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CBI/ACCENTURE EMPLOYMENT TRENDS SURVEY 2015

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accenture strategy

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FOREWORDS

Following a year of steady economic growth, the economy is proving resilient against a more turbulent global backdrop – there is a cautious optimism among businesses. Sustaining this resilience and maintaining future growth requires a meaningful recovery in productivity which will enable businesses to prosper for the benefit of all.

Unlocking growth across all UK regions is critical to our future success and prosperity as a country. With a positive outlook on jobs again for the next 12 months, in all regions, there is much to feel optimistic about. But with current employment rates already hitting the highest level since records began, this year's survey suggests 2016 may see the start of a slowdown in the pace of jobs growth. As the devolution agenda presses forward, we need to develop the right skills, talent and capabilities for growth to maximise the UK's productivity and competitiveness.

This means businesses unlocking the widest possible pool of talent and working in partnership with training providers and government to reduce shortages of in-demand higher-level skills. Businesses are concerned to ensure the new apprenticeship levy will drive high-quality skills training. The scale and scope of the levy represents a significant cost which may not achieve the aim – shared by government and business alike – of growing apprentice numbers or the wider UK skills base.

Across the country, for those in work, real earnings have been rising. The advent of the national living wage in 2016 is set to boost entry-level workers' pay further, but the pace of subsequent upratings are more of a concern than the initial increase for many businesses. Looking ahead, we must ensure that pay growth remains manageable for all businesses, regardless of sector, to safeguard jobs and hours.

In our globally connected economy, access to global talent must be retained. This survey shows the cap on skilled migration is a growing worry for business. Not only is the cap restricting access to global talent, the current rhetoric on immigration is having a negative impact on the UK's competitiveness. Regulation should support firms in creating jobs and generating prosperity – migration policy is failing this test.

Cementing the success of recent years is critical to securing growth and generating future prosperity. The UK is already ranked as one of the best global locations to do business – but we cannot be complacent. We need to build on this reputation to ensure we continue to attract the investment to the UK that drives growth, productivity and jobs.

Neil Carberry
CBI director

For a third consecutive year this survey demonstrates the confidence UK business has in the ongoing economic recovery. Employment rates are still growing, with permanent recruitment continuing to exceed temporary, and the vast majority of respondents see that growth continuing in the coming year. The signs are good and the mood is upbeat.

But while the optimism is indisputable, these findings also signal a real challenge in the employment landscape. Although pay continues to improve, the advent of the national living wage is an unknown quantity. There is also a slowdown in plans for graduate recruitment and apprentices. Most pressingly, while the general feeling is that the UK is becoming a better place to do business, there are real concerns about the impact of employment regulation and lack of skills on competitiveness. This means that for two years in a row the skills deficit has been the leading concern for the UK business community and this must pose a significant risk to our ability to compete and grow.

The onus is as much on business to respond quickly and innovatively to these challenges as it is on government to legislate effectively.

We know that flexibility and diversity within the labour force are key to business success and the research demonstrates how the evolution of working practices and legislation does – and might – achieve them. However, what also becomes clear is the need for deeper thinking about the strategies we employ to build on the momentum of recovery we're witnessing in order to sustain it.

The focus of this thinking is that the acquisition of digital skills within organisations has a new urgency. Only by ensuring digital literacy throughout the organisation can businesses really benefit from the transformative impact of digital capabilities to stay competitive at a global level. Accenture recognises that as organisations apply digital transformations at scale, the need for digital skills explodes from niche to mainstream, creating an urgency to equip both our own employees and the wider employment market.

Digital technology has reinvented the interactions between business, the value chains within businesses, and employee propositions. The advent of this new digital ecosystem heralds not only the changing of an individual company, but the shaping of entire markets.

At Accenture we are passionate about the growth agenda – supporting the creation of jobs, improving skills and employability, and contributing to the economic success of the UK and Ireland. This is why our continued involvement in the CBI's research is so important to us. Through it we are reminded of the importance of partnerships between employers, educators and trainers to grow the economy. We are all ambitious for an engaged, inspired and dynamic workforce, fully equipped to meet the opportunities ahead of them.

Emma McGuigan
Managing director, Accenture technology

The employment trends survey 2015

- The survey was conducted between August and October 2015
- There were 342 respondents, employing more than 955,000 people between them
- Respondents came from businesses of all sizes and sectors across the UK
- The survey was completed by senior executives. In small and medium-sized companies this tended to be the managing director, chief executive or chairman. In larger firms, it was the human resources director or equivalent.

Growing optimism on job prospects, but caution on pay

- More than two in five businesses (43%) expect their workforces to be larger in 12 months' time while just 13% expect their workforce to be smaller, producing a positive balance of +30% of businesses anticipating they will have more employees in a year's time
- The number of permanent jobs is set to increase faster than temporary positions, with a positive balance of +24% of businesses expecting to expand permanent hiring compared with +4% expecting to grow the number of temporary jobs over the coming year
- The pace of growth for graduate jobs has eased, with a positive balance of +16% of businesses planning to increase their graduate hiring over the next 12 months. For apprentices, a balance of +19% of businesses are looking to recruit additional apprentices in the coming year
- New job opportunities for young people will open up over the coming year, with nearly two thirds (62%) of businesses expecting to have entry-level roles suitable for young people aged 16-24
- Competitive pressures and weak productivity growth are limiting the scope for pay rises, but over half of businesses (52%) intend to raise pay at least in line with the RPI measure of inflation in the coming year
- There is great uncertainty about the impact of the national living wage (NLW). While most respondents do not expect it to affect them initially in April 2016, two fifths (40%) anticipate an impact. The extent of that impact will vary across sectors: across the services sector, just over half (51%) anticipate having to raise prices to offset their higher employment costs and over a quarter (27%) will be employing fewer people as a consequence.

Ensuring the UK remains open for business

- More businesses believe the UK has become a more attractive place to invest and do business over the past five years than believe it has become less attractive, giving a positive assessment balance of +16%
- There remains work to be done to cement this positive assessment as we look ahead: the balance of respondents expecting the UK to become a better location for business in five years' time has dropped from +25% in 2014, to +16% this year
- The biggest current threats to the UK's labour market competitiveness are seen as the burden of employment regulation (cited by 50%) and low levels of skills in the workforce (46%)
- Businesses are not optimistic that these problems will be tackled effectively. In five years' time low levels of skills (56%) and regulation (50%) remain the main perceived threats
- There are also mounting concerns about uncompetitive labour costs (up from 26% in 2014 to 34% this year) and restrictions on access to migrant workers (up from 18% to 31%).

Business must lead the way on creating inclusive and engaged workplaces

- Maximising the use of talent is critical for success – but close to two thirds of respondents (63%) report they face at least some barriers to developing a more diverse workforce
- Multi-skilling employees is now the leading form of working practice flexibility, operated by nearly four in five respondents (79%), followed by flexibility over location for work (73%)
- Businesses are ready to take the lead on eradicating the gender pay gap. But greater flexibility is necessary to ensure reporting supports business in driving real change (31%)
- The top priorities for business in the coming year are better leadership (43%) and employee engagement (35%) as they seek to foster productive workplaces
- Employee relations remain positive, with 71% of firms assessing their workplace this year as co-operative or very co-operative. Businesses are confident this will be maintained in 2016, with a positive balance of +66% of businesses anticipating a co-operative or very co-operative climate
- Employee morale is at high levels, with over half (53%) of respondents describing morale levels among their employees as high or very high
- Businesses say the major benefits of high levels of employee engagement include improved retention of employees (46%), reduced absence levels (35%) and improvements in productivity and performance (31%)
- But there is no one right answer to securing high levels of engagement – it involves adopting a mix of approaches including employees developing a personal interest in their work (46%), effective line management (39%) and a set of shared, company-wide values (30%).

Government must create the right framework for future growth

- Almost all businesses (94%) believe flexibility is vital or important to the competitiveness of the UK's labour market and for prospects for investment and job creation. The ability to respond to growth opportunities (70%) and the capacity to cope with fluctuating demand (66%) remain the leading benefits of flexible employment arrangements
- Fewer than one in six businesses (16%) believe that the new apprenticeship levy is the right approach to tackle the UK's skills challenges, with almost half (47%) anticipating it being costly and bureaucratic
- Retaining access to overseas talent is important. If businesses are unable to source skills from outside the EU, three in ten (29%) say they will fail to meet customer demand while more than one in four (27%) anticipate they would move certain functions or activities overseas. Just a third (35%) will increase training in the UK
- Businesses see the individual working time opt-out as an essential element of the UK's flexible labour market: more than half (54%) report its loss would have an impact on them, rising to 68% in manufacturing and to nearly three quarters (73%) of large businesses
- Businesses report a drop in the number of employment tribunal claims over the past year, with one in five businesses (20%) reporting any claims in the past year, down from 23% in 2014 and 39% in 2013
- There are also signs that the employment tribunal system is making headway in tackling the backlog of claims: as many firms report the time taken to resolve tribunal claims is declining as report it is increasing (both 12%).

The employment landscape

2015 witnessed solid economic growth and while the UK economy looks set to remain in good health in 2016, global headwinds are a concern. The employment rate continued to rise in 2015, and now stands at the highest rate since records began. A range of industries have supported strong jobs growth including the professional, scientific & technical and accommodation & food services sectors, benefiting workers at both ends of the demographic scale. Despite a tentative pick-up in productivity growth, a lot of ground has been lost since the crisis began, and the domestic challenges on the horizon such as the apprenticeship levy and the cap on skilled migration are a growing concern for UK businesses looking to grow and compete in a globally connected economy.

Key points

- The UK economy is growing at a steady pace. However, headwinds stem from the global environment, and although productivity is tentatively picking up, a lot of ground has been lost
- In the labour market, more people are in work than ever before as businesses create full-time job opportunities. Older workers in particular have benefited from this
- The youth unemployment rate has also been falling but is still too high. The new apprenticeship levy risks a focus on quantity over quality and is unlikely to offer the support young people need
- As more and more people have moved into work, skills shortages are starting to bite and further tightening of the migration system could damage competitiveness
- The UK has performed well when compared to international peers. The UK employment rate is higher and the unemployment rate lower than in the euro area.

The economy is growing at a steady pace

The UK's recovery from the financial crisis in 2008-09 has taken some time. But the worst now looks to be over and the economy is growing at a solid pace. GDP expanded by 0.5% in the third quarter of 2015, which means that output is now 6.4% higher than just before the crisis began.[1]

Looking to 2016, there are headwinds which could dampen UK growth. The interconnectedness of the global economy means that slower growth elsewhere could impact the health of the UK economy. Earlier this year concerns about US growth caused the IMF to downgrade its global growth forecast for 2015 and more recently, growth in China slowed.[2] In the eurozone, the UK's most significant trading partner, growth dipped a little in the third quarter of 2015 to 0.3%, highlighting the sluggish nature of the recovery.[3]

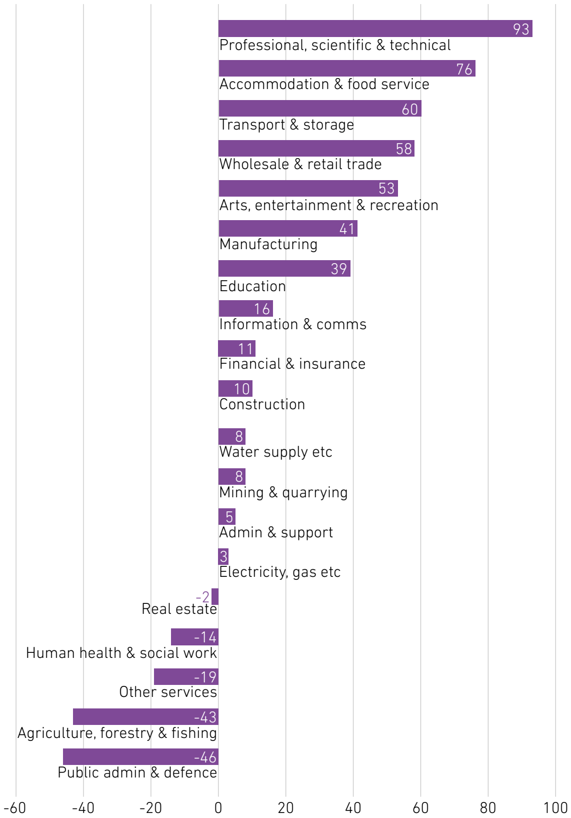
Back in the UK, it is encouraging that labour productivity – a key determinant of growth and pay – has shown tentative signs of improvement. Despite this, weak performance in previous years means productivity is still 14% below where it would have been had the pace of productivity growth before the crisis been maintained.[4]

The CBI is forecasting GDP growth of 2.4% in 2015 and 2.6% in 2016. CPI inflation is expected to remain broadly flat in 2015 (0.1%) and despite some pick up the following year, will remain below target in 2016 (1.4%).[5]

More people are in work than ever before...

The health of the UK economy is reflected in the labour market. In the last 12 months the number of people in employment rose by 419,000 and, as a result, the employment rate has now reached 73.7%.[6] This is the highest level since records began. And although mid-2015 saw a short period of choppy employment growth, with 177,000 more people in employment in the three months to September 2015, this has not marked the start of a wider deterioration.

Exhibit 1 Businesses across a range of sectors have driven jobs growth (000s)



Source: Office for National Statistics, Jun 2014–Jun 2015 data

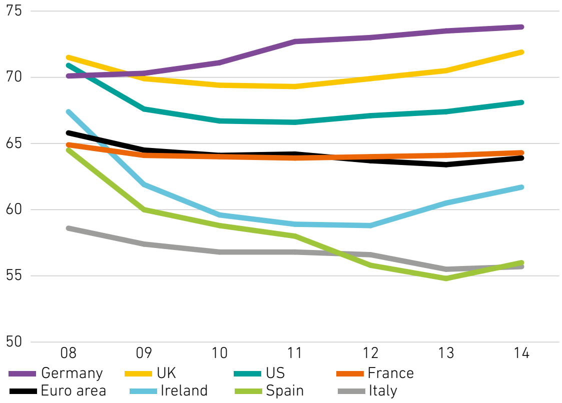
In future, however, it may be that the pace of employment growth starts to level off following a period of solid jobs growth as the economy recovered from the downturn.

...driven by full-time jobs growth in the private sector...

The recent growth in employment has been primarily thanks to a rise in the number of job openings offered by private sector business. In the past year, the number of employees rose 435,000 while the number of people choosing to work for themselves rose by just 30,000.[7]

A range of industries have driven private sector jobs growth. In the last year, businesses in the professional, scientific & technical sector added 93,000 jobs while firms in the accommodation & food services sector added a further 76,000 jobs (**Exhibit 1**). And although fewer jobs were added in administration & support services and information & communications sectors in the last year, looking back over the recovery as a whole these industries have actually made a significant contribution to jobs growth.

Exhibit 2 The UK is closing the employment rate gap with Germany (%)



Source: Eurostat, employment rate, 15-64 year-olds

Conversely, while manufacturing saw fairly healthy jobs growth in the last year, there are still fewer jobs in this sector compared to before the crisis began. This reflects the fact that the sector continues to restructure towards higher value-added activities.

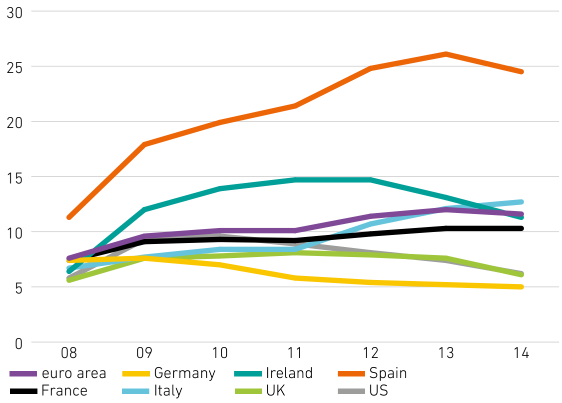
Now that the recovery is embedded and the operating environment much improved, businesses have been better able to offer full-time, rather than part-time, positions. In fact, in the last year, 72% of new jobs were full-time ones within a business.[8]

Government policies such as the national living wage (NLW) will affect different sectors differently in the coming years. As discussed in section 3 the increase in April 2016 will be manageable for some firms, but the subsequent upratings may be harder for others to meet. Where upratings are unaffordable, for example in low paying sectors, jobs and hours could be put at risk.

The UK compares well on an international stage

The strength of the labour market is evident when looking at how the UK compares on an international stage. The employment rate in the UK in 2014, the latest date for which comparable data is available, stood at 71.9%. As **Exhibit 2** shows, this meant that the UK outperformed the US (68.1%) and the euro area (63.9%), including many of its key member states.

Exhibit 3 Unemployment is low in the UK compared to international peers (%)



Source: Eurostat, total unemployment (%), euro area, 18 countries

Germany was the only country to outperform the UK with an employment rate of 73.8%. However, the UK is catching up with Germany, closing the employment rate gap.

The positive picture on employment in the UK is also reflected in the unemployment statistics. In 2014, 6.1% of people were unemployed in the UK. On this measure the UK again outperformed countries like the US (6.2%), France (10.3%) and Ireland (11.3%). However, Germany was still the star performer with an unemployment rate lower than in the UK at 5.0%.

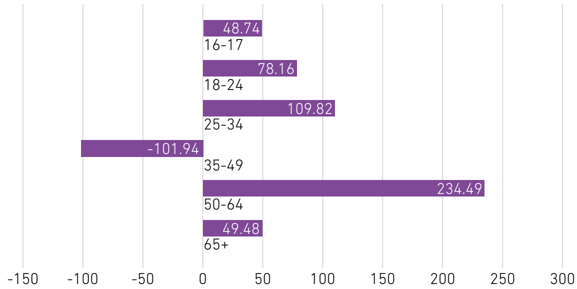
More recent data on unemployment in the UK shows that the proportion of people aged 16 and over out of work and looking for work has continued to fall. In the three months to August 2015, the unemployment rate dropped to 5.3%, which is only fractionally higher than before the recession began (5.2%).

Both older and younger workers have benefited from rising employment

The continued growth in employment seen in the UK in the last year particularly benefited older workers. As **Exhibit 4** shows, employment amongst people aged 50-64 increased by 234,000 in the past year, the largest increase for any age category.

Research undertaken by the Office for National Statistics in 2014 found that almost half of people working past the state pension age chose to do so because they weren't ready to stop work.

Exhibit 4 Employment has increased among older workers, by age group (000s)



Source: Office for National Statistics, Jul-Sept 2014 – Jul-Sept 2015

A further 17% said that they were working to help pay for essential items and 8.3% to pay for desirable items.[9] With a review of the state pension age (SPA) due in 2017, businesses recognise the need to adapt if more people plan to work for longer.

In our recent CBI/Mercer pensions survey, 78% of firms report they will need to offer more flexible working opportunities to deal with an older workforce, including phased retirement and work patterns to accommodate caring responsibilities.[10]

Encouragingly, young people aged 16 to 24 have also benefited from the strength of the labour market. As a result, the youth unemployment rate has fallen to 14.2%, which is very close to its pre-recession rate of 14.0%.[11] This is encouraging as research has shown that a spell of unemployment early on in working life can have a long-lasting effect on the risk of unemployment in the future and on earnings potential. That said, the youth unemployment rate is far higher than the overall unemployment rate (5.4%), so further progress must be made.

But as employment rises, skills shortages are starting to bite

Positively, the number of vacancies employers are actively seeking to recruit for from outside of their organisation is now higher than before the crisis began. This is good news for those people looking to move into work, as well as the 15.2% of people working part-time who would prefer to find full-time work.[12]

But with the UK getting closer to full employment, there is a risk that the skills shortages that have started to emerge will worsen. Full employment broadly describes a situation where everyone who wants to get a job can find one at the going wage rates, while allowing for frictional unemployment – the period of time when workers are transitioning from one job to another. With the employment rate at an all-time high and unemployment almost back to its pre-crisis level, the UK is getting closer to full employment (**Exhibit 5, page 12**). And while having more people in work is always a good thing, the challenge for businesses is to find the specific skills they need from a smaller pool of people. As a result, firms are already reporting difficulties in recruiting staff with STEM skills.[13]

The government's new apprenticeship levy is unlikely to solve the UK's skills shortages…

Earlier this year, the chancellor announced plans to introduce a levy on employers to help fund the three million apprenticeships they have committed to delivering in this parliament (section 6). Business agrees with government on the need to grow the number of high-quality apprenticeships – as they are valuable opportunities that help people build key skills and gain experience of the workplace. But there is a real danger that imposing a levy on larger firms will prioritise quantity over quality and relevance. And evidence shows that similar levies in Belgium and the Republic of Ireland, for example, have failed to resolve skills shortages.[14]

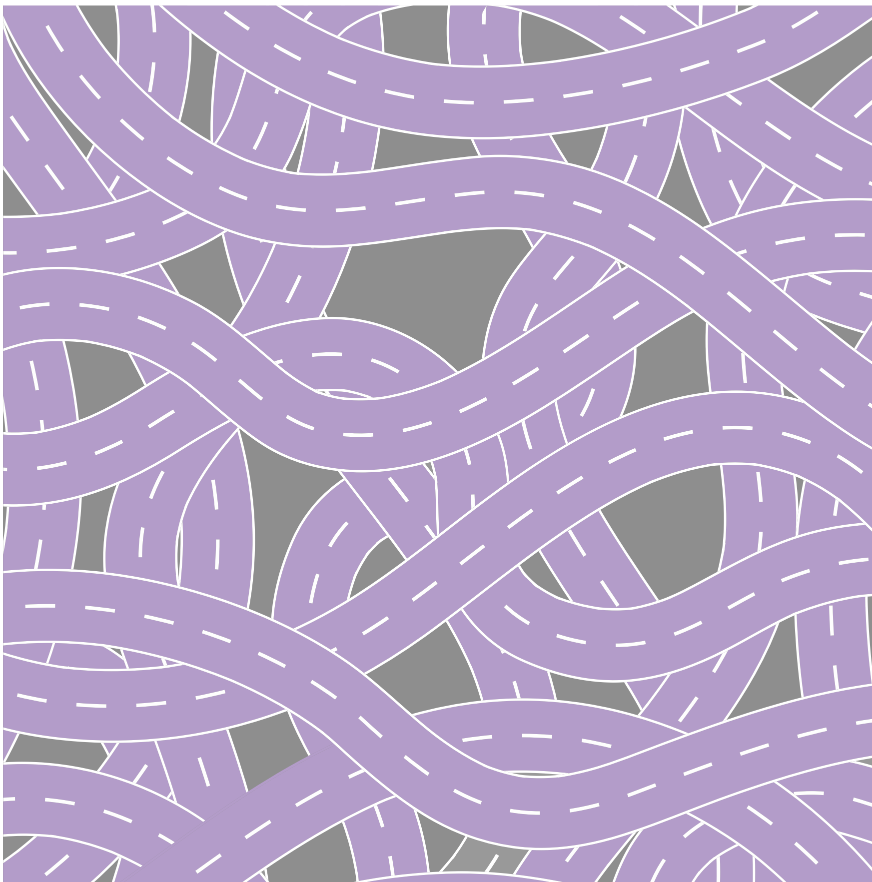
…and further restricting skilled migration is damaging the UK's competitiveness

When skills are not available in the domestic labour market, employers look further afield to fill vacancies. Following the election, the government re-committed to a net migration target and is looking for ways to reduce the number of migrants entering the UK.

Skilled migration, through the Tier 2 route, is already restricted to the point of damaging the economy and the competitiveness of the UK as a place to invest (section 6). Businesses today are operating in an increasingly globally connected economy. This means that as well as workers coming from overseas to fill skill-shortage vacancies, a greater flow of workers in and out of the UK is to be expected and is desirable. It is not a choice between migration or investment in skills for firms – they need both in order to gain a competitive edge and ensure jobs are based here rather than moved elsewhere.

For those people already in work, real earnings have been rising

The picture has not only been rosier for people looking to move into work – real pay has also been rising for those already in employment. In the three months to September, annual growth in regular pay in the private sector stood at 2.8%, up from 1.6% a year earlier.[15] Combined with rock-bottom CPI inflation throughout most of 2015, this means pay packets have been stretching further at the till.



SECTION 2

The employment trends survey 2015

For the past 18 years the CBI's employment trends survey has charted the shifting patterns of employment and workplace practices under successive governments and through fluctuating economic conditions. Since the 1990s, the survey has kept track of trends through the period of sustained growth that ended with the financial crisis of 2008-09 and the subsequent economic recovery. As the recovery becomes more solidly based and prospects improve, the 2015 edition of the survey maps business thinking and priorities on employment issues in the period ahead.

This year's survey has once again been conducted in partnership with Accenture – the technology, strategy, consulting and outsourcing specialists. The survey was carried out in the period August to October 2015.

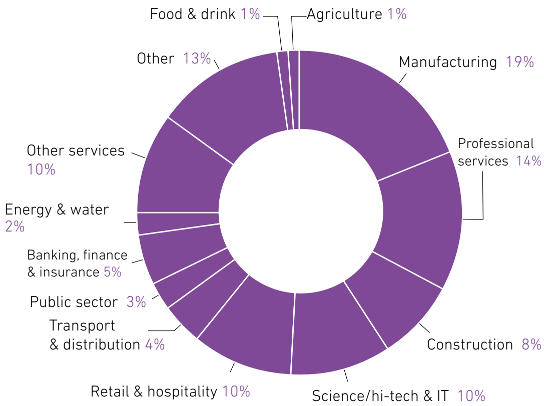
There were 342 respondent businesses in total. Their combined workforces amounted to more than 955,000 people, equivalent to just under 4% of all employees in employment in the UK.[16] The survey was completed by a senior executive in each organisation. In larger firms it tended to be the human resources director or equivalent. In smaller and medium-sized enterprises in was usually the managing director, chief executive or chairman.

Sectoral analysis

There was a wide spread of responses across all sectors (**Exhibit 5**). As in previous years, manufacturing firms made up the largest single grouping, accounting for nearly one in five respondents (19%). Professional services firms (14%) were also well represented, while one in ten participants (10%) came from the retail and hospitality sector.

Organisations classed as 'other services' (10%) or 'other' (13%) together accounted for nearly a quarter of responses. These included businesses engaged in activities as diverse as education, recycling and waste management, publishing, security services, and housing and healthcare providers. Construction firms and businesses in the field of science, hi-tech & IT each made up around one in 12 respondents (8% and 9% respectively).

Exhibit 5 Respondents by economic sector (%)



Respondents by company size

Businesses of all sizes took part in the survey. Small businesses, employing up to 49 employees, represented a little under half of respondents (45%) while one in 12 respondents (8%) represented very large businesses employing more than 5,000 employees (**Exhibit 6**).

The majority of private sector businesses in the UK fall into the official definition of small and medium-sized enterprises – organisations with fewer than 250 employees.[17] They account for 60% of all private sector employment in the UK. Looking at the proportion of small and medium-sized businesses taking part in the survey, more than half (60%) of respondents were from firms in this size category. Larger firms, those with 250 or more employees, made up the balance of two in five respondents (40%).

Exhibit 6 Respondents by company size (%)

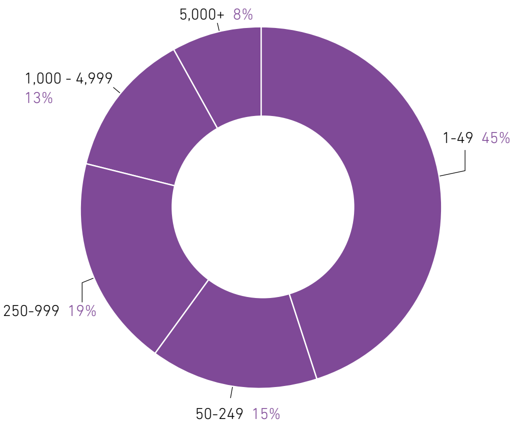
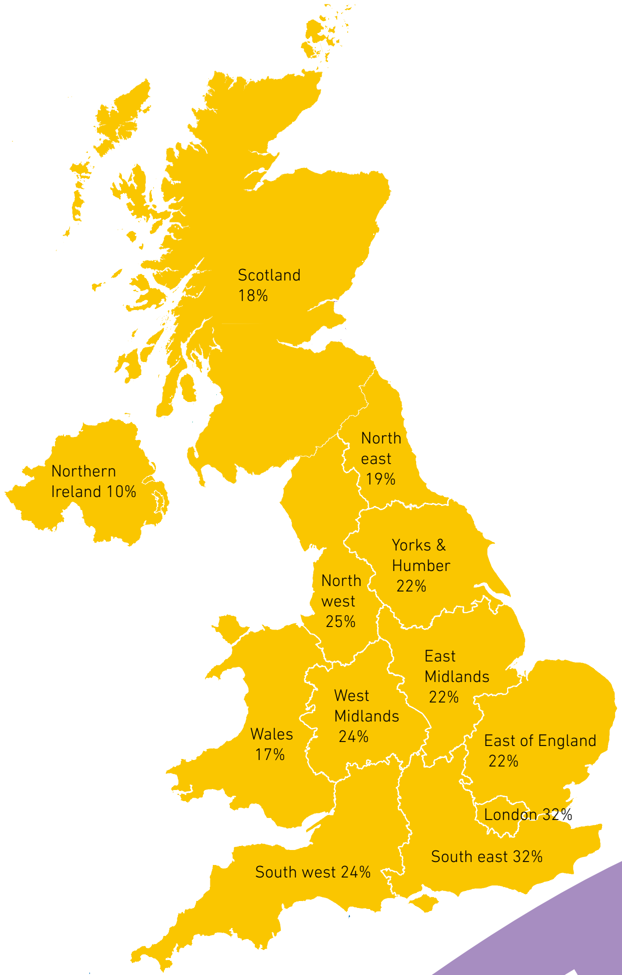


Exhibit 7 Respondents by region (%)



Overall, medium-sized businesses (MSBs) employing between 50-499 employees accounted for around a quarter (26%) of participants.

Respondents by region

The majority of respondents had employees based in several regions of the UK. Many respondents had employees based in London and/or the south east: nearly a third of participant businesses (32%) had at least some employees in these regions (**Exhibit 7**). After London and the south east, the most common locations where participants had employees based were the north west (25%), the south west (24%) and the West Midlands (24%).

In all, more than one in four participant businesses (28%) had at least some employees based in one or more of Scotland, Northern Ireland or Wales, where devolved parliaments or assemblies have an important role in areas of business policy.

SECTION 3

Growing optimism on job prospects, but caution on pay

Private sector employment has surged since the financial crisis. Our survey signals that the UK's success in job generation is set to continue, with more than two in five businesses expecting to have more employees in 12 months' time than they do today. Most firms also anticipate having roles available that would be suitable for young entrants to the jobs market – provided they are equipped with the right basic skills and attitudes. As the recovery maintains momentum, most businesses expect to be able to raise pay in the coming year. But the impact of the national living wage will need to be carefully monitored, with many firms already warning of consequences in terms of higher prices and weaker job prospects.

Key findings

- More than two in five businesses (43%) expect their workforces to be larger in 12 months' time while just 13% expect their workforce to be smaller, producing a positive balance of +30% of businesses anticipating they will have more employees in a year's time
- The number of permanent jobs is set to increase faster than temporary positions, with a positive balance of +24% of businesses expecting to expand permanent hiring compared with +4% expecting to grow the number of temporary jobs over the coming year
- The pace of growth for graduate jobs has eased, with a positive balance of +16% of businesses planning to increase their graduate hiring over the next 12 months. For apprentices, a balance of +19% of businesses are looking to recruit additional apprentices in the coming year
- New job opportunities for young people will open up over the coming year, with nearly two thirds (62%) of businesses expecting to have entry-level roles suitable for young people aged 16-24
- Competitive pressures and tentative productivity growth are limiting the scope for pay rises, but over half of businesses (52%) intend to raise pay at least in line with the RPI measure of inflation in the coming year
- There is great uncertainty about the impact of the national living wage (NLW). While most respondents do not expect it to affect them initially in April 2016, two fifths (40%) anticipate an impact. The extent of that impact will vary across sectors: across the services sector, just over half (51%) anticipate having to raise prices to offset their higher employment costs and over a quarter (27%) will be employing fewer people as a consequence.

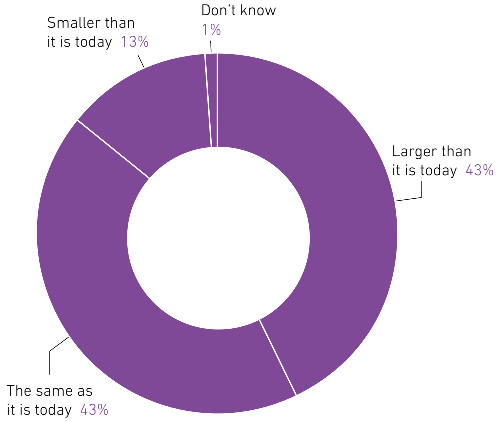
Businesses expect to create more new jobs in the year ahead...

UK businesses have generated more than two million jobs since the recession of 2008-09. In the three months to September 2015 employment hit a record high of more than 31 million, driving the employment rate also to a record high (73.7%). This has been achieved against the backdrop of a steady decline in public sector jobs.[18]

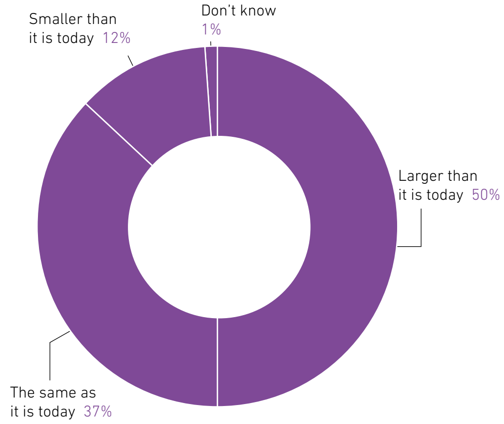
Our surveys over recent years have monitored this remarkable achievement – and our latest results indicate that further jobs growth lies ahead. More than two in five respondent businesses (43%) expect to increase the size of their workforces over the coming 12 months (**Exhibit 8**). The same proportion (43%) anticipate no change, while only one in eight businesses (13%) expects their workforce to be smaller in 12 months' time.

Exhibit 8 Expected size of workforce in 12 months' time, all respondents 2015 (%)

2015



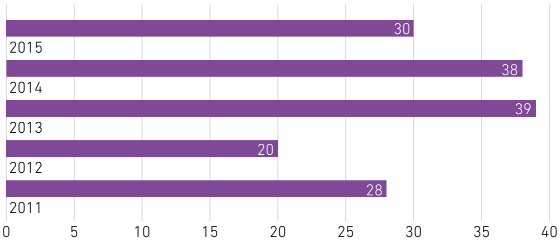
2014



Taking these figures together produces a positive balance of +30% of companies expecting to have more employees in a year's time.

Job creation in the coming year will be spread across all sizes of businesses, but seems set to be strongest among small and medium-sized firms. In all, two in five small and medium-sized firms (41%) expect to take on more people and just 7% anticipate a cut in their workforce, giving a positive balance of +34%. Among the largest employers, with more than 5,000 employees, the positive balance of firms expecting to have a larger workforce in 12 months' time is +24%.

Exhibit 9 Positive balance of firms expecting workforce growth 2011-15 (%)



...building on track record of job generation in recent years

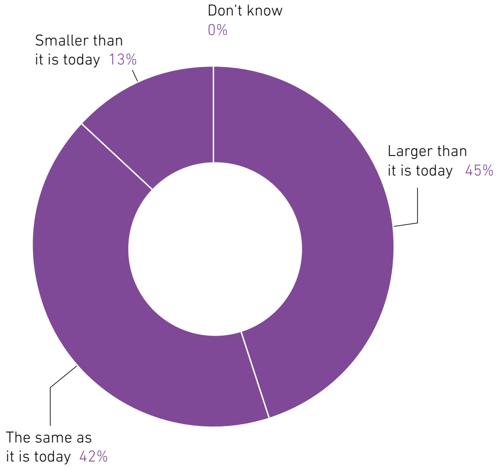
The positive hiring intentions of respondents to the 2015 survey builds on the exceptional track record of jobs growth over recent years (**Exhibit 9**). The positive balance of firms expecting to add employees over those expecting to shed jobs has stood at +20% or more every year since 2011. Our latest results – with a positive balance of +30% of businesses anticipating workforce expansion in the coming year – extends the run of job generation. Although the pace at which new jobs are being generated seems set to slacken a little by comparison with 2014 (**Exhibit 8**), the signs indicate there will be lots more openings available for people to move into work and progress in their careers.

All parts of the private sector expect to see jobs growth...

Almost every part of the private sector expects to add new jobs in the coming 12 months. In manufacturing, a positive balance of +32% of firms expect to have larger workforces in a year's time (**Exhibit 10, page 16**). This represents an easing of the pace of job generation from a high of +41% in 2014.

The construction industry is also expecting to create plenty of new jobs – a positive balance of +34% of respondents in the sector expect to have a larger workforce in 12 months' time (**Exhibit 11, page 16**). Again, this represents a slower pace of jobs growth than last year, when a positive balance of +54% anticipated having more employees in 12 months' time.

Exhibit 10 Expected workforce changes in manufacturing (%)



Most parts of the services sector also expect to add jobs in the coming year. The pace of workforce expansion is expected to be particularly rapid in professional services: two in five firms (41%) believe they will have more employees in a year's time than today, with just 2% expecting to shed employees, giving a positive balance of +39% of businesses anticipating extra hiring (**Exhibit 12**).

All three of these sectors increasingly demand high levels of skills. If they are to continue expanding their workforces as anticipated – without hitting shortages – it is essential for government, businesses, and education and training providers to work together to ensure people are equipped with the skills they will need to take advantage of these new opportunities.

Exhibit 11 Expected workforce changes in construction (%))

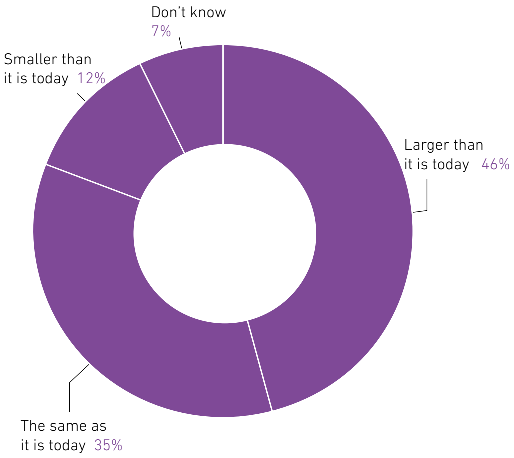
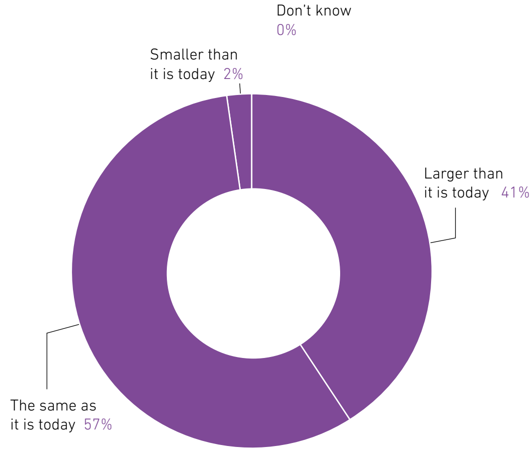


Exhibit 12 Expected workforce changes in professional services (%)



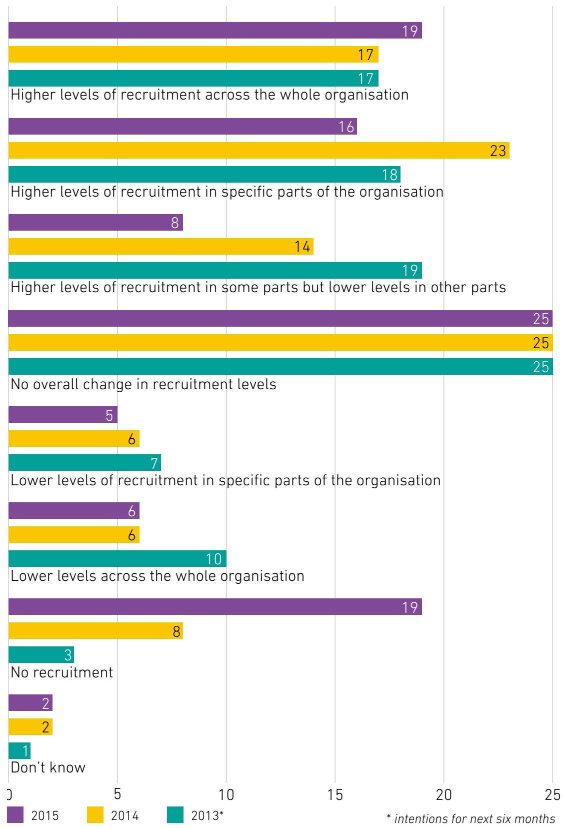
...and businesses in every region of the UK expect to generate new jobs

A positive balance of businesses in all regions across England and the devolved nations anticipate adding jobs over the coming year (**Exhibit 13**). The north east heads the list, with a positive balance of +46% of firms with employees in the region expecting to have larger workforces in 12 months' time. In contrast, the slowest rate of new job generation is anticipated by firms operating in the east of England, where the balance of businesses expecting to grow their workforces is +29%.

Across the devolved nations, in both Scotland and Wales, a positive balance of +42% of businesses expect to have more employees in a year's time. Increased job opportunities are also expected in Northern Ireland, but the balance of firms anticipating having a larger workforce is lower at +34%. Recent political uncertainty in Northern Ireland may have played a part in limiting business confidence while the impact of public expenditure constraints is also having a bigger impact on the economy.

Exhibit 13 Positive balance of firms expecting workforce growth by region (%)

Exhibit 14 Plans for permanent recruitment over the next 12 months (%)



Permanent job openings will outstrip temporary recruitment

For the third year running, our survey shows the biggest growth in job opportunities will be for permanent roles. Openings during the early stages of the recovery were weighted towards temporary posts. As the recovery has become soundly based, however, the balance has shifted.

In 2014 two fifths (40%) of respondents planned higher levels of recruitment of permanent employees across all or some parts of their organisation in the next year while just 12% anticipated lower levels of recruitment. This gave a positive balance of +28% of firms planning to increase recruitment to permanent posts. This year more than a third of participant firms (35%) are planning higher levels of permanent recruitment across all or some parts of the business (**Exhibit 14**). With only 11% planning lower levels of permanent recruitment, this gives a hefty positive balance of +24% of businesses intending to raise their levels of recruitment to permanent jobs.

While there are expected to be more temporary job openings in the year ahead, the pace of growth will be much slower than the generation of permanent roles. Our results show just 16% of participants planning to

Exhibit 15 Plans for temporary recruitment over the next 12 months (%)

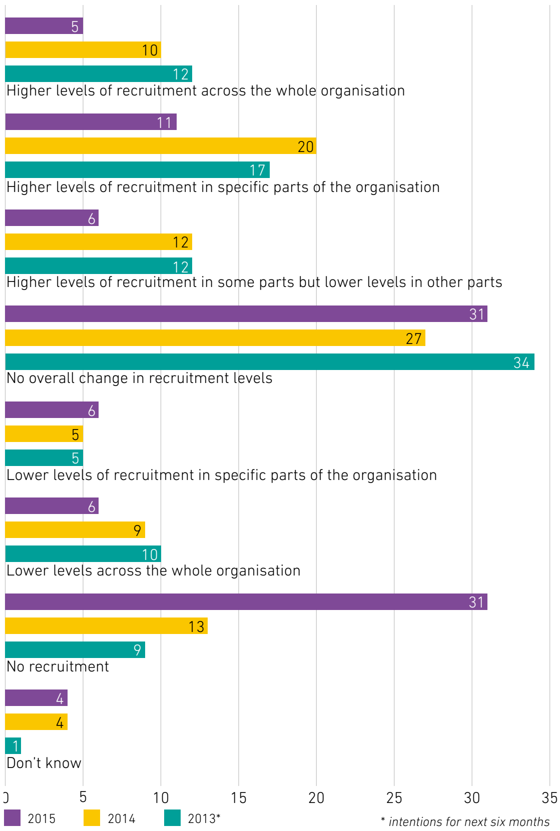
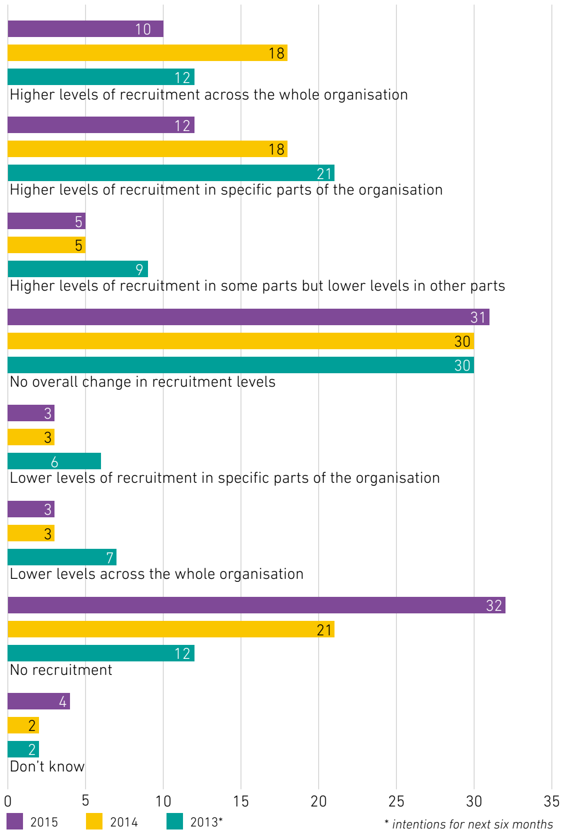


Exhibit 16 Plans for graduate recruitment over the next 12 months (%)



increase levels of recruitment of temporary workers across all or parts of their organisation (**Exhibit 15**). The proportion of businesses anticipating reducing their temporary hiring over the next 12 months is 12%, producing a positive balance of +4% of businesses looking to expand their temporary hiring over the coming year.

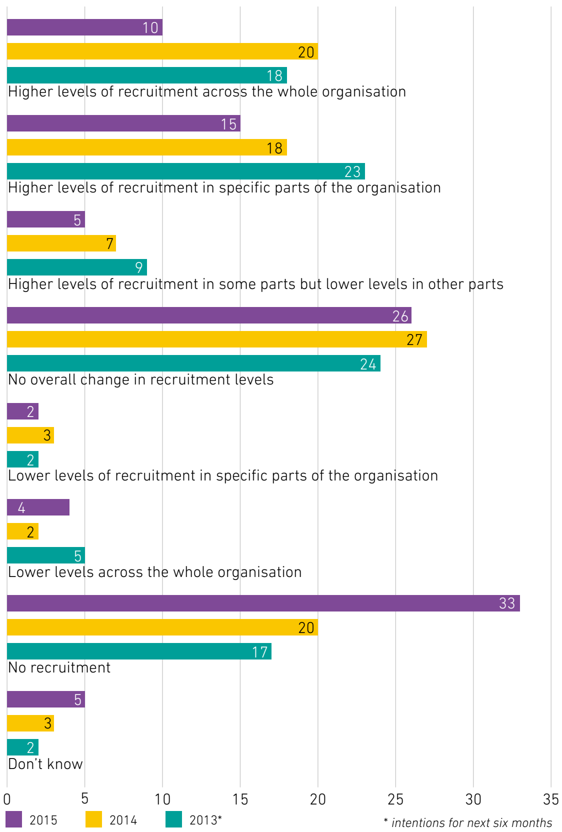
These results indicate there will be a modest increase in temporary openings, which provide an essential route into work for those with little experience or who do not want to take on a permanent commitment. But they point to a much faster pace of expansion in the permanent posts to which so many people aspire. Both types of work are essential components of the UK's successful flexible labour market.

More graduate job opportunities are opening up…

Recent years have seen rapid growth in demand for graduates to fill the rising number of higher-skilled jobs. This year's survey indicates further growth in job openings for graduates lies ahead, but the pace of growth is easing (**Exhibit 16**).

In 2014 more than a third (36%) of businesses planned to grow their graduate recruitment across all or parts of their organisation. Just 6% planned a reduction, giving a positive balance of +30% intending to expand their graduate intakes. This year's results point to further growth, but at a more modest pace. In the coming year, more than one in five respondents (22%) plan to expand their graduate recruitment across all or parts of their business, while 6% plan to cut back. This gives a balance of +16% looking to raise the number of graduates they recruit.

Exhibit 17 Plans for apprentice recruitment over the next 12 months (%)



As the economy moves towards more high-value, high-skill activities in the years ahead, the demand for higher-level skills is set to increase. The continuing improvement in job prospects for graduates reflects the need for higher-level skills in the workplace and increasing confidence about the economic outlook. But it is essential that graduates have the right technical and 'soft' skills for these new jobs. All too often, higher education programmes fail to equip graduates with the work-relevant skills they need to be effective in employment. And businesses want to see a boost in both the number and quality of graduates qualified in science, technology, engineering and maths (STEM) subjects.[19]

...and the drive for more – and better – apprenticeships should meet skill needs

In recent years we have seen sustained action to tackle the UK's long-standing weaknesses in vocational education and training. The expansion in the number of high-quality apprenticeships has been central to this, providing valuable routes into work for young people while delivering the skills – including the higher-level skills – that businesses need.

This year's survey results provide further encouraging evidence on the commitment of business to expanding the number of apprenticeships. One in four participant firms (25%) is planning to expand its apprentice recruitment in the next 12 months (**Exhibit 17**). Just 6% of businesses are anticipating a reduction in apprenticeship hiring in the coming year, giving a positive balance of +19% planning to increase their number of apprenticeship openings in 2016. This builds further on the expansion in apprentice hiring in previous years (with positive balances of +34% in 2013 and +33% in 2014).

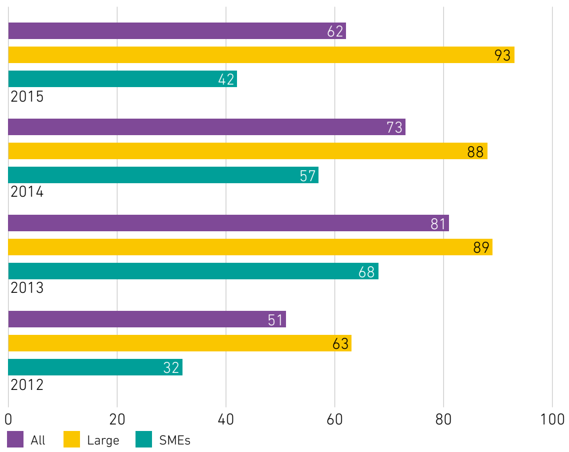
Recent years have seen particularly strong growth in apprentice hiring intentions in construction and manufacturing, partly in response to the hit recruitment took during the economic downturn. Last year a positive balance of +64% of construction businesses and +52% of manufacturing firms expected to increase their apprenticeship starts in the coming 12 months. This year, construction companies anticipate further rapid growth in apprentice numbers, with a balance of +48% looking to expand their intakes. In manufacturing too, firms expect to grow their apprentice numbers, but at a more moderate pace (with a positive balance of +11%).

The recovery is opening up opportunities for young people

Enabling young people to take their first step into work successfully is crucial to their future prospects. The UK's track record on youth unemployment has long been stronger than much of the rest of Europe. But with more than 850,000 young people aged from 16 to 24 not in education, employment or training (NEET) in the three months to September 2015, there is no room for complacency.[20]

As the recovery becomes more soundly based, more job opportunities for young people are opening up. When asked about the availability of entry-level roles

Exhibit 18 Firms expecting to have roles suitable for young people aged 16-24 in the coming year (%)



suitable for people aged 16-24 seeking work, nearly two thirds (62%) of firms say they expect to have vacancies of this kind in the next 12 months (**Exhibit 18**).

These job opportunities will occur in businesses of all sizes and across sectors. More than two in five small and medium-sized businesses (42%) expect to have vacancies suitable for young people starting work, while nine in ten larger businesses (93%) employing over 250 people anticipate having entry-level roles in the coming year. Among businesses in the broad services sector (retail & hospitality, transport & distribution, and other services), over half (60%) expect to have vacancies in the next 12 months suitable for young people starting out on their working lives. The proportion is even higher among manufacturing respondents (at 77%).

If young people are to be able to secure these entry roles successfully, they must be properly equipped. By far the most important factors employers weigh up when recruiting school and college leavers are their attitudes and aptitudes (**Exhibit 19**). These rank well ahead of formal qualifications.[21] Businesses have repeatedly pointed to the need for our schools and colleges to develop young people who are rigorous, rounded and grounded. That means developing essential key skills and knowledge in combination with the attitudes and behaviours needed for success in life and work.

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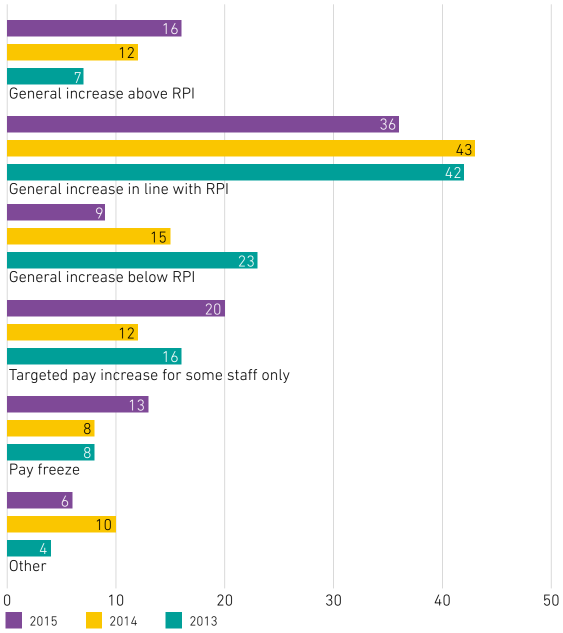
Exhibit 19 Accenture: helping young people into work

The Skills to Succeed Academy is a free online learning programme, created by Accenture to help young people in the UK build skills and confidence to make career choices, find a job and sustain employment. The academy offers three courses and 35 interactive online learning modules designed to help jobseekers build skills to choose a career, apply for and find a job, and be successful in a work environment. The learning content is available in organised in three curricula: *You and your career*, *Getting a job* and *Success in work*.

Motivated to drive a step change in employability support service for young people, Accenture reviewed the landscape of employment-support offerings in the UK. We recognised a need for high-quality, tailored and interactive learning that focusses on helping young people understand how to do things for themselves, while also building their skills and confidence.

Young jobseekers are invited to access the training through employment support programmes run by Accenture's Skills to Succeed delivery partners: Department for Work and Pensions (DWP), National Careers Service, Careers Wales, Skills Development Scotland, East London Business Alliance (ELBA), Ingeus, Reed in Partnership, and CIPD. Through these partners the Skills to Succeed Academy has already helped more than 30,000 young people to build critical employability skills and confidence.

Exhibit 20 Firms' approach to their next pay review (%)



Business remains cautious on pay until productivity picks up

As businesses shape their future plans, the impact of labour costs on competitiveness is at the forefront of employers' minds. Prudence on paybill costs has underpinned the strong employment growth the UK has experienced since the 2008-09 downturn. It remains essential if UK businesses are to compete successfully in global markets.

Above all, sustained growth in pay can come only with improvements in productivity. For the present, businesses are taking a cautious line on pay (**Exhibit 20**). Nonetheless, over half of respondents (52%) to this year's survey are planning a pay rise for their employees in line with inflation (as measured by the RPI) or better. This is similar to the pattern of last year. The UK must look to achieve a step-change in current levels of productivity if it is to make major progress towards the greater prosperity everyone wants to see. Output per hour in the UK in 2014 was 20 percentage points below the average for the rest of the major G7 economies. This was the widest productivity gap since comparable records began in 1991.[22] But we can tackle the gap providing the right steps are taken, as the CBI has set out.[23]

Around one in five firms (20%) will be targeting pay rises on particular groups of staff. As competition for talent and skills intensifies, it is perhaps not surprising that some businesses feel they must focus available pay budgets where they can achieve the greatest impact for the organisation. The proportion of firms planning a pay freeze has risen a little (to 13%), reflecting the intense competitive pressures on businesses, but it remains at low levels by comparison with levels during the recession.

The national living wage is a step into the unknown...

In his July budget the chancellor made a significant political intervention by announcing the introduction of a national living wage (NLW). This is a seismic shift in the way pay is set in the UK. The CBI shares the government's goal to raise pay and boost living standards. Our 2014 *Better-off Britain* report outlined a number of ways to achieve this aim. These include focusing on productivity improvement, ensuring young people have an education that helps them build their careers right from the start and building better ladders into higher-paid work.[24]

But the political ambition to raise pay must be achievable for business (**Exhibit 21, page 24**). It will move us away from an independent evidence-based approach – which has successfully allowed pay to rise as far as possible without damaging employment prospects – towards a politically driven goal. The national minimum wage (NMW) rates currently set pay for 1.4 million workers, but by 2020 the NLW could increase this to 3.8 million.[25] By intervening in this way the government is taking a step into the unknown: while pay for many employees will rise, the path ahead must rest on the evidence-based approach taken by Low Pay Commission (LPC) to ensure job opportunities and working hours are not put at risk.

...so the impact of this measure will need to be carefully monitored...

Business is clear that the role of the independent LPC in recommending rates is a policy that works – and it is one politicians should not interfere with. Last year's survey showed three quarters (74%) of businesses think that an independent LPC should continue to take an evidence-based approach to recommending NMW rates.[26]

Exhibit 21 The national living wage needs to be set on the basis of evidence about its impact

On 8 July 2015, the chancellor announced the introduction of a new national living wage (NLW). In response, the CBI has been clear that while business wants to see a higher-skilled, higher-wage economy, the introduction of the NLW is a gamble with uncertain consequences.

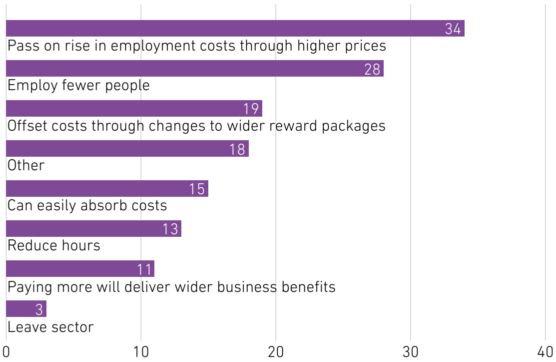
To be implemented in April 2016, the NLW will raise the pay floor for people aged 25 and over to £7.20 an hour. This represents a 7.5% increase over the October 2015 adult national minimum wage (NMW) rate. The chancellor also committed to raising the NLW to 60% of median earnings by 2020, which would require upratings of around 6% each year. These changes mean that, from April 2016 onwards, the adult NMW will set pay for 21 to 24 year-olds only.

The CBI is deeply concerned about the approach the government is taking to the shared goal of raising wages. The scale of upratings proposed is unprecedented: steep rises in the early years of the NMW were achievable only because the wage floor had initially been set at a very conservative level.

Upratings in minimum levels of pay must be affordable for businesses. Otherwise they will lead to cut-backs in the number of hours or jobs offered. Conservative preliminary estimates by the Office for Budget Responsibility suggest that while six million people will see their pay rise by 2020, approximately 60,000 fewer people will be in employment and hours worked will fall by 0.2%.

To avoid forcing businesses to make difficult choices and to protect employment prospects, the independent evidence-based Low Pay Commission (LPC) must have a critical role to play in recommending the path of future rate rises. The LPC must be willing to recommend a move away from a target of 60% of median earnings if the economic evidence dictates it and the government must accept the LPC's expert advice

Exhibit 22 Expected impact of the national living wage on the business (%)*



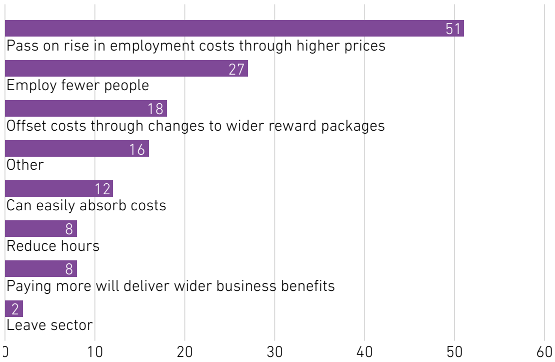
* of those reporting an impact

This has proven its worth over time, with a large body of evidence confirming that the introduction of, and upratings to, the NMW have successfully increased wages as far as possible without cutting off employment prospects.

There is great uncertainty about the likely impact of the NLW on firms of difference sizes, across different sectors, and in different locations. Recent analysis suggests the cost to employers of implementing the NLW will be significantly higher than current official estimates.[27] While responses from our survey participants indicate more than half (60%) do not think its initial introduction in April 2016 will have an impact on their business, a substantial proportion (40%) anticipate an impact (**Exhibit 22**). For some firms the initial increase in April 2016 is manageable but the subsequent upratings to achieve the £9 goal by 2020 may prove more of a struggle.

Of those reporting an impact on their business in April 2016, a third (34%) expect to pass on the costs of the NLW to their customers through higher prices, giving an unwelcome boost to inflation. Nearly three in ten (28%) envisage it will mean they employ fewer people than they otherwise would, acting as a drag on the job generation which has distinguished the UK economy.

Exhibit 23 Expected impact of the national living wage in the services sector (%)*



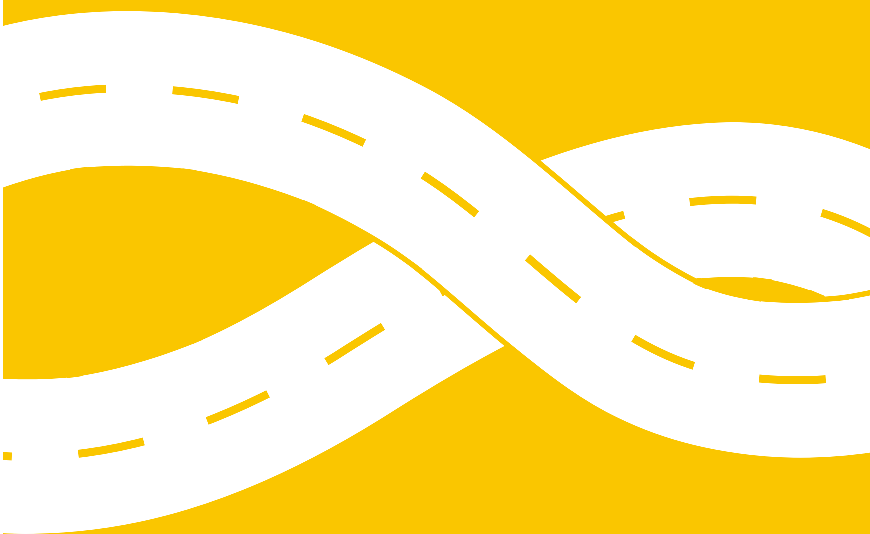
* of those reporting an impact in retail & hospitality, transport & distribution, and other services

...as the NLW will hit some sectors harder than others

The impact of the NLW is likely to look different in different sectors. Across the services sector as a whole, over half of firms (51%) plan to raise prices to offset their higher employment costs and over a quarter (27%) will be employing fewer people in consequence (**Exhibit 23**). Around two fifths (18%) will be looking to overhaul their reward packages, making adjustments in other elements to offset the costs of the NLW.

The uncertain consequences of the NLW policy, launched without consultation, make it imperative that there is careful monitoring. The LPC should monitor the impact and, if necessary, be able to adjust the policy in the light of experience.

“*The political ambition to raise pay must be achievable for all businesses*”



SECTION 4

Ensuring the UK remains open for business

The UK has many attractions as a place to invest and do business. The World Bank currently rates it as among the very best global locations in terms of ease of doing business, standing the UK in good stead for generating jobs and future prosperity.[28] The challenge now is to ensure we maintain this competitive edge and do not stand still while others improve around us. While businesses see the UK as having become a more attractive location in recent years, there are concerns about the future. Skills shortfalls, the burden of employment regulation and a risk of rising labour costs all have the potential to undermine perceptions of the UK as a good place for businesses to invest.

Key findings

- More businesses believe the UK has become a more attractive place to invest and do business over the past five years than believe it has become less attractive, giving a positive assessment balance of +16%
- There remains work to be done to cement this positive assessment as we look ahead: the balance of respondents expecting the UK to become a better location for business in five years' time has dropped from +25% in 2014, to +16% this year
- The biggest current threats to the UK's labour market competitiveness are seen as the burden of employment regulation (cited by 50%) and low levels of skills in the workforce (46%)
- Businesses are not optimistic that these problems will be tackled effectively. In five years' time low levels of skills (56%) and regulation (50%) remain the main perceived threats
- There are also mounting concerns about uncompetitive labour costs (up from 26% in 2014 to 34% this year) and restrictions on access to migrant workers (up from 18% to 31%).

The UK is seen as having become a better place to do business

Ensuring the UK is an attractive place to invest and do business is essential for sustained economic growth, job generation and future prosperity. As the economic recovery has become more securely based, assessments of the UK as a business location have shifted from negative to positive (**Exhibit 24**).

Back in 2013, 31% of respondents believed the UK had become a more attractive location over the preceding five years, considering issues like skills, employment regulation and the labour market. In contrast, 33% believed the UK had become less attractive as a place

Exhibit 24 The UK as a place to invest/do business over the past five years (%)

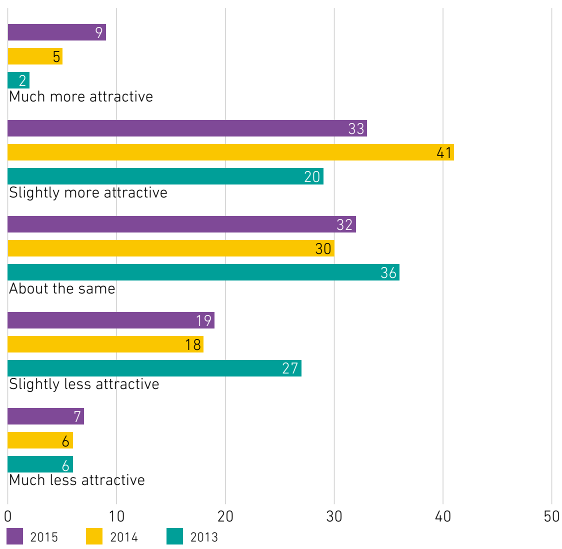
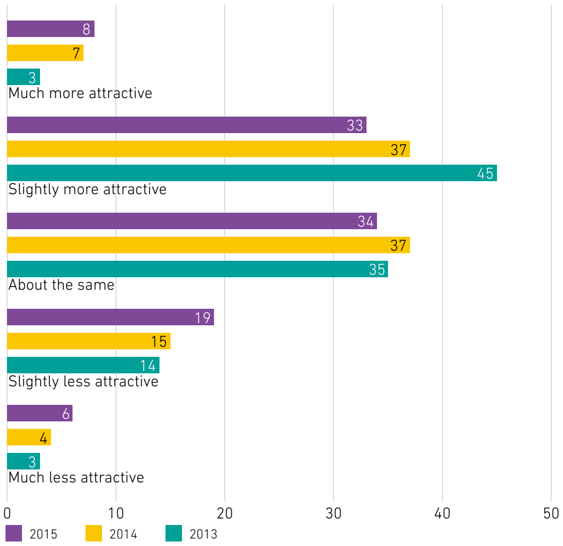


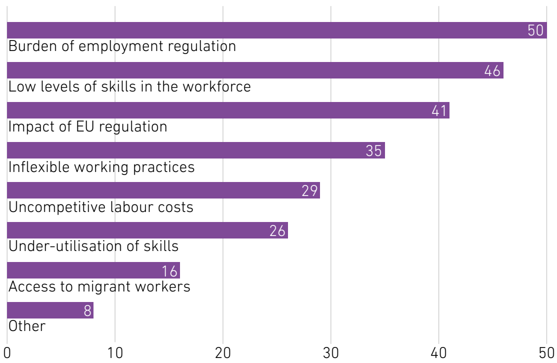
Exhibit 25 The UK as a place to invest/do business in five years' time (%)



to do business over the previous five years, producing a negative balance of -2%. This followed even more negative assessments in previous years (with a record negative balance of -41% reached in 2012).[29]

Last year, with the economic upturn and a more positive outlook for the future, assessments improved, tipping the balance in favour of the UK as a good place to invest. Close to half of businesses (46%) believed the UK had become a more attractive place to invest over the previous five years. With just 24% of respondents viewing the UK as having become a less attractive business location over the previous five years, this produced a positive balance of +22% of businesses rating the UK as having become a better place to invest and employ people.

Exhibit 26 Current threats to UK labour market competitiveness (%)



This year has seen assessments of the UK's performance as a business location remain positive. In all, more than two in five businesses (42%) view the UK as having become a more attractive place to invest over the past five years. With 26% considering the UK has become less attractive, a positive balance of +16% rate the UK as having become a better location for business. While this overall positive assessment of the UK's progress is welcome, it is concerning that the positive balance in 2015 is not as high as last year.

…we must build on this momentum and sustain the positive outlook

The challenge now is to ensure the UK does not start slipping backwards as other competing locations seek to improve their attractions for business. The UK must not let up in the drive to ensure it is seen as one of the best business locations among advanced economies.

When asked about their expectation of the UK as a place to invest in five years' time, there is still considerable optimism: two fifths (41%) of businesses anticipate that the UK will be much more or slightly more attractive in the future (**Exhibit 25**). This is, however, lower than the 48% of respondents in 2013 and the 44% last year who believed the UK would become a more attractive location for investment in the next five years.

One in four firms (25%) this year believes the UK will become a less attractive business location in five years' time. This means the overall balance of respondents expecting the UK to be a more attractive place to invest and do business in future has declined from +31% in 2013 and +25% in 2014 to +16% this year. This is a concerning trend. The erosion of the positive balance shows how important it is that the progress of recent years – particularly in supporting flexibility in the labour market – is not squandered. The government must maintain its reforming impetus.

Employment regulation and a weak skills base put labour market competitiveness at risk

We asked respondents what they see as the current weaknesses that threaten the UK's competitiveness as a place to employ people (**Exhibit 26**). Topping the list is the burden of employment regulation, highlighted as a threat to the UK's current labour market competitiveness by half of respondents (50%). Among small and medium-sized firms, the proportion perceiving regulation as a threat rises to 54%.

Four in ten respondents (41%) firms reported the impact of EU regulation as a threat to competitiveness, demonstrating the appetite from firms to see a change of approach in EU social policy, with greater focus on competitiveness.

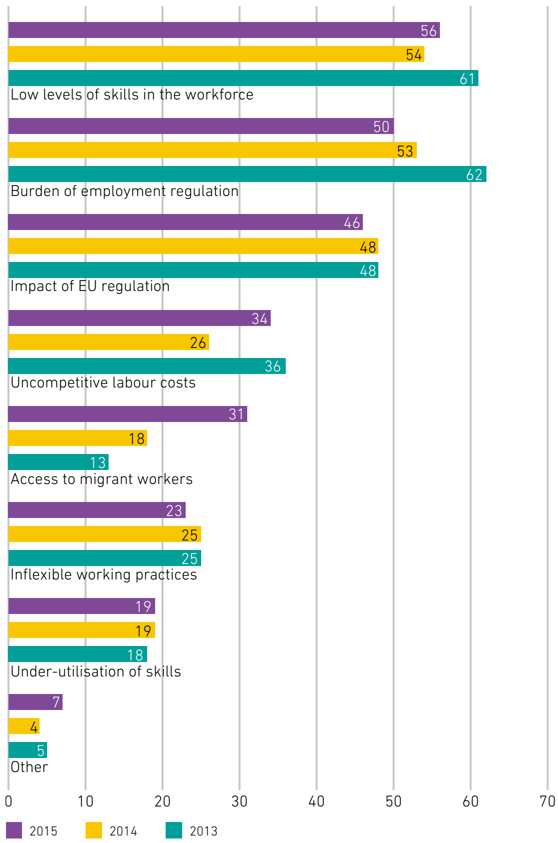
The other leading concern is about low skill levels among the UK's workforce. This year close to half of businesses (46%) identify a poor skills base as a troubling weakness which could undermine the competitiveness of the UK as a place to employ people. Standards of education and vocational skills in the UK are a long-standing worry. The steps taken in recent years to raise levels of attainment in our schools and to boost apprenticeships are welcome, but there is a long tail of underachievement among many adults now in the workforce. This will have to be tackled if it is not to act as a drag on productivity and future economic growth.

Finally, despite all the progress towards greater flexibility reported in section 5, too many organisations are still bedevilled by inflexible working practices (cited as a threat by 35%). Some of this is a product of skill weaknesses and shortfalls, meaning that not enough employees are able to work in the flexible ways an advanced economy requires. But there are also changes needed in the mind-set of some groups of employees to accept new, more productive methods of working on which future prosperity depends.

Developing a skilled workforce must be the top priority

When asked to identify the most likely threats to the UK's competitiveness and attractiveness as a place to employ people in five years' time, businesses highlight skills shortcomings as the top concern (**Exhibit 27**). Worryingly, over half (56%) of respondents believe low levels of skills in the workforce will be the most significant threat to the UK's competitiveness in five years' time. Employers are not confident that the challenges will be effectively addressed over the course of this parliament.

Exhibit 27 Likely threats to UK labour market competitiveness in five years' time (%)



The level of skills needed in our economy is rising. By 2022 half of all jobs are expected to require at least a Level 4 qualification (such as a BTEC professional diploma).[30] With the UK's skills system focused primarily on the provision of lower skills, the lack of routes to higher skills – other than degree courses – will make it much harder for people to progress and move up the career ladder.[31] Businesses in Britain will be left facing shortages of people equipped with the right skills, undermining confidence in the UK as a business location.

Regulation and labour costs also pose future threats...

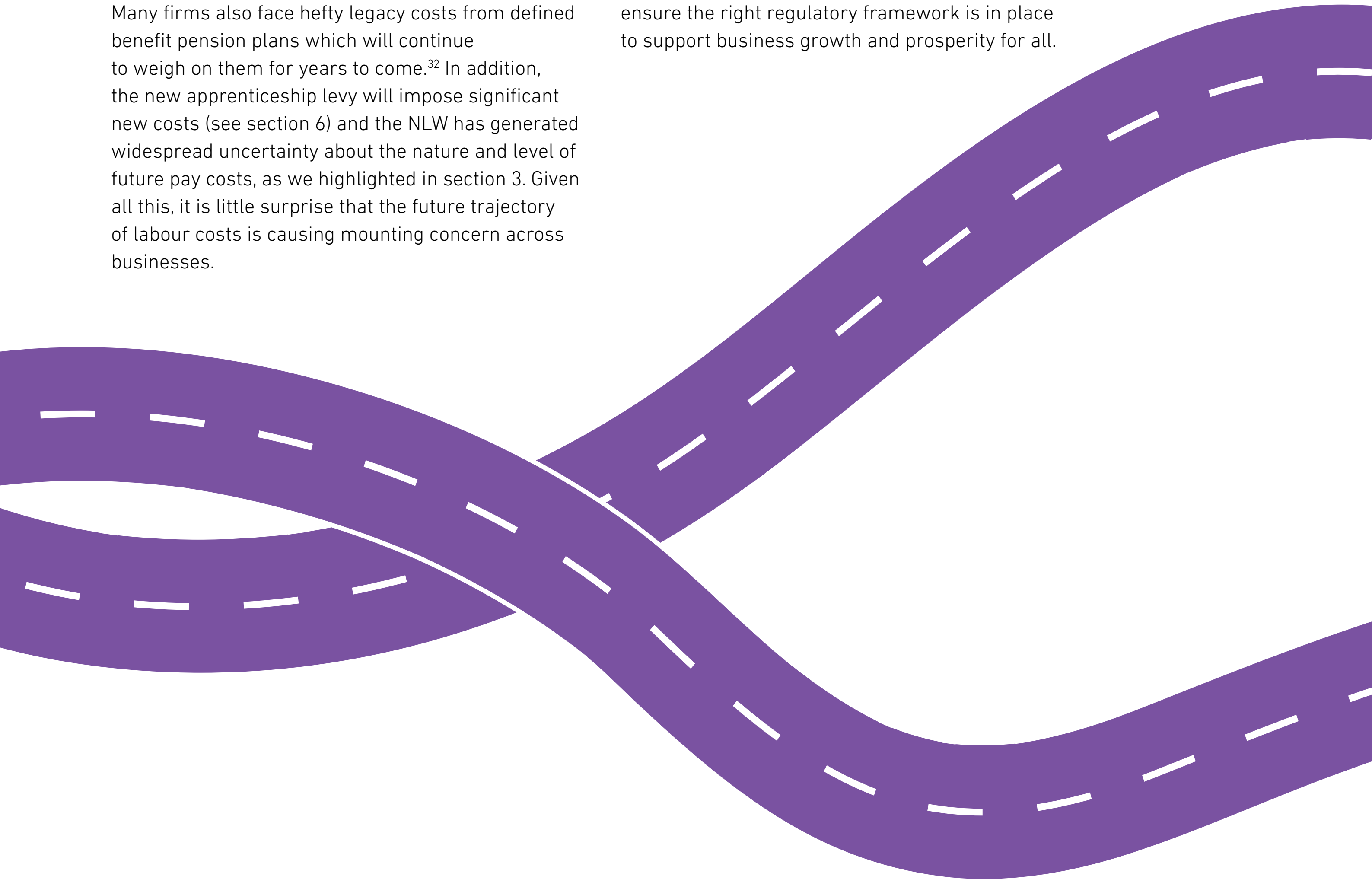
Half of respondents (50%) are concerned that the burden of employment regulation will still be a threat to the UK's competitiveness as a place to employ people in five years' time. Its second-place ranking as a threat in the future shows businesses do not hold out much hope that the burden will be significantly reduced by the present government, despite the rhetoric around tackling red tape. As we highlight in section 6, firms are facing some new challenges from UK regulation with policies such as the apprenticeship levy.

Despite the modest rate of earnings growth, future labour costs are an increasing concern for businesses (cited by 34% this year compared with 26% in 2014). The period 2015-18 will see the vast majority of firms auto-enrolling or re-enrolling their employees in pensions which will be a substantial cost – and for most smaller businesses this will be a first-time cost. Many firms also face hefty legacy costs from defined benefit pension plans which will continue to weigh on them for years to come.[32] In addition, the new apprenticeship levy will impose significant new costs (see section 6) and the NLW has generated widespread uncertainty about the nature and level of future pay costs, as we highlighted in section 3. Given all this, it is little surprise that the future trajectory of labour costs is causing mounting concern across businesses.

...and there are worries about access to skilled workers from overseas

Recruitment from overseas plays an important role in plugging skills gaps as well as ensuring the UK is a competitive place to invest. The government's actions and rhetoric around capping immigration are a worry for businesses. The proportion of businesses concerned that restrictions on access to migrant workers are likely to threaten the UK's labour market competitiveness in five years' time has climbed to nearly a third (31% in 2015, up from 18% in 2014). As we report in section 6, there are risks of serious damage to the economy if access to overseas talent becomes too restrictive.

There are roles for both business and government in addressing these challenges and ensuring the UK remains competitive and open for business. Firms must use the flexibilities available to them to drive productivity and innovation, ensuring their workforces are inclusive and engaged. The government must ensure the right regulatory framework is in place to support business growth and prosperity for all.



Business must lead the way in creating inclusive and engaged workforces

Creating inclusive and engaging workplaces will help firms to increase productivity and compete internationally. How successful a business is at unlocking the talent of its employees can be the difference between a business thriving or not. The business case for diversity is clear. Respondents to this survey highlight the barriers they face in their efforts to become more diverse, and the vital role flexibility plays in enabling workers from different backgrounds and in different circumstances to contribute at work. Keeping this diverse workforce engaged is also key to competitiveness and productivity, which is why employee engagement remains among the top workforce priorities for the coming year

Key findings

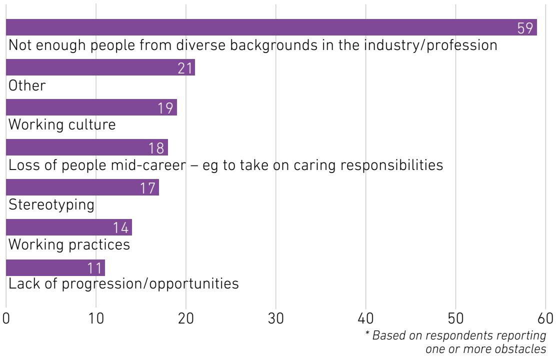
- Maximising the use of talent is critical for success – but close to two thirds of respondents (63%) report they face at least some barriers to developing a more diverse workforce
- Multi-skilling employees is now the leading form of working practice flexibility, operated by nearly four in five respondents (79%), followed by flexibility over location for work (73%)
- Businesses are ready to take the lead on eradicating the gender pay gap. But greater flexibility is necessary to ensure reporting supports business in driving real change (31%)
- The top priorities for business in the coming year are better leadership (43%) and employee engagement (35%) as they seek to foster productive workplaces
- Employee relations remain positive, with 71% of firms assessing their workplace this year as co-operative or very co-operative. Businesses are confident this will be maintained in 2016, with a positive balance of +66% of businesses anticipating a co-operative or very co-operative climate
- Employee morale is at high levels, with over half (53%) of respondents describing morale levels among their employees as high or very high
- Businesses say the major benefits of high levels of employee engagement include improved retention of employees (46%), reduced absence levels (35%) and improvements in productivity and performance (31%)
- But there is no one right answer to securing high levels of engagement – it involves adopting a mix of approaches including employees developing a personal interest in their work (46%), effective line management (39%) and a set of shared, company-wide values (30%).

Maximising the use of all talent is critical for success, but there are still barriers to fuller diversity

Talent is too valuable to be wasted. So UK businesses have a real interest in ensuring that as little as possible goes untapped. Diverse and inclusive workforces bring wider skill sets, broader experiences and greater challenge and innovation.[33] So businesses must step up to the task of seeking out and developing talent in a diverse workforce.

Our results show businesses still see serious barriers to achieving the levels of diversity to which they aspire. Close to two thirds of respondents (63%) to our survey report that there are at least some barriers to developing a more diverse workforce. This figure is well up on the proportion taking this view last year (52%), showing that businesses are not complacent about the issues or the need to achieve change.

Exhibit 28 Obstacles to a more diverse workforce (%)



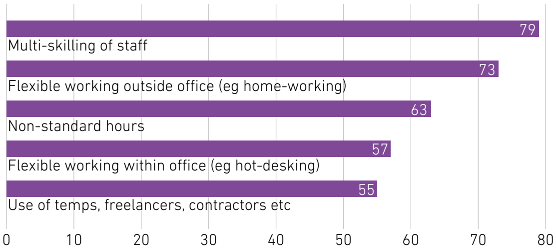
Among businesses reporting barriers, by far the most common obstacle is seen as a lack of individuals from diverse backgrounds in their sector or profession (59% – **Exhibit 28**). This is a particularly difficult problem to resolve, since it means there is a lack of role models to help draw in more people from diverse backgrounds. It makes it all the more important to tackle perceptions of particular sectors and professions from the earliest stages of education, and for organisations to become involved in mentoring and other types of outreach programmes that can change attitudes and challenge assumptions. Businesses are already widely involved in schools and colleges from primary levels upward, but those ties can be made deeper and stronger.[34]

Close to one in five businesses point to working culture (19%) and loss of people at mid-career level (18%) as barriers to achieving greater diversity in their organisations. Firms who responded 'other' pointed to issues such as a lack of role models in the sector and the composition of the region in which they operate.

Multi-skilling employees is the leading form of working practice flexibility...

Businesses are using the flexibilities available to them to unlock the talent in their workforces. And flexible employment arrangements work for employers and employees alike, supporting the creation of inclusive and engaging workplaces. Multi-skilling employees to improve organisations' productivity and capacity to adapt is now the leading form of flexibility in terms of working practices, operated by nearly four in five respondents (79% – **Exhibit 29**). People are a business's greatest asset. The more skilled those people are, the better for the business and the better for employees' future prospects.

Exhibit 29 Forms of flexible resourcing in use (%)



Flexible working away from the office (73%) and use of non-standard working hours arrangements (63%) are also common methods of flexible working reported by businesses for at least some employees. These flexible approaches can support enhanced productivity by enabling customer needs to be met outside standard hours, and aiding people to effectively combine work with other commitments.

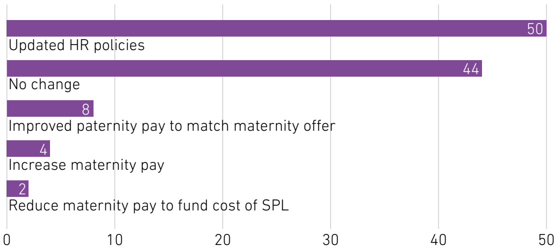
More than half of respondent businesses (55%) report the use of temporary workers, freelancers, and contractors. These can rapidly inject particular expertise or extra capacity which may be needed by a business on a short-term basis. With some 4.5 million people now self-employed in the UK, this type of flexibility can suit both businesses and individuals. It is essential that regulation, whether initiated from Westminster or the EU, should not damage the capacity of our flexible labour market to create opportunities for people who want to work.

...and shared parental leave is creating additional flexibility

The right to SPL was introduced on 1 December 2014, applying to eligible parents where a baby is due, or a child is placed for adoption, on or after 5 April 2015. The statutory right is designed to give parents more flexibility in how to share the care of their child in the first year following birth or adoption.

With their increasing experience of making flexibilities work in practice and the drive to create more inclusive workplaces, most businesses have not had to make major changes in response to the introduction of SPL (**Exhibit 30, page 30**). Half of respondents (50%) have simply updated their HR policies to reflect the new rights, and many others (44%) have not had to make any changes. Fewer than one business in 12 (8%) has improved the paternity pay they offer to match the level of maternity pay.

Exhibit 30 Actions in response to introduction of shared parental leave (%)



A much bigger concern for business – and a constraint on its ability to draw more parents in particular into the workplace – is the cost of childcare. The CBI has long urged the need for a serious rethink on how these costs could be better shared so they act as less of a disincentive for parents' participation in the jobs market (**Exhibit 31**).

But there are ongoing challenges to make the most of flexibility in practice

The biggest challenge facing UK businesses in terms of flexibility is to turn its productivity potential into reality. Heading the list of obstacles to implementing flexible working (**Exhibit 32**) is ensuring the right infrastructure is in place (cited by 52% of respondents). This could include the infrastructure to ensure that employee skills are up to standard, or the technology to enable fully effective working by employees from locations outside the workplace.

Adoption of flexible working practices also poses cultural challenges for many organisations. Nearly half point to the attitude of the workforce (46%) and the mind-set of some managers (45%) as obstacles to flexible working. There is clearly still work to be done to build recognition and trust of the benefits flexible working can bring both to businesses and their employees.

It is important to remember that for flexible arrangements to be implemented successfully, models of flexible working have to match business and employee requirements and work for everyone. In some cases it will not be practical – some jobs and technologies simply do not lend themselves to individual flexibility.

Exhibit 31 Affordable childcare would improve workplace participation

British business needs access to more skills and talent, and a high-quality, affordable childcare offer is central to increasing labour market participation.

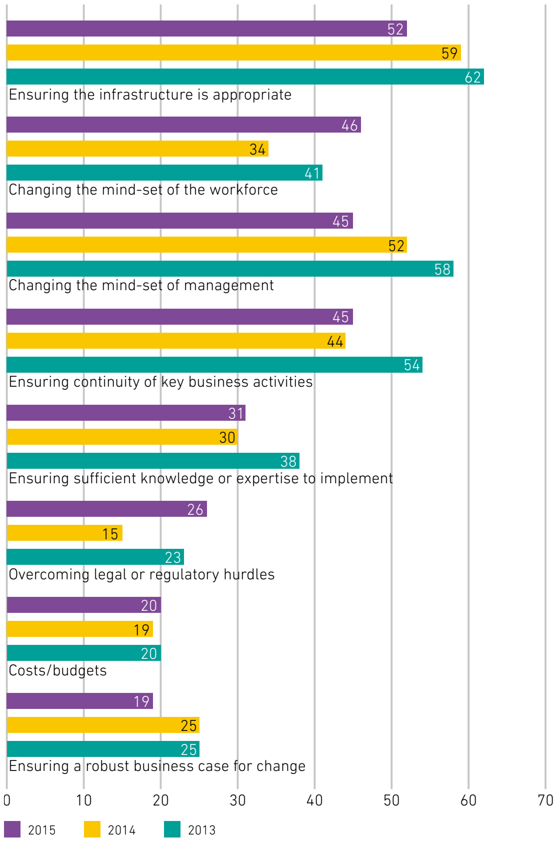
In the long term, good quality childcare lays the foundations for later education and skills development. In the short term, it enables parents to work or to work more hours. One area in particular in which we lag behind some of our European counterparts is mothers' employment. By improving the childcare offer in place, we could see increased participation. Those at home managing families' childcare – traditionally women – would be able to remain connected to the workplace, engaged with potential career progression and confident in the care being offered to their families.

On taking office in May 2015, the Conservatives followed through their campaign's childcare pledge by putting forward a bill to establish 30 hours of free childcare a week for all working parents of three and four year-olds in England. This is a great first step. Improving childcare opportunities for three and four year-olds provides real benefits.

However, it isn't the whole answer. There are additional steps government can look at in the future that could help further solve the gaps in skills, development and employment opportunities. When public funding allows, the CBI would like to see the government offer free childcare to parents of all one and two year-olds too, as well as bridge the gap between the end of maternity pay and the end of maternity leave.

It is therefore not surprising to see the need to ensure the continuity of key business activities identified as a constraint on implementing flexible working practices by nearly half of respondents (45%).

Exhibit 32 The main obstacles facing business in implementing flexible working practices (%)



Closing the gender pay gap should be a priority for business…

A new regulatory hurdle on the horizon is gender pay gap reporting. Businesses recognise their role in eradicating the gender pay gap. That's why, last year, the CBI called for a voluntary approach of the type that has been successful in increasing the proportion of women on boards. But it is not a job they can do alone. Further progress requires action on a range of fronts that will take time to produce results, such as challenging occupational stereotypes, encouraging more women into male-dominated industries and strengthening careers advice. Business is ready to work with government to ensure that the forthcoming reporting requirement has the necessary flexibility and supports broader efforts to drive culture change (**Exhibit 33**).

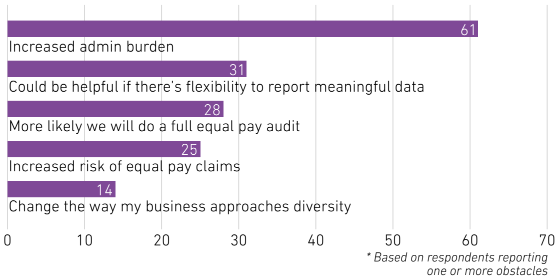
Exhibit 33 Closing the gender pay gap

Addressing the gender pay gap is now rightly in the government's focus and companies will be required to report their gap from 2016. In the CBI's response to the Government Equalities Office's (GEO) consultation on Closing the Gender Pay Gap, we set out the key elements of an approach that would enable the new rules to be helpful for business:

- The government must ensure that the new rules are seen in context – they are not about equal pay and are not a silver bullet in closing the gender pay gap
- In implementing reporting, the right approach for government to take is a simple default that companies can add to if they wish
- Reporting should be in a form specified by the company, and at points in time far enough apart to show whether progress has been made – we suggest three years.

To make a real difference, reporting must be a prompt for firms to question why their gap exists and plan to tackle it – not an exercise in regulatory compliance. Providing flexibility in the working environment, introducing schemes to encourage parents back into the workforce, and turning attention to schools and the advice and expectation we give girls as well as boys will build a pipeline for women into more-skilled, higher-value, better paid jobs.

Exhibit 34 Consequences for businesses impacted by reporting on the gender pay gap* (%)



We asked what impact the new reporting requirement would have on business. It is a concern that nearly one in three (28%) firms sees a link between gender pay reporting and equal pay (**Exhibit 34**). The former is an average while equal pay is a like-for-like comparison. Greater clarity is required before the regulations come into force to ensure that the two are not conflated. To make a real difference, reporting must be a prompt for firms to question why their gap exists and develop a tailored plan to tackle it. So it is also a concern that three fifths (61%) do not believe the requirement will have any impact, while just 14% believe it will directly change the way they approach business diversity.

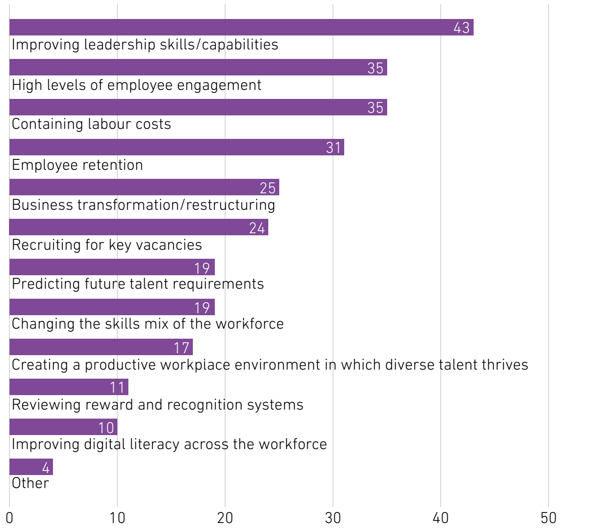
To be truly effective at driving change, gender pay gap reporting must be relevant to the particular company's operations, systems and structures and should be just one aspect of broader business action on diversity.

...but reporting must be flexible to be meaningful and change business DNA

Provided the regulations allow sufficient flexibility for organisations to report meaningful data, nearly a third (31%) of those expecting some impact consider the exercise could be helpful. This does, however, depend on the government allowing greater scope for businesses to develop their own approaches to gender pay data analysis than has so far been proposed.

One in four (25%) of those businesses expecting some impact see an increased risk of equal pay claims arising. Whether these are justified or simply a by-product of extra publicity being given to differences in pay between men and women will be for employment tribunals to decide.

Exhibit 35 Workforce priorities in the coming year (%)



The top priorities for business are better leadership and employee engagement...

Our survey asked respondents to identify their top three workforce priorities in the coming year (**Exhibit 35**). The results show improving leadership skills topping the list (a priority for 43%).

Leadership and management skills are expected to see the highest growth in demand among businesses over the next three to five years of any category of skills,[35] so it is right there should be a focus on developing these. And with effective leadership and management skills essential to the success of every workplace, UK businesses need to close the capabilities gap with competitor nations.[36]

The business benefits of highly engaged employees are well understood by firms of all sizes and in all sectors. Maximising these benefits will be essential for businesses to innovate successfully and raise productivity as the economy continues to grow. It is therefore no surprise to find businesses pointing to high levels of employee engagement as a major priority (35%), ranking as important as containing labour costs (35%). As we saw in section 4, future labour costs are an increasing concern for businesses. The UK cannot risk a return to the days of internationally uncompetitive labour costs.

Exhibit 36 Digital skills are central to raising efficiency and productivity

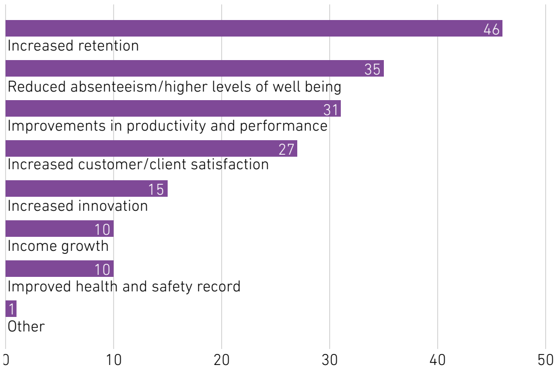
To gain a winning edge in global markets and raise productivity, UK businesses need to find new ways to add value, innovate and improve processes at every level. Online and digital technology will play an increasingly central role. Business is being revolutionised by communicating with customers and prospects across the world in new ways, optimising online platforms, and developing new digital technology applications. Being digital is no longer the preserve of high-tech industries, creating growing opportunities for those with digital know-how.

Among businesses looking to improve digital skills and literacy across their workforce as a priority in the coming year, the main driver is the need to work more efficiently (84%). Businesses rightly recognise stronger digital capabilities can help drive productivity.

But improved digital skills among employees can also open the way to develop new revenue streams (cited by 52% of those looking to strengthen digital skills). Research among small and medium sized businesses in the UK has shown a positive link between digital skill levels and turnover growth.[37] The rapid rise to global prominence of so many online businesses shows what can be achieved with the right mix of creativity, digital skills and employee commitment. UK businesses aspire to be at the leading edge of the fast-expanding global digital economy.

As economic growth continues and businesses look to become more agile in responding to opportunities, employers are aiming to ensure they have the right people in place with the right skills. Nearly a third (31%) will be focusing on employee retention in the coming year, as competition for skilled people intensifies. One in four businesses (25%) will be restructuring to adapt to changing markets and technology, and a similar proportion will be prioritising recruiting to key vacancies (24%).

Exhibit 37 Major benefits of higher levels of employee engagement (%)



For a fifth of respondents the main workforce priorities in the coming year will be assessing their future talent requirements (19%) and getting the skills mix of their workforce right (19%). For one in ten (10%), investing in digital skills is a key priority to ensure their workforce is equipped for the future (**Exhibit 36**).

Better employee engagement delivers better business outcomes

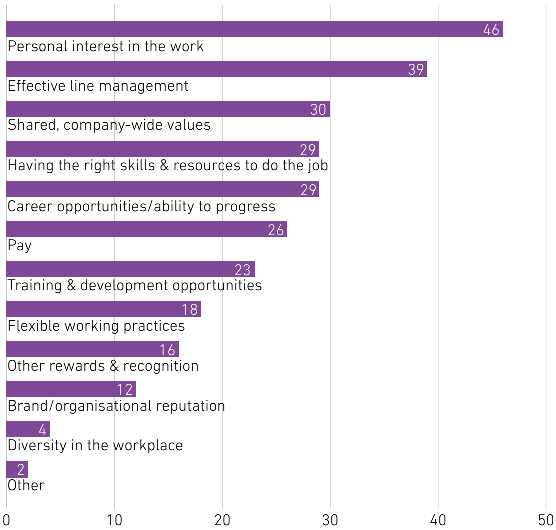
With employee engagement the second priority for business in the coming year, it is clear firms recognise a range of positive outcomes flowing from higher levels of employee engagement (**Exhibit 37**). Asked to identify the major benefits, almost half (46%) point to a connection between better levels of engagement and employee retention. This is a particularly important issue when there is growing competition for employees with skills and employers are seeking (as we saw in **Exhibit 29**) to develop more multi-skilled employees to increase their operating flexibility.

A third of businesses also highlight links between higher levels of engagement and reduced absence/higher levels of employee wellbeing (35%), and with securing the improvements in productivity and performance (31%) on which future prosperity depends.

There are clear routes to achieving employee engagement

We asked respondents to identify the three key drivers of employee engagement in their business (**Exhibit 38, page 34**). The results show there is no one right answer to securing high levels of engagement – it involves adopting a mix of approaches.

Exhibit 38 Drivers of employee engagement (%)



Personal interest in the work (46%) emerges as the single most important driver of employee engagement. Helping employees recognise their work as meaningful, contributing to a bigger purpose and as part of a team, is therefore of major importance. Achieving this calls for high-quality leadership and communication, so effective line management ranks as the next most important driver of employee engagement, cited by nearly two fifths of respondents (39%). A set of shared, company-wide values also plays a valuable role in giving people a strong sense of identity and purpose (cited as a key driver by 30%).

Having the right skills and aptitudes are essential to get into work, and once in a job supporting individuals to use and develop their skills is an important driver of engagement (29%).

Equally important are opportunities for people to make headway in their careers and to see ways to progress and improve their standard of living (29%). By comparison with all these drivers, pay receives a lower ranking as a driver of employee engagement (cited by 26% as one of the top three drivers).

There is a positive climate of employee relations that employers expect to continue

As the economy has returned to growth, the spirit of partnership and cooperation in employment relations has strengthened, with firms focused on retaining high levels of engagement year on year. Results from our survey this year show the proportion of businesses assessing their employee relations climate as co-operative remains remarkably high (**Exhibit 39**). Last year the positive climate reached a new high, with over three quarters (76%) of respondents assessing their employee relations climate as co-operative or better. This year, against the backdrop of continued economic growth, more than seven out of ten businesses (71%) again report employee relations in their workplace as co-operative or very co-operative. Only 4% describe their employee relations as adversarial. The overall balance between co-operative and adversarial relations therefore currently stands at +67%, in line with the strongly positive pattern of recent years shown by our successive surveys.

Exhibit 39 Businesses' view of employee relations climate in their workplace (%)

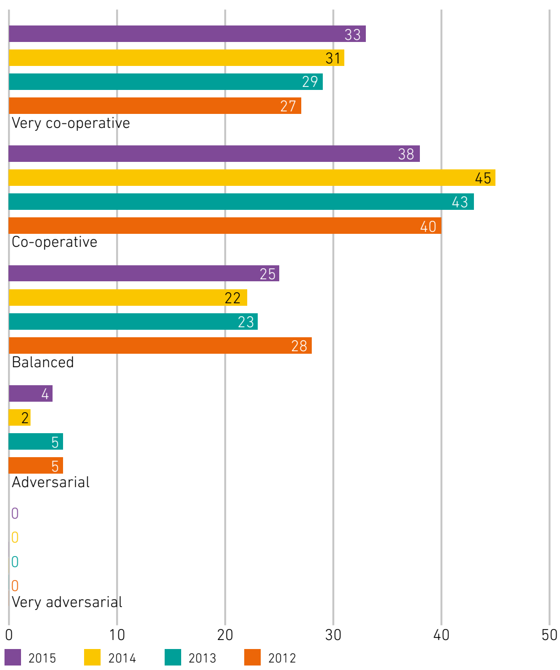
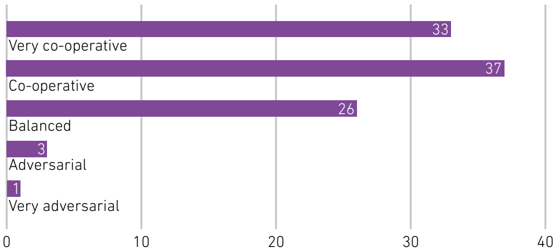


Exhibit 40 Businesses' expectations of employee relations climate in their workplace next year (%)

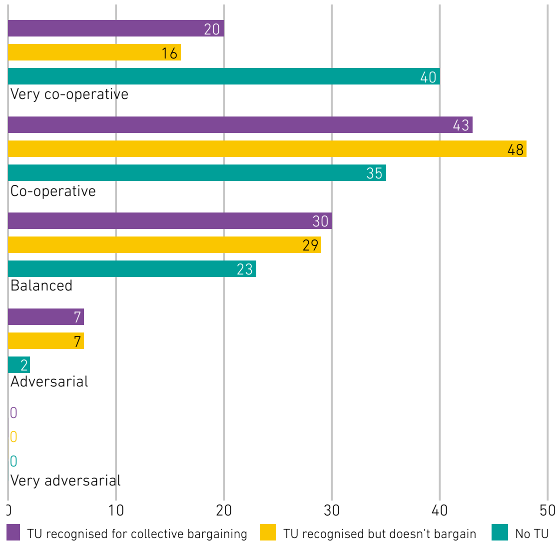


Looking ahead to the next 12 months, a clear majority of businesses believe they can to maintain the positive employee relations climate. In all, seven in ten of our respondents (70%) expect a co-operative or very co-operative climate (**Exhibit 40**). With just 4% anticipating an adversarial climate, this gives a positive balance of +66% of businesses expecting a co-operative or better employee relations climate in the coming year. These results echo our positive survey findings on expectations in recent years which have been fulfilled.

The challenge is to strengthen co-operation further

Businesses are keenly aware of the need to maintain strong positive relationships with employees and build a co-operative culture within workplaces so they can adapt to take advantage of new opportunities. As we saw earlier, changing the mind-set of employees to maximise flexibility in responding to changes in work organisation, technology and customer demands is still a major challenge.

Exhibit 41 Current employee relations climate in the workplace by union recognition (%)



Despite the overall positive results on the employee relations climate, looking at the results in more detail for different types of businesses indicates there is still scope for improvement. We asked respondents if they recognise trade unions for collective bargaining in at least part of their organisation. Just over a fifth (22%) overall report that they do, rising to 42% in manufacturing.

Comparing the results for these businesses reveals a lower balance of firms describing their employee relations climate as co-operative or very co-operative (**Exhibit 41**).

There is therefore no room for complacency on employee relations. And it is important that the government's commitment to modernise our industrial relations framework does not compromise the current positive employment relations climate (**Exhibit 42**).

Employee morale is high – but cannot be taken for granted

Ensuring employees give of their best is tied to their levels of morale. These have risen markedly in recent years as the economic recovery has become more soundly based. This year, more than half of respondents (53%) describe their employees' morale levels as high or very high, almost unchanged from the record high (55%) reported last year (**Exhibit 43**).

Comparing respondent firms reporting high morale with those describing employee morale as low shows a balance of +46% of businesses reporting positive morale across their workforce.

This is only slightly lower than last year (in 2014 the positive balance climbed to +50%) and well above the levels of earlier years.

Exhibit 42 Modernising industrial relations

The workplace and the employment relationship have evolved significantly in recent decades while the regulatory framework for industrial relations has remained static. Updating the UK's legal framework for industrial relations to reflect today's workplace relations is important for the continued growth of our economy.

The employee voice must be returned to the centre of our industrial relations framework. Policies should push employers and employee representatives to make decisions that are good for the long-term health of the firm and the economy. Business has supported the recent steps taken to modernise and democratise the law.

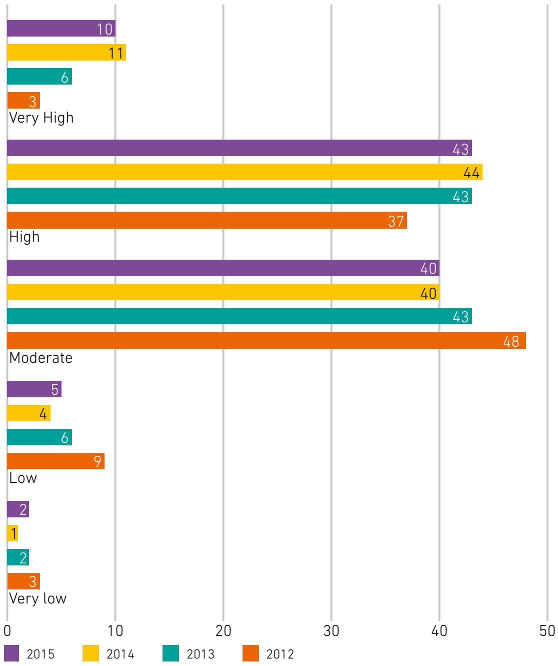
Industrial disputes are best resolved within the workplace. Industrial action should be the last resort, taken only after dispute resolution has been attempted and failed. When called, industrial action should have a clear, democratic mandate from the workforce. Ensuring strike action can go ahead only following a clear and positive decision by the workforce is key to putting the employee voice at the centre of our framework.

Business would like to see an updated legal framework that enables employers and their employees to work together constructively through whatever forms of employee representation best suit those involved. Trade unions play a valuable role in workplaces where employees have democratically chosen to be collectively represented. In many other workplaces employees are represented individually. The framework must work for all.

The Trade Union Bill has the support of business to:

- Introduce ballot strike thresholds to put the employee voice at the heart of our framework
- Extend the preparation time for businesses and the public ahead of strike action
- Improve transparency during industrial action
- Strengthen the enforcement of existing regulations around strike action.

Exhibit 43 Businesses' view of employee morale in their organisation (%)



Maintaining this positive climate of employee morale is an essential focus for business. Employee morale ran at remarkably high levels during the recession as employers worked closely with their employees to tackle the urgent challenges. There were concerns it would be hard to maintain high levels of morale as the immediate pressures of the financial crisis receded. So far the sceptics have been proved wrong. But no business can afford to let up on the drive to maintain and strengthen the motivation and engagement of employees.

"Diverse and inclusive workforces bring wider skill-sets, broader experiences and greater challenge and innovation."

Government must create the right framework for future growth

Government must play its part in ensuring we have a flexible regulatory framework that supports competitiveness and productivity. The new apprenticeship levy is a prime example of a measure that in its current form seems unlikely to achieve its objectives, while the rhetoric on skilled migration risks damaging the UK's ability to compete. Retaining the opt-out on the Working Time Regulations and ensuring we have a migration system that recognises the need for skilled labour is critical to the future competitiveness of the UK. The government needs to rethink its regulatory approach to ensure it is supporting businesses to compete in a global economy, create jobs and generate prosperity.

Key findings

- Almost all businesses (94%) believe flexibility is vital or important to the competitiveness of the UK's labour market and for prospects for investment and job creation. The ability to respond to growth opportunities (70%) and the capacity to cope with fluctuating demand (66%) remain the leading benefits of flexible employment arrangements
- Fewer than one in six businesses (16%) believe that the new apprenticeship levy is the right approach to tackle the UK's skills challenges, with almost half (47%) anticipating it being costly and bureaucratic
- Retaining access to overseas talent is important. If businesses are unable to source skills from outside the EU, three in ten (29%) say they will fail to meet customer demand while more than one in four (27%) anticipate they would move certain functions or activities overseas. Just a third (35%) will increase training in the UK
- Businesses see the individual working time opt-out as an essential element of the UK's flexible labour market: more than half (54%) report its loss would have an impact on them, rising to 68% in manufacturing and to nearly three quarters (73%) of large businesses
- Businesses report a drop in the number of employment tribunal claims over the past year, with one in five businesses (20%) reporting any claims in the past year, down from 23% in 2014 and 39% in 2013
- There are also signs that the employment tribunal system is making headway in tackling the backlog of claims: as many firms report the time taken to resolve tribunal claims is declining as report it is increasing (both 12%).

Almost all businesses see flexibility as a key priority…

Flexibility within the UK's regulatory framework raises productivity, creates jobs, and enables businesses to respond successfully to changing circumstances. Maximising and safeguarding flexibility is therefore essential for future economic success.

Almost all respondent firms (92%) see a flexible workforce as either vital or important to the competitiveness of the UK labour market and to prospects for business investment and job creation (**Exhibit 44**). On this issue businesses hold a near unanimous view irrespective of size or sector.

Exhibit 44 Importance of flexible employment patterns for the UK economy (%)

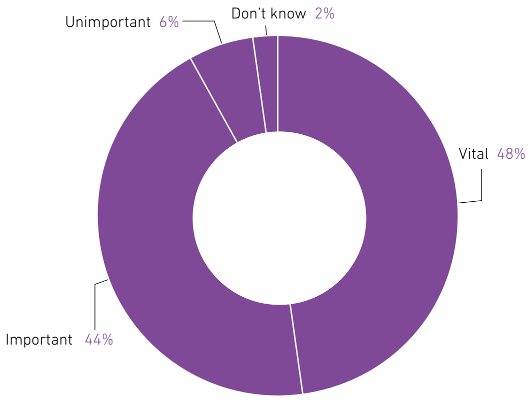
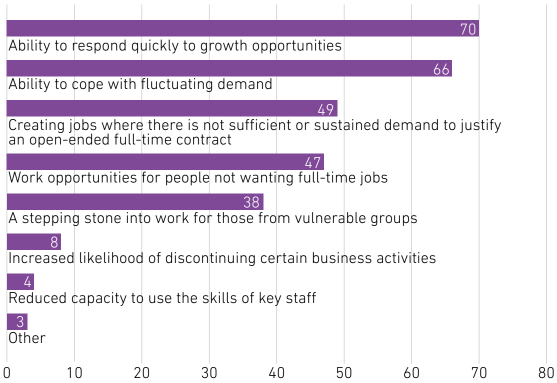


Exhibit 45 Impact of flexible employment patters (%)



When asked about the benefits of flexibility in the labour market, businesses point to their ability to respond rapidly to growth opportunities as the single most important advantage (70% – **Exhibit 45**). Almost as many (66%) also point to the value of flexibility in enabling them to cope with fluctuating customer demand. Flexibility is essential for British businesses to compete successfully in global markets and meet the rising expectations of customers and clients.

Employers also recognise the importance of flexible arrangements in generating employment opportunities for people where there is not sufficient demand to justify permanent posts being created (49%). Almost as many point to flexible employment arrangements opening up opportunities for those who are unable, or do not want, to work full-time (47%). Flexibility allows those who would otherwise be shut out of the labour market to work in ways that suit them. More than a third of businesses (38%) highlight the value of temporary and other flexible work as a stepping stone into the jobs market for those who find entry hardest, such as young people and the long-term unemployed.

Businesses see the working time opt-out as an essential element of flexibility

One prime example of the UK's flexible labour market that must be safeguarded is the individual opt-out from the Working Time Directive's 48-hour maximum working week. This gives individual employees the choice of opting out from a cap on their weekly working hours if they wish.

The existence of a basic regulatory framework for working hours, rest periods and paid annual leave is not contested by British business. The Working Time Regulations adequately transpose the requirements to set minimum standards on the grounds of health and safety in the UK. But regulating workers' rest periods, putting a soft cap on weekly working hours and providing for paid annual leave comes at a significant cost – the directive is one of the most costly EU employment regulations.[38]

The retention of the UK's opt-out is a critical issue for business. This year over half of respondents (54%) report that loss of the opt-out would have an impact on their business (**Exhibit 46, page 40**). Among manufacturing firms, the proportion reporting an impact rises to more than two thirds (68%), with 44% saying the impact would be severe or significant. Among larger businesses with 250 employees or more the impact would be even more widespread (73%), with nearly half (47%) reporting it would be severe or significant.

Exhibit 46 Business impact if the UK lost the working time opt-out (%)

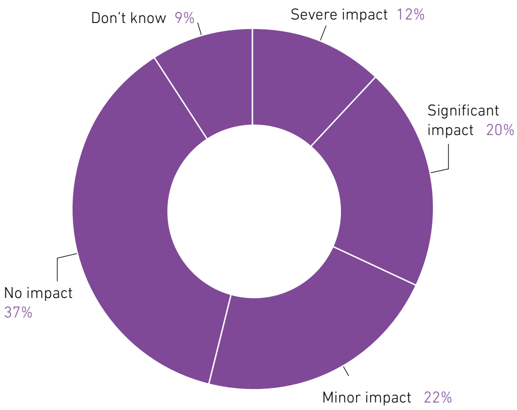
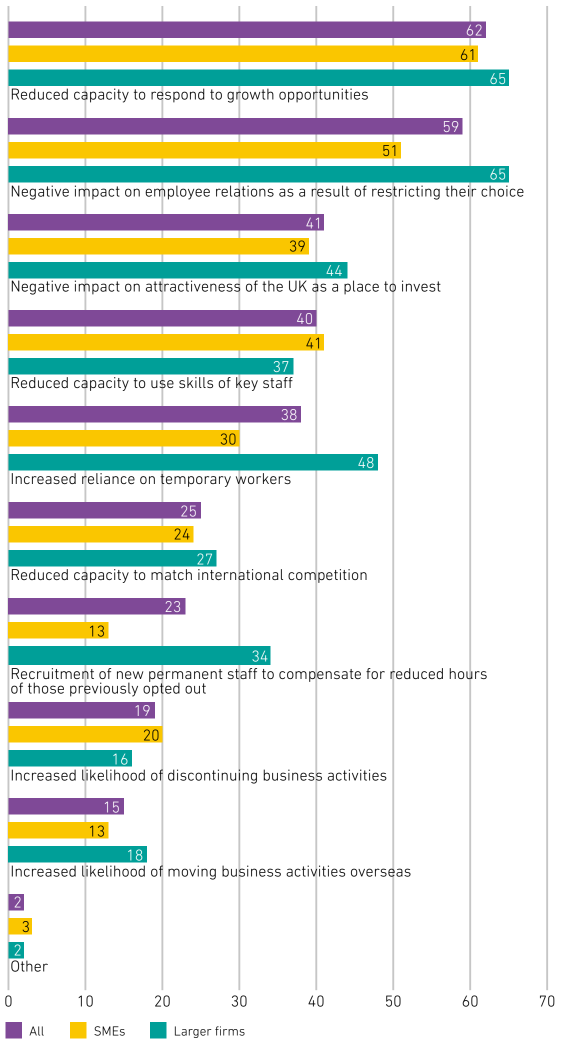


Exhibit 47 Nature of the impact if the UK lost the working time opt-out (%)



Losing the opt-out would hold back growth and damage employee relations...

The great majority of businesses view the individual opt-out as benefitting employers and employees alike. Among firms reporting an impact if the opt-out were to be lost (**Exhibit 47**), the most widespread worry is that it would damage the capacity of individual businesses to respond rapidly and flexibly to new opportunities (cited by 62%). This would have long-term consequences in holding back economic growth, hitting future prosperity.

Almost equally widespread (cited by 59%) would be a negative effect on employee relations. The opt-out enables employees to choose when they want to be available for work, supporting those looking to boost earnings, as well as those who recognise the need – and are happy – to work at times that fit with fluctuating business demand. Loss of the opt-out would take away these freedoms and flexibilities for individuals and their employers, which are a well-established aspect of the UK labour market.

Another worrying consequence would be the impact on inward investment, as well as on additional investment by businesses already based in the UK. In all, more than two in five respondents (41%) say that without the opt-out the UK would be a less attractive place to invest. It would mean that businesses would have less capacity to make the most of the skills of key staff (cited by 40%). This would be a particular concern, given that shortages of essential skilled people are seen as the biggest likely threat to UK labour market competitiveness in five years' time. Firms would see their dependence on temporary staff increase – with all the uncertainty this involves for businesses and employees – to try and plug the gaps that would be created by loss of the opt-out (cited by 38%).

...hitting businesses of all sizes

Businesses of all sizes would be affected by loss of the opt-out. Larger firms are equally concerned about the impact in terms of their ability to respond rapidly to changes in business opportunities and the negative consequences on their employee relations if the opt-out were removed – two thirds (65%)

Exhibit 48 Holiday pay

A number of cases continue to challenge the UK's method of calculating holiday pay, currently calculated on the basis of 'week's pay' on basic salary, excluding payments such as commission and overtime payments. Legal challenges brought in recent years regarding the inclusion of commission and overtime have led to general uncertainty among businesses in this area.

On commission payments, the Employment Tribunal's 2015 decision that the UK's legislation can be interpreted to mean that commission must be included in holiday pay for employees with normal working hours is currently under appeal. As we await the outcome of the appeal, it is hoped that the Employment Appeals Tribunal (EAT) will provide guidance on how commission payments should be calculated into holiday pay as the Employment Tribunal did not clarify this.

Against this uncertain backdrop, the CBI would like to see greater certainty for employers in calculating holiday pay. Changes to the UK Working Time Regulations (WTR) to reflect recent ECJ rulings on holiday pay cases will help. Specifically, we would like to see the UK government look at limiting application to the 20 days of EU leave, making the reference period more flexible and bringing WTR into line with other ECJ judgements, such as the rescheduling of leave if an employee is sick. We do not however, support any reopening of the EU directive at this time.

highlight both these as worries. Our results indicate that smaller firms are particularly concerned about the impact in reducing their capacity to respond to growth opportunities (61%). Small and medium sized businesses would also be more likely to discontinue some business activities (20%) if the opt-out were removed, further damaging their growth prospects.

The government has an essential role to play within the EU by bringing this uncertainty to an end and clarifying recent European rulings on the Working Time Directive (**Exhibit 48**). As part of its renegotiation with EU partners the government must secure the future of the opt-out for the long term. Continual speculation about how long it will remain a provision of the directive and whether new conditions on its use will be imposed is disruptive and damaging to investor and business confidence.

The government rightly sees investment in skills as a driver of productivity…

The government has committed to introduce a new levy on UK employers intended to fund apprenticeships (**Exhibit 49, page 42**). Delivering more high quality vocational education —in particular through apprenticeships— rightly forms a key plank of the government's productivity plan, with investment in skills responsible for one fifth of productivity growth.[39] But businesses are concerned as to whether a levy will help to drive this.

With two million additional jobs expected to require higher-level skills by 2022,[40] it is clear that the UK has a huge skills challenge on its hands. The CBI's 2014 report *Better-off Britain* noted that the challenge is particularly acute at the technical level – the level 4 and 5 skills required for roles in the 'new middle' of our labour market.[41] While we do well at producing people with level 6 (and above) skills through our universities (and we will require more STEM graduates in years to come), it is this gap at technician level that is at the heart of the UK's skills shortage.

The CBI and the government see eye-to-eye on the need for more apprenticeships. Provisional data shows a new high of 872,300 learners participated on an apprenticeship in the full 2014/15 academic year.[42] But there are major delivery issues, and the right outcome of a levy must be an increase in training that is relevant to the business and the individual learner, not merely a tick-box process that delivers three million training interventions and reduces the call on government funding. Given the weak record on delivering reform in this area, there is a risk that mistakes of the past will be repeated.

Exhibit 49 The apprenticeship levy – another payroll tax?

With the government confirming the levy would apply to all employers at a rate of 0.5% of UK payroll above £3m in November's autumn statement, business has been stung by the size and the scope of the levy.

The levy, due to come into force in April 2017, represents a significant shift in skills funding policy, which appears to business as a sacrifice of the long-term skills agenda to try and meet political commitments. The ambition to raise apprentice numbers has been supported by business, but firms remain unconvinced a statutory levy at this level is going to solve the UK's skills challenge.

Levies typically distort skills systems by incentivising quantity over quality. They encourage employers to invest solely in levy funded programmes at the expense of other, often more appropriate and relevant, forms of training. International evidence shows that skills gaps persist in countries where levies operate, for example in Ireland, France and Greece.

At 0.5% of UK payroll over £3m it seems most businesses will be unable to recover their levy payments in full. Policy detail to date indicates a genuine risk the tax will neither increase apprentice numbers specifically, or the skill levels of the economy as a whole. For business the scale of estimated levy costs seem set to diminish or swamp current apprentice budgets, which must cover both specific training costs and the majority of costs, in the form of salary and equipment – risking a cut in apprentice numbers for firms to meet levy obligations.

Crucial detail on the operation of the levy is still to be determined. This includes the employer-led body to oversee the levy, called for by the CBI. Business stands ready to contribute constructively to steer the system to deliver quality training, not just driving quantity. To help achieve that, effective mechanisms to oversee cost and quality as well as to ensure funds are ring-fenced, for apprenticeship spending, will be critical.

...but a statutory levy must work for all businesses

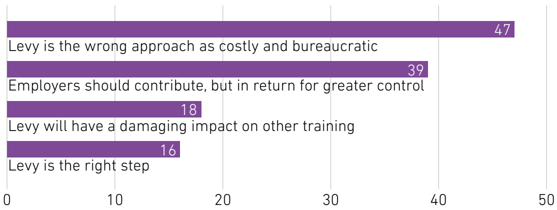
Fewer than one in six businesses (16%) believes that the apprenticeship levy as currently proposed is the right approach (**Exhibit 50***). Employers' concerns take a variety of forms.

Close to half of businesses (47%) view the new levy as the wrong approach in that it will be both costly and bureaucratic. All too often in the past there have been initiatives to reform apprenticeship training that have proved unduly complicated, hindering rather than boosting provision. The concern among many businesses is that the new levy system will prove no better, while adding to payroll costs for the long term. There is widespread support for the principle that employers should contribute to the costs of apprenticeships, but in return businesses expect to have greater control over the contents and methods of delivery to ensure the programmes meet real training needs (39%). Nearly one in five businesses (18%) is concerned that the levy will have a damaging impact on their other training activities, diverting resources into a form of training that may not be their preferred approach.

The levy is widely opposed in manufacturing

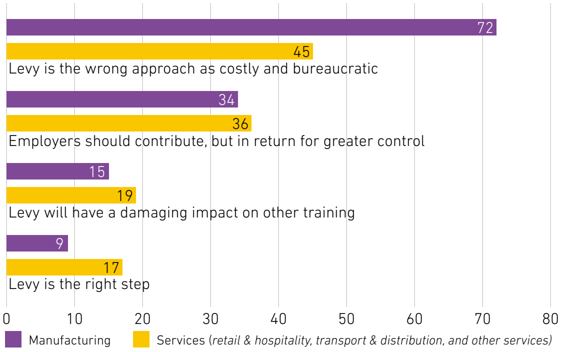
Among manufacturing firms – the traditional heartland of high-quality apprenticeship provision – nearly three quarters (72%) of respondents believe the levy is the wrong approach (**Exhibit 51**). This degree of concern should give the government pause for thought. If the levy is to bring about the boost to the UK skills base that business and government both want to see, then any new system must be based on widespread backing across the manufacturing sector.

Exhibit 50 Views on the new apprenticeship levy (%)



* *Survey responses were collected before the size and scope of the levy were announced.*

Exhibit 51 Views on the apprenticeship levy by sector (%)



Even in the non-professional services sector (retail & hospitality, transport & distribution, and other services) where there has been rapid growth in apprenticeships in recent years, close to half of businesses (45%) see the levy in its currently proposed form as the wrong approach.

Curbs on overseas recruitment will hold back businesses

As we saw in section 4, access to migrant talent is important, so the government's actions and rhetoric around reducing immigration are a mounting worry for businesses (**Exhibit 52**). Skilled migration is the most economically valuable form of migration to the UK. It not only helps businesses overcome short-term skills gaps, but attracts substantial investment and jobs to the UK. In practice, most businesses are not routinely involved in recruiting from outside the EU: in the coming year, only one in six companies (15%) says they expect to recruit any skilled workers from elsewhere in the world (**Exhibit 53, page 44**). But the ability to recruit overseas specialists when needed is an essential flexibility for businesses, giving them confidence that they will not be denied vital skills.

Exhibit 52 The Tier 2 cap is damaging the UK's competitiveness

The government re-committed to a net migration target of less than 100,000 a year following their election in May 2015. There is a growing concern among firms that the government's renewed efforts to reduce net migration will lead to further tightening of skilled migration despite its critical importance to the future economic success of the UK.

Business recognises the need to create a managed migration system, but it must strike a balance between the demand for skilled workers and the social impacts of immigration. It is not clear how a net migration target or a cap on the number of skilled visas will be an effective way to restore the public's confidence that migration is well-managed.

The Tier 2 route is the most economically valuable form of migration to the UK and is critical to our reputation as a place to invest and create jobs.

In particular, intra-company transfers (ICTs) are vital to two critical pillars of the future growth of the UK economy – enabling the UK to win substantial investment and supporting UK businesses to break into new markets.

With a strengthening economy leading to strong jobs growth over the past few years, the demand for highly skilled workers is beginning to exceed supply, meaning businesses are looking abroad to fill their vacancies. For the first time the Tier 2 cap was hit repeatedly over the summer of 2015, leaving some UK firms unable to get the right person, in the right place, at the right time for their business.

Our migration system should instil confidence in businesses operating in the UK that we are open for businesses and welcome overseas talent, but the cap on Tier 2 is increasingly damaging the UK's competitiveness. As businesses await the Migration Advisory Committee's recommendations to government about the future of the Tier 2, it is important that the debate on migration moves forward and recognises the economic importance of different types of immigration.

Exhibit 53 Businesses expecting to recruit skilled workers from outside the EU in the coming year (%)

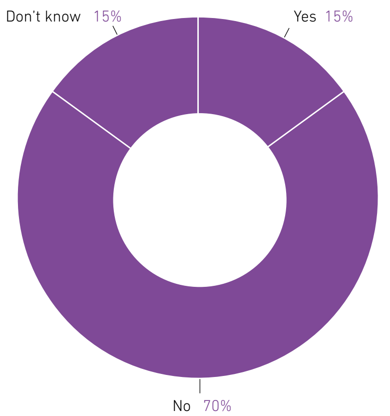
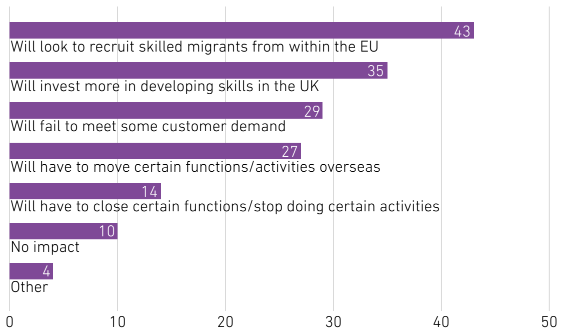


Exhibit 54 Impact on businesses if unable to recruit skilled workers from outside the EU (%)



If businesses that expect to recruit skilled workers from outside the EU find they are unable to do so, more than two in five (43%) will look to fill those roles from elsewhere within the EU (**Exhibit 54**). While a third (35%) say they would respond by increasing training investment in the UK to develop people with the right skills, almost as many (29%) believe a shortage of the right people would cause them to fail to meet some customer demand – resulting in less growth and fewer jobs. And more than one in four (27%) anticipate they would move certain functions or activities overseas.

It is clear that well-intentioned moves by the government to boost job opportunities for UK nationals could run the risk of serious damage to future economic growth and the prosperity on which everyone depends. The government needs to keep those priorities in the forefront of its thinking.

Employment tribunal fees have reduced the disruption caused by claims...

Since the introduction of fees in July 2013, the number of claims being taken to employment tribunals has rapidly declined. Claims hit a high of more than 200,000 in 2010/11 but dropped to just over 60,000 in 2014/15.[43] And the introduction of Early Conciliation by ACAS in May 2014, intended to encourage dispute resolution within the workplace, is effectively resolving some claims away from the tribunal.[44]

The CBI supports the principle of fees, while recognising it is essential that they are pitched at a level which does not act as an obstacle to access to justice. Too often in the past the decision to take a claim to a tribunal was made on an 'act first, think later' basis, without due consideration of alternative methods of dispute resolution. It is important that we do not revert to a culture of tribunal claims as the default option.

...with fewer businesses now facing claims

The prospect of an employment tribunal hearing is disruptive and daunting for any business, but particularly small businesses. The proportion of respondents to our surveys that have faced one or more tribunal claims peaked in 2010 and 2011, when over 50% reported they had faced claims in the preceding 12 months. Since the introduction of fees the proportion has dropped substantially, falling to less than a quarter of respondents (23%) last year and to one in five (20%) this year (**Exhibit 55**). This is a welcome development.

Exhibit 55 Companies facing at least one ET claim in the past 12 months (%)

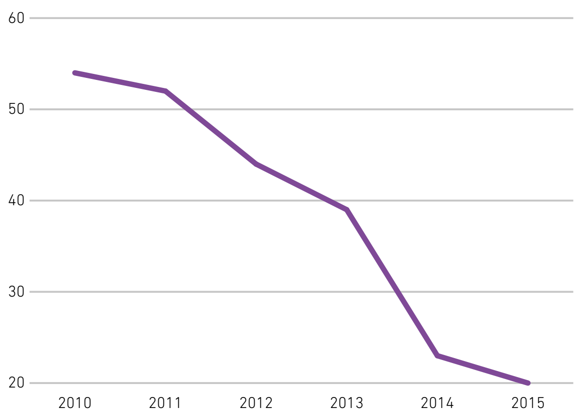
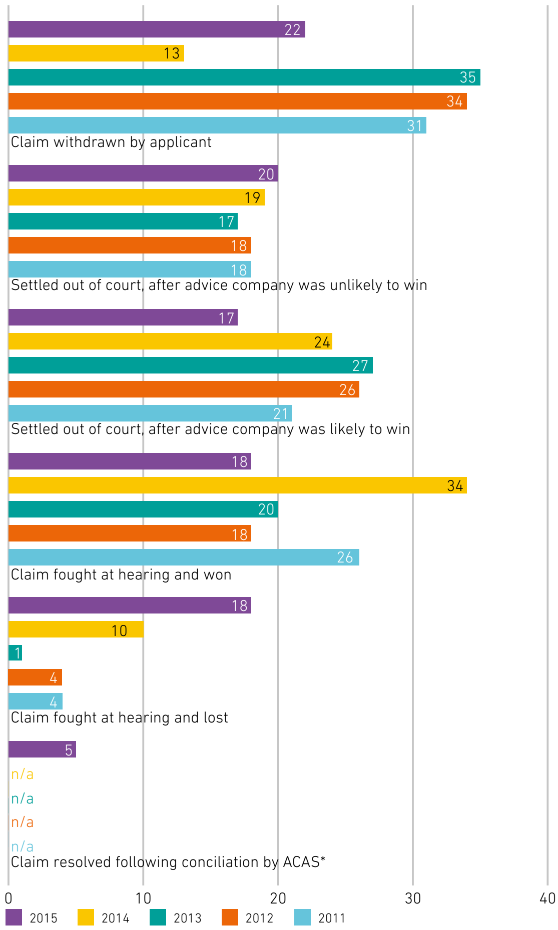


Exhibit 56 Outcomes of tribunal claims in the past year (%)



** Early conciliation became a requirement only in May 2014*

The claims going to tribunal hearings are now stronger

The CBI recognises the employment tribunal system is an essential mechanism for enforcing individual employment rights. Our survey results indicate that fees may be contributing to an improvement in the strength of claims being taken to employment tribunals **(Exhibit 56)**.

In 2013, before the fees regime was introduced, the proportion of claims settled by respondent businesses after advice that they were unlikely to win or which they fought and lost stood at just 18% in total. This year, it is more than double that level, at 38%. At the same time, the proportion of claims withdrawn by applicants has fallen from over a third in 2013 (35%) to around one in five (22%) this year.

The proportion of claims going all the way to a tribunal hearing – suggesting that there is an issue that can only be resolved in this way – has risen since 2013. In the past year equal proportions of our respondents fought a case and won (18%) on the one hand and fought the case and lost on the other (18%).

Just under a fifth of businesses (17%) are still deciding to settle claims out of court despite advice the company would win. Encouragingly, however, this is a much lower proportion than in earlier years.

And the introduction of Early Conciliation by ACAS appears to be having some modest positive impact: our respondents report that 5% of tribunal claims were settled through this mechanism.

Stresses in the tribunal system seem to be easing

Before the introduction of fees the tribunal system faced major problems in handling the volume of cases presented. This created long periods of uncertainty for both respondents and claimants, tying up management time and running up costs.

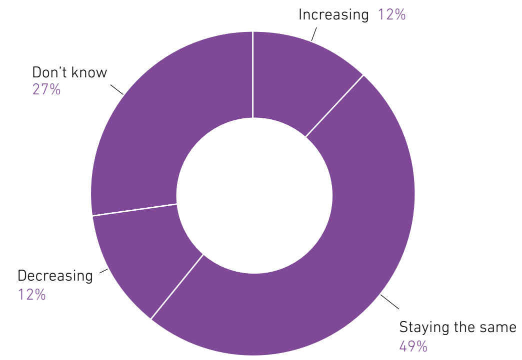
The tribunal service is still working through the case backlog. In the three months to June 2014, the overall average time for single claims to be dealt with was 38 weeks.[45] By the three months to June 2015, the average time was down to 30 weeks[46] – still too long for those involved, but a marked improvement.
The major remaining problem area is multiple claims, where the average time for resolving claims stood at 188 weeks in the three months to June 2015.
And a quarter of multiple claims have been in the tribunal system for longer than four to five years.
Anecdotal evidence suggests that hearings are being listed for longer by the tribunals, contributing to greater costs for both the respondent and claimant.

Our survey asked respondents whether they feel the tribunal system has become timelier over the past 12 months (**Exhibit 57**). The results suggest the trend is moving in the right direction. Last year just 12% of businesses reported the time taken to resolve a case at tribunal had fallen, while two in five businesses (41%) said it was increasing. This year, as many respondents report the time taken to resolve tribunal cases is declining (12%) as report it is increasing in their experience (12%). The balance (75%) have yet to notice any change or are unsure of the trend.

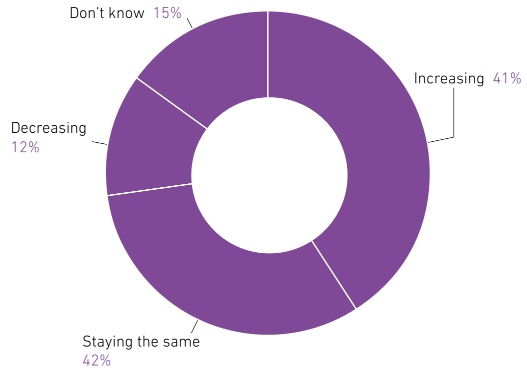
While there is plainly a need for further progress in speeding up the tribunal system – particularly the resolution of multiple claims – the signs are that the system is finally heading in a better direction.
It is in everyone's interest to see workplace disputes speedily and effectively resolved.

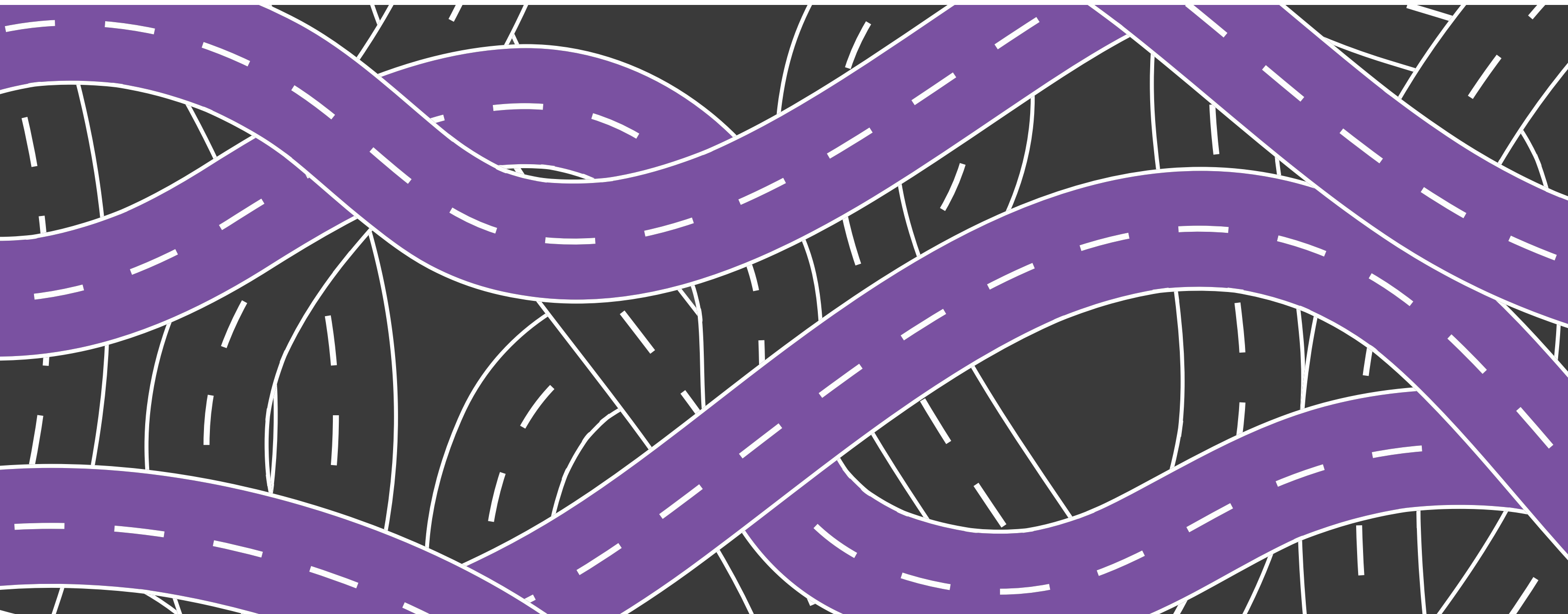
Exhibit 57 Time taken to resolve employment tribunal claims 2014-15 (%)

2015



2014





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