

# THE UK'S LABOUR MARKET: STRENGTH OR STRAIN?

The 2023 CBI/Pertemps  
Employment Trends Survey results



**The CBI serves as the catalyst  
between industry and government to  
drive positive change, speaking for  
businesses of all sizes and sectors  
across the whole economy, in every UK  
region and nation, ensuring sustainable  
growth for the benefit  
of society.**

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## Foreword CBI

Shortages have emerged as a defining characteristic of the UK's labour market. What was initially reported as short-term pinch owing to the economy reopening after the pandemic, has proven to be endemic, with long-term demographic change a stronger factor than Covid or Brexit. They're having a real impact on the UK's ability to grow, eroding business confidence in the labour market – once a real strength of this country. For a few years now, the attractiveness of the UK labour market has been falling, steadily eroding competitiveness. Firms expect this trend to continue with people shortages pushing up the cost of employment faster than productivity growth.

Changing how we view the role of the labour market in competitiveness, and adopting policies to match, can deliver the sustainable growth that is needed. Technology, including AI, has the potential to transform most jobs and can end the prolonged productivity slump that has persisted since the 2008 global financial crisis. Taking a more flexible and modular approach to upskilling and retraining can help workers' skills keep pace with the changes around them, offering a credible medium-term path to rising living standards.

Addressing labour shortages also means removing the barriers that prevent people from getting a job. The most common barriers for people who want to work are health issues and caring responsibilities. Action by business and government can make a difference. Addressing these issues is not only the right thing to do but it makes economic sense.

If the UK is serious about sustainable growth and achieving a high-wage economy, a new strategy that enhances productivity and removes barriers for workforce participation is needed.



**Matthew Percival**

Future of Work and Skills Director, CBI



## Foreword Pertemps Network Group

The UK has seen a rebound in economic activity following the disruptions caused by the COVID-19 pandemic, with robust growth in sectors like digital, finance and e-commerce. However, several significant challenges remain, such as inflationary pressures, supply chain disruptions and labour shortages that are impacting various industries.

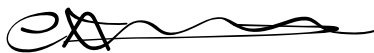
These recruitment challenges are expected to persist for some time, as there will be a higher number of individuals who are economically inactive or approaching retirement in the coming decade, compared to those entering the labour force. This is exacerbated by the unprecedented number of individuals dealing with long-term sickness or disability, without adequate support to get them back into the workforce.

This survey sheds light on the proactive steps that businesses are undertaking to alleviate labour shortages, by increased investments in technology, automation and training programmes designed to enhance the skills of their existing workforce. However, there remains untapped potential for organisations to further address these challenges. There continues to be a strong emphasis on collaborating closely with recruitment experts to develop comprehensive, long-term attraction and retention strategies to empower businesses to maximise their potential in a continually evolving labour market.

This collaborative approach empowers businesses to reach their potential. The benefits of cultivating an agile workforce and implementing cost-effective solutions is gaining prominence. These solutions need to be robust and flexible, especially in the face of uncertainty in the market. There is a growing discussion about the merits of skills-based recruitment as an alternative to traditional methods.

Recognising and promoting diversity and inclusion (D&I) is an essential component of attracting and retaining talent in today's fiercely competitive labour market. D&I goes beyond being a moral obligation. It's a strategic edge that brings in a wide range of advantages, including innovative ideas, and diverse experiences. The survey shows the significance of D&I, with nine out of ten businesses placing it high on their priority list. In a time where individuals seek workplaces that champion inclusivity, businesses that actively promote these values will naturally become more attractive to potential employees.

As we continue to navigate labour shortages, it's crucial to recognise that this isn't just a challenge but a chance to evolve, expand and establish workplaces that are not only more efficient but also more diverse, equitable and resilient. Businesses that wholeheartedly embrace these principles will find themselves in a stronger position for success.



**Carmen Watson**  
Chairperson, Pertemps Network Group



# Survey results at a glance

## The employment trends survey 2023



The survey was conducted between  
**16th August** and **11th September 2023**.



**263** business, of all sizes and sectors  
across the UK, responded in total.



**SMEs** are defined as companies with  
fewer than **250 employees**.

### The employment outlook suggests a new growth model is needed

- More than two years on, vacancies have not returned to pre-pandemic levels and remain closer to a million putting a considerable strain on businesses.
- Labour shortages are now a long-term issue for the UK economy and are exacerbated by the stagnation of the UK's labour market size.
- The labour market won't see growth from more people participating in the workforce but will have to rely on increasing productivity to even maintain the size of the economy, let alone to grow.
- Since the global financial crisis in 2008, productivity has experienced a prolonged stall. The two engines of economic growth - labour supply and productivity - are no longer performing as effectively as they once did.
- The economic inactivity rate has reached heights not seen since 2015, with long-term sickness the leading reasons for economic inactivity.
- The challenges facing the UK labour market mean a new strategy is needed.

## Employers expect the size of their workforce to grow in the next 12 months

- Nearly half of businesses (48%) expect to grow their workforce in the next 12 months, up from 43% last year.
- One in ten businesses (11%) anticipate that their workforce will be smaller next year compared to 15% in 2022 – giving a balance of +37%, compared to +28% last year.<sup>1</sup>



- Approach to permanent recruitment in the next 12 months **looks positive** with nearly one in three businesses (31%) expecting higher levels of recruitment, **39%** of firms expecting same level of recruitment and just **one in six** (16%) anticipating recruitment to be lower.

- In the temporary recruitment market, 13% of businesses expect higher levels of recruitment – the same proportion as in 2022 – while 28% expect same levels of recruitment in the next 12 months. A slightly higher proportion – 15% in 2022 and 18% in 2023 – expect lower levels of recruitment. For entry level jobs, 17% expect higher levels of recruitment and 15% expect lower levels, compared to 21% and 13% respectively in 2022.





### Businesses are doing all they can to match pay with inflation but cost pressures are weighing on them

- Nearly 4 in 10 businesses (38%) expect to increase pay in line with inflation while just 8% expect to increase it above inflation.
- Positively, fewer businesses expect to increase pay below inflation – from 34% in 2022 to 24% in 2023. 5% of businesses are planning to freeze pay, up from 3% in 2022, after a downward trend from 2021 (8%) and 2020 (33%).
- Of those impacted by the National Living Wage (NLW) increase, almost half (47%) are offsetting costs by raising prices. More than 4 in 10 businesses (41%) are increasing productivity through greater investment in new technologies and automation – up from 22% in 2022. A third of firms (33%) are increasing productivity by greater investment in training.
- Beyond its current remit, more than half of businesses (53%) believe that the Low Pay Commission (LPC) should focus on the extent to which increases in the NLW can be afforded by productivity gains rather than causing price rises and inflation. 44% of businesses continue to believe that the LPC should consider the impact of inflation on the living standards of NLW earners.



- Almost **nine in ten** businesses (87%) have taken action to support employees during the cost-of-living crisis, with more than **3 in 5** (61%) offering employees more flexibility to work at home to reduce transport and fuel costs and **nearly a half** (48%) giving staff one-off bonus payments. **Over a third** (36%) are bringing forward or having additional pay reviews.

### UK labour market competitiveness threatened by the lack of access to skills and labour

- 76% of businesses say that the UK labour market has become a less attractive place to invest and do business in the last five years – the most negative perception since the question was first asked in 2008.

- Looking ahead, three in five businesses (61%) believe that the UK labour market will become a less attractive place overall to invest and do business in the next five years, with fewer than one in ten (12%) expecting it to become more attractive overall.
- The main current threats to the UK's labour market competitiveness are seen as access to skills (77%), access to labour (66%) and the cost of living (61%).
- These threats are expected to persist in the years ahead, with access to skills (82%), access to labour (63%), and labour costs (56%) seen as the top three threats to competitiveness over the next five years.

### Shortages continue to impact businesses' ability to meet demand and grow

- 71% of businesses say they have been impacted by labour shortages in the last 12 months. Of those affected, more than half (54%) have been unable to grow and respond to new business opportunities despite demand. Nearly a third (31%) of impacted businesses have had to hold back investment in other parts of the business and nearly 1 in 5 (17%) have shrunk due to shortages.



- Firms have taken a number of steps to ease the impact of shortages, **including investing in training to upskill current employees (68%)**, investing in leadership and management capabilities to help engage and retain employees (65%) and investing in technology / automation to improve productivity and reduce reliance on labour (60%).

- To ease the impact of labour shortages, 68% of businesses believe the government should introduce incentives for technology and automation investment to boost productivity and 65% want the government to reform the Apprenticeship Levy to give employers flexibility to spend levy funds on a variety of training.
- To increase workforce participation of people who are economically inactive, businesses are offering flexible working and/or changing job design to appeal to a greater pool of talent (40%), changing the language used in job adverts (22%) and working in partnership with charities, foundations and outreach organisations to support people who are out of work into employment (16%).

- To increase workforce participation of those economically inactive, businesses believe the government should reduce the NHS backlog and waiting times for diagnosis and treatment (63%), change the tax system to incentivise employers to invest in the health of their workforce (49%) and increase employer awareness of the Access to Work grant scheme that aims to support disabled people start or stay in work (43%).

### **With shortages set to be the new normal, business wants political parties to focus on incentives to drive productivity to unlock growth**

- When asked about what political parties should prioritise, 82% of firms support introducing incentives to invest in productivity-boosting technology and automation. Nearly 3 in 5 businesses (59%) support making all skill levels permanently eligible for the Shortage Occupations List, while 62% of business support increasing the financial support provided through the Access to Work scheme to help employers to hire people with disabilities. More than half of businesses (54%) support the introduction of incentives for businesses to invest in workplace health measures.
- When consulted about the Labour Party's Employment Green Paper, one in six businesses (16%) support the introduction of sectoral collective bargaining through 'Fair Pay Agreements', only 10% support removing qualifying periods for employment rights, and only 8% of firms support extending employment application time periods from 3 to 6 months.

### **Investment in pay and training opportunities are key elements of any employment package to attract and retain talent**

- Looking to the year ahead, businesses expect their top workforce priorities to be maintaining or achieving high levels of employee engagement (48%), retaining talent (44%) and improving leadership and management skills (38%).
- Effective line management (41%) and pay (41%) are seen as the top drivers of employee engagement.
- With regards to attracting and retaining talent, two-thirds of businesses (66%) believe that investing in basic pay is the most important part of an employment package while more than half (53%) believe investing in training and development opportunities is important too.

## Supporting staff's health and wellbeing continues at the forefront of businesses' D&I agenda

- D&I is a priority for nearly more than nine in ten businesses (91%). More than half (54%) are prioritising supporting health and wellbeing, 39% improving inclusivity and building a culture of belonging, and 37% supporting a multi-generational workforce.
- Businesses expect health and wellbeing (48%), supporting a multi-generational workforce (39%) and improving inclusivity (39%) to be their D&I priorities in two years' time.



# The employment outlook suggests a new growth model is needed

**Endemic labour shortages, high levels of vacancies and demographic shifts are changing the way the UK's labour market has functioned for more than three decades...**

The UK's labour market found itself navigating uncharted territory as it emerged from the COVID-19 pandemic. One striking feature has been the persistently high number of vacancies since the economy reopened. More than two years on, vacancies have not returned to pre-pandemic levels and remain closer to a million (**Exhibit 1.1**). As our survey shows, the persistent lack of candidates has put a considerable strain on businesses, impacting their ability to grow and fulfil customer demand. The challenge of vacancies has evolved into a long-term issue with significant implications for the UK's economic prospects, impacting business confidence and their ability to spend more on growth as their budgets are primarily allocated to tackling the immediate impact of shortages. Skill and labour shortages have become a persistent and endemic problem, affecting businesses of all sizes and sectors, and leaving the UK at a competitive disadvantage in relation to its peers.

The situation has further exacerbated by the stagnation of the UK's labour market size because of long-term demographic change and the approach that political parties have taken on immigration (**Exhibit 1.2**). The nation's working-age population isn't expanding as it has been in the last 30 years, a trend projected to get worse in the coming years. Research from the Learning and Work Institute found that over the next 17 years, 1.4m more people will retire from the workforce than young people will enter it.<sup>2</sup> This means that the labour market won't see growth from more people participating in the workforce but will have to rely on increasing productivity and immigration to even maintain the size of the economy, let alone to grow.

### **...and productivity growth for 15 years hasn't helped to overcome the challenges associated with it**

Productivity growth in the UK has hit a roadblock. Since the global financial crisis in 2008, productivity has experienced a prolonged stall. Over the 14-year period between the financial crisis in 2008 and 2022 productivity growth averaged less than a third of the amount that had been sustained in the prior 14 years between 1993-2007. The productivity increases the UK has achieved have also been unevenly distributed across sectors and regions.<sup>3</sup> And the outlook is not promising - CBI's June economic forecast shows that productivity is expected to rise gently until the end of 2024 as growth in GDP outpaces employment growth, but it will remain 2% below its (already weak) pre-COVID trend, and 20% below its pre-financial crisis trend.<sup>4</sup> The consequence is that two engines of economic growth - labour supply and productivity - are no longer performing as effectively as they once did.



### The reality of UK's labour market demands a new strategy

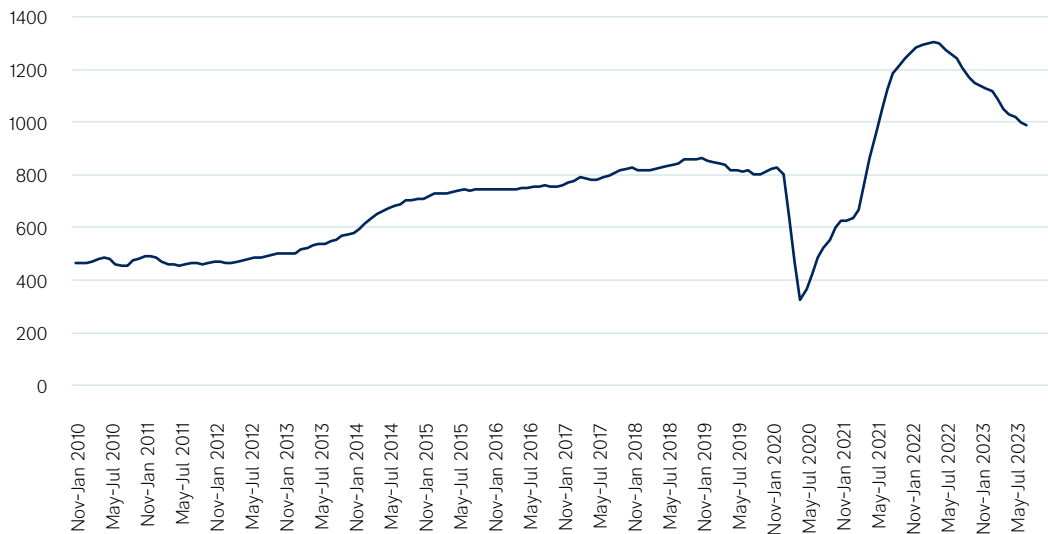
The challenges facing the UK labour market mean a new strategy is needed. The traditional approach of encouraging more people to enter the workforce is no longer a viable solution as there are fewer people left to activate than the scale of growth ambition. Instead, the focus must shift towards enhancing productivity through technology and automation while simultaneously removing barriers for those who want to work but can't.

A record 2.5m are economically inactive because of long-term sickness – of whom 592,000 want a job (**Exhibit 1.3**). The disability employment gap is also widening. Taken together, these people represent a significant untapped talent pool – of which, as many as possible of those who are able and want to work, should be supported into the workforce. Removing the barriers people face to work not only improves overall labour force participation but also addresses issues of inequality and lack of inclusion. In doing so, we can tap into an underutilised pool of talent, helping to mitigate the persistent skill shortages.

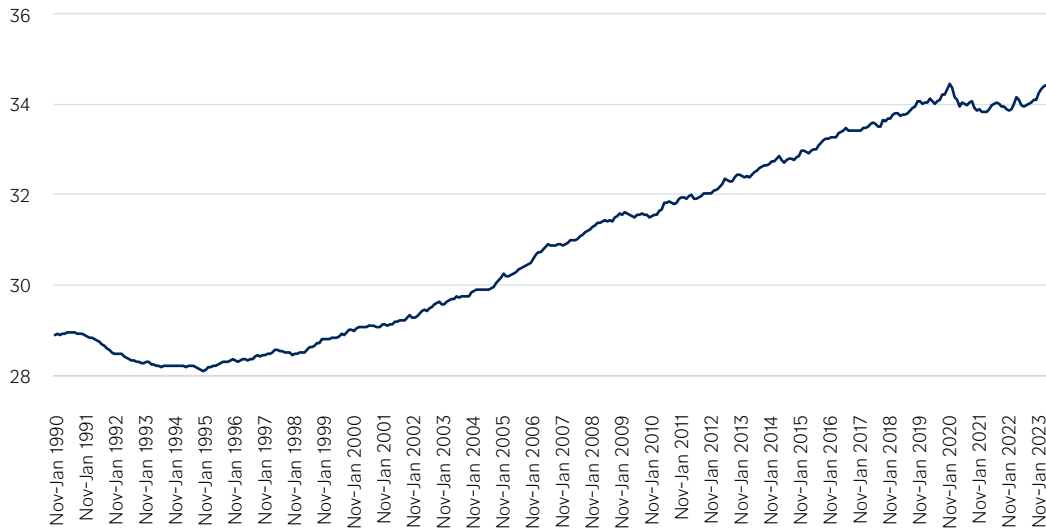
But to boost productivity, businesses also need incentives to invest in technology and automation. This can help firms to remain competitive and grow while mitigating shortages by reducing reliance on labour.

The UK labour market is in a state of transition. The dynamics post pandemic have accelerated a set of challenges that require a strategic and forward-thinking response. If the UK is serious about transitioning to a high-productive economy, it must shift from its old growth strategy reliant on adding more people into the labour market to a tech-focused, productivity-driven approach.

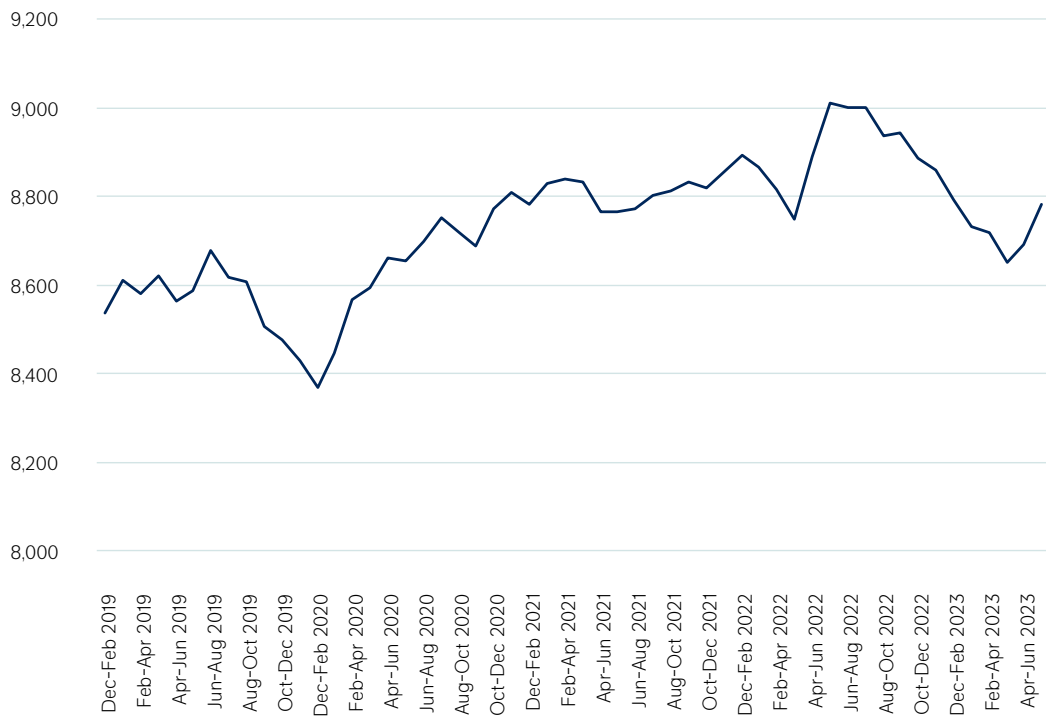
**Exhibit 1.1** Vacancies in the labour market (000s)



**Exhibit 1.2** Total economically active level, all aged 16 and over, (000s)



**Exhibit 1.3** Total economically inactive level, all aged 16 and over, (000s)





# Employers expect the size of their workforce to grow in the next 12 months

Employers are expressing a positive outlook for the next 12 months, expecting their workforce to grow – both in terms of permanent and temporary recruitment. With the cost-of-living easing for the first time in almost two years, employers see an opportunity to invest in their teams. Yet, labour shortages remain as a persistent challenge, with many employers struggling to find the talent they need to grow and unlock full potential.

## Key findings:

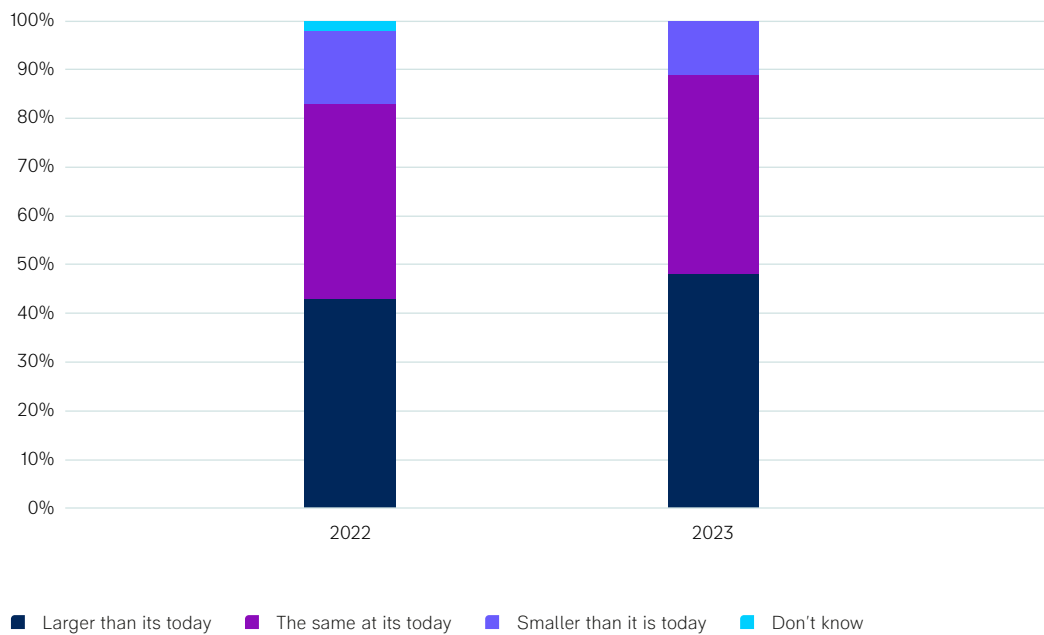
- Nearly half of businesses (48%) expect to grow their workforce in the next 12 months, up from 43% last year.
- One in ten businesses (11%) anticipate that their workforce will be smaller next year compared to 15% in 2022 – giving a balance of +37%, compared to +28% last year.<sup>5</sup>
- Approach to permanent recruitment in the next 12 months looks positive with nearly one in three businesses (31%) expecting higher levels of recruitment, 39% of firms expecting same level of recruitment and just one in six (16%) anticipating recruitment to be lower.
- In the temporary recruitment market, 13% of businesses expect higher levels of recruitment – the same proportion as in 2022 – while 28% expect same levels of recruitment in the next 12 months. A slightly higher proportion – 15% in 2022 and 18% in 2023 – expect lower levels of recruitment. For entry level jobs, 17% expect higher levels of recruitment and 15% expect lower levels, compared to 21% and 13% respectively in 2022.

### The outlook for job creation is positive with nearly half of businesses expecting to grow their workforce in the next 12 months

Nearly 1 in 2 businesses (48%) expect to create additional jobs over the next 12 months (**Exhibit 2.1**). This compares to 43% in 2022, showing that expectations for hiring have improved over the last year. In addition, just over one in ten firms (11%) expect their workforce to be smaller, while a similar proportion of businesses (41% in 2023 vs 40% in 2022) expect the size of their business to remain the same. This represents a balance of +37%, higher than 2022 (+28%).

Endemic labour shortages continue to impact firms across the country, and this means higher levels of recruitment as businesses are still looking to hire to fill long-standing vacancies. Equally, the easing of the cost of living for the first time in almost two years is leaving businesses with more financial room to invest in hiring meeting their growing demands.

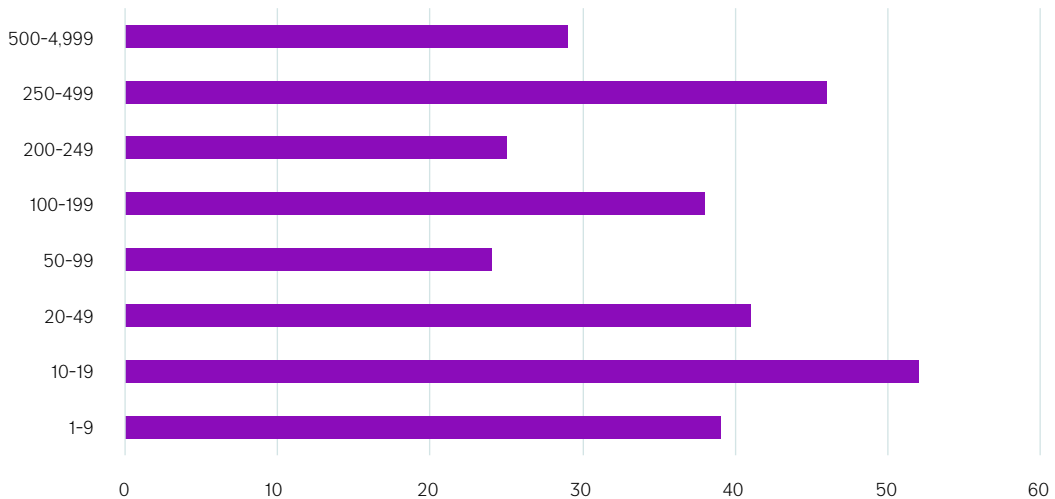
**Exhibit 2.1** Expected size of workforce in 12 months' time (% of respondents)



### Large and small firms share similar expectations for workforce growth over the next 12 months

Expectations for workforce growth in the next 12 months is shared among large and small firms. Among SMEs, a balance of +37% expect to take on more employees in the coming 12 months – similar to the balance for larger firms (+38%), showing the UK's positive outlook for recruitment across all sizes. When looking into more detail, the balance for businesses with between 10 and 19 employees is higher (+52%) compared to the average for small firms (+37%). Contrary, the balance for those firms with between 50 and 99 employees is lower – +24% compared to +37% (**Exhibit 2.2**).

**Exhibit 2.2** Balance of workforce growth over the next 12 months by size of business (% of respondents)<sup>6</sup>



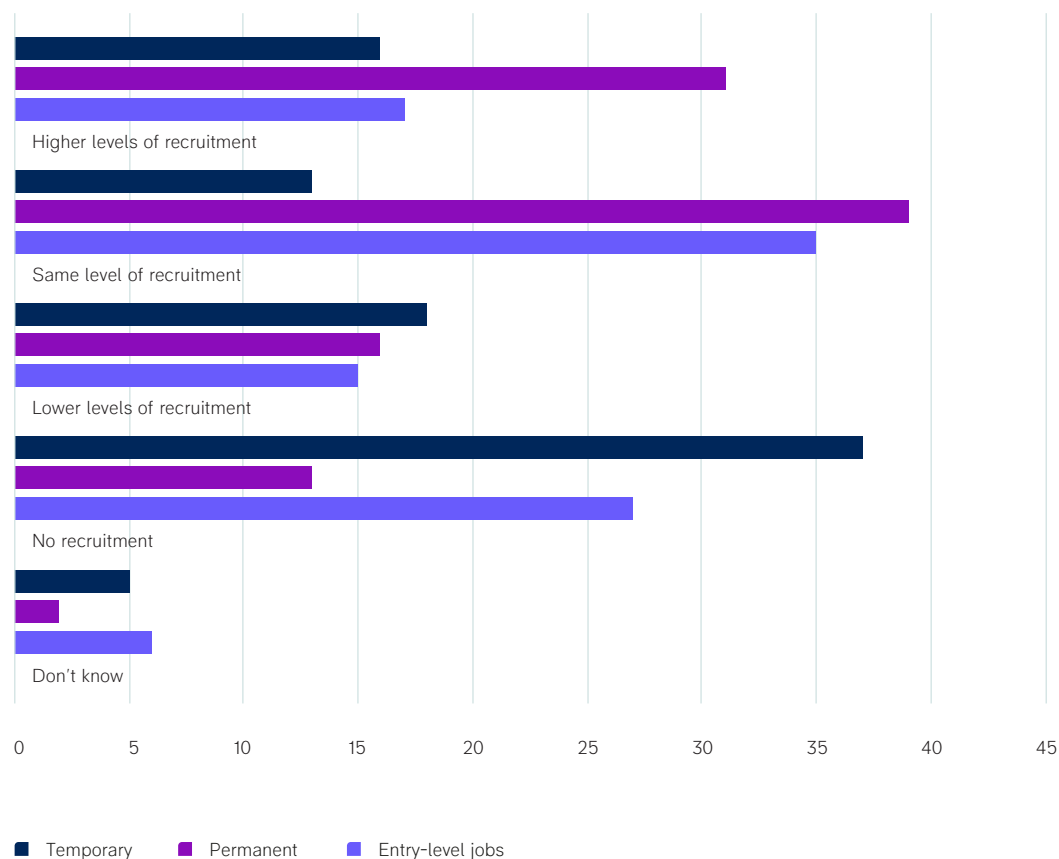
### Expectations for permanent jobs creation slightly softens for the next 12 months as well as for entry-level roles...

We asked firms to indicate their hiring expectations for permanent, temporary, and entry-level positions for the next 12 months. 7 in 10 firms (70%) expect to recruit permanent roles in the next 12 months, compared to 72% in 2022. A third of businesses (31%) expect higher levels of recruitment compared to 33% last year, and nearly two in five (39%) expect the same level of recruitment. Over one in six (16%) expect the rate of recruitment to be lower, compared to 13% in 2022.

When asked about their approach to recruitment for entry level jobs, 17% of businesses expect higher levels of recruitment – compared to 21% in 2022 – while 15% of firms expect recruitment to be lower, up from 13% last year (**Exhibit 2.3**). As entry level roles typically require businesses to invest more time in training and development, softening expectations in entry-level jobs are also likely to reflect that firms are finding it difficult to free up staff to provide training where others aren't available to back fill roles in a labour shortages environment.

The increase in youth unemployment should be a concern for both government and businesses. In the quarter to July 2023, youth unemployment of those aged 18-24 was 12.2% - an increase from 7.6% in the same quarter of 2022. Unemployment while young is linked to long-term reductions in wages, increased chances of subsequent periods of unemployment, and poorer health outcomes. In a context of labour shortages, government must pull all the levers available to mobilise and active UK talent.

**Exhibit 2.3** Plans for recruitment over the next 12 months (% of respondents)



## Businesses are doing all they can to match pay with inflation but cost pressures are weighing on them

Inflation may have fallen back over the summer, but domestic price rises remain a concern for businesses across the country. Despite the first return to real-wage growth for two-years being recorded in recent months, fewer than half of companies expect to be able to match pay increases with inflation in the next 12, suggesting that there may be another difficult year ahead. This coincides with more than a decade of slow real-wage and productivity growth, which will remain 2% below its already weak pre-pandemic trend at the end of 2024. Employers will need to invest heavily in their relationships with their workers to minimise disputes and maintain employee engagement. Policy makers will need to consider how best to implement measures that can drive sustainable wage growth through revived productivity instead of inflation.



### Key findings:

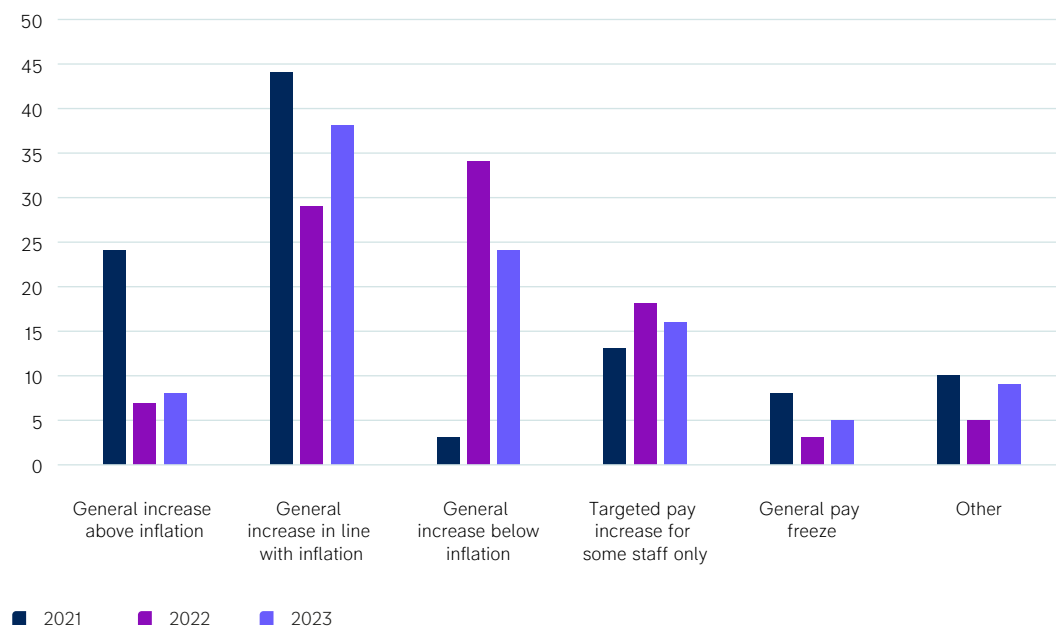
- Nearly 4 in 10 businesses (38%) expect to increase pay in line with inflation while just 8% expect to increase it above inflation.
- Positively, fewer businesses expect to increase pay below inflation – from 34% in 2022 to 24% in 2023. 5% of businesses are planning to freeze pay, up from 3% in 2022, after a continuing a downward trend from 2021 (8%) and 2020 (33%).
- Of those impacted by the National Living Wage (NLW) increase, almost half (47%) are offsetting costs by raising prices. More than 4 in 10 businesses (41%) are increasing productivity through greater investment in new technologies and automation – up from 22% in 2022. A third of firms (33%) are increasing productivity by greater investment in training.
- Beyond its current remit, more than half of businesses (53%) believe that the Low Pay Commission (LPC) should focus on the extent to which increases in the NLW can be afforded by productivity gains rather than causing price rises and inflation. 44% of businesses continue to believe that the LPC should consider the impact of inflation on the living standards of NLW earners.
- Almost nine in ten businesses (87%) have taken action to support employees during the cost-of-living crisis, with more than 3 in 5 (61%) offering employees more flexibility to work at home to reduce transport and fuel costs and nearly a half (48%) giving staff one-off bonus payments. Over a third (36%) are bringing forward or having additional pay reviews.

### The outlook for real-pay growth continues to be weak as businesses are squeezed by cost-pressures...

Nearly 4 in 10 businesses (38%) expect to increase pay in line with inflation at their next pay review. This is an increase on the 29% that expected to increase pay in line with inflation last year but is still the second lowest percentage recorded since 2015 (**Exhibit 3.1**). Fewer firms also expect to increase pay below inflation (24%) than last year (34%), but this is still much higher than the single digits recorded in other recent years.

These results may be reflective of the still abnormally high level of CPI inflation (6.7%) recorded when our survey was in the field, with many businesses knowing that they are unable to continue with high levels of pay growth without the corresponding productivity growth needed to afford it. It should however be noted that these expectations of below-inflation come despite forecasts that inflation will continue to fall back towards the Bank of England's 2% target next year. For many firms, this could reflect expectations that their capacity to afford further wage increases via further price rises for consumers has reached its limits, whilst for others, it may be indicative of wage settlements this year being afforded only by expectations of pay restraint next year. This means that in the longer-term it is incumbent on business and government to find ways to boost productivity growth to drive sustainable increases in wages.

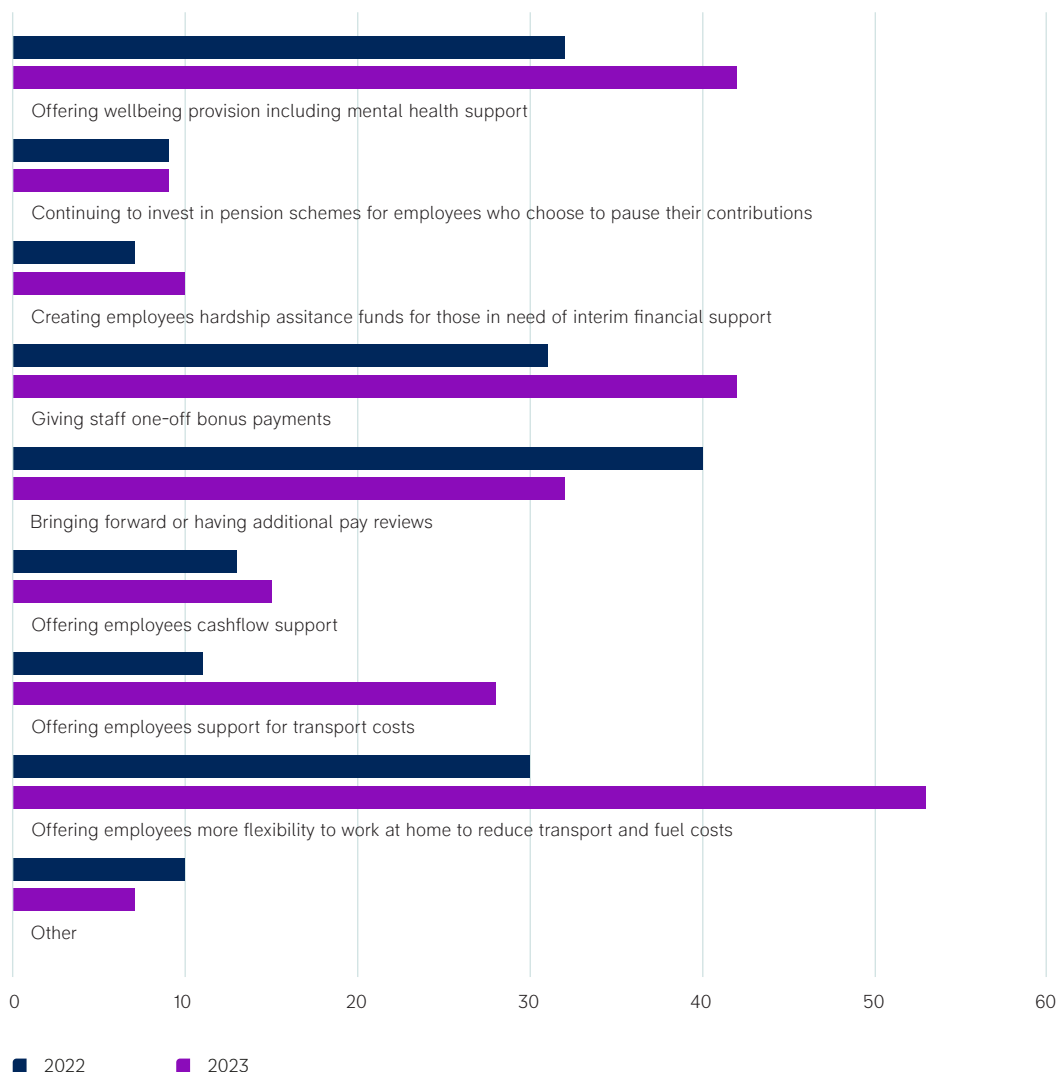
**Exhibit 3.1** Firms' approach to their next pay review (% of respondents)<sup>7</sup>



### Despite affordability concerns there has been no let-up in firms' commitment to help staff manage the cost-of-living

Nine in ten (87%) businesses say they are taking steps to help staff manage the cost of living, the same percentage as a year ago. 61% are offering employees more flexibility to work at home to reduce transport and fuel costs, which is a 27% increase on the percentage doing so last year. The second most prevalent action taken has been businesses offering wellbeing provision, including mental health support and advice for employees facing financial hardship (49%). With long-term sickness continuing to force large numbers of employees out of the labour market and into inactivity, this makes both moral and business sense. Businesses are also offering a range of financial support for those struggling with the cost-of-living, including giving staff one-off bonus payments (48%), bringing forward or having additional pay reviews (36%), creating employee hardship assistance funds for those in need of interim financial support (12%) and continuing to invest in pensions for employees who chose to pause their own contributions (10%) (Exhibit 3.2).

**Exhibit 3.2** Actions businesses are taking to support employees with the cost of living (% of respondents)<sup>8</sup>







### **Firms afforded last year's rise in the National Living Wage by reducing profit, putting up prices and cutting headcount...**

In April 2023 the National Living Wage (NLW) rose by a historic 9.7% to take it to £10.42. Next year, it is expected to rise again to reach the government's target of two-thirds of median income.

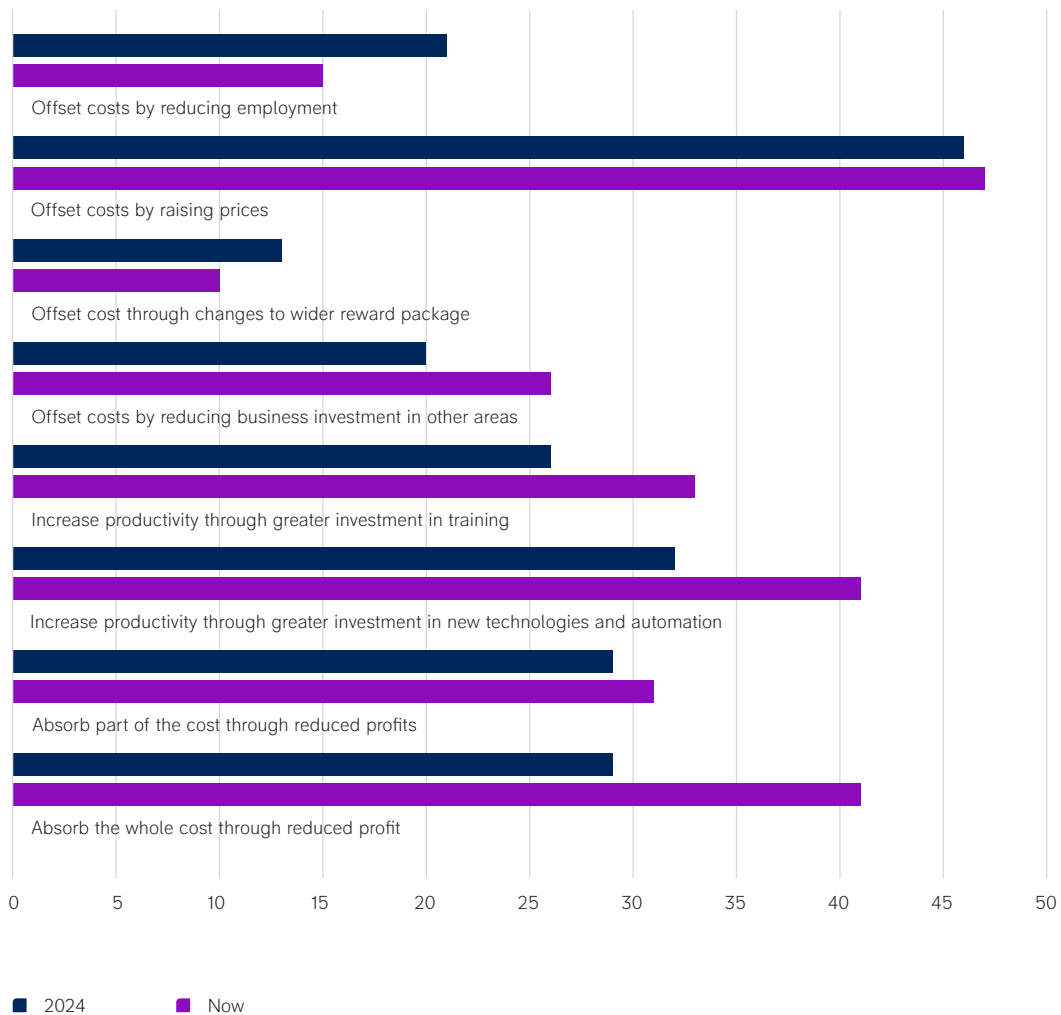
Of those businesses impacted by this year's rise in the NLW, 41% and 31% respectively absorbed the extra cost either wholly or partly through reduced profit, while more than one in four firms (26%) paid for the increase by reducing business investment in other areas – an 11% increase on last year. Concerningly, this indicates that many businesses had to compromise the budgets needed to drive growth in the future to pay for the increasing NLW this year (**Exhibit 3.3**). Consumers were also required to absorb some of the cost of the NLW increasing. Demonstrating both the inflationary impact of the NLW and its knock-on consequences for workers' cost-of-living across the income distribution, nearly half of businesses impacted by the NLW (47%) indicated that they had to offset the cost of it by raising prices.

This year's results also record a notable impact of the NLW on employment. The proportion of firms responding to the 2023 rise by reducing employment remains relatively low at 15% but has increased from 11% last year, signalling for the first time that the NLW may now be eating into firms' capacity to employ lower-paid workers.

**...but positively, more businesses are looking to increase productivity as a means of affording the rise in the NLW this year**

There was an uptick this year in the number of firms responding to the NLW by seeking to increase productivity through greater investment in new technologies and automation. Four in ten (41%) firms impacted by the NLW reported doing this this year, compared to just 22% last year. There was also a small uptick in those responding to the increased NLW through greater investment in training, with one in three (33%) doing this compared with close to a quarter (26%) last year. There was a similar spike in 2019 that didn't translate into productivity growth and therefore government action to support this investment is needed to avoid a repeat.

**Exhibit 3.3** Actions businesses are taking in response to the rise NLW now and in 2024 (% of respondents)<sup>9</sup>



**The cost of the NLW increasing in 2024 will however continue to be passed on in prices and the heightened focus on productivity appears to be short-lived**

Even with inflation forecast to fall, many businesses expect to continue to pass on the cost of the NLW increasing again to customers next year. Nearly a half of businesses (46% - just 1% less than this year) intend to increase prices in response to the NLW rising in 2024. Marginally fewer firms expect to offset the cost by reducing business investment in other areas, possibly reflecting the increasingly need to protect those budgets, with 20% reporting their intention to take that approach in 2024 compared with 24% this year. However, there is also a drop off in the percentage who will seek to afford the rise in the NLW by increasing productivity directly, with 32% responding with greater investment in new technologies and automation, and 26% investing in more training, compared with 41% and 33% for this year respectively. Alarmingly, the proportion of businesses intending to reduce headcount in response to the increased NLW will shoot up to one in five (21%) in 2024, compared to 15% this year and 11% last - an 11% increase in two years. Whilst rises in the NLW have typically defied predictions that they would result in unemployment, there is now some evidence that the NLW could have that effect in the years ahead.



### Firms are urging the Low Pay Commission to prioritise the productivity growth needed to drive real-wage increases in the longer-term...

With the two-thirds of median income target likely met next year, there is expected to be a new remit for the Low Pay Commission's set by government. In this regard, we asked businesses to select up to three factors that the LPC should prioritise when assessing future NLW rates, from a list of factors that are all likely to be taken into account to some extent. More than half (53%) of businesses said that the Low Pay Commission should focus on the extent to which increases in the NLW can be afforded by productivity gains rather than causing price rises and inflation. More than four in ten firms (44%) continue to believe that the LPC should consider the impact of inflation on the living standards of NLW earners

**(Exhibit 3.4).** Productivity growth is the only way to sustainably pay increases in the long run without a consequential impact on prices. Whilst rises in the NLW afforded by pay increases may be redistributive, businesses believe that the value of a relative income target has now been exhausted. This years' results show that instead, the focus should shift to how the NLW can incentivise or allow the investment in productivity growth needed to raise real-living standards.

**Exhibit 3.4** The NLW is expected to reach its target of two-thirds of median wages in April 2024. Beyond then, which of these factors do you believe the Low Pay Commission should prioritise when assessing revised rates for the NLW (% of respondents)<sup>10</sup>



# UK labour market competitiveness threatened by the lack of access to skills and labour

Continuing a trend of pessimism, most firms believe the UK's labour market competitiveness has deteriorated over the past five years. This trend marks the lowest level of attractiveness of the UK as a place to invest or do business since the question was first asked in 2008. Looking into the future, businesses think the UK will continue to lose its appeal for investment and business opportunities, posing further challenges to growth.

Unsurprisingly, the main concerns contributing to the decline in labour market competitiveness are access to skills, labour and the cost of living. While vacancies are decreasing, they are still higher than pre-pandemic levels, and businesses continue to struggle to find the talent they need to succeed. Looking ahead to the next five years, these concerns are anticipated to persist, with access to skills expected to become an even more pressing issue.

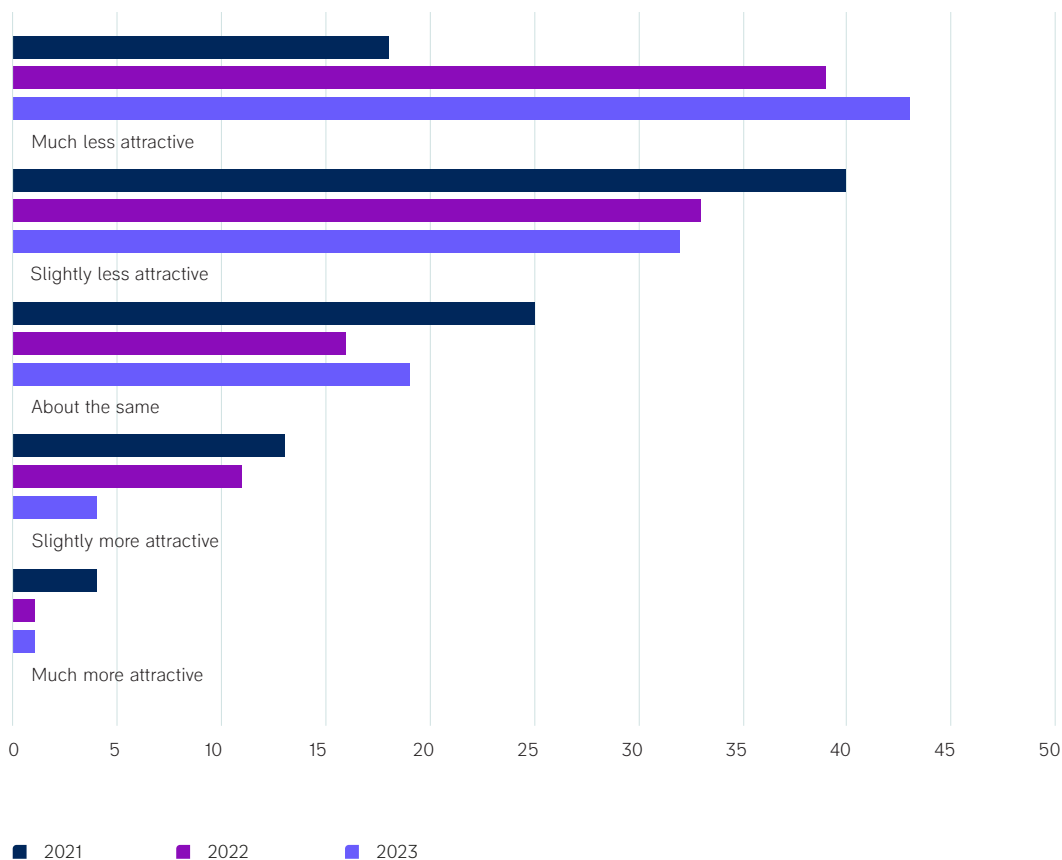
## Key findings:

- 76% of businesses say that the UK labour market has become a less attractive place to invest and do business in the last five years – the most negative perception since the question was first asked in 2008.
- Looking ahead, three in five businesses (61%) believe that the UK labour market will become a less attractive place overall to invest and do business in the next five years, with less than one in ten (12%) expecting it to become more attractive overall.
- The main current threats to the UK's labour market competitiveness are seen as access to skills (77%), access to labour (66%) and the cost of living (61%).
- These threats are expected to persist in the years ahead, with access to skills (82%), access to labour (63%), and labour costs (56%) seen as the top three threats to competitiveness over the next five years.

### A record proportion of UK firms think that the competitiveness of the UK labour market has deteriorated...

Following a continued downward trend, this year's survey reveals that more than three-quarters of businesses (76%) believe the UK has become a less attractive place to invest and do business in the past 5 years (**Exhibit 4.1**). This compares to 72% in 2022 and 58% in 2021 and is the highest proportion since we first asked this question in 2008. More than four in ten businesses (43%) believe the UK has become much less attractive while nearly one in three (32%) believe it became slightly less attractive. Only 5% of businesses believe the UK has become more attractive overall in the last 5 years, compared to 12% in 2022. This shows increasing pessimism among business leaders compared to previous years and continued concern about the attractiveness of the UK labour market as a place to invest and do business. This increase is likely due to the impact of on-going labour shortages affecting businesses of all sizes and sectors, and a level of uncertainty about the economic landscape with a General Election looming.

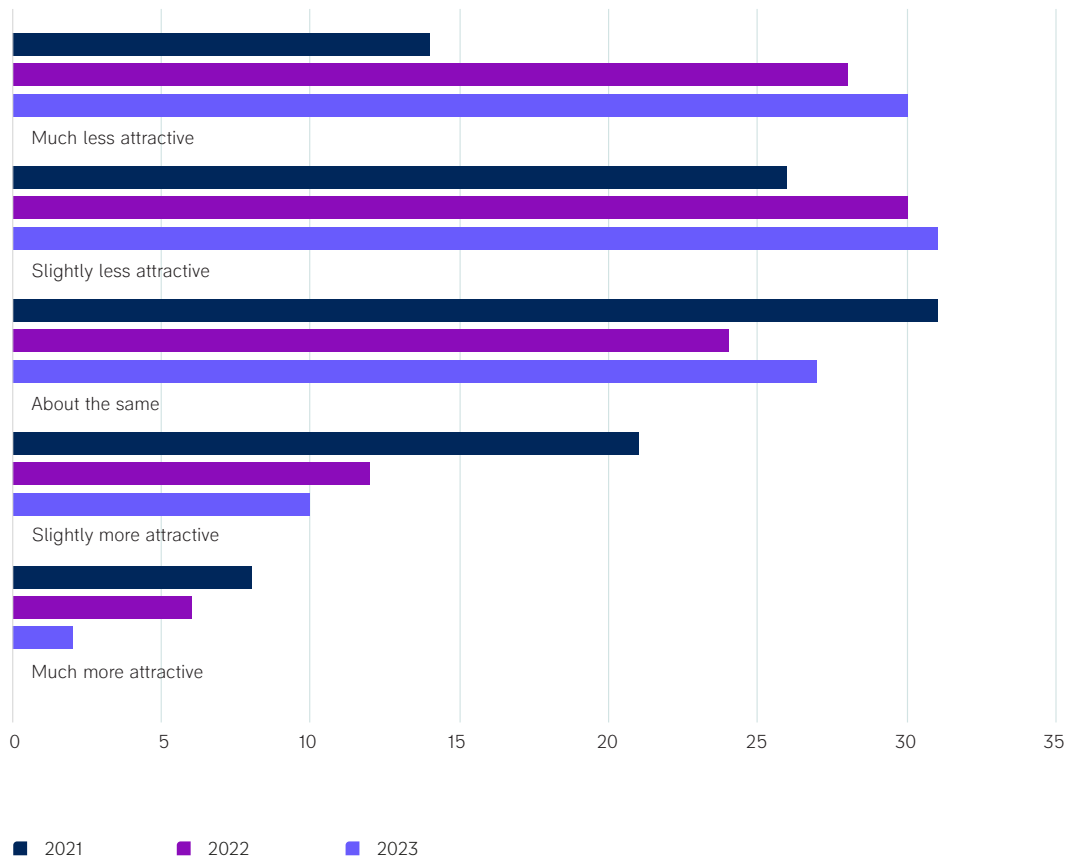
**Exhibit 4.1** The UK's labour market attractiveness as a place to invest/do business over the past five years (% of respondents)<sup>11</sup>



**...and fewer firms think that the UK labour market's competitiveness will return in the future**

Year-on-year, pessimism about the labour market's ability to help the UK out-compete its international rivals as a place to invest or do business continues to rise. Just 12% of businesses believe that the labour market will make the UK a more attractive place to invest and do business in the next five years, while 61% believe it will continue to become less attractive (**Exhibit 4.2**). Those businesses believing that the UK labour market will be a more attractive place to do business in 5-years' time has fallen from an already considerable low of 29% in 2021 and 18% in 2022. These figures are indicative of the structural trends impacting labour market participation, with demographic and health conditions underpinning elevated levels of inactivity and little sign that they will abate any time soon. Without action from across government to tackle labour shortages and the cost of doing business there is a danger that pessimism may become more entrenched, and that the UK labour market will continue to be a drag on investor sentiment rather than the key competitive advantage that it once was.

**Exhibit 4.2** The UK's labour market attractiveness as a place to invest/do business in 5 years' time (% of respondents)<sup>12</sup>



## Access to skills and labour remain the top labour market concerns for UK firms

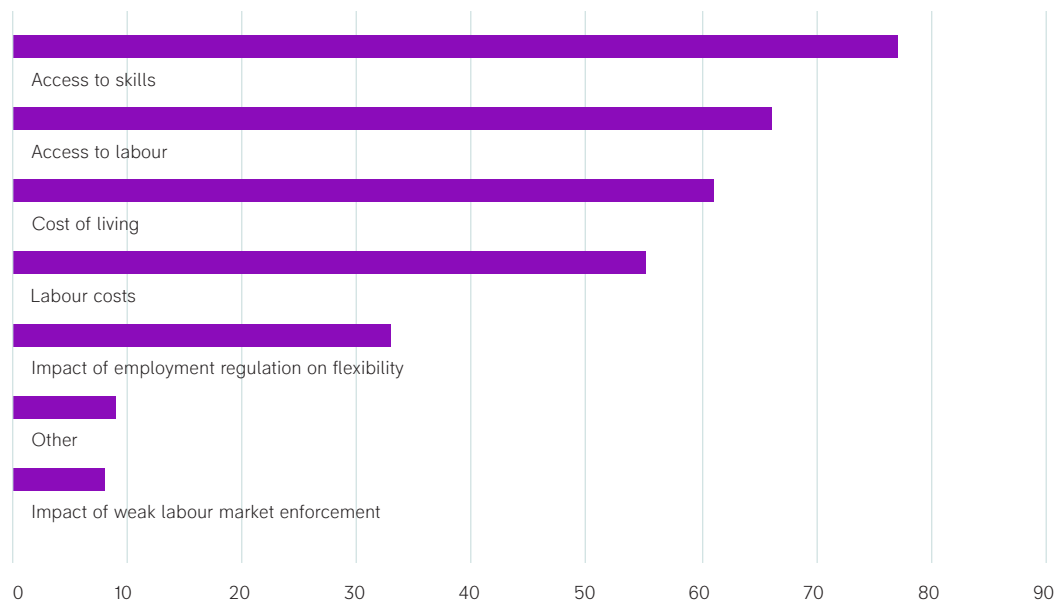
The biggest threats to the labour market's competitiveness are access to skills and labour, with the cost-of-living and elevated labour costs close behind them. Over three-quarters of businesses (77%) cite a lack of access to skills as a threat to competitiveness this year, while access to labour is cited as a threat by two-thirds (66%) of respondents (**Exhibit 4.3**). This is a reversal on last year, when access to labour (75%) marginally beat access to skills (72%) as the top labour market threat and is a return to the trend of access to skills being the number one concern seen in every other year but last for the past decade.

Businesses long-standing concern about their access to skills has been mirrored in repeated calls for policy change. An example of this is the Apprenticeship Levy; in England, the levy can only be used on the assessment and delivery of apprenticeships therefore ignores the non-apprenticeship options that can drive businesses forward. By reforming the apprenticeship levy so that it ringfences levy funds for high-quality training beyond apprenticeships, businesses will be able to invest in a broader form of accredited and modular courses that better addresses their skills needs.

Businesses' long-standing concern about their access to skills has been mirrored in their repeated calls for skills system reform. The Apprenticeship Levy restricts businesses from spending their training budgets on the broad range of skills they need to meet their growth ambitions and has prevented the take-up of the shorter, modular courses that can support a new culture of lifelong learning. Instead, the Levy should be turned into a Skills Challenge Fund, with full flexibility for businesses on the types of training they can spend it on. Beyond skills, when it comes to access to labour, government should take a pragmatic approach to immigration and continue to take action to help those inactive overcome barriers to get back into work. Incentives to help business invest in automation and new technologies to drive productivity should also be a government priority.



**Exhibit 4.3** Current threats to UK labour market competitiveness  
(% of respondents)<sup>13</sup>

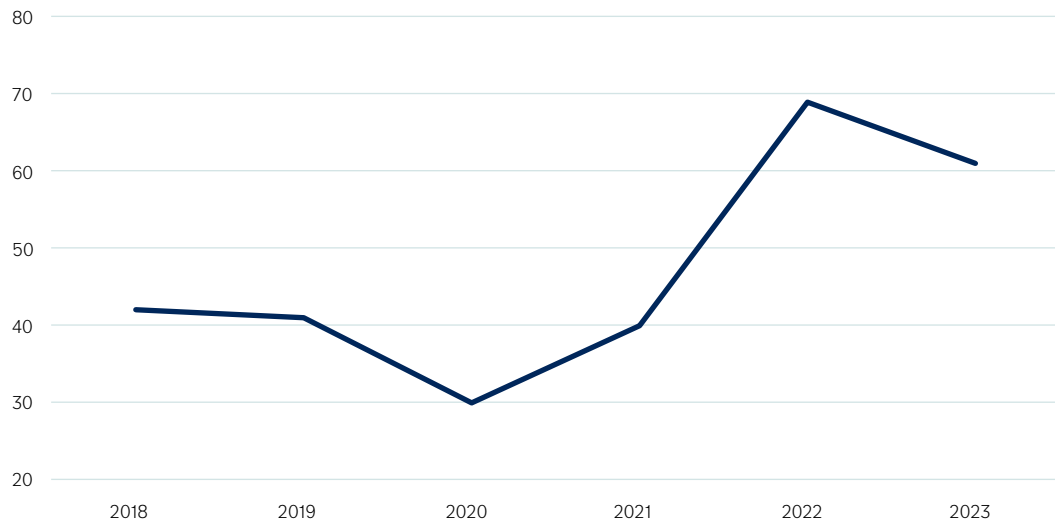


### **Inflation may be receding but concerns about the cost of living and labour costs remain...**

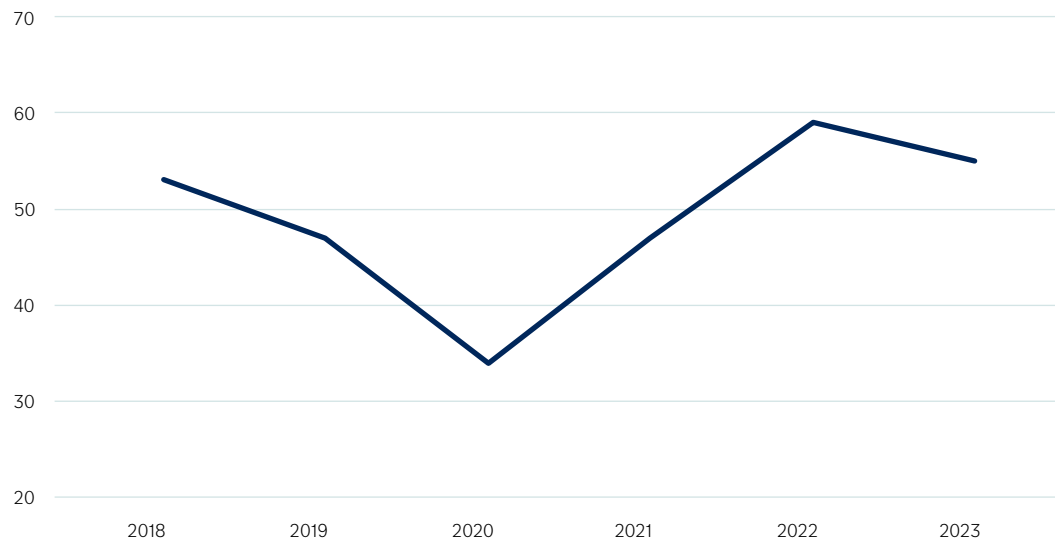
UK inflation (CPI) rose by 4.6% in the 12-months to October 2023, continuing its fall from its 11.1% historic 41-year high in October 2022, but it still remains well above the Bank of England's 2% target.<sup>14</sup> The impact of inflation on households and consumers is hard to overstate and this is reflected by 61% of businesses citing the cost-of-living as a threat to competitiveness this year (**Exhibit 4.4**). Despite inflation dropping off, this is only 8% below the 69% citing the cost-of-living as a threat to competitiveness in 2022 and is still well above the longer-term trend.

More than half of businesses (55%) say that labour costs are a threat to competitiveness this year; the second highest percentage recorded since 2016, and only eclipsed by the 59% recorded last year (**Exhibit 4.5**). Labour shortages have meant firms increasing pay to try and retain or attract talent, whilst businesses have also done all they can to ease cost-of-living pressure for staff. Without productivity growth however increased pay can only be passed on in prices for consumers. Business investment is the only route available to help to reduce costs and drive sustainable levels of growth.

**Exhibit 4.4** Rise of the cost of living as a threat to UK competitiveness  
 (% of respondents, 2018-2022)



**Exhibit 4.5** Rise of labour costs as a threat to UK competitiveness  
 (% of respondents, 2018 - 2023)

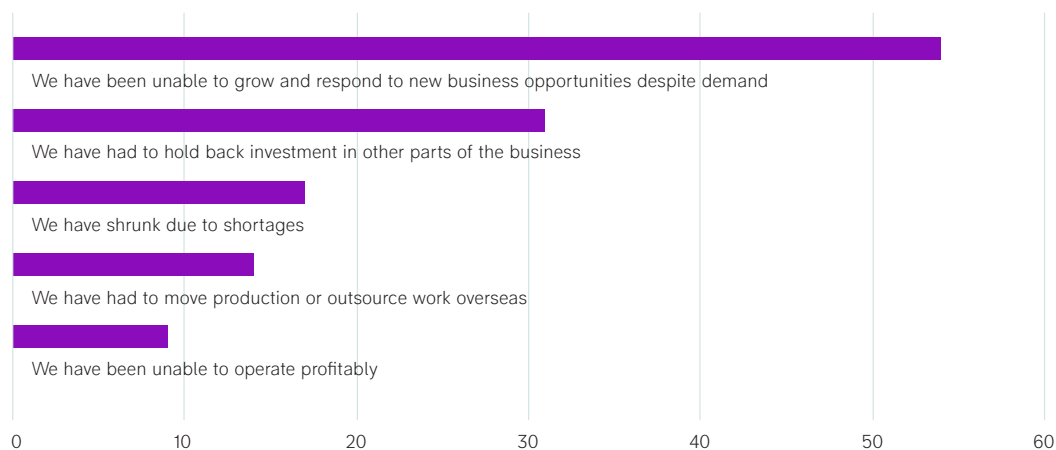


### ...and must be addressed to mitigate the future threats to UK labour market competitiveness

To revive economic growth, businesses need access to the skills and people required to deliver it, alongside the capacity to bring forward the investment that drives it. This year's survey suggests that there is general pessimism about the UK economy's ability to turn things around, with many of the same concerns at the forefront of business' minds now also featuring when asked to consider the future threats to labour market competitiveness. More than 8 in 10 businesses (82%) believe access to skills will be a threat to competitiveness in five years, compared to 77% this year, suggesting that these issues are expected to become even worse. Access to people is expected to ease slightly, with 63% believing access to labour will be a threat to competitiveness in five years' time compared to 66% now, but this decline is only marginal and shows the endemic nature of the issue. More positively, there is hope that cost-of-living pressures will abate, with 43% seeing it as a threat in five years' time compared to 61% today (**Exhibit 4.6**).

These results reflect firms' doubt that the labour market itself can again be a driver of growth. However, there are policies that can be taken to ease the long-run structural trends hampering its competitiveness. To build a higher-wage, prosperous economy, businesses need a skills system that can respond in real time to the changes being brought on by new technologies and an immigration system they can draw on, where necessary, to plug shortages. Action is also needed to limit wider rising costs on businesses so that they have the capital available to bring forward the investment needed to boost productivity. This should include a holistic approach to labour market regulation that assess not only the value of interventions on their individual merits, but their sum contribution to businesses' ability to go for growth.

**Exhibit 4.6** Future threats to UK labour market competitiveness  
(% of respondents)<sup>15</sup>





**"Business investment is the only route available to help to reduce costs and drive sustainable levels of growth."**

## Shortages continue to impact businesses' ability to meet demand and grow

Without the right skills and people investment plans cannot be delivered and businesses will struggle to grow. For the past two years, shortages have turned from being problematic to being endemic, with firms across the country finding that they are unable to meet consumer demands because of them. While vacancies are now decreasing, they are still higher than pre-pandemic levels, and are particularly concentrated in certain areas, such as health, retail, accommodation and food services.<sup>16</sup> The tightness in the labour market has been caused by rising economic inactivity colliding with lower economic migration. A record 2.5m are now economically inactive because of long-term sickness.<sup>17</sup> This has plunged businesses into crisis-mode, with many curtailing investments in tomorrow to deal with the cost of plugging shortages today. With demographic trends suggesting shortages are here to stay, it is imperative that the UK now looks to an alternative growth model centred on productivity increases rather than expanding labour supply. To do this, businesses and government will need to work together to support greater automation and technology adoption, whilst further measures to remove barriers to get people back into work and strategic use of the immigration system will be crucial for allowing businesses the space they need to invest.

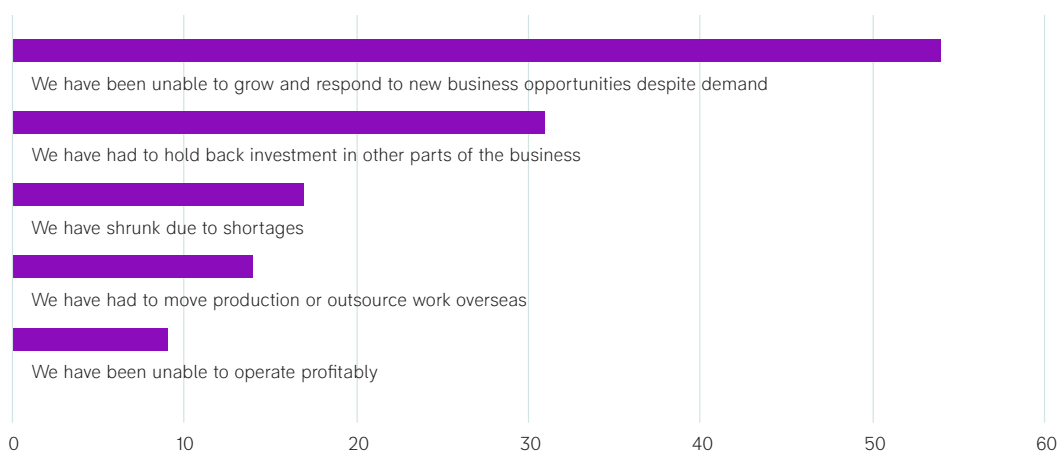
### Key findings:

- 71% of businesses say they have been impacted by labour shortages in the last 12 months. Of those affected, more than half (54%) have been unable to grow and respond to new business opportunities despite demand. Nearly a third (31%) of impacted businesses have had to hold back investment in other parts of the business and nearly 1 in 5 (17%) have shrunk due to shortages.
- Firms have taken a number of steps to ease the impact of shortages, including investing in training to upskill current employees (68%), investing in leadership and management capabilities to help engage and retain employees (65%) and investing in technology / automation to improve productivity and reduce reliance on labour (60%).
- To ease the impact of labour shortages, 68% of businesses believe the government should introduce incentives for technology and automation investment to boost productivity and 65% want the government to reform the Apprenticeship Levy to give employers flexibility to spend levy funds on a variety of training.
- To increase workforce participation of people who are economically inactive, businesses are offering flexible working and/or changing job design to appeal to a greater pool of talent (40%), changing the language used in job adverts (22%) and working in partnership with charities, foundations and outreach organisations to support who are out of work into employment (16%).
- To increase workforce participation of those economically inactive, businesses believe the government should reduce the NHS backlog and waiting times for diagnosis and treatment (63%), change the tax system to incentivise employers to invest in the health of their workforce (49%) and increase employer awareness of the Access to Work grant scheme that aims to support disabled people start or stay in work (43%).

### Labour shortages mean growth is being left on the table...

The impact of shortages has been felt by more than two-thirds of UK businesses (71%) in the last 12 months. Of those affected, more than half (54%) have been unable to grow and respond to new business opportunities despite demand from customers. Nearly a third (31%) of impacted businesses have had to hold back investment in other parts of the business and nearly 1 in 5 (17%) have even shrunk due to shortages (**Exhibit 5.1**). With only marginally more businesses impacted by shortages last year (75%), this shows that despite official data showing unemployment increasing, employment decreasing and vacancies going down, the problem is not going away and is still significantly undermining the country's capacity to grow.

**Exhibit 5.1** The impact that labour shortages are having on businesses (% of respondents)<sup>18</sup>

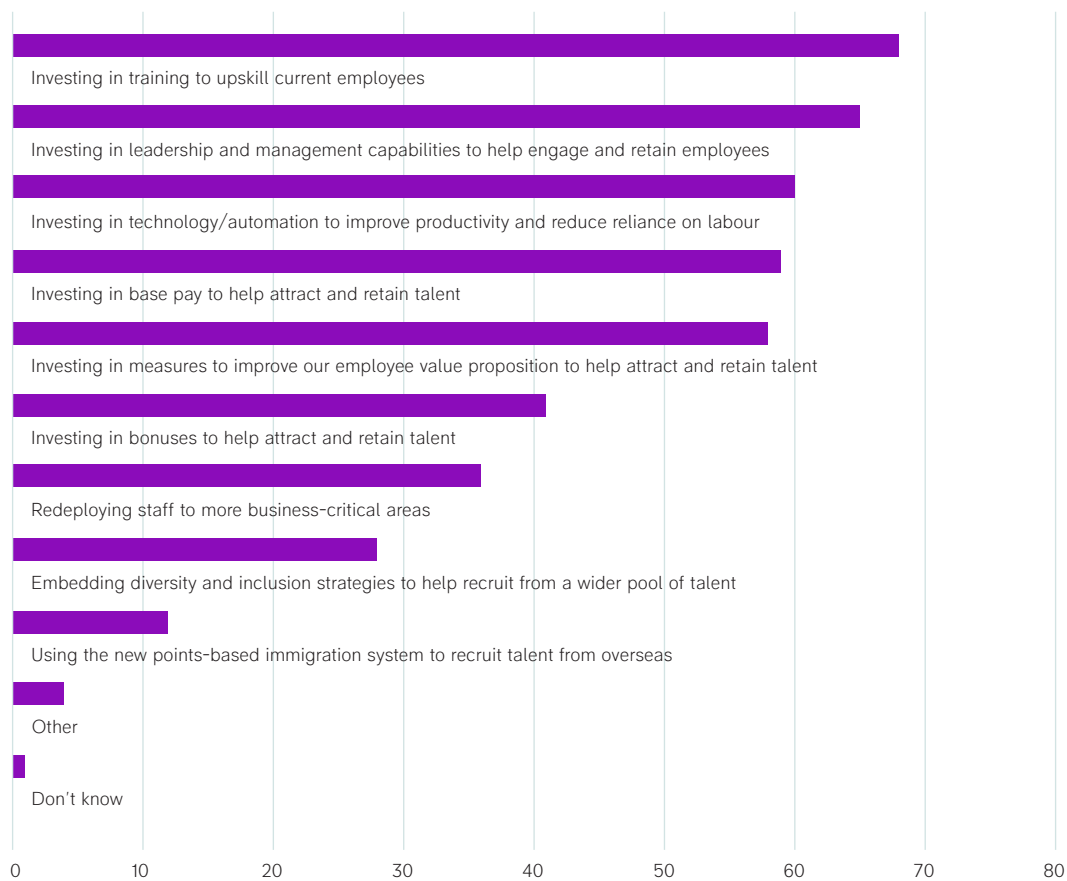


### ...despite businesses doing all they can to find the people they need

The highly resilient wage growth seen across the economy this year is just one consequence of businesses' efforts to address their labour shortages, with 59% saying they are investing in base pay to help attract and retain talent. On the macro-level, this is only moving shortages across the economy from those businesses and sectors that can afford higher pay to those that cannot. This is one of the reasons why many firms are also looking at what they can do to increase the productivity of their existing staff to plug gaps. Over two-thirds are investing in training to upskill current employees (68%) and investing in leadership and management capabilities to help engage and retain employees (65%). Three in five businesses (60%) are investing in technology and automation to improve productivity and reduce reliance on labour (**Exhibit 5.2**).

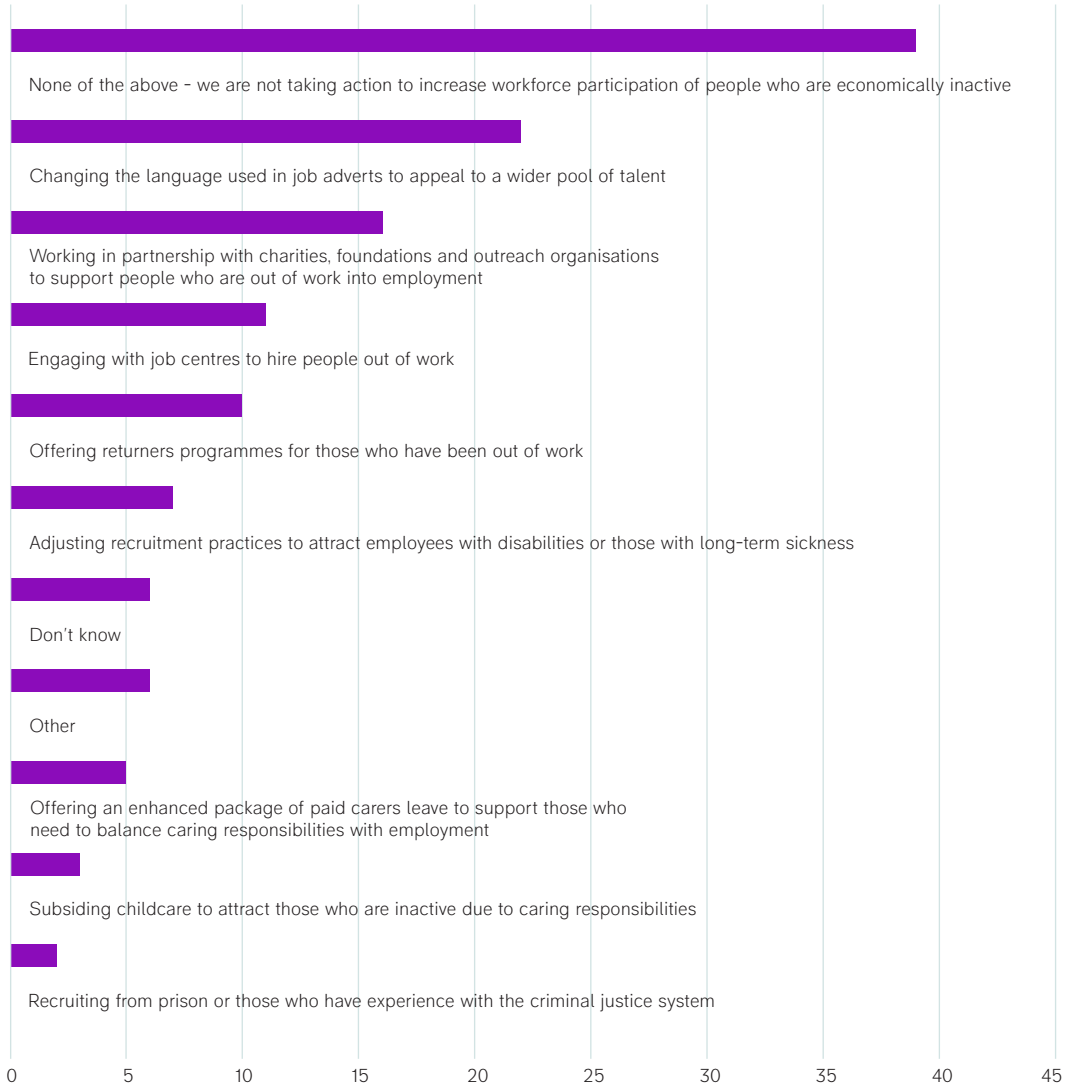
Some businesses are also doing more to consider ways they can improve their wider employee value proposition to both help them compete for talent but also to appeal to those who are currently inactive. Nearly one in three businesses (28%) are embedding diversity and inclusion strategies to help recruit from a wider pool of talent and 40% are offering flexible working and/or changing job design to appeal to a wider pool of people. Similarly, 22% are changing the language used in job adverts as a way of appealing a broader pool of talent and 16% are working in partnership with charities, foundations and outreach organisations to support those who are out of work into employment (**Exhibit 5.3**).

**Exhibit 5.2** The steps businesses have taken to ease the impact of labour shortages (% of respondents)



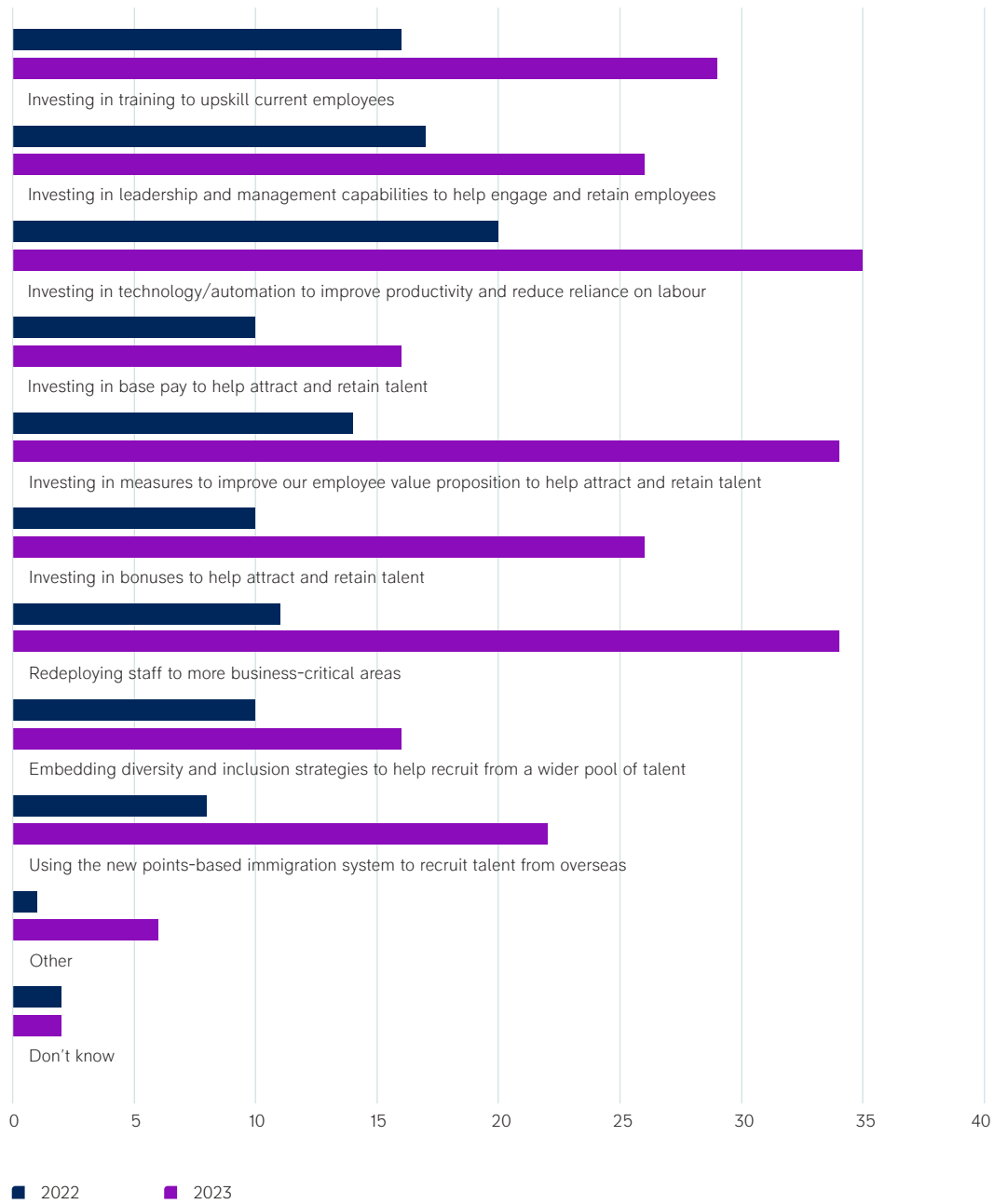


**Exhibit 5.3** Actions employers are taking to increase workforce participation of people who are economically inactive (% of respondents)



Knowing that a squeezed labour supply is likely to be a long-term feature of the British economy, businesses are also thinking more about the steps they can take in the future to counter shortages. The percentage considering investing in technology/automation to improve productivity and reduce reliance on labour in the future has jumped from 20% last year to 35% this year. Nearly one in three firms (29%) are now considering what further investment in training to upskill current employees they can bring forward in the future, compared to 16% last year. The percentage of those now considering what they can do to improve their employee value proposition to help attract and retain staff has also more than doubled, with 34% now thinking about this compared to 14% last year. Continuing the theme of businesses thinking more about how they can make better use of their existing workforces, 34% are thinking about whether they can redeploy staff to more business-critical areas, compared to 11% who were considering this last year (**Exhibit 5.4**).

**Exhibit 5.4** The steps businesses are considering taking to ease the impact of labour shortages (% of respondents, 2022 & 2023)



### **Government support for automation and tech adoption and reform of the skills system are key to tackling shortages...**

Ensuring that the labour market can be as supportive as it can be of growth in the future will require policymakers helping businesses to become less reliant on labour. This year's survey results show that nearly seven in ten businesses (68%) believe that government can help reduce businesses' reliance on labour by introducing incentives to help them invest in technology and automation to boost productivity. 65% of firms also think the government can do more to help them train the existing staff by reforming the Apprenticeship Levy to give employers flexibility to spend levy funds on a variety of training to help fill shortage roles. These responses have both increased from 46% and 40% last year respectively, indicating that businesses believe the need for them is accelerating (**Exhibit 5.5**).

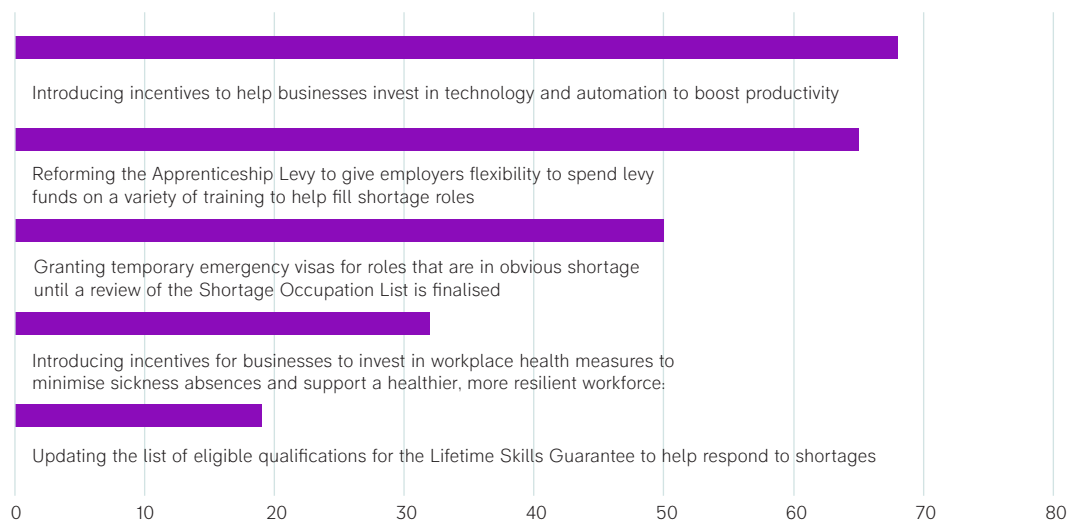
### **...while tax incentives to invest in workforce health, tackling the NHS backlog and a pragmatic approach to immigration will help limit the extent to which labour supply continues to drag on growth**

Despite some recent easing of vacancies, demographic trends suggest that the labour market will continue to tighten in the long run. Research from the Learning and Work Institute found that over the next 17 years, 1.4m more people will retire from the workforce than young people will enter it.<sup>19</sup> Policy makers can however take measures to limit the extent to which labour supply continues to contract and must do so to give businesses the time and space needed to bring forward the investment in automation, technology and skills required to transition to a productivity-led growth model.

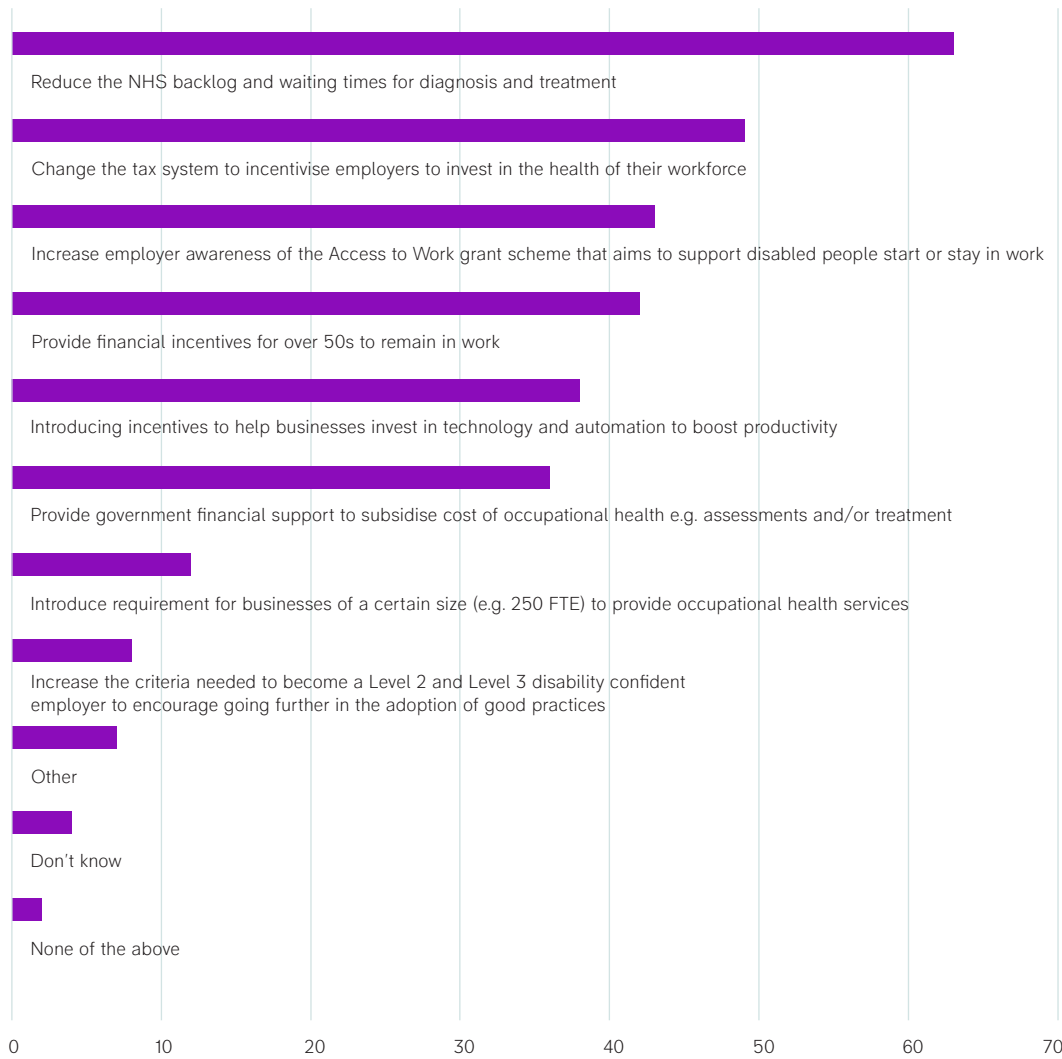
When the survey was in the field, the review of the Shortage Occupation List (SOL) had not yet been published and that's why, by then, half of businesses (50%) responded that the government should grant temporary emergency visas for roles that are in obvious shortage until a review of the SOL is finalised. The review was completed in October 2023 and included only a few jobs in the list. One in three businesses (32%) believe government should introduce incentives for businesses to invest in workplace health measures to minimise sickness absences and support a healthier, more resilient workforce. One in five businesses (19%) also think government should update the list of eligible qualifications for the Lifetime Skills Guarantee to help respond to shortages. This could be explained by the fact that Lifetime Skills Guarantee courses subsidise 400 courses at level 3, which are not an appropriate match for all employers' skills and training needs.

To increase the workforce participation of people who are economically inactive businesses believe that tackling the NHS backlog is crucial. 63% cite the need for government to tackling NHS backlog and waiting times for diagnosis this year. Businesses also think that government should look to change the tax system to incentivise employers to invest in the health of their workforce (49%). Better access and increased uptake of occupational health services across industry would help reduce the number of people leaving work due to long-term sickness and government can take an immediate step towards this by making all Employee Assistance Programmes (EAPs) a fully tax-free benefit. Businesses also believe that government could usefully look to increase employer awareness of the Access to Work grant scheme that aims to support disabled people start or stay in work (43%) and should expand mental health support for employers and employees (38%) to tackle inactivity (**Exhibit 5.6**).

**Exhibit 5.5** Measures businesses think the government should prioritise to help ease the impact of shortages (% of respondents)<sup>20</sup>



**Exhibit 5.6** Measures businesses think the government should prioritise to help ease the impact of shortages (% of respondents)<sup>21</sup>





"Ensuring that the labour market can be as supportive as it can be of growth in the future will require policymakers helping businesses to become less reliant on labour."

# With shortages set to be the new normal, businesses want the political parties to focus on incentives to drive productivity to unlock growth

2024 will be an election year. As it draws nearer the political parties' priorities for government are becoming clearer; but what do businesses' think the next government should do to ensure the labour market can support growth? Reflecting three-years now of endemic labour shortages, this year's survey shows that businesses' main ask is for government to support them in their efforts to reduce their reliance on people through investment in productivity-boosting technology and automation. Many are also looking to government to help increase labour supply through support for workforce health interventions and a strategic approach to immigration. When it comes to the employment law proposals already set out by the Labour Party, businesses appear to be sceptical that some of the reforms will drive productivity and growth as Labour expects.

## Key findings:

- When asked about what priorities political parties should prioritise, 82% of firms support introducing incentives to invest in productivity-boosting technology and automation. Nearly 3 in 5 businesses (59%) support making all skill levels permanently eligible for the Shortage Occupations List, while 62% of business support increasing the financial support provided through the Access to Work scheme to help employers to hire people with disabilities. More than half of businesses (54%) support the introduction of incentives for businesses to invest in workplace health measures.
- When consulted about the Labour Party's Employment Green Paper, one in six businesses (16%) support the introduction of sectoral collective bargaining through 'Fair Pay Agreements', only 10% support removing qualifying periods for employment rights, and only 8% of firms support extending employment application time periods from 3 to 6 months.

## **Businesses believe addressing labour shortages should be the next government's number one labour market priority**

By far the most popular intervention from government would be helping businesses tackle labour shortages through the introduction of incentives to invest in productivity-boosting technology and automation, with 82% of firms indicating their support for this (**Exhibit 6.1**). Whilst still a relative wildcard at this stage, there are promising signs that the rollout of new technologies like generative Artificial Intelligence (AI) and large language models have the potential to transform jobs and workplaces. With the lowest robot density in the G7, there is also potential for the UK to make significant gains from higher levels of automation.<sup>22</sup> Capitalising on these opportunities now could be key for reviving productivity and helping the UK carve out new competitive advantages.

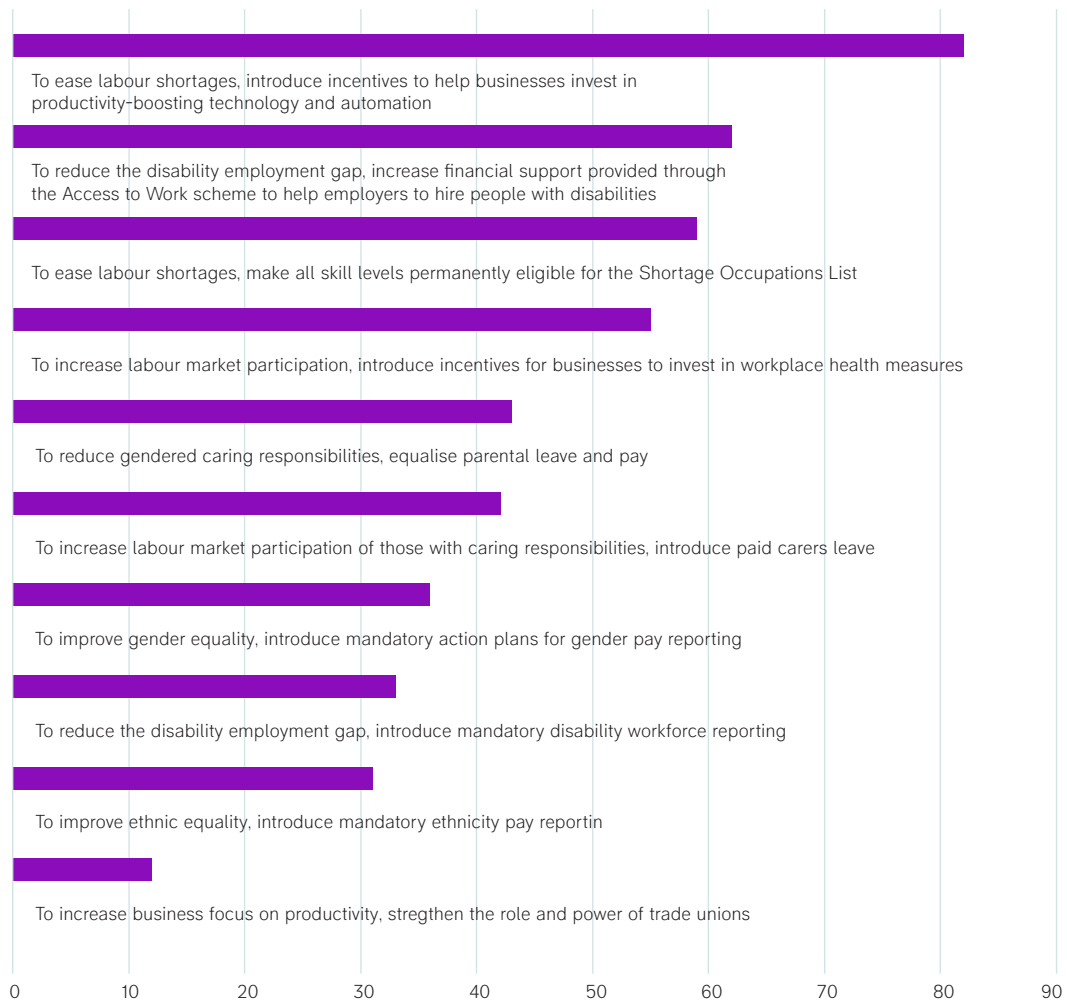
Many businesses also see enormous value in further government measures aimed at labour market participation. In line with CBI's policy recommendation at the Autumn Statement, more than three in five businesses (62%) support increased financial support provided through the Access to Work scheme to help employers to hire people with disabilities; this would not only increase the labour supply but would help mitigate the widening disability employment gap.

More than half of businesses (55%) support the introduction of incentives for businesses to invest in workplace health measures, with only 8% in opposition. Making all Employee Assistance Programmes (EAPs) a fully tax-free benefit could be a useful start in this area, whilst HMRC's guidance also needs to be clearer that any kind of welfare counselling provision and reimbursements for health and safety eye tests and glasses are non-taxable to instantly reduce administrative pain points for businesses. Government could also provide a targeted SME subsidy for procuring occupational health services, delivering a suggested 80% relief on the cost, following the pilot expansion announcement at the Spring Budget.



Not all levers available to the government come with a fiscal cost attached. Businesses clearly support a controlled but strategic approach to immigration that better ensures they can access the people and skills they need. 58% of businesses support making all skill levels permanently eligible for the Shortage Occupations List.

**Exhibit 6.1** Priorities political parties should prioritise for their manifestos (% of respondents)



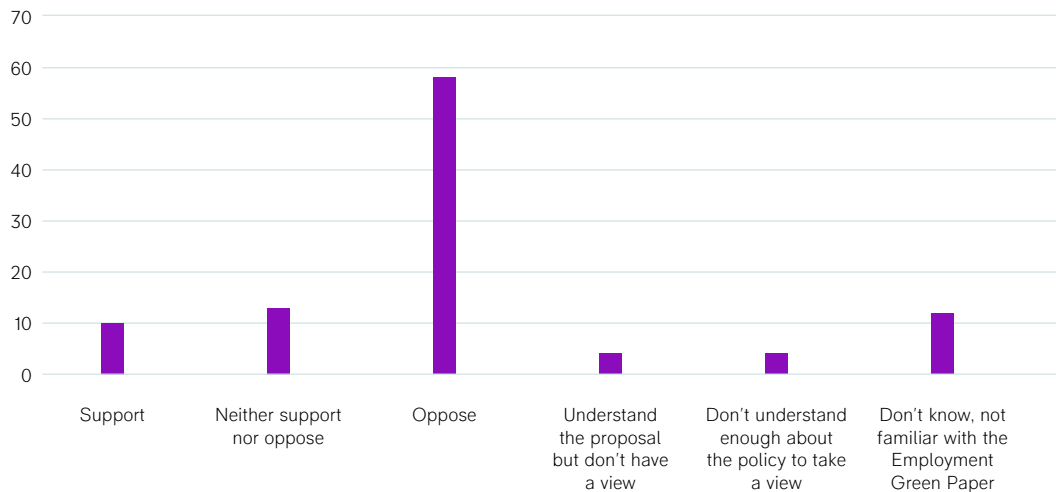
## Labour's employment agenda is causing concern among businesses

Recent polling by MPH/Savanta indicates that the Labour Party's efforts to appeal to businesses are working, with 45% describing Labour as "best for business" compared to 32% saying the same for the Conservatives.<sup>23</sup> Our survey however reveals scepticism about some of the Party's employment policy proposals as set out in its New Deal for Working People green paper and recently confirmed as Party policy in the National Policy Forum report.

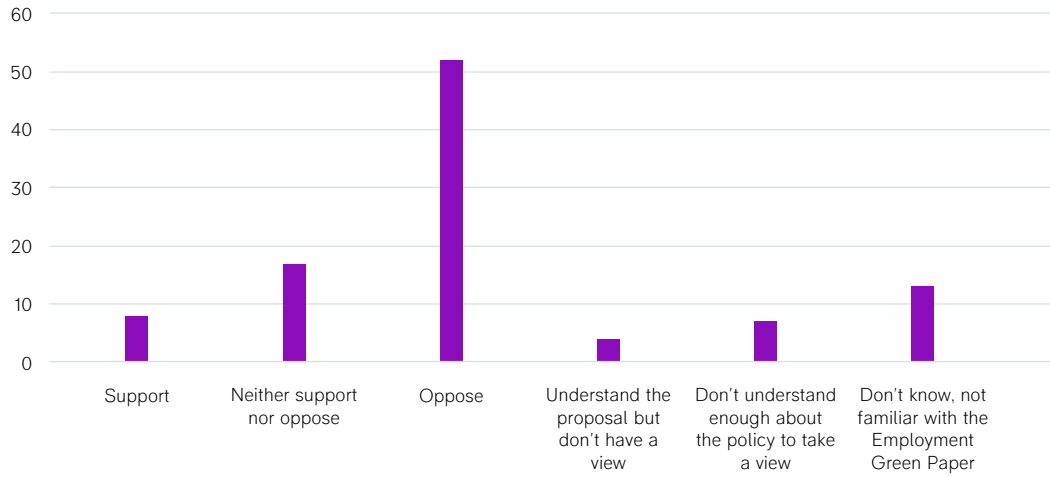
One of the more controversial proposals is Labour's plan to remove qualifying periods for employment rights at work, including those relating to unfair dismissal, parental leave and waiting days before employees can access to statutory sick pay. Only 10% of businesses either somewhat or strongly support this proposal, with 58% in opposition (**Exhibit 6.2**). Businesses have highlighted concern that a day-one right to claim for unfair dismissal will make it difficult to apply a probationary period for new-hires, limiting their willingness to take on staff or to take risks through the hiring process that might otherwise drive innovation and productivity. It has been suggested that businesses may have to take a more 'intensive' approach to onboarding new staff in order to confidently protect themselves from a potential unfair dismissal claim, including by actioning disciplinary procedures as a first response to any sign of underperformance – at the cost of good employee relations. Related to this, many also oppose extension of employment tribunal application windows from 3 to 6 months, with only 10% of those who understand the proposal in support and 65% in opposition (**Exhibit 6.3**). The backlog at the tribunal is already substantial, with some still waiting up to 18-months for cases to be heard. There are therefore fears that an extended timeframe for applications could make things even worse, adding to the stress associated for all parties and diverting business resources from growth.

The Labour Party's proposals to introduce a suite of enhanced powers for trade unions also appear to be unpopular with businesses. Of those with a view and familiar with the Trade Union Act 2016 and Labour's proposal to repeal it, 58% are in opposition, compared to 23% who are in support (**Exhibit 6.4**). Of those with a view and who understand Labour's proposal, 54% oppose the introduction of sectoral collective bargaining through 'Fair Pay Agreements', compared with 21% who are in support. One reason for this is that some businesses believe Labour proposals would weaken trade unions' accountability to their members. For instance, repeal of the Trade Union Act 2016 would remove the requirements that, a) 50% of staff vote in strike ballots, and b) 40% vote in favour in 'important public services', for strikes to go ahead; the Act's repeal could therefore permit strikes where the majority of staff have not been effectively engaged in the process endorsing them.

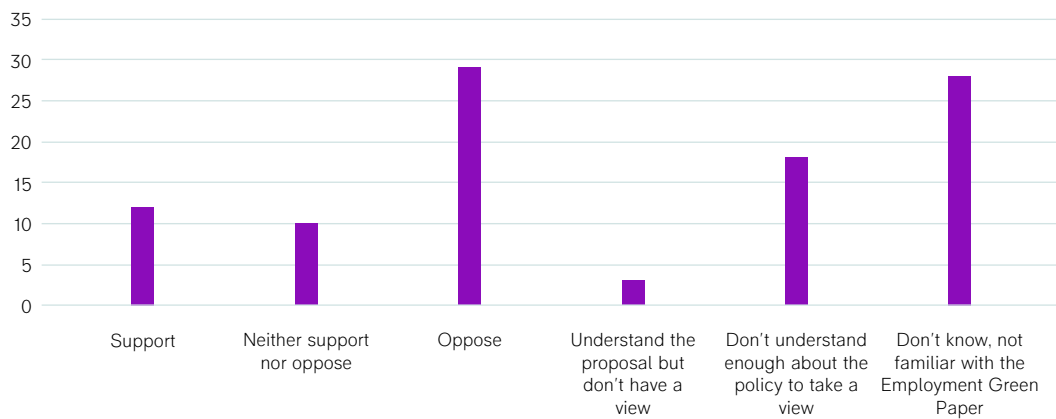
**Exhibit 6.2** Businesses' take on the Labour Party's proposal of removing qualifying periods for employment rights



**Exhibit 6.3** Businesses' take on the Labour Party's proposal of extending employment tribunal application time periods from 3 to 6 months (% of respondents)



**Exhibit 6.4** Businesses' take on the Labour Party's proposal of repealing the Trade Union Act (% of respondents)



# Investment in pay and training are key elements of any employment package to attract and retain talent

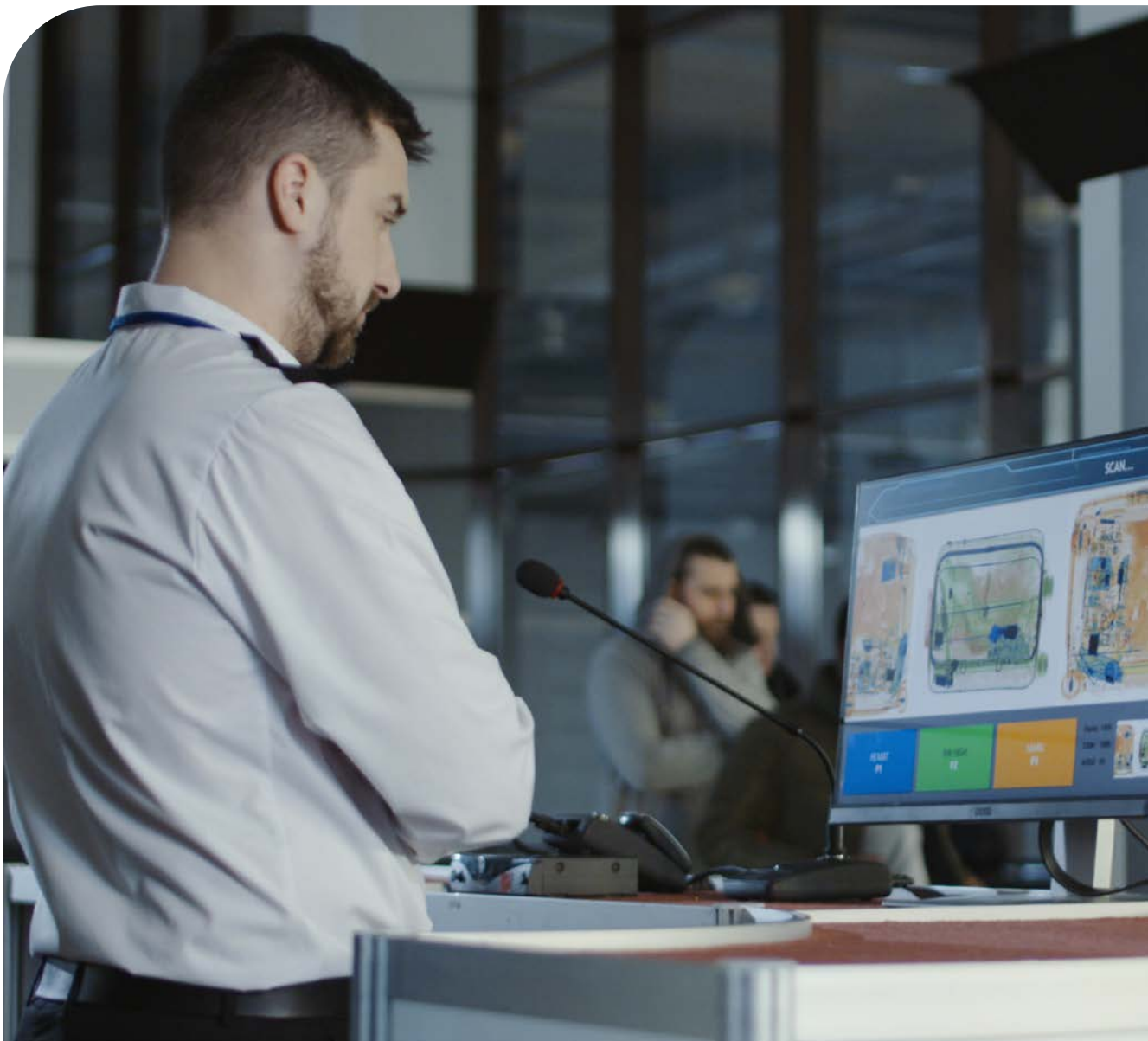
With a limited availability of workers, businesses need to do all they can to recruit and retain talent. Over the past two years, businesses have done their best to learn to live with labour shortages, with many taking a strategic approach to their employee value proposition (EVP) to attract new talent and retain and engage the workers they have in their workforce. With a tight labour market likely to persist, businesses will be continuing to focus on what they can do to achieve high levels of employee engagement, with many looking to effective leadership and line management for answers. Remuneration however remains top of the list for an attractive EVP alongside provision of good training and development opportunities.

## Key findings:

- Looking to the year ahead, businesses expect their top workforce priorities to be maintaining or achieving high levels of employee engagement (48%), retaining talent (44%) and improving leadership and management skills (38%).
- Effective line management (41%) and pay (41%) are seen as the top drivers of employee engagement.
- With regards to attracting and retaining talent, two-thirds of businesses (66%) believe that investing in basic pay is the most important part of an employment package while more than half (53%) believe investing in training and development opportunities is important too.

### **Maintaining high levels of employee engagement is businesses' number one workforce priority this coming year...**

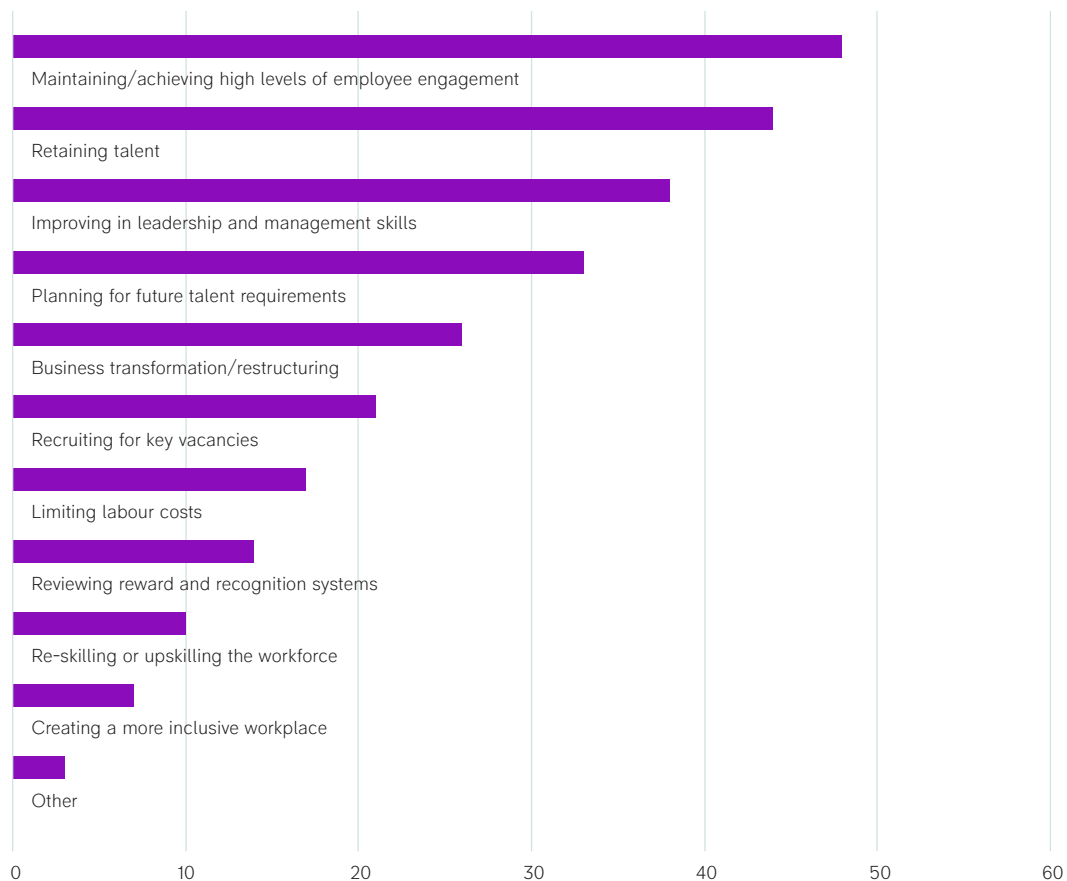
When asked to list their top three workforce priorities in the coming year, 48% of businesses cited maintaining or achieving high levels of employee engagement amongst them. Second was retaining talent at 44%, and third, improving leadership and management skills (38%) **(Exhibit 7.1)**. In some ways these objectives are all interrelated, with engagement key for keeping staff in jobs when there are ample alternatives available to them in a tight labour market, and effective business leadership and management similarly critical to staff engagement. The fact that employee engagement has overtaken retaining talent as the number one priority specifically this year is however telling. Businesses are aware that to deliver on their ambitions, they now more than ever need engaged staff if they are to move to the new productivity-led growth model the UK is seeking to carve out.



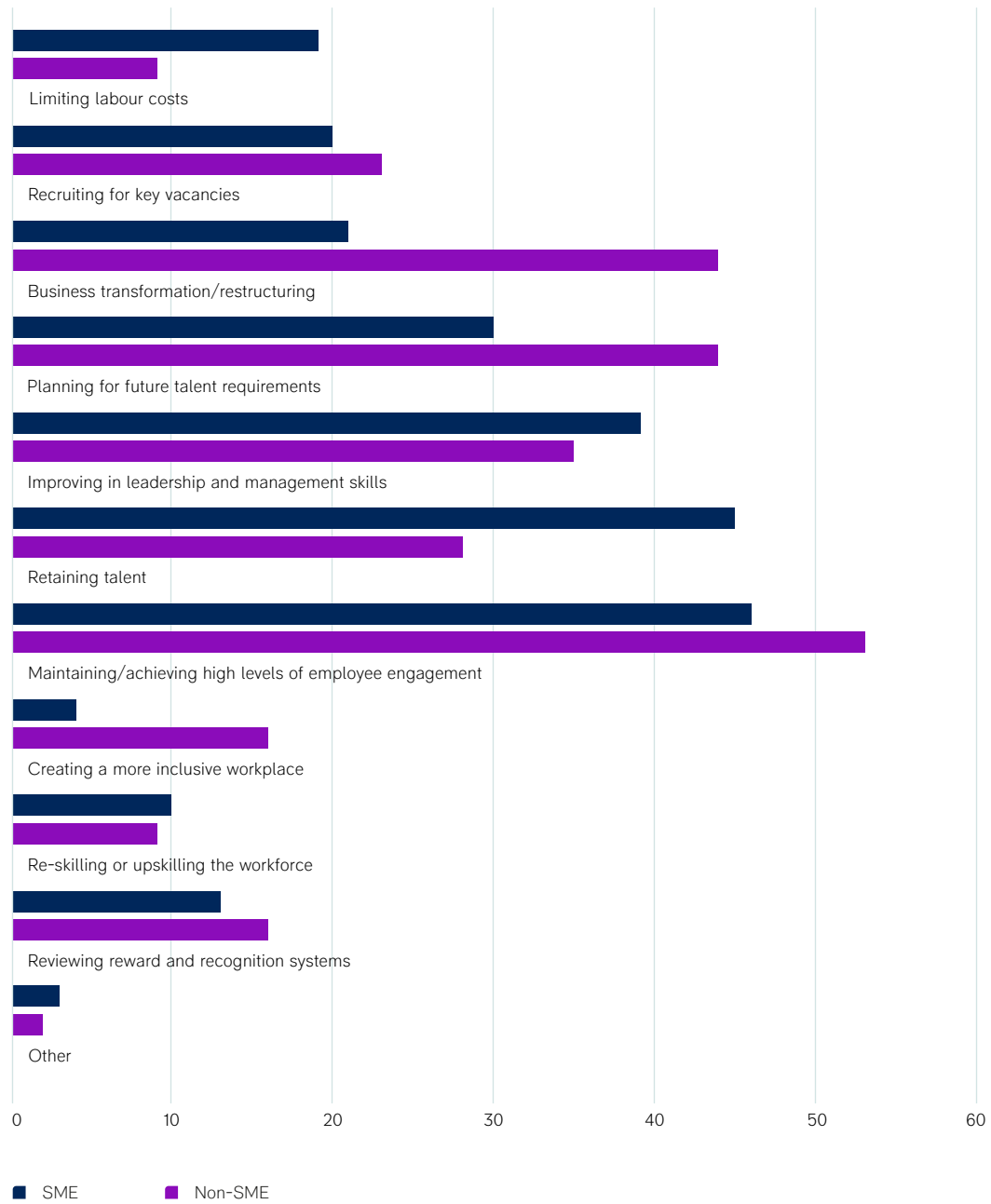
### ...but for SMEs, staff retention remains their top concern

For smaller businesses, the need to get people through the door and keep them when labour supply is so constrained is still their biggest priority. Nearly half of SMEs (45%) cited retaining talent as one of their top three workforce priorities in the coming year, compared to 28% of non-SMEs. The experience of SMEs is divergent to larger firms in other areas too, with evidence of the particular pressure on them to firefight costs coming through in constrained capacity to think strategically about the future relative to larger firms. 19% of SMEs cite limiting labour costs as one of their top three concerns, compared to 9% of non-SMEs, 21% cite businesses transformation or restructuring compared to 44% of non-SMEs, while 30% put planning for future talent requirements in their top three priorities compared to 44% of non-SMEs (**Exhibit 7.2**).

**Exhibit 7.1** Businesses top three workforce priorities in the coming year (% of respondents)



**Exhibit 7.2** Businesses top three workforce priorities in the coming year by size of business (% of respondents)





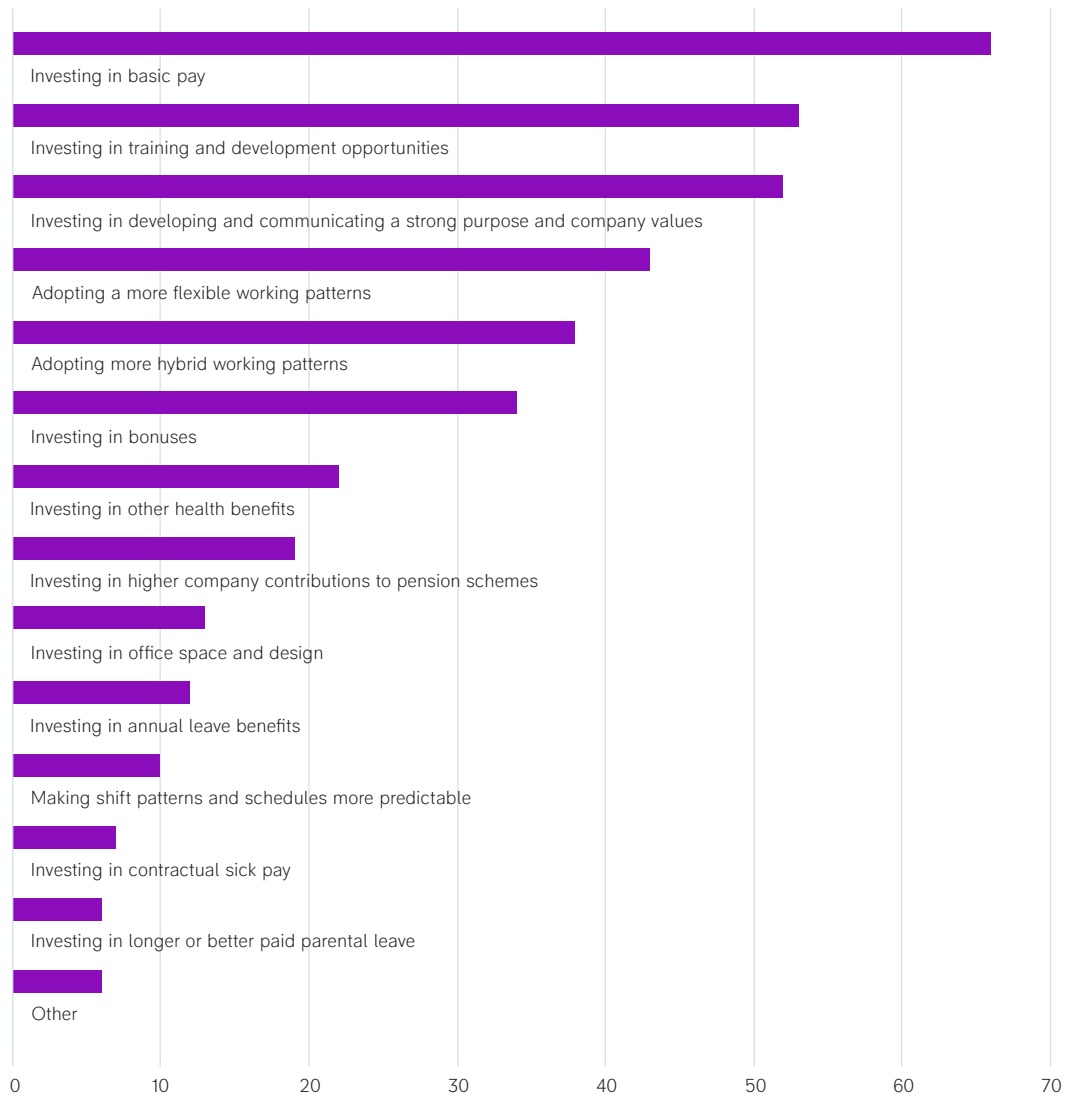
**With cost-of-living pressures continuing to bite and retaining talent difficult, pay is front and centre of the employment package...**

Nearly seven in ten businesses (66%) believe investing in basic pay is one of the most important elements for their employment package with regards to attracting and retaining talent. This reflects the realities of a tight labour market and the resilience of historic increases in nominal pay in the private sector over the past year **(Exhibit 7.3)**.

Pay is however far from the only thing that is important. More than half of businesses (53%) cite investing in training and development opportunities as an important factor, while 52% see investing in developing and communicating a strong purpose and company values as one of the most important features of their offer. Reflecting both the changes brought about by the pandemic and the need to appeal to a broader range of workers, many businesses also see offering hybrid and flexible working as important, with 38% and 43% selecting these options as important components of their employment package respectively.



**Exhibit 7.3** Most important elements about employment package with regards to attracting and retaining talent (% of respondents)

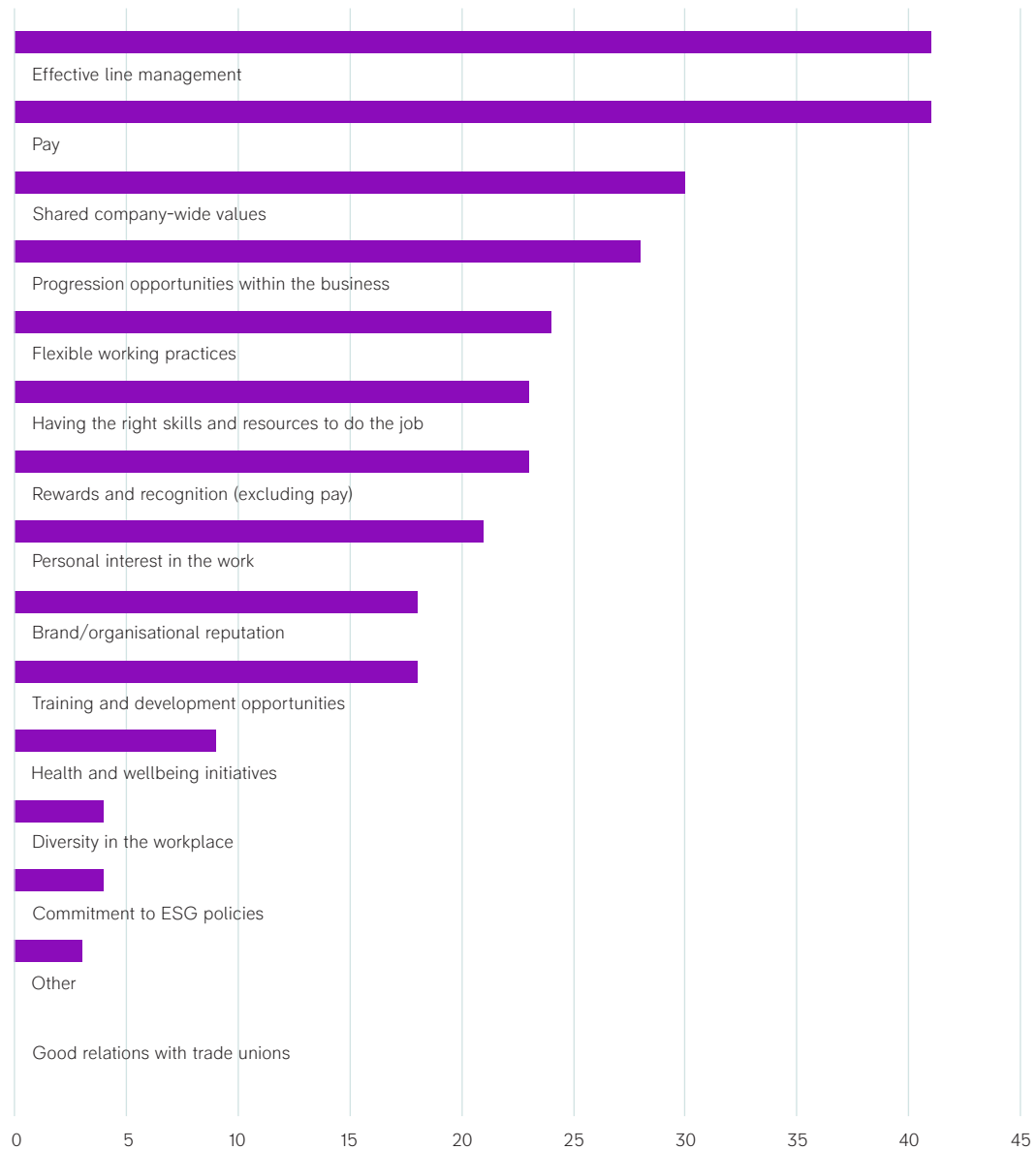


### **...but effective management is equally as important as pay for employee engagement**

When asked what businesses believe are the key drivers of employee engagement, an equal proportion (41%) cite effective line management as cite pay this year. CBI research shows that the UK could add £110 billion to the UK economy by improving people management practices and those businesses that improve their management practices from the lowest levels to the UK median can increase their productivity by 19%.<sup>24</sup> It is no surprise then that line management is high on the agenda, with businesses increasingly looking to respond to labour shortages through the increased productivity better management can bring (**Exhibit 7.4**). Line management is also key for retention, with managers often cited as having the greatest impact on someone's experience at work. CBI research shows that firms that attract and retain people by improving leadership and management, and the practices that develop and engage staff, do better. The highest performing businesses on employee engagement see 22% higher profits than those with lower engagement, and businesses that develop the strengths of their staff have been found to reduce turnover by up to 72%.<sup>25</sup>

Shared company values (30%) and progression opportunities within the business (28%) are the third and fourth top drivers of engagement. Staff expectations are changing, and with greater competition amongst employers for workers comes greater capacity for staff to choose a business whose values align with their own. With cost-of-living pressures, it is also key for staff to see that they have a progression pathway open to them. To be able to offer these progression opportunities however, businesses need an agile and responsive skills system that can further a worker's progression and earning potential, and ultimately help employers retain talent, as well as meet the businesses' own growth ambitions. Turning the Apprenticeship Levy into a Skills Challenge Fund, whereby businesses would be able to invest in a broader form of accredited and modular training, will be key to achieving this.

**Exhibit 7.4** Key drivers of employee engagement (% of respondents)



# Supporting staff's health and wellbeing continues at the forefront of businesses' D&I agenda

Rising long-term sickness through and since the pandemic is one of the key factors driving labour shortages. A record 2.5m people are now economically inactivity because of long-term sickness. The disability employment gap is also widening and stood at 29% in first quarter of 2023.<sup>26</sup> Taken together, these people represent a significant untapped talent pool – of which those who are able and want to work should be supported into the workforce. Businesses taking steps to address these issues makes both moral and business sense. Alongside the NHS, business can play a critical role supporting the health of the nation if enabled to by government. For example, better access and increased uptake of occupational health services across industry would help reduce the number of people leaving work due to long-term sickness.

## Key findings:

- Diversity and Inclusion (D&I) is a priority for nearly more than nine in ten (91%) businesses. More than half (54%) are prioritising supporting health and wellbeing, 39% improving inclusivity and building a culture of belonging, and 37% supporting a multi-generational workforce.
- Businesses expect health and wellbeing (48%), supporting a multi-generational workforce (39%) and improving inclusivity (39%) to be their D&I priorities in two years' time.

## **Despite weak growth and rising cost pressures, D&I remains a priority for businesses**

This year a myriad of cost pressures has continued to mount on businesses. Historic levels of inflation have driven demands for pay increases from workers; cost-of-living pressures have limited to extent to which rising costs can be passed on to consumers; while slow economic and productivity growth have eaten into firms' capacity to absorb extra costs themselves. Some commentators had speculated that these pressures would mean that D&I would take a backseat, but this year's survey shows that is not the case, with 91% of businesses still seeing D&I as a priority, including 89% of SMEs.

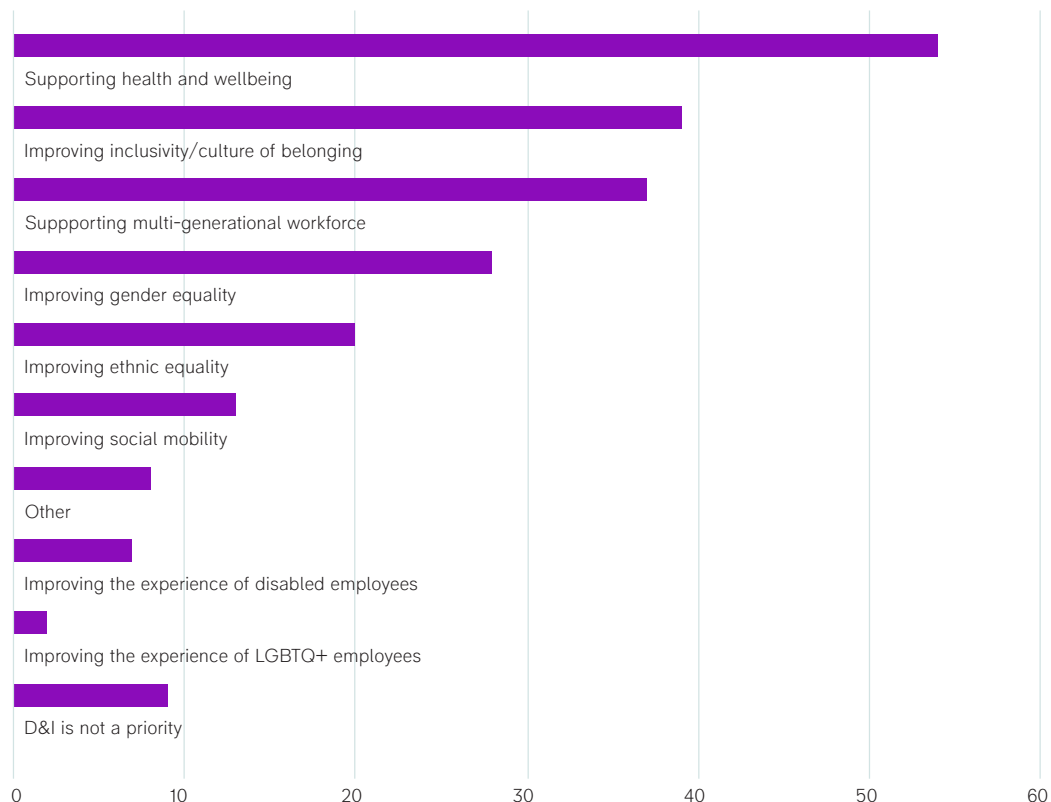


## With long-term sickness rising, supporting the health and wellbeing of employees is a top D&I priority...

When asked what their top diversity and inclusion priorities are 54% of businesses cite supporting staff health and wellbeing. Rising long-term sickness is the biggest driver of the uptick in inactivity seen since the start of the pandemic and in turn, it is one of the biggest drivers of the labour shortages impacting firms up and down the country (**Exhibit 8.1**). Taking a more proactive approach to staff wellbeing therefore makes clear business sense, with firms understanding that business provided support can not only help staff return to work but can ensure they support prevention of poor-ill health in the first place.

Businesses are also taking action to ensure their workplaces are as inclusive as they can be. This year, 39% see improving inclusivity and creating a culture of belonging as a priority, whilst 37% cite their efforts to support a multi-generational workforce. 28% say improving gender equality is a priority, up from 21% last year, and 20% are prioritising improving ethnic equality.

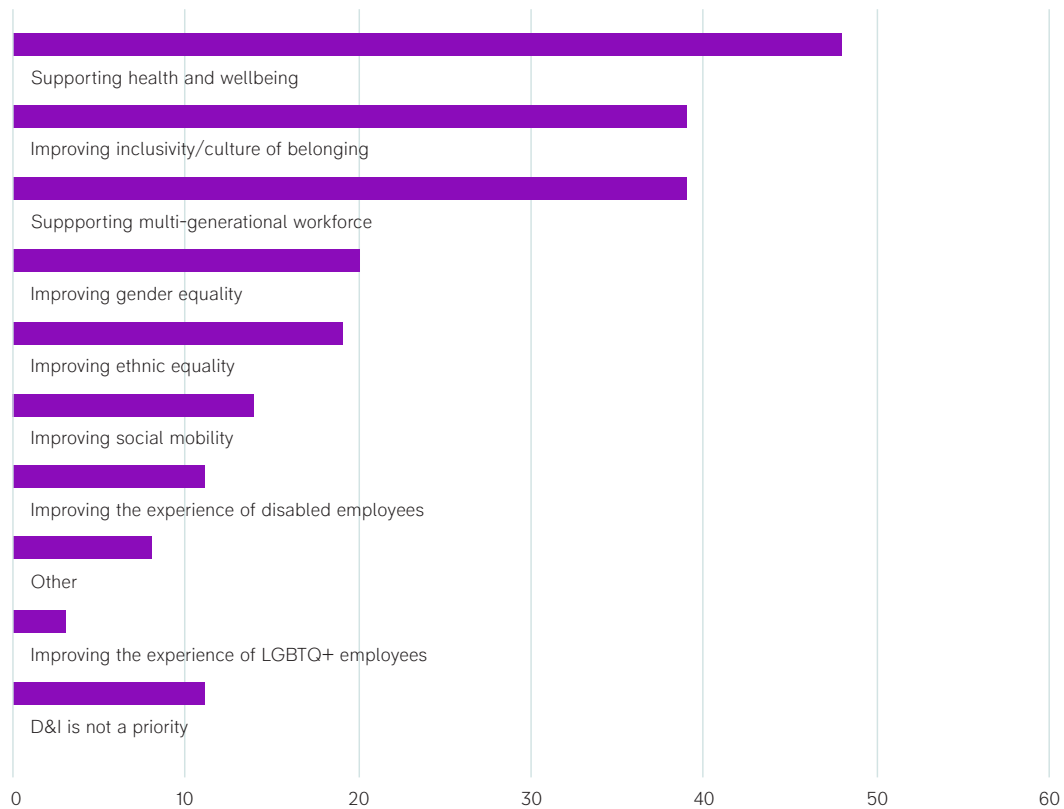
**Exhibit 8.1** Firms D&I priorities now (% of respondents)<sup>27</sup>



**...and supporting staff wellbeing will remain the number one priority in the years ahead**

The NHS backlog is substantial and unlikely to ease significantly in the years ahead. This creates significant challenge for workforce participants constrained by treatment waitlists and reliance on the public health system. At the same time, the UK workforce is aging. By the mid-2030s half the adult population will be over 50.<sup>28</sup> The need for businesses to continue to support staff health and wellbeing is therefore clear and is reflected in 48% of businesses this year saying that they believe supporting health and wellbeing will remain a priority in two years' time. This support could be critical for ensuring that inactivity is mitigated and not as much of a drag on growth as it otherwise could be (**Exhibit 8.2**). Also in reflection of the aging workforce, 39% cite supporting a multi-generational workforce as a priority in two years' time.

**Exhibit 8.2** Firms D&I priorities in two years' time (% of respondents)<sup>29</sup>





# Overview

This year's survey was carried out in the period 16 August to 11 September 2023. There were 263 business respondents in total.

## Sectoral analysis

Respondents were drawn from all parts of the private sector (**Exhibit 9.1**). Manufacturing companies made up the largest single grouping (33%), followed by other service activities (16%), and wholesale and retail trade, repair of motor vehicles and motorcycles (9%).

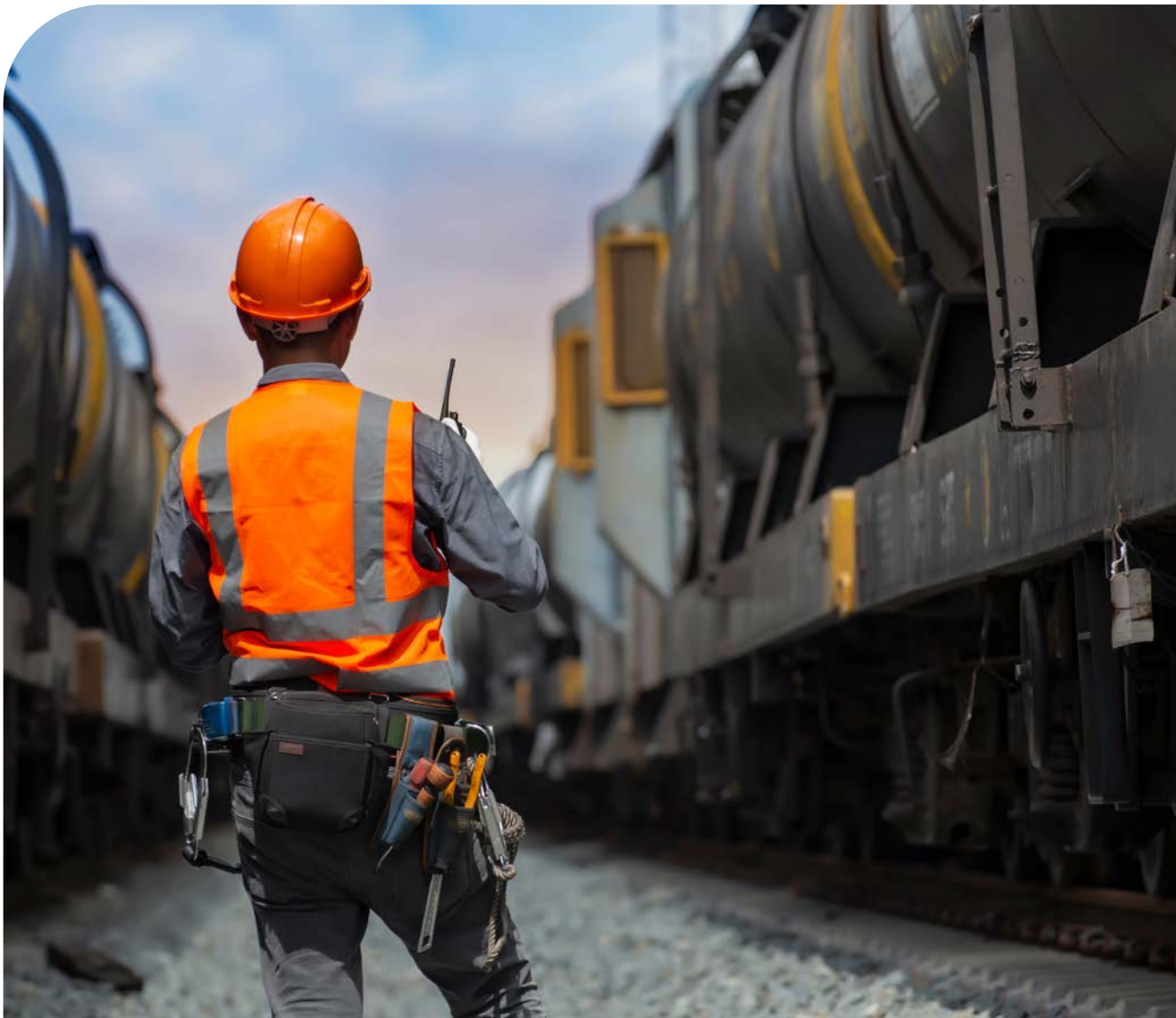
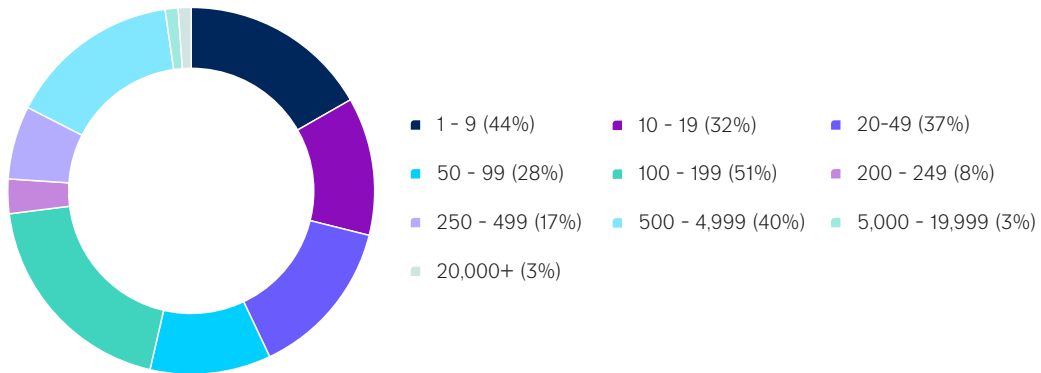
**Exhibit 9.1** Respondents by economic sector (%)

Sector	
Accommodation and food service activity	2
Agriculture, forestry and fishing	2
Arts, entertainment and recreation	1
Construction	3
Education	5
Financial and insurance activities	7
Information and communication	5
Manufacturing	33
Professional, scientific and technical activities	8
Real estate activities	3
Transportation and storage	2
Wholesale and retail trade, repair of motor vehicles and motorcycles	10
Other service activities	16

### Respondents by company size

This year's survey had 76% responses from SMEs (less than 250 employees) and 24% from large firms (250 or more employees) (**Exhibit 9.2**).

**Exhibit 9.2** Respondents by company size (%)



## Respondents by region

Many respondents had employees based in several regions of the UK (**Exhibit 9.3**). 15% had employees based in London and just under one in six (14%) of respondents had employees based in the South East and the North West. 13% of respondent companies had employees based in the East Midlands, West Midlands and Yorkshire and Humberside, respectively.

**Exhibit 9.3** Map graph





## References

1. A balance is the difference between the percentage of firms reporting an increase and those reporting a decrease
2. Missing workers: Understanding trends in economic inactivity, Learning & Work Institute, February 2023
3. CBI, Unlocking regional growth, 2017
4. CBI, Economic Forecast, June 2023
5. A balance is the difference between the percentage of firms reporting an increase and those reporting a decrease
6. A balance is the difference between the percentage of firms reporting an increase and those reporting a decrease
7. These figures exclude 'don't know' responses from the data analysis
8. These figures exclude 'don't know' and 'doesn't affect my business' from the data analysis
9. These figures exclude 'don't know' and 'doesn't affect my business' from the data analysis
10. These figures exclude 'don't know' from the data analysis
11. These figures exclude 'don't know' responses from the data analysis
12. These figures exclude 'don't know' responses from the data analysis
13. These figures exclude 'don't know' responses from the data analysis
14. ONS, Consumer Price Inflation, October 2023
15. These figures exclude 'don't know' responses from the data analysis
16. Vacancies and jobs in the UK, Office for National Statistics, August 2023
17. ONS, Labour Market Overview, August 2023
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22. International Federation of Robotics (IFR), Robot Density nearly doubled globally, available [here](#).
23. Business Poll, MHP/Savanta, 8th October 2023, available [here](#).
24. CBI, Great Job: Solving the productivity puzzle through the power of people
25. Ibid.
26. ONS, Labour Market Status of disabled people, August 2023
27. These figures exclude 'don't know' responses from the data analysis
28. Future of an Ageing Population, Government Office for Science, 2016
29. These figures exclude 'don't know' responses from the data analysis

To share your views on this topic or ask us a question, contact:

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