to address transferrable skills gaps across their workforce, and that transferrable skills are underrepresented in adult training provision (**Exhibit 7.2**). While many providers dedicate resource to developing learners’ transferrable skills, the results highlight the importance of better embedding transferrable skills across education. This may involve affording greater flexibility for providers to adjust training to meet employer’s skills needs and policymakers adopting a more holistic approach when they evaluate the value of different types of training.

Exhibit 7.2. Business confidence that they can recruit or train to address their skills gaps at different levels (% balance)[14]



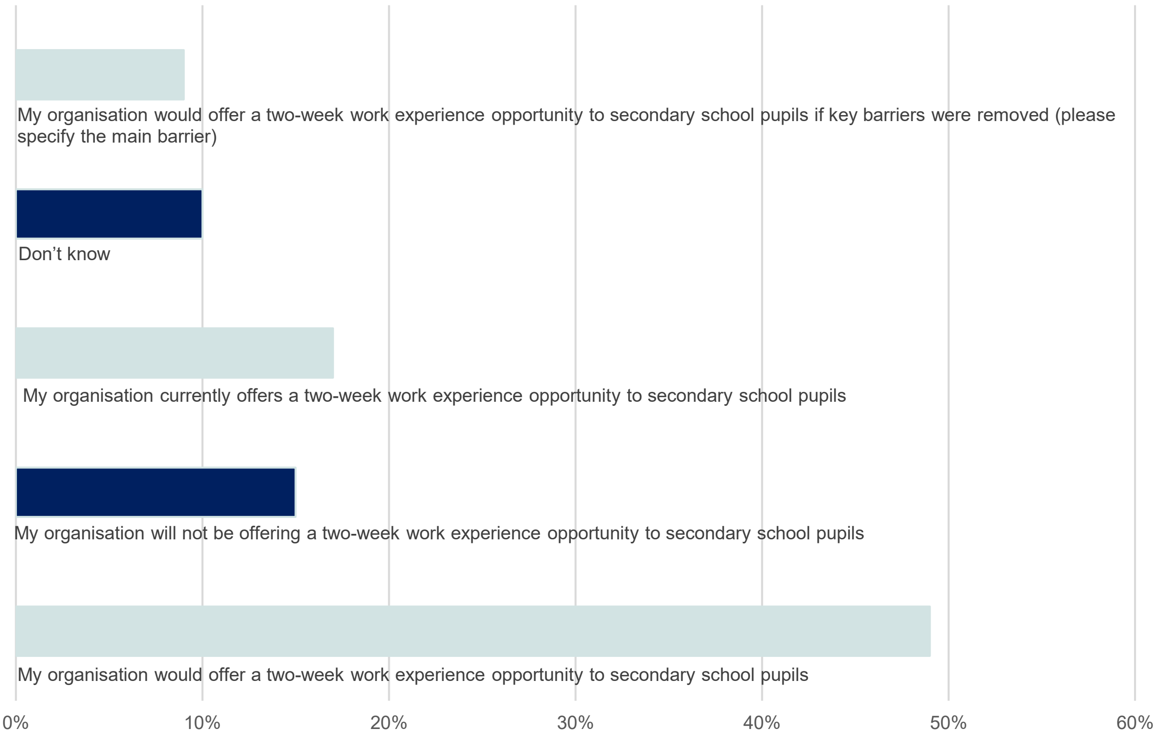
Scaling-up work experience opportunities can help smooth young people's transition into the workplace

Overall, 3 in 4 respondents (75%) reported that they are (17%), or would be open to (58%), offering two-week work experience opportunities to secondary school pupils **(Exhibit 7.3)**. This resonates with member feedback that most businesses see the value of delivering work experience opportunities for young people, with the ability to develop young people's transferrable skillsets ranking as one of the key benefits motivating businesses to offer work experience opportunities. Many firms have also explained that developing young people's transferrable skills has helped smoothen young people's transitions into work by helping young people to build connections with employers and develop the skillsets that employers value in their workers. They also noted that quality work experience programmes can take different forms, with many firms designing bespoke programmes to service the interests of the young person within the constraints of what they can offer as a business.

In January 2024, the Labour Party pledged to offer every young person two weeks' worth of work experience as part of their 'Plan for Schools', which was then re-committed to in their election manifesto.[15] The question's inclusion in the survey was designed to tease out the practical implications of pushing for two weeks' worth of work experience, and whether it risked pushing a timeline that was unachievable for some businesses and an under-ambition for others. The ability to facilitate engagements that last longer than two weeks is likely to be one reason why smaller businesses were more likely than larger businesses to be offering two-week work experience opportunities to secondary school pupils (19% and 13% offering it, respectively).

Since the survey closed, the Government has clarified that businesses will have the discretion to decide how placements are staggered and that the two-week placement is intended to act as a minimum baseline, meaning firms are encouraged to offer a more extensive placement where they have the resource to do so. This sort of clarification will be key to achieving wider buy-in for the policy and to avoid businesses providing a two-week block placement – which is what many members believed the policy to be pushing for – at the expense of more substantive programmes that offer equal or higher value to young people. Policymakers should also look to address the barriers that are preventing around 1 in 10 interested businesses (9%) from offering work experience placements. Examples of barriers include high administrative capacity and underdeveloped relationships with young people and providers.

Exhibit 7.3. Businesses approach to two-week work experience (% of respondents)



Unlocking skills investment starts with meaningful Apprenticeship Levy reform

With fiscal headroom tight, it is arguably more important now than ever to unlock business capital to drive growth, which must involve training given the threat skills shortages are posing to firms across the UK. Time and capacity constraints means training continues to be challenging for many employers to prioritise and deliver. Positively, the financial barriers that firms are reporting could be partly addressed through targeted intervention such as reform of the Apprenticeship Levy to reflect business demand for modular, accredited training. But to help ensure with that a need to invest translates into more training, policymakers will need to work with providers and firms to address delivery barriers, including infrequently updated funding bands and a lack of support to cover different delivery costs.

Key findings:

- A balance of +22% of firms intend to increase their business investment in training over the next year relative to the past twelve months, which is slightly down on 2022 (+27%). Among SMEs, a balance of +16% are intending to invest more into training over the next twelve months, compared to +35% across larger businesses
- When asked what would encourage firms to invest more into training and development, half (52%) of respondents cited greater flexibility through the Apprenticeship Levy. Support for the measure was highest amongst larger firms (80%) but was also supported by many SMEs (36%).
- Almost 6 in 10 business respondents (59%) are in favour of the Growth & Skills Levy being extended out to cover accredited and modular training.

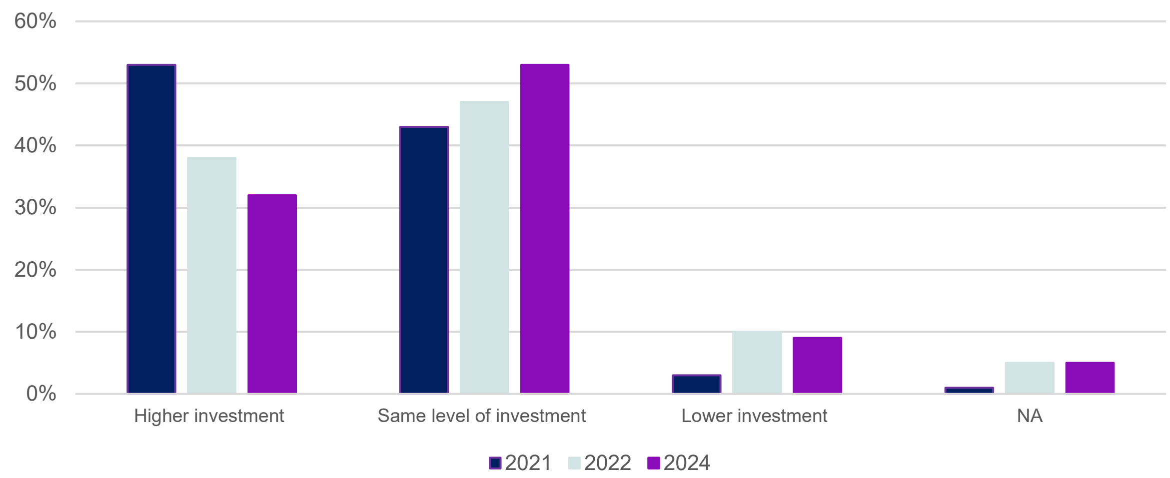
Key findings:

- Most businesses have continued to experience a skills gap over the past twelve months, although this is an improvement from levels recorded when the question was last asked two years ago (6% and 18%, citing they do not have a skills gap, respectively).
- Business views on the drivers of their skills gaps are largely in line with 2022, with a lack of candidates with industry-relevant qualifications and low awareness around different routes to work ranking as the top two threats to work. The third most-cited driver was candidates prioritising workplace benefits which their sector cannot offer (27%).
- The proportion of businesses who have reported that they have not experienced a barrier trying to address their skills need through adult education has increased slightly compared to two years ago from 24% to 30%. This means that most business respondents (70%) continue to experience at least one barrier in delivering or accessing adult education.
- This year, the top three most cited barriers preventing firms from addressing their skills through adult education were challenges related to finding time to train employees (31%), the prohibitive cost of training and employees not recognising training as being important to their career (both 28%).
- Being able to find local providers with relevant courses (34%), updating funding criteria to reflect costs incurred through delivery (33%) and uplifting funding bands to reflect inflation rank (32%) are the three priority changes businesses would like to see made to the apprenticeship system.

Fewer businesses are intending to invest more into training over the next twelve months compared to this time two years ago …

A balance of +22% of firms intend to increase their business investment in training over the next year relative to the past twelve months, which is slightly down on 2022 (+27%) **(Exhibit 8.1)**. Since the survey closed, we have heard from businesses that the increase in NICs at the Budget has added to pressures limiting funds for investment. Among SMEs, a balance of +16% are intending to invest more into training over the next twelve months, compared to +35% across larger businesses. This reflects the reality that increasing budgets remains difficult for firms navigating how they can meet different priorities – from increasing productivity to recruiting and retaining talent – with a finite budget, and these challenges tend to be felt more acutely felt in smaller businesses.

Exhibit 8.1. Business intentions for investment over the next twelve months relative to the past twelve months (% of respondents)[16]

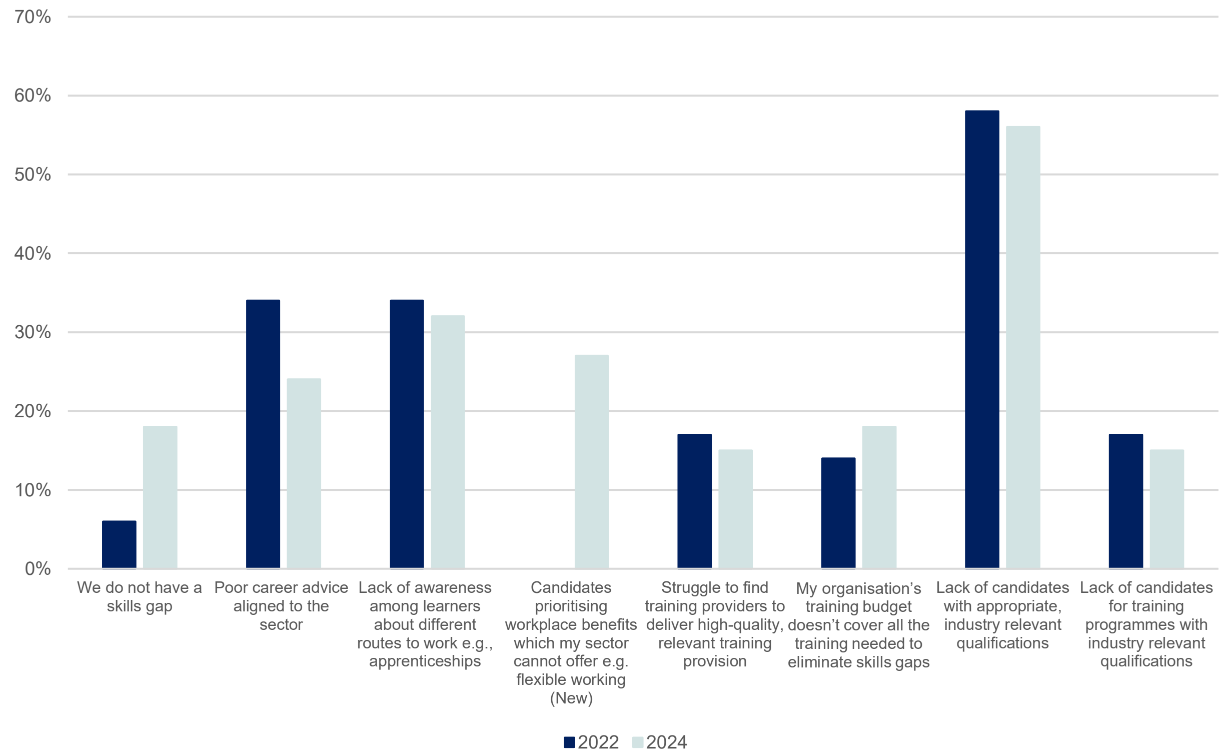


… Despite most businesses continuing to experience a skills gap

Most businesses have continued to experience a skills gap over the past twelve months, although this is an improvement from levels recorded when the question was last asked two years ago (6% and 18%, citing they do not have a skills gap, respectively) (**Exhibit 8.2**). Business views on the drivers of their skills gaps are largely in line with 2022, with a lack of candidates with industry-relevant qualifications and low awareness around different routes into work ranking as the top two challenges respondents believe are contributing to their skills gaps. The third most-cited driver was candidates prioritising workplace benefits that their sector cannot offer (27%).

The responses highlight that businesses are finding it increasingly challenging to attract and retain new talent into their industry, particularly where workers value workplace benefits which are undeliverable for many employers. For example, the ability to work remotely in physically demanding sectors such as healthcare and construction. A top priority for government and businesses must be strengthening the alignment between employers' skills demands and training and exploring opportunities to showcase the benefits, and incentivise uptake, for different high-priority careers. But as demographic trends take force, it is equally key that government works with businesses to reduce reliance on labour by helping them to embrace the productivity potential of technology. This can help reduce the risk of shortages acting as a dampener on growth.

Exhibit 8.2. Business views on key drivers of skills gaps in their organisation (% of respondents)[17]

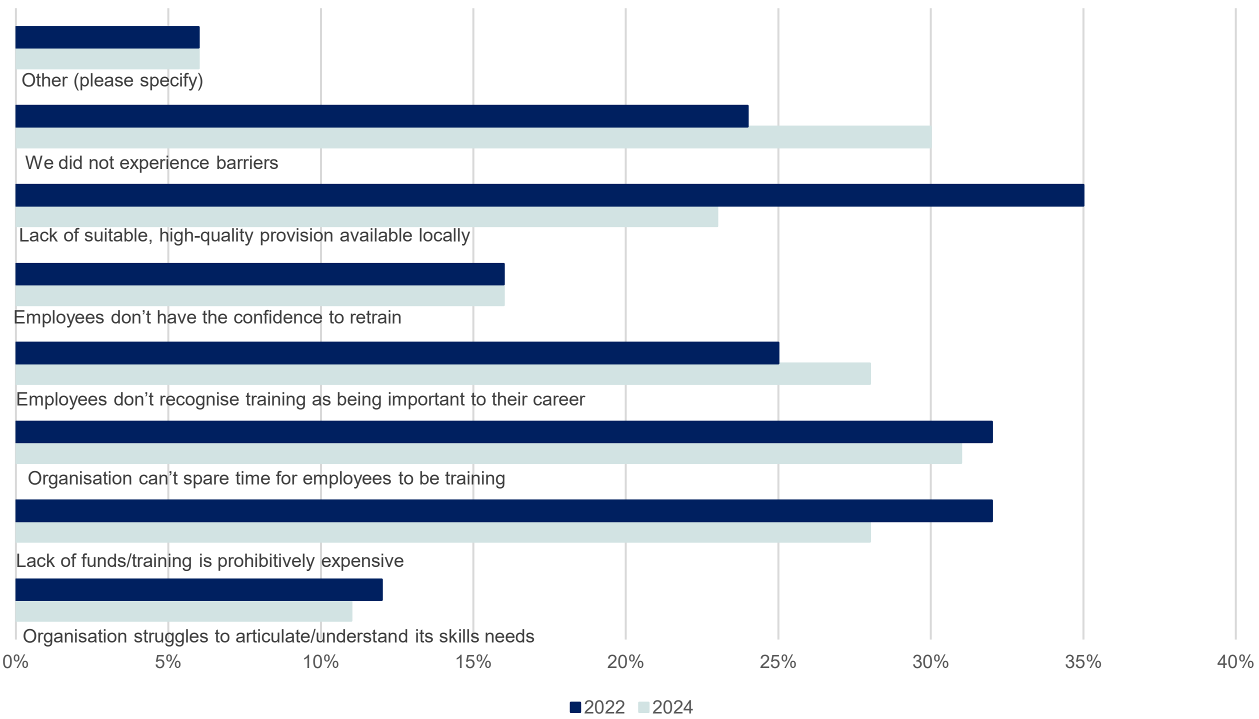


Time and costs rank as top barriers preventing businesses from addressing their workforce skills gaps

Since the last time the question was surveyed, the proportion of businesses who have reported that they have not experienced a barrier when trying to address their skills needs through adult education has increased slightly, from 24% two years ago to 30% in this year's survey **(Exhibit 8.3)**. This means that most business respondents (70%) continue to experience at least one barrier in delivering or accessing adult education. This year, the top three most cited barriers preventing firms from addressing their skills through adult education were challenges related to finding time to train employees (31%), the prohibitive cost of training and employees not recognising training as being important to their career (both 28%). This is largely consistent with the 2022 results, with the notable exception that concern about a lack of suitable, quality provision available locally has fallen (35% to 23%).

These findings are consistent with member feedback that compressed wage differentials in the lower half of the labour market has reduced the financial reward of a promotion. This is on top of the difficulty to backfill workers to participate in training, meaning there is also an immediate cost for businesses and workers from taking time out of the business to train. Helping businesses to address their shortages through a different approach to immigration and automation should help businesses to maintain productivity and backfill positions to allow individuals to participate in training. Sustainable wage packages backed by productivity-led growth and clearer evidence on the productivity benefits of training can also help incentivise workers and businesses to treat training as a worthwhile investment.

Exhibit 8.3. Barriers confronting businesses looking to address their skills needs through adult education (% of respondents)[18]



Positively, more businesses believe they would invest in training through much-needed reform of the apprenticeship levy …

When asked what would encourage firms to invest more into training and development, half of respondents (52%) cited greater flexibility through the Apprenticeship Levy **(Exhibit 8.4)**. Support for the measure was highest amongst larger firms (80%) but was also supported by many SMEs (36%). The particularly high levels of support across the largest businesses is likely due to larger businesses paying the Apprenticeship Levy from their training budgets, meaning that any money they can't get back is reduced training available for their workers. Employers have praised the Government's re-commitment to reforming the Apprenticeship Levy into a Growth and Skills Levy, but delays to implementation means it will continue to be a source of frustration for businesses who want to invest in training but are unable to do so due to the continuing restrictions around how they can use their Levy pot. This highlights the importance that reform is treated as a top policy priority, and flexibility is enacted sooner rather than later if the Levy is to help address the longstanding decline in business investment in training.

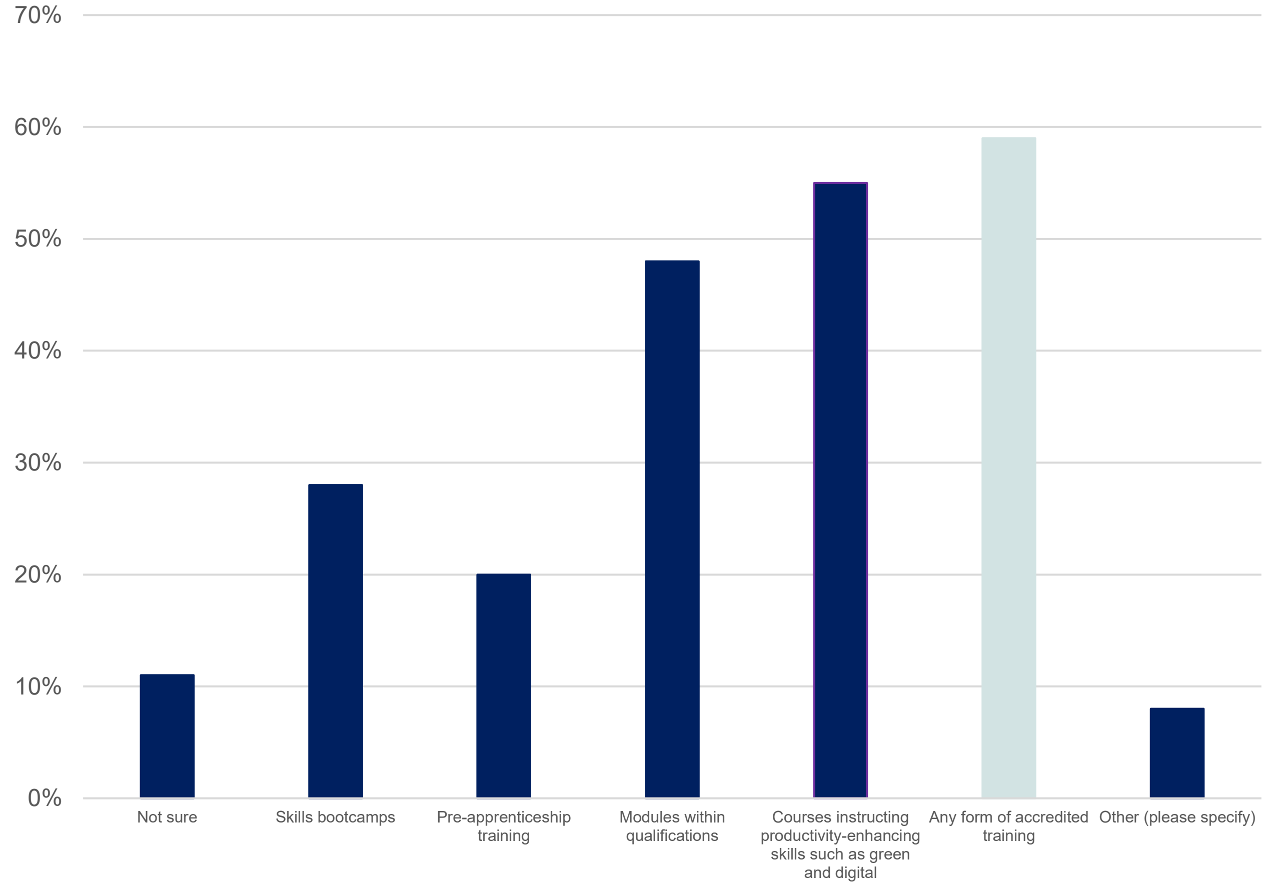
Other interventions respondents believed would help them to invest more in training included the introduction of a tax credit (49%) and increasing the business relevance of training by strengthening the link between employer skills needs and training provision content (42%). The popularity of these options mirrors business feedback that the existing tax regime does not incentivise business investment in training and that many government training initiatives have lacked credible and consistent employer input. However, businesses are keen for any form of tax incentive to be simple and offer immediate financial support and to cover up-front training costs for businesses that are cash poor. This means the tax incentive may not necessarily take the form of a skills tax credit but could instead take the form of a grant or simplified guidance surrounding existing support.

Exhibit 8.4. Business views on changes that would incentivise their business to invest more in workforce training (% of respondents)

.. Which must reflect business need for a broader range of modular and accredited training

Most businesses recognise that training that develops a worker's skills and refresher training to meet a compliance requirement are different. That's why most respondents (55%) would support the Government continuing to limit the Levy to funding for training that meets certain quality and industry standards. The most obvious way that government can strike a balance between not being too prescriptive while preventing the Levy from being used to fund low quality training is by working with businesses to agree a definition of 'quality' which reflects cross-economy skills and training needs. Extending the Levy to cover accredited forms of training represents an obvious workaround to this by providing the assurance of quality government wants and the flexibility businesses need, with almost 6 in 10 (59%) business respondents in favour of this approach to flexibility **(Exhibit 8.5)**.

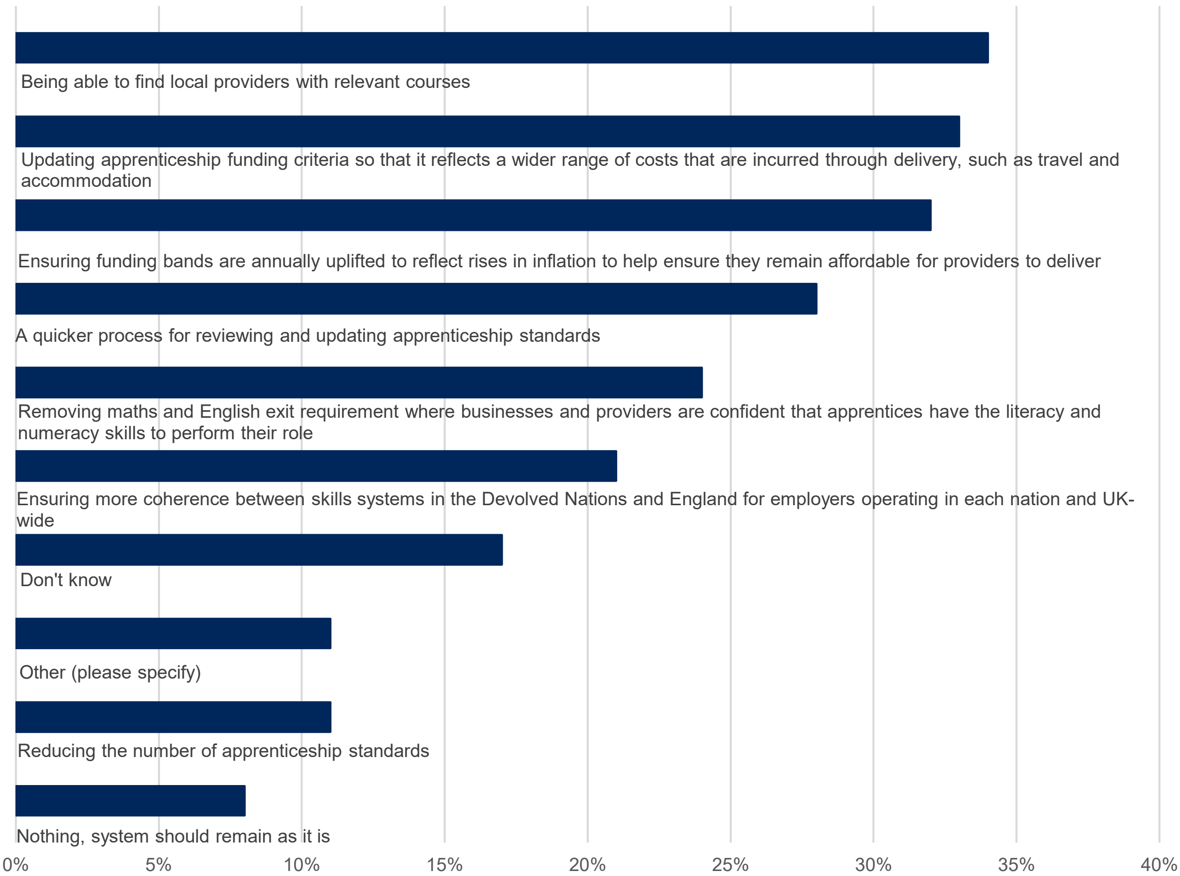
Exhibit 8.5. Types of training businesses would like to see made eligible through the Growth and Skills Levy (% of respondents)



Specific changes to the apprenticeship system can also help to unlock investment in new training opportunities

While the Apprenticeship Levy encourages businesses to invest in apprenticeships, providers and employers have noted that the current apprenticeship system is not fit-for-purpose, and many reported being unconfident that the system would be able to withstand greater demand for apprenticeship training. Providers have explained that real-term decline in apprenticeship funding bands has become particularly challenging over the last twelve months and has forced them to divert their provision away from certain high-demand courses because they are financially unviable to deliver. This is reflected in the survey; being able to find local providers with relevant courses (34%), updating funding criteria to reflect costs incurred through delivery (33%) and uplifting funding bands to reflect inflation rank (32%) as the three priority changes businesses would like to see made to the apprenticeship system **(Exhibit 8.6)**. To incentivise the delivery of apprenticeships, and improve access to apprenticeship opportunities, it is key that government works with educational providers to develop a robust framework for funding apprenticeships.

Exhibit 8.6. Changes businesses believe would make the apprenticeship system more effective (% of respondents)



Overview

This year's survey was carried out in the period between 14th August and 2nd September 2024. There were 152 respondents in total.

Sectoral analysis

Respondents worked in various parts of the private sector **(Exhibit 9.1).**

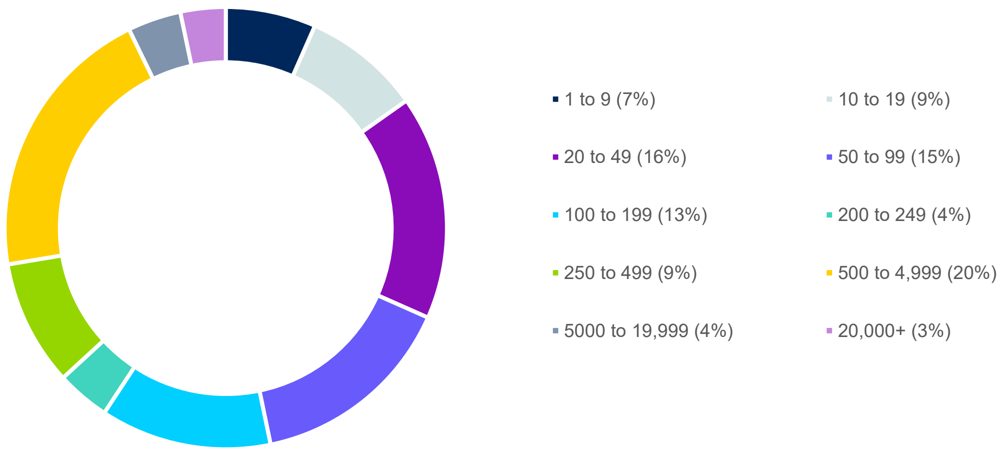
Exhibit 9.1. Respondents by economic sector (%)

Sector	
Accommodation and food service activities	1
Administrative and support service activities	1
Agriculture, forestry and fishing	2
Arts, entertainment and recreation	1
Construction	7
Education	11
Electricity, gas, steam and air conditioning supply	3
Financial and insurance activities	3
Human health and social work activities	2
Information and communication	5
Manufacturing	23
Mining and quarrying	1
Professional, scientific and technical activities	11
Public administration and defence, compulsory social security	1
Real estate activities	3
Transportation and storage	8
Water supply; sewage, waste management and remediation activities	1
Wholesale and retail trade, repair of motor vehicles and motorcycles	3
Other service activities	14

Respondents by company size

In this year's survey, 63% of respondents were from smaller and medium-sized enterprises (SMEs) with 249 and fewer employees, and 36% of respondents were from larger businesses (250+ employees) (**Exhibit 9.1**).

Exhibit 9.1. Respondent by company size (%)



Respondents by region

There was a fair coverage of businesses from across the UK, with 1 in 5 respondents (22%) operating UK-wide **(Exhibit 9.2).** Other popular destinations included East Midlands (18%), East of England (15%), the North West (15%) and Wales (15%).

Exhibit 9.2. Respondent by geographical coverage of employees (%)

Reference

1 UK economy losing £25bn a year from shrinking workforce, The Times, September 2024

2 What can the new government do about the UK's productivity problem?, National Institute for Social and Economic Research, July 2024

3 These figures exclude 'Don't know' from the data analysis

4 These figures exclude 'Don't know' from the data analysis

5 These figures exclude 'Does not affect my business' from the data analysis

6 These figures exclude 'Don't know' from the data analysis

7 These figures exclude 'Don't know' from the data analysis

8 These figures exclude 'Don't know' from the data analysis

9 All figures in Chapter 5 exclude 'Don't know' from the data analysis

10 Labour Market Overview, Office for National Statistics, October 2024

11 These figures exclude 'Don't know' from the data analysis

12 Young people not in education, employment or training (NEET) UK, ONS, November 2024

13 These figures exclude 'Don't know' and 'Not applicable' from the data analysis

14 These figures exclude 'Don't know' and 'Not applicable' from the data analysis

15 Change: The Labour Party Manifesto, June 2024

16 These figures exclude 'Don't know' from the data analysis

17 These figures exclude 'Don't know' from the data analysis

18 These figures exclude 'Don't know' from the data analysis

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Pertemps Network Group, based in Meriden, West Midlands, is one of the UK's largest privately-owned recruitment agencies. It has a turnover of £1bn and offers immediate and strategic solutions to clients across both the public and private sectors.

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November 2024

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