

At what cost? Jobs and growth in a stalling labour market

The 2025 CBI/Pertemps
Employment Trends Survey



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Foreword CBI

The UK labour market's deterioration has been accelerated by government policies, particularly increasing employer NICs and an unbalanced approach to delivering new employment rights. Having misdiagnosed the illness, the prescribed medicine is only adding to the patient's symptoms. A change of approach is needed to avoid the negative warnings about jobs and pay in this year's survey.

Throughout 2025, the weakening jobs outlook has mostly been felt through fewer vacancies rather than more redundancies. The pain this causes is concentrated on job-seekers – disproportionately young people, and increasingly those who have been economically inactive and are beginning to look for work again. With only one in four businesses confident to hire normally and more expecting to shrink their workforce than to expand, achieving the Government's objectives of tackling youth unemployment and getting the long-term sick back to work is becoming harder.

Responding to workers' concerns about the cost of living and insecurity at work, successive governments have increased minimum wages and added to employment rights. But the root cause of these concerns are the difficult choices that businesses are grappling with when faced with employment costs rising much faster than the productivity growth to fund it. Adding to their cost pressures only serves to make those trade-offs harder. When profit margins are already thin, new costs squeeze budgets for pay, jobs and the investments in skills and technology that are needed to boost productivity.

This survey is published ahead of a crucial period in which the Budget and the Government's approach to implementing the Employment Rights Bill will set the tone for the rest of the Parliament. The businesses that I speak to each day are optimistic about their potential to grow and improve people's lives through good jobs. To unlock this opportunity, the Government needs to change its approach, avoid adding to employment costs and forge a new partnership with business to co-create policies that will drive growth through investment, funding public services and welfare, and improving living standards for all.



Matthew Percival
Future of Work and Skills Director



Foreword Pertemps Network Group

This report captures a moment in the UK labour market that feels particularly significant. It reflects the conversations we have every day with employers and with candidates themselves, offering a clear snapshot of where organisations and the people they hope to hire, find themselves today.

Falling confidence to hire, rising employment costs and persistent productivity challenges continue to hold the market back. Employers are feeling the squeeze and candidates are feeling it too. Pay pressures are harder to meet, high costs are widening skills gaps and recruitment decisions have become more complex for everyone involved.

Yet there are genuine reasons to be optimistic. The report shows that businesses remain committed to growth and to investing in their people. Encouragingly, confidence in developing skills beyond formal qualifications has risen slightly over the past year. More organisations recognise that supporting candidates to build essential workplace capabilities, whether new hires or existing staff, is central to long-term success.

Helping young people into work is vital, but so is ensuring adults have the opportunity to reskill and adapt throughout their careers. Employers continue to tell us that communication, problem-solving and other core workplace skills will only grow in importance over the next three to five years. With the right approach, organisations can manage costs while still attracting, developing and retaining the talent they need.

Government also has a crucial role to play. Employment reforms must strengthen meaningful workforce engagement without adding to spiralling costs and decisive action on Growth and Skills Levy reform is needed to give businesses the confidence to invest, hire and innovate.

Above all, this report reinforces a simple truth: collaboration matters. Businesses, government, trade associations, education providers, and candidates themselves, all have a part to play in addressing the challenges ahead. Through working together, we can close skills gaps, strengthen productivity and build a labour market that delivers opportunity and sustainable growth for everyone.



Carmen Watson

Chairperson of Pertemps Network Group



Survey results at a glance



The survey was conducted between
15th August and 1st September 2025.



407 businesses of all sizes and sectors
across the UK responded.



80% of respondents were **SMEs.**

Poor productivity and high employment costs are holding back the UK labour market

- The UK labour market has continued to cool over the past twelve months. Stubbornly high economic inactivity, falling vacancies and the recent rise in unemployment to 5% are largely driven by reduced business demand for workers.
- Persistent wage demands and minimal productivity growth have combined to add to the pressure on firms to increase prices, reducing the extent to which wage increases feel like they have improved workers' living standards.
- The NICs and National Living Wage increases have intensified the problem of high employment costs, driving out the financial headroom that businesses need to invest and raise productivity, trapping them in an anti-growth cycle. Addressing the unsustainable pressure on firms' cost bases is the only way to drive sustainable, productivity-led growth.

Jobs are set to be harder to find as firms' confidence to hire falls

- The proportion of business respondents intending to grow their workforce over the next twelve months has almost halved from last year (48% to 26%) while those expecting their workforce size to shrink has doubled over the same period (13% to 27%). The result is slightly more businesses intending to reduce their workforce size than grow it (27% and 26%, respectively).
- Only a quarter of businesses (24%) feel confident about hiring.

Businesses are running out of options to fund pay rises without productivity growth

- In total, half of respondents (52%) intend to offer pay increases above (11%) or in line (41%) with inflation at the next pay review. This represents a fall on levels recorded last year (20% and 50%, respectively).
- The proportion of businesses intending to set a general pay freeze is up from last year (4% to 16%) and around 1 in 10 firms (11%) intend to offer pay increases below the rate of inflation.
- The most common step firms affected by this year's NLW increase are taking to offset the cost is raising consumer prices (cited by 47% of respondents). This slightly differs from last year, when hiking prices and increasing productivity through greater investment in new technologies and automation (both 32%) ranked joint second behind absorbing the whole cost through reduced profit (37%).
- One third of businesses (32%) are continuing to offset NLW cost wholly through reduced profits this year, but its relative position moving from first to third highlights how ten years of (nominal) NLW rises have gradually eroded business profits, forcing many firms to take new and different steps to cover their increasing NLW bill.
- Raising consumer prices will continue to be the most common action that affected firms intend to take to offset NLW cost next year (cited by 40% of respondents). Absorbing part of the cost through reduced profits (24%) and reducing employment (23%) ranked second and third, respectively.



The proportion of business respondents intending to grow their workforce over the next twelve months has almost halved from last year (48% to 26%) while those expecting their workforce size to shrink has doubled (13% to 27%).

Business confidence in the labour market is continuing to fall

- On balance, businesses believe that the UK labour market has become a less attractive place to do business over the past five years (-84%), and confidence has fallen below the dire levels recorded in 2024 (-60%) and 2023 (-71%).
- Since last year's survey, the proportion of respondents who believe the UK has become 'much less' attractive has more than doubled (24% to 54%).
- Most businesses are not confident that UK labour market conditions will improve over the next five years (net balance -76%). This also represents a marked decline on levels recorded last year (-50%) and the year before (-49%).
- The nature of business concern with the UK labour market has changed considerably, with labour costs now ranking as the top threat to current labour market competitiveness (cited by 73% of respondents), followed by inflexible employment regulation (65%). This replaces access to skills (58%) as the top threat.
- Businesses expect that the impact of employment regulation on flexibility will become the biggest threat to the UK's labour market competitiveness in five years' time (cited by 69% of respondents). The result is likely due to concerns about the Employment Rights Bill which would have been implemented by then, changing how businesses are required to offer shifts, change contracts and engage with their workforce.
- Labour costs (67%) are expected to continue to be a more significant threat to competitiveness than access to skills (60%) for the medium-term, highlighting that businesses believe that the high cost of employment will hold back job creation for the foreseeable future.
- The fact that these areas are emerging as top concerns in this survey is not surprising. They are also the issues that businesses believe will make it harder for them to deliver the workforce they need to operate and grow. Government must therefore treat cost, skills and employment regulation as priority policy areas requiring an updated policy approach.



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- Businesses expect that **the impact of employment regulation on flexibility will become the biggest threat to the UK's labour market competitiveness in five years' time** (cited by 69% of respondents).

Firms cannot continue to absorb higher employment costs and deliver growth

- When asked to select up to three employment costs which represent the biggest threat to the UK labour market's competitiveness, 7 in 10 respondents (69%) selected the recent NICs rise. While evidence of the £25bn additional cost's impact on the business community is still emerging, business feedback has been clear: productivity growth does not pay for it, forcing businesses to absorb costs through cut budgets for jobs, pay and investment.
- The Employment Rights Bill ranked as the second biggest threat to business competitiveness, selected by half of respondents (53%), reinforcing employer feedback that the benefits of the Bill are overstated and the trade-offs they will face when implementing it will be more severe than the Government thinks.
- In total, half of businesses (50%) reported the cumulative burden of all employment cost increases as a top threat to competitiveness. Moving forward, policymakers must be choiceful when setting policies that add to employers' cost base and engage with the ways that businesses will absorb higher costs when implementing different policies. For example, when asked how they would respond to minimum employer pension contributions rising from 3% to 7%, 6 in 10 businesses answered that they would offset cost by reducing pay or limiting future pay rises (58%) and reducing employment (57%).



When asked which three employment costs represent the biggest threat to their competitiveness, 7 in 10 respondents (69%) selected the recent NICs rise. While the evidence of the £25bn additional cost's impact on the business community is still emerging, business feedback has been clear: productivity growth does not pay for it, forcing businesses to absorb costs through cut budgets for jobs, pay and investment.



In total, half of businesses (50%) reported the cumulative burden of all employment costs ranks as a top threat to their competitiveness. Moving forward, policymakers must be choiceful when setting policies that add to employers' cost base and engage with the ways that businesses will absorb higher costs when implementing different policies.

Employment reform must support meaningful workforce engagement and avoid adding to spiralling business costs

- The Government has spent the last year trying to convince businesses that its 'Plan to Make Work Pay' is pro-business and pro-worker and that it will boost productivity and support growth. This survey finds that businesses are more sceptical of these claims than ever, with more than three-quarters (78%) worried that they cannot afford the changes without it negatively affecting growth, business investment, jobs or discretionary employee benefits. This is up significantly from 54% last year. The proportion of respondents who strongly disagree with the statement that it will be affordable without unintended consequences has doubled from 23% to 48%.
- Over 8 in 10 businesses (86%) reported that the risk of costly tribunal claims for unfair dismissal during probation will make their organisation more cautious about creating jobs and taking on new people. Firms have been clear that an effective probation period (meaning one without the possibility of incurring insurmountable legal costs) of twelve months would be needed to avoid a material impact on hiring.
- Three quarters of businesses (77%) believe that reference periods that last twelve weeks will lead to guaranteed hour contract offers that can't be sustained all year round. Many businesses are confronted with seasonal peaks in demand, meaning a 52-week reference period is the only way to ensure that contracts accurately reflect the hours that firms can offer on a permanent basis without a considerable risk of job loss.
- 9 in 10 respondents (90%) believe that firms should be able to offer short notice work on a voluntary basis. It is important that regulations creating a right to notice of shifts ensure individuals who value last-minute opportunities to work continue to receive them.
- 7 in 10 businesses (69%) believe that compensation for short notice changes to shifts should be proportionate to the notice given, reflecting firms' preference to avoid a scenario where two businesses are forced to pay significantly different compensation amounts despite offering notice a short time apart.
- Half of businesses (49%) believe that removing the minimum level of support for statutory recognition and the minimum turnout for strike ballots will give trade unions greater powers to act without the support of workers, weakening the legitimacy of their position as the collective representative of the workforce. This is more than double the proportion of businesses who disagree with the statement (23%). To reset industrial relations, it is important that the law encourages a reasonable and respectful approach by both employers and unions.
- 8 in 10 businesses (79%) believe that changes to benefits in kind should not be treated as fire and rehire leading to a finding of automatic dismissal. Firms have been clear that treating all forms of benefit in kind as a restricted variation would prevent them from acting on workforce preferences, such as prioritising limited budgets for basic pay.
- 8 in 10 businesses (84%) believe that fire and rehire rules should not give employees an unconditional veto over reasonable changes to work organisation, such as shift timing and lengths. There are various examples of where this could unfairly penalise businesses from needing to make reasonable changes. For example, adjusting shifts to reflect changes to operating hours.

High costs are making businesses' skills gaps worse

- The balance of businesses intending to invest in training over the next twelve months is negative (-11%) and markedly down on investment intentions recorded in 2024 (+22%). This has been driven by the proportion of firms who intend to invest more in training (13%) falling sharply since 2024 (32%) and 2023 (38%), and those looking to cut their investment doubling over the past twelve months (9% to 23%). The findings reflect employer feedback that rising business costs – particularly the recent NLW and NICs rise – have forced firms to deprioritise important but optional investments, such as skills and training.
- A small proportion of businesses reported not having a skills gap (12%), which is down on last year's figure (18%). In other words, skills gaps are continuing to impact most businesses, and a greater share of respondents compared to last year.
- The most cited driver of firms' skills gaps was a lack of candidates for jobs with appropriate, industry relevant qualifications (49%). This was followed by a general lack of candidates applying for advertised roles (31%) and candidates prioritising workplace benefits that their sector cannot offer (27%).
- Cost is also proving to be problematic, with 1 in 5 respondents (19%) noting that their organisation's training budget is insufficient to eliminate skills gaps.
- In line with last year's survey, 3 in 10 business (30%) reported that they did not experience barriers to addressing skills gaps through adult education, indicating that the experience of barriers continues to be the norm, rather than the exception.
- The inability to find high quality-provision locally has overtaken the lack of time that organisations have to spare employees to training as the biggest barrier for businesses to address their skills needs through adult education (cited by 30% and 29% of respondents, respectively). The prohibitive cost of training (28%) continues to rank as the third biggest blocker.



More than three-quarters (78%) of firms are worried that they cannot afford the higher employment costs arising from the Government's 'Plan to Make Work Pay' changes without it negatively affecting growth, business investment, jobs or discretionary employee benefits. This is up significantly from 54% last year. The proportion of respondents who strongly disagree with the statement that it will be affordable without unintended consequences has doubled from 23% to 48%.

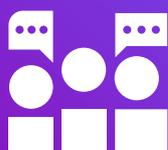


The balance of businesses intending to invest in training over the next twelve months is negative (-11%) and markedly down on investment intentions recorded in 2024 (+22%). This reflects employer feedback that rising business costs – particularly the recent NLW and NICs rise – have forced firms to deprioritise important but optional investments, such as skills and training.

- Public funding for training should help to offset at least some of the impact of growing pressure on businesses' training budgets. But the usefulness of these schemes in terms of enabling firms to deliver additional training has been limited. On average, around one third to four in ten businesses operating in England were not aware of the different training courses and incentives ran by government, rising to almost half in the case of 'Free courses for jobs' (46%) and Sector-based Work Academies (45%). A further third of respondents were aware of the initiatives but did not find them useful. The main exception to this was apprenticeships, where only 1 in 10 businesses (10%) were not aware of the scheme, but there was still one third of respondents (32%) who believed they were not useful in terms of helping their organisation to deliver more training.

Employers' skills needs are adjusting to a changing world of work

- On balance, businesses' expected need for employees with workplace skills unattached to national qualifications (such as communication and critical-thinking) is expected to increase the most over the next 3 to 5 years (+19%), followed by higher-level skills (RQF 6) (+10%) and intermediate-level skills (RQF 4-5) (+8%).
- The predicted need for postgraduate taught skills (RQF 7-8) and entry-level skills (RQF 2-3) is expected to rise the least (+3% and +2%, respectively). This suggests that many firms do not expect their need for skills linked to qualifications to change drastically by 2030.
- Firms have become less confident over the past twelve months that they will be able to recruit or train enough workers to meet their organisation's skills needs over the next 3 to 5 years. Skills unattached to national qualifications is the exception to this trend, with net confidence levels improving since last year's survey, but still low (+0% to +12%).
- There is also a correlation between business confidence to train or recruit enough skills over the next 3 to 5 years and skills level in this year's results. On average, firms are most confident that they will be able to meet their entry-level skills needs, and least confident that they will be able to recruit and train enough postgraduate taught skills (+32% and +11%, respectively).
- Attitudes and aptitudes for work ranked as the top factor that employers consider when recruiting for graduate and non-graduate entry-level roles (cited by 57% and 69% of respondents, respectively). Relevant work experience also ranked highly for graduate (35%) and non-graduate (47%) roles, as did literacy and numeracy skills (32% and 46%, respectively) and digital and IT skills (36% and 32%, respectively).



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Government can be more ambitious in their approach to Growth and Skills Levy reform

- Twice as many firms believe that the Growth and Skills Levy should be designed so that it is a pot of funding ringfenced for businesses to invest in a range of modular and accredited training (42%) than believe that businesses should only expect to be able to spend a proportion of their Levy, with the rest used to fund other government national skills initiatives (22%).
- Only 4% believe that the Levy should be treated as a tax, where funds prioritise other government initiatives ahead of meeting the skills needs of Levy payers.
- Half of businesses (50%) believe that continued rigidity in the Growth and Skills Levy is preventing their organisation from being able to deliver training to address their skills gaps and less than half (45%) believe that plans to open the Levy out to cover non-apprenticeship courses in digital, AI and engineering will mean their organisation can use more of its Levy pot. As such, business confidence that plans for Growth and Skills Levy reform will have a positive impact on their ability to invest in training is mixed at best.
- Rising business costs mean the Growth and Skills Levy represents a significant proportion of many businesses' training budgets, and half of respondents who have offered Level 7 apprenticeships (49%) are planning to offer fewer in response to the recent defunding decision.
- Two thirds of businesses (67%) reported that the absence of a clear roadmap detailing the exact courses which will be eligible for Growth and Skills Levy funding from April 2026 will hinder their organisation's ability to deliver training and plan effectively.
- Growth and Skills Levy reform will unlikely lead to greater levels of training unless wider problems confronting the apprenticeship system are rectified. When asked what changes would make the apprenticeship system more effective for their organisation, being able to find local providers that offer relevant courses was the most cited response (selected by 35% of respondents), followed by ensuring funding bands are annually uplifted to reflect inflationary pressures (31%) and updating apprenticeship funding criteria so that it reflects a wider range of delivery costs (25%).



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Poor productivity and rising employment costs are holding back the UK labour market

Labour market cooling is increasingly being driven by high employment costs

The UK labour market has continued to cool over the past twelve months. Stubbornly high economic inactivity (**Exhibit 1.1**), falling vacancies (**Exhibit 1.2**) and the recent rise in unemployment to 5% (**Exhibit 1.3**) are largely being driven by reduced business demand for workers, as opposed to a meaningful increase in the number of people available to work. It is true that businesses cannot rely on hiring new workers to maintain – let alone increase – their output in the long-term, given wider demographic trends and the projected shrinking of the adult workforce.¹ But the uptick in unemployment coinciding with the NICs and National Living Wage (NLW) increase suggests that many firms' decision not to recruit will be linked to affordability challenges, rather than shortages. Concerningly, these trends will likely continue in the months and years ahead, as businesses continue to battle rising costs and brace themselves for the implementation of government's employment reforms.

The benefits of more people being available to work will be limited unless the jobs problem is addressed

Tackling barriers to work is important, and the recent Keep Britain Working Review has highlighted the importance of policymakers and businesses working together to help ensure that people in the labour market are supported to stay there. But the public and private benefit of more people being available to work will be limited unless the growing jobs problem is addressed. Up until now, the impact of rising business costs on people's access to work has been mixed, coinciding with falling vacancies and small increases in employment. Recent ONS data and business feedback suggest that this is changing, and rising costs are increasingly impacting people's ability to find jobs through fewer jobs created, and a creeping number of jobs being cut (**Exhibit 1.4**).

Creating more and secure jobs largely relies on external recruitment being seen as a worthwhile business investment, and employers having the confidence that they can afford to keep the people they recruit. While current and upcoming Employment Rights Bill consultations will not be able to solve the disincentive to hire created by primary legislation problems, there is an opportunity to find a more workable landing zone that addresses some of the unintended consequences for employers and workers. More generally, the Government can help to create the conditions for job creation and employment security by addressing spiralling business costs. Acknowledging the affordability challenges of the NLW in the setting of next year's rate will be particularly important in the context of tackling rising youth unemployment; it is not a coincidence that 18–24-year-olds are disproportionately finding it harder to get into work when the NLW has been rising faster for younger workers and their jobs are particularly affected by changes to NICs thresholds.²

Improving productivity remains the key to increasing living standards and growing the economy

It is in government and employers' interest that firms can deliver sustainable wage increases that support people to stay in work and improve workers' standard of living. But employers cannot simply keep increasing wages without the productivity growth to back it. Persistent wage demands and minimal productivity growth have combined to increase the pressure on firms to increase prices, adding to inflation and reducing the extent to which wage increases have felt like they have improved workers' living standards. This helps to explain why flatlining productivity (**Exhibit 1.5**), rising employment costs and stubbornly high wage growth (**Exhibit 1.6**) have coincided with inflation rising to double the Bank of England's 2% target (**Exhibit 1.7**). As ever, the key to making workers' salaries go further is unlocking productivity-led growth by increasing the financial headroom that businesses have to invest and grow.

The problems that spiralling business costs pose to growth cannot be ignored

Businesses are battling rising costs across multiple frontiers, from regulation and energy to taxes and statutory salary increases in the form of the NLW. Tax-related pressures have been particularly pronounced, and employers' share of the tax burden has steadily increased since 2019/20 – reaching 30.5% in 2024/25, the highest in this century on a like-for-like basis, and the share of the tax burden is projected to rise further in 2025/26.³ Moreover, the NICs and NLW increases have intensified the problem of high employment costs, driving out the financial headroom that businesses need to invest and raise productivity, trapping them in an anti-growth cycle. Addressing the unsustainable strain on firms' cost base is the only way to drive sustainable, productivity-led growth.

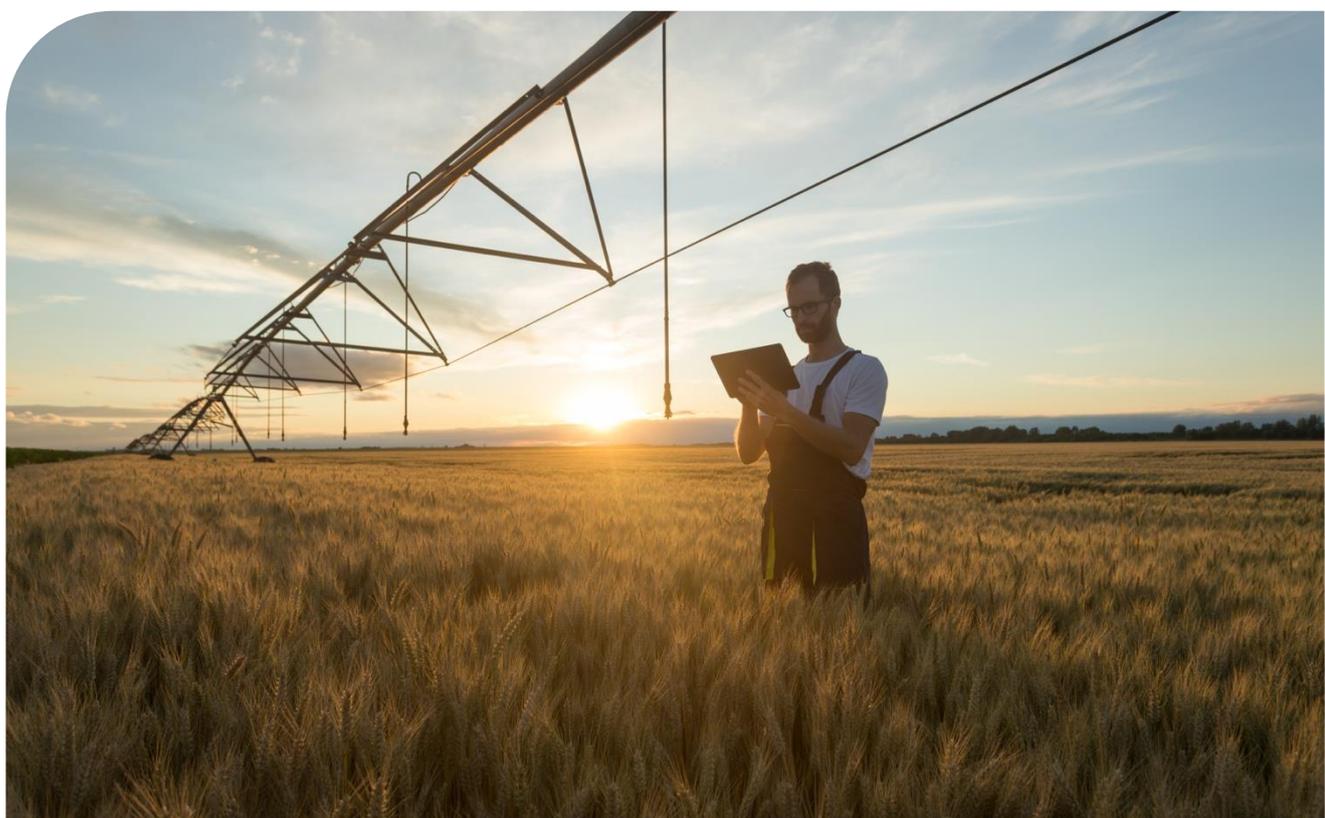


Exhibit 1.1. Economic inactivity rate (% , 16-64 year olds)⁴

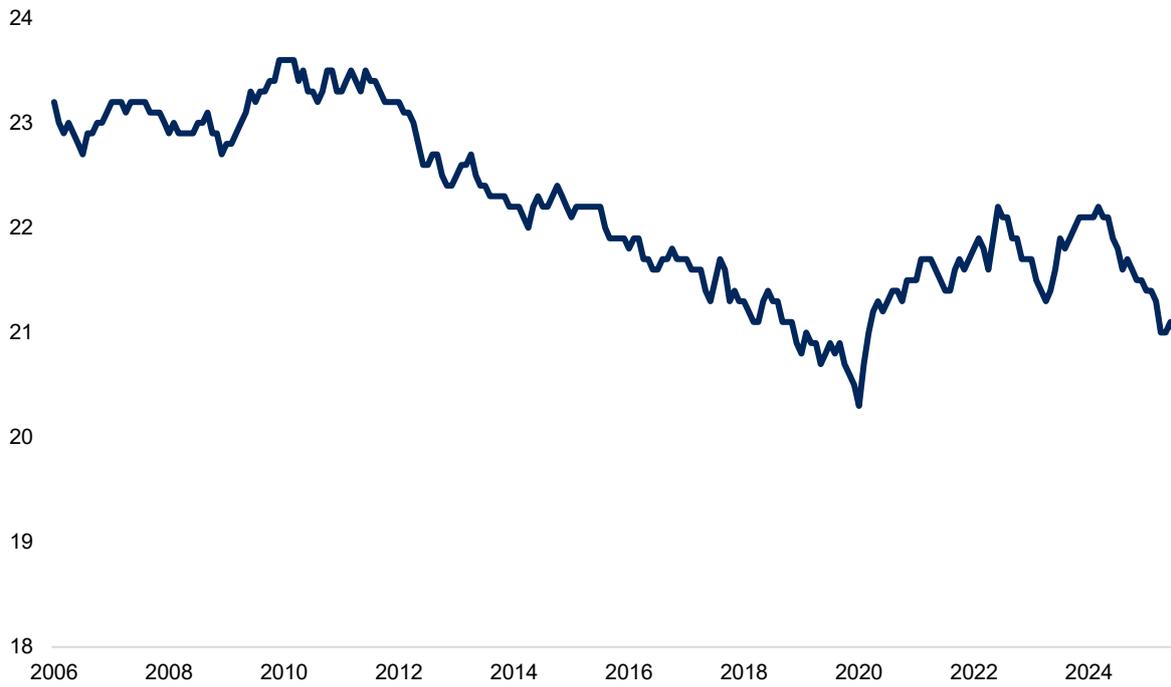


Exhibit 1.2 Total vacancies (in thousands)

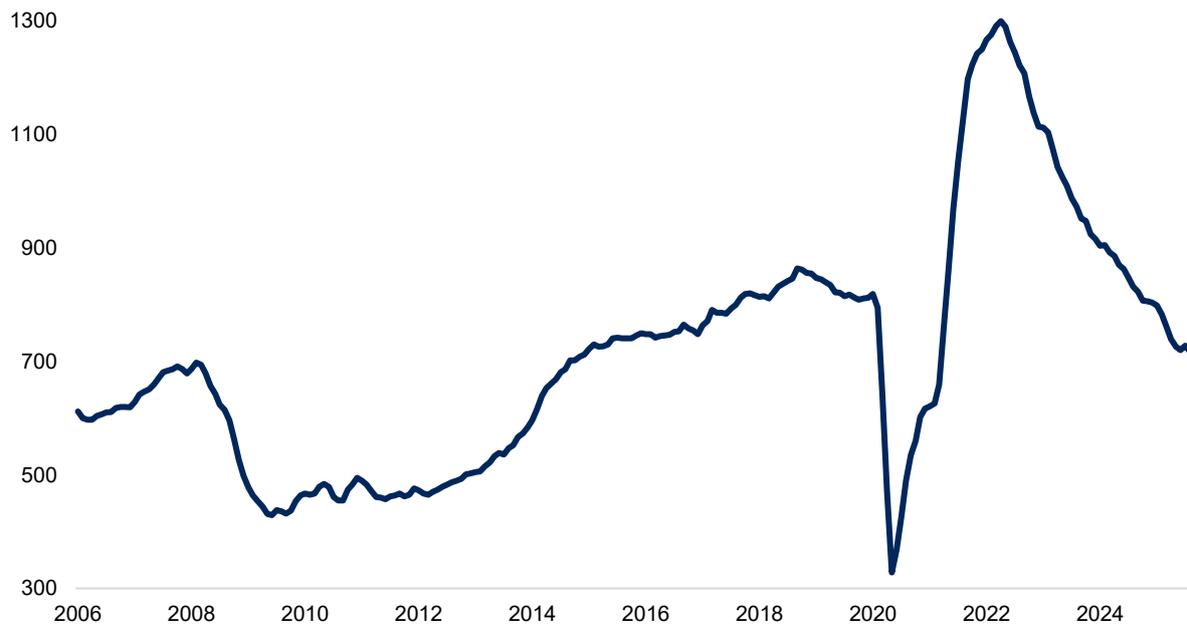


Exhibit 1.3 Unemployment rate (% , 16-64 year olds)



Exhibit 1.4. Redundancy rate (%)



Exhibit 1.5. UK Productivity: output per hour

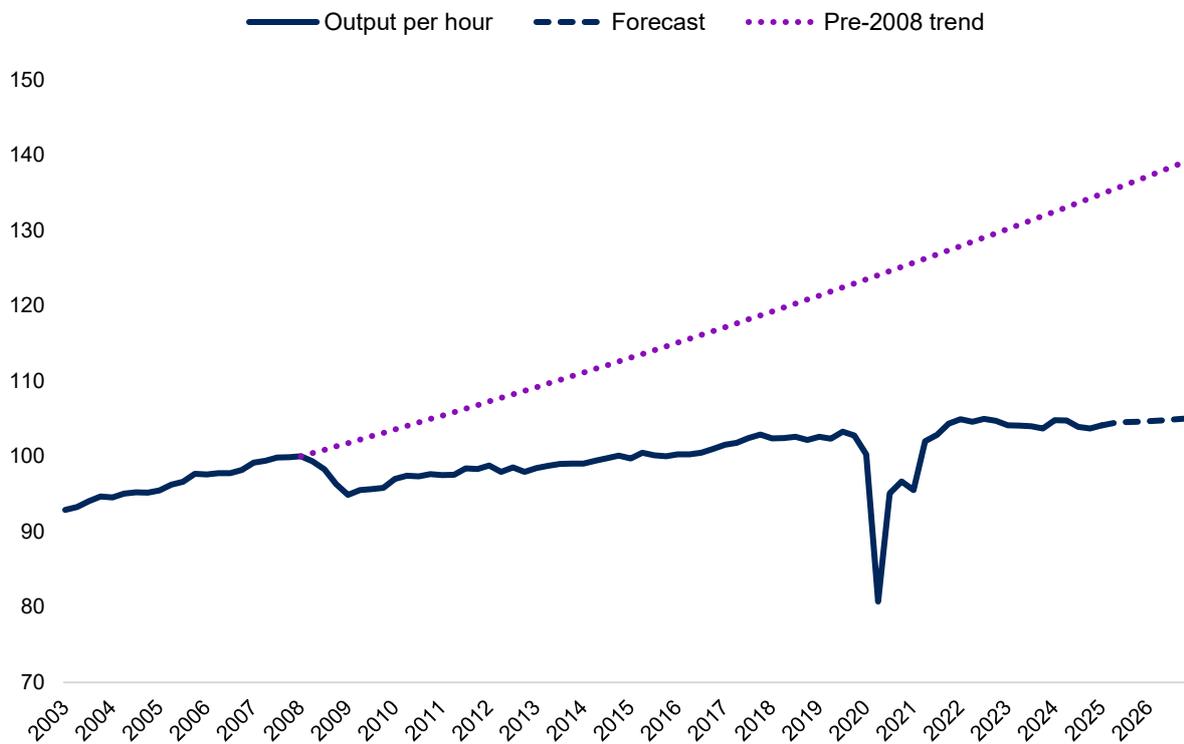


Exhibit 1.6. Nominal versus real (CPI) wage growth (% , 3 month average)

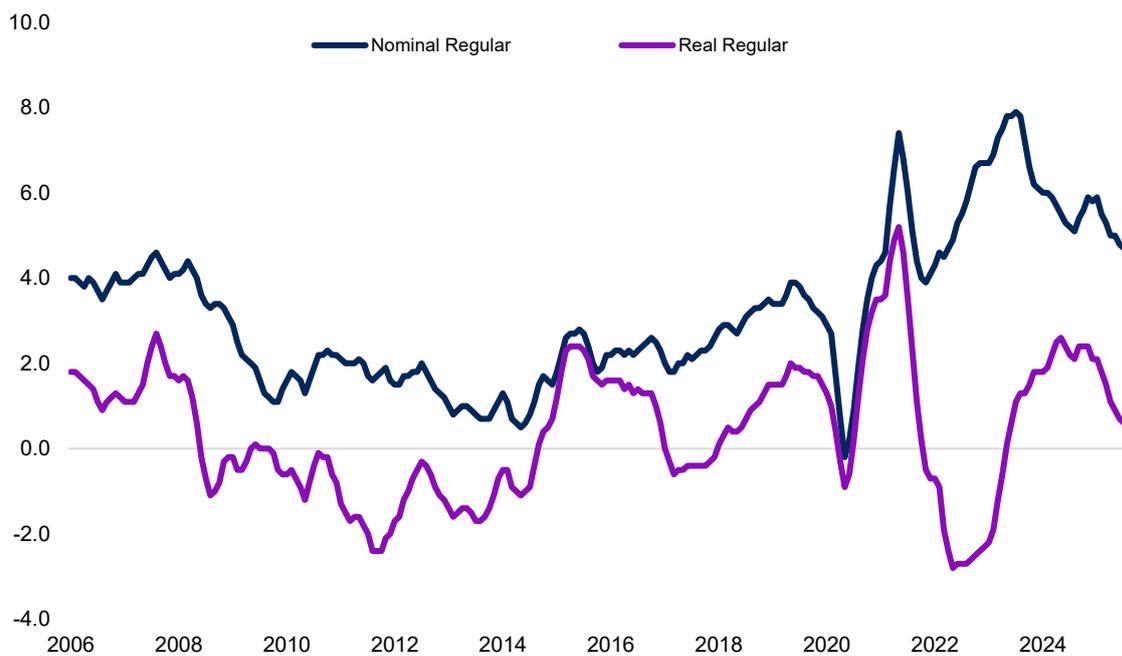


Exhibit 1.7. Inflation, CPI (y/y%)



Jobs are set to be harder to find as firms' confidence to hire falls

Excluding the peak of the pandemic, vacancy levels fell to their lowest level in a decade earlier this summer. This year's findings indicate that the decline in vacancies is increasingly being informed by higher costs weighing on demand. Moving forward, the Government must work with employers to address barriers to hiring which are not related to shortages. This will be key to improving labour market mobility and ensuring more people can enjoy the benefits of work.

Key findings:

- The proportion of business respondents intending to grow their workforce over the next twelve months has almost halved from last year (48% to 26%) while those expecting their workforce size to shrink has doubled over the same period (13% to 27%). The result is slightly more businesses intending to reduce their workforce size than grow it (27% and 26%, respectively).
- Only a quarter of businesses (24%) feel confident about hiring.



The proportion of businesses who expect their workforce size to shrink over the next twelve months has doubled

The proportion of business respondents intending to grow their workforce over the next twelve months has almost halved from last year (48% to 26%) while those expecting their workforce size to shrink has doubled over the same period (13% to 27%) (**Exhibit 2.1**). Therefore, slightly more businesses intend to reduce their workforce size than grow it (27% and 26%, respectively). Around half of respondents (47%) intend to maintain their workforce size over the next year, which is slightly up on levels recorded in 2024 (40%) and 2023 (41%).

The fall in the proportion of businesses intending to grow their workforce indicates that rising costs are having a material impact on their recruitment budgets and ability to hire. This is reflected in the fact that only one quarter of businesses (24%) feel confident about hiring (**Exhibit 2.2**). If policymakers do not take action to tackle spiralling business costs, the twin problems of damaged job creation and restricted labour market mobility will continue.

Firms are becoming more cautious about creating jobs and backfilling roles

Many firms are taking a more targeted approach to job creation and recruitment. For example, 3 in 10 businesses (29%) are cautious about backfilling vacancies and only doing so on a case-by-case basis, and 1 in 5 firms are backfilling vacancies, but cautious about creating new jobs (21%) and scaling back or freezing entry-level recruitment (19%). This reinforces anecdotal business feedback that many firms are offsetting higher costs by limiting entry-level roles for graduates and non-graduates. It also suggests that employers are trying to limit the need for job losses by adjusting recruitment plans and hiring less workers, but the 1 in 10 businesses (12%) who are exploring redundancies shows that this is not always possible.

It is unclear how much of the money raised through general taxation – and higher taxes on businesses – will be put towards interventions designed to lift employment, but schemes such as ‘Free courses for jobs’ and the ‘Youth Guarantee’ confirms that this is how at least some of the money is being spent. While these schemes may support more people into work, the easiest and most cost-effective way that the Government can support employers to improve job security and create more jobs is by addressing the problem of rising pressure on firms’ cost base. Any decision to increase business taxes at the forthcoming Budget will almost certainly hit job creation and lead to more employers scaling-back recruitment plans, in turn limiting their ability to operate competitively and grow.

Exhibit 2.1. Expected size of businesses' workforce in 12 months' time relative to size at the time of surveying (% of respondents)⁵

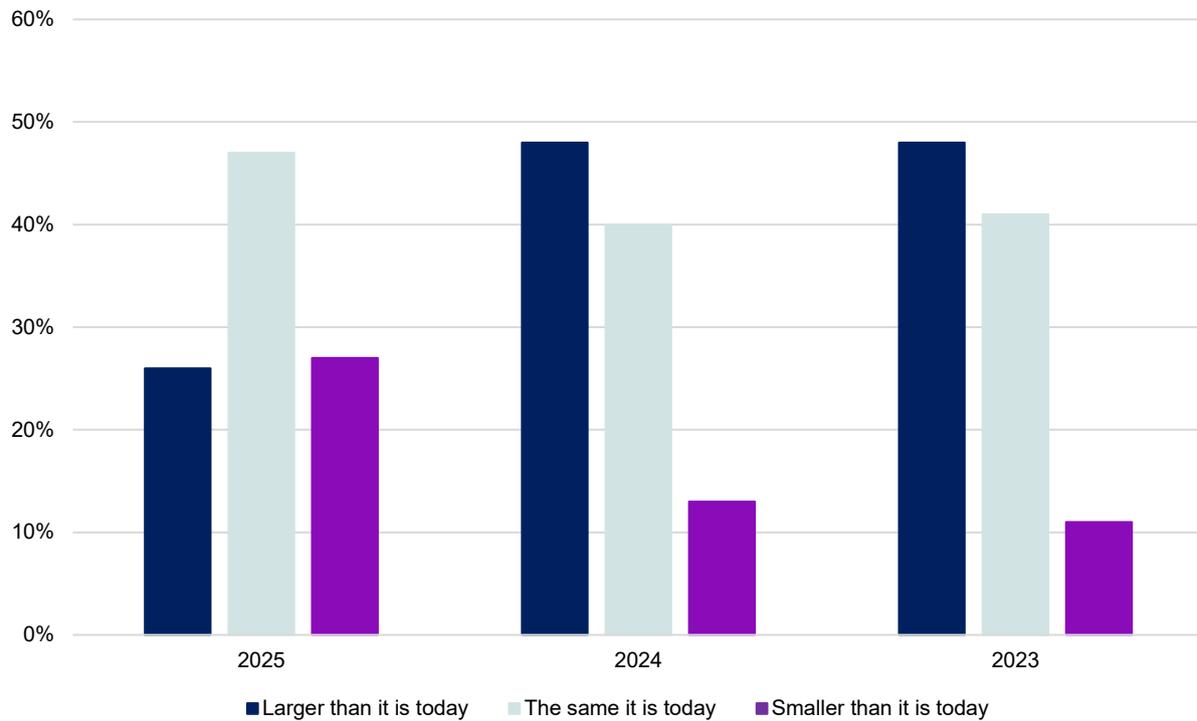
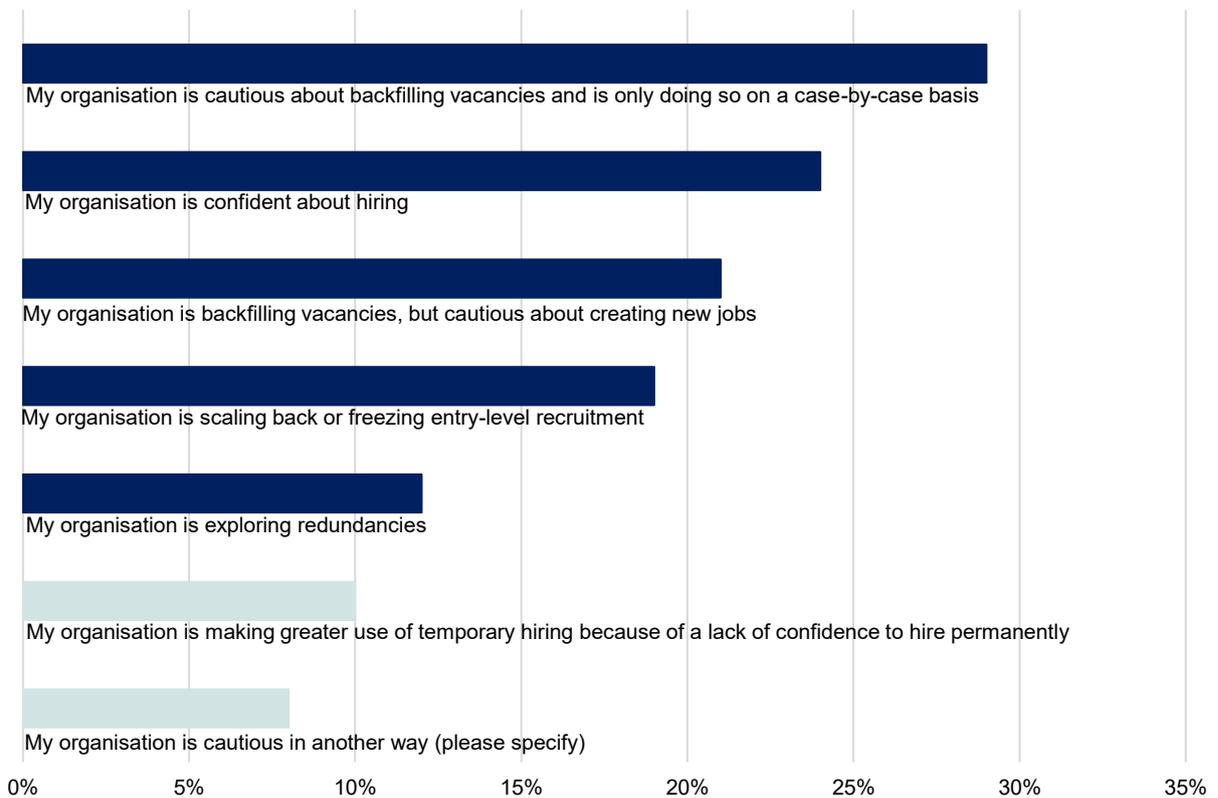


Exhibit 2.2. Businesses' current approach to hiring (Respondents asked to select all options that apply) (% of respondents)⁶



Businesses are running out of options to fund pay rises without productivity growth

Stubbornly high wage growth without the productivity growth to back it has contributed to inflation rising over the past twelve months to double the Bank of England's 2% inflation target, limiting the private benefit of higher wages for workers. Stagnant productivity and rising business costs have also resulted in fewer firms intending to offer pay increases above or in line with inflation next year. Increasing the National Living Wage is not an effective substitute for productivity growth. Creating the financial headroom for businesses to invest remains the key to improving living standards and growing the economy.

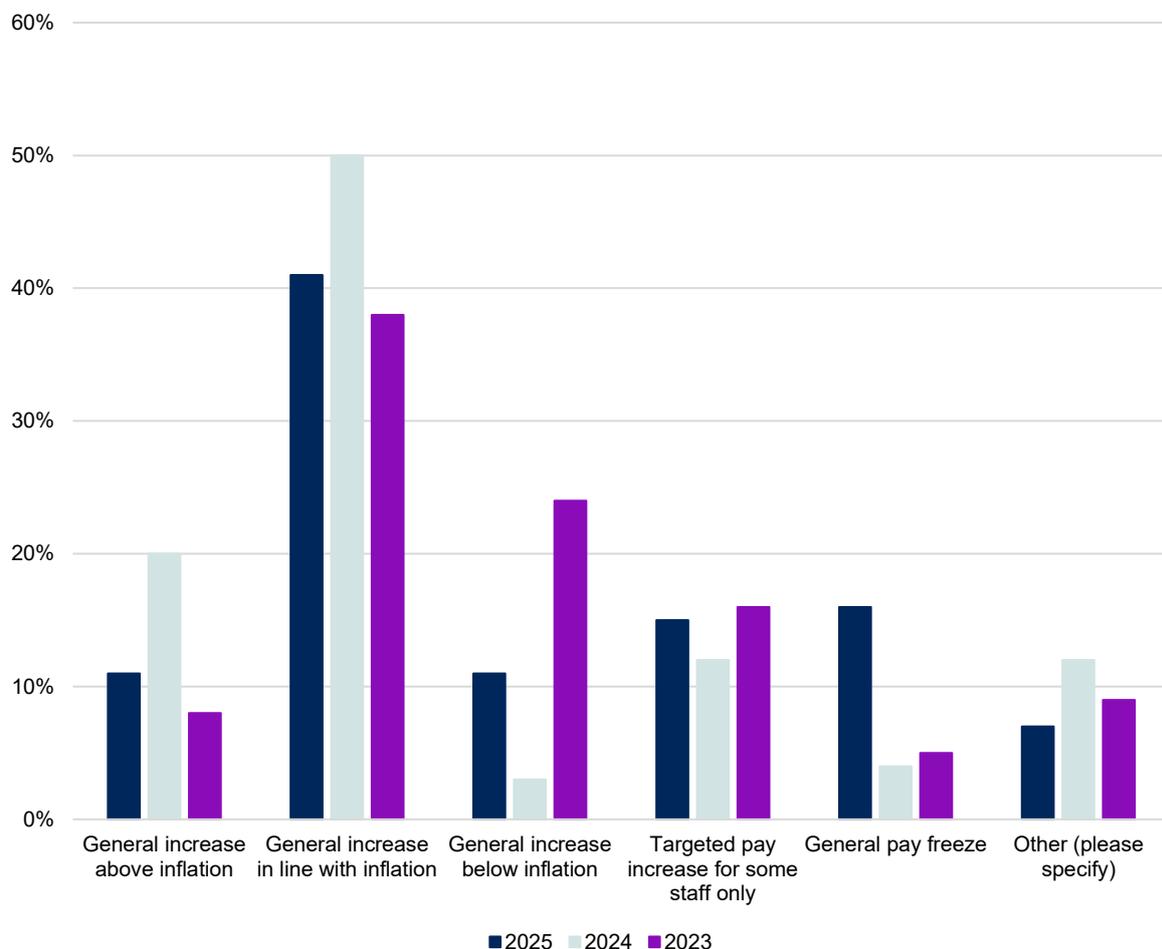
Key findings:

- In total, half of respondents (52%) intend to offer pay increases above (11%) or in line (41%) with inflation at the next pay review. This represents a fall on levels recorded last year (20% and 50%, respectively).
- The proportion of businesses intending to set a general pay freeze is up from last year (4% to 16%) and around 1 in 10 firms (11%) intend to offer pay increases below the rate of inflation.
- The most common step firms affected by this year's NLW increase are taking to offset the cost is raising consumer prices (cited by 47% of respondents). This slightly differs from last year, when hiking prices and increasing productivity through greater investment in new technologies and automation (both 32%) ranked joint second behind absorbing the whole cost through reduced profit (37%).
- One third of businesses (32%) are continuing to offset NLW cost wholly through reduced profits this year, but its relative position moving from first to third highlights how ten years of (nominal) NLW rises have gradually eroded business profits, forcing many firms to take new and different steps to cover their increasing NLW bill.
- Raising consumer prices will continue to be the most common action that affected firms intend to take to offset NLW cost next year (cited by 40% of respondents). Absorbing part of the cost through reduced profits (24%) and reducing employment (23%) ranked second and third, respectively.

Fewer firms are intending to offer salary increases above or in with inflation at their next pay review

In total, half of respondents (52%) intend to offer pay increases above (11%) or in line (41%) with inflation at the next pay review. This represents a fall on levels recorded last year (20% and 50%, respectively) (**Exhibit 3.1**). The proportion of businesses intending to set a general pay freeze is up from last year (4% to 16%) and around 1 in 10 firms (11%) intend to offer pay increases below the rate of inflation. At the time of surveying, inflation (CPI) was 3.8% (CPI), but is expected to ease to 2.5% (on average) over 2026.⁷ Regardless of the rate of inflation businesses had in mind when answering the question, the results suggest that firms are increasingly limited in terms of the types of salary increases that they can afford.

Exhibit 3.1. Businesses’ approach to their next pay review (% of respondents)⁸



More firms are offsetting the National Living Wage rise by passing costs onto consumers and reducing employment...

The most common step firms affected by this year's NLW increase are taking to offset the cost is raising consumer prices (cited by 47% of respondents) (**Exhibit 3.2**). This slightly differs from last year, when hiking prices and increasing productivity through greater investment in new technologies and automation (both 32%) ranked joint second behind absorbing the whole cost through reduced profit (37%) (**Exhibit 3.3**). One third of businesses (32%) are continuing to offset NLW cost wholly through reduced profits this year, but its relative position moving from first to third highlights how ten years of (nominal) NLW rises have gradually eroded business profits, forcing many firms to take new and different steps to cover their increasing NLW bill. Many of those firms increasing consumer prices know that this will hit consumer demand but see no alternative, which is why the proportion of firms that have offset their NLW costs by reducing employment has more than doubled over the past twelve months (from 15% to 36%). With only a small proportion of respondents confident that productivity growth is enough to offset NLW costs this year (9%) and next (7%), the findings make it clear that stagnating productivity means the NLW is becoming increasingly unaffordable for many firms, and this is translating into smaller salary increases for other workers and, in certain cases, fewer jobs.



Exhibit 3.2. Actions affected businesses are currently taking versus will take in 2026 in response to the NLW increase (Respondents asked to select all options that apply; based on current rate of £12.21 and central estimate for 2026 rate rising to £12.71) (% of respondents)⁹

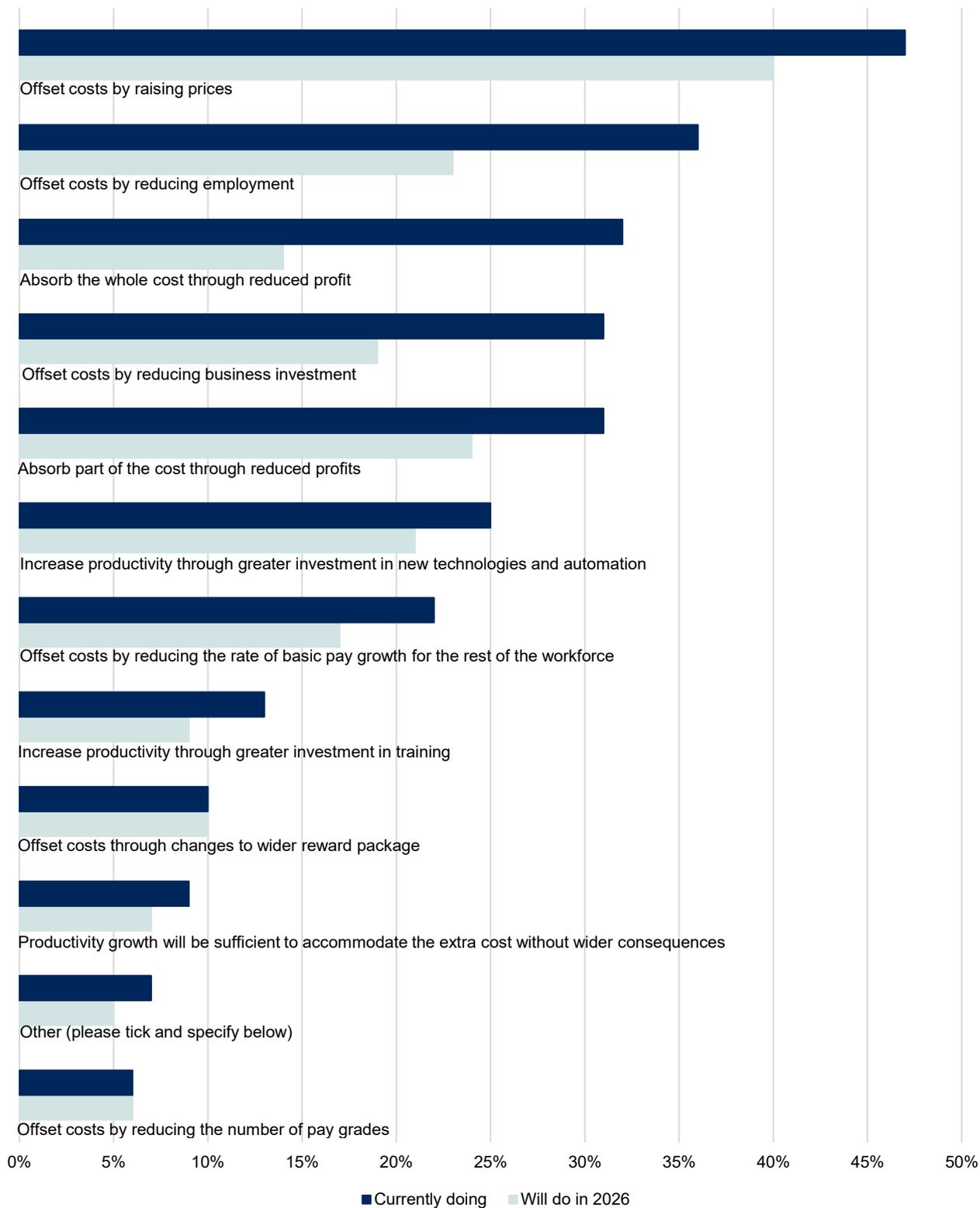
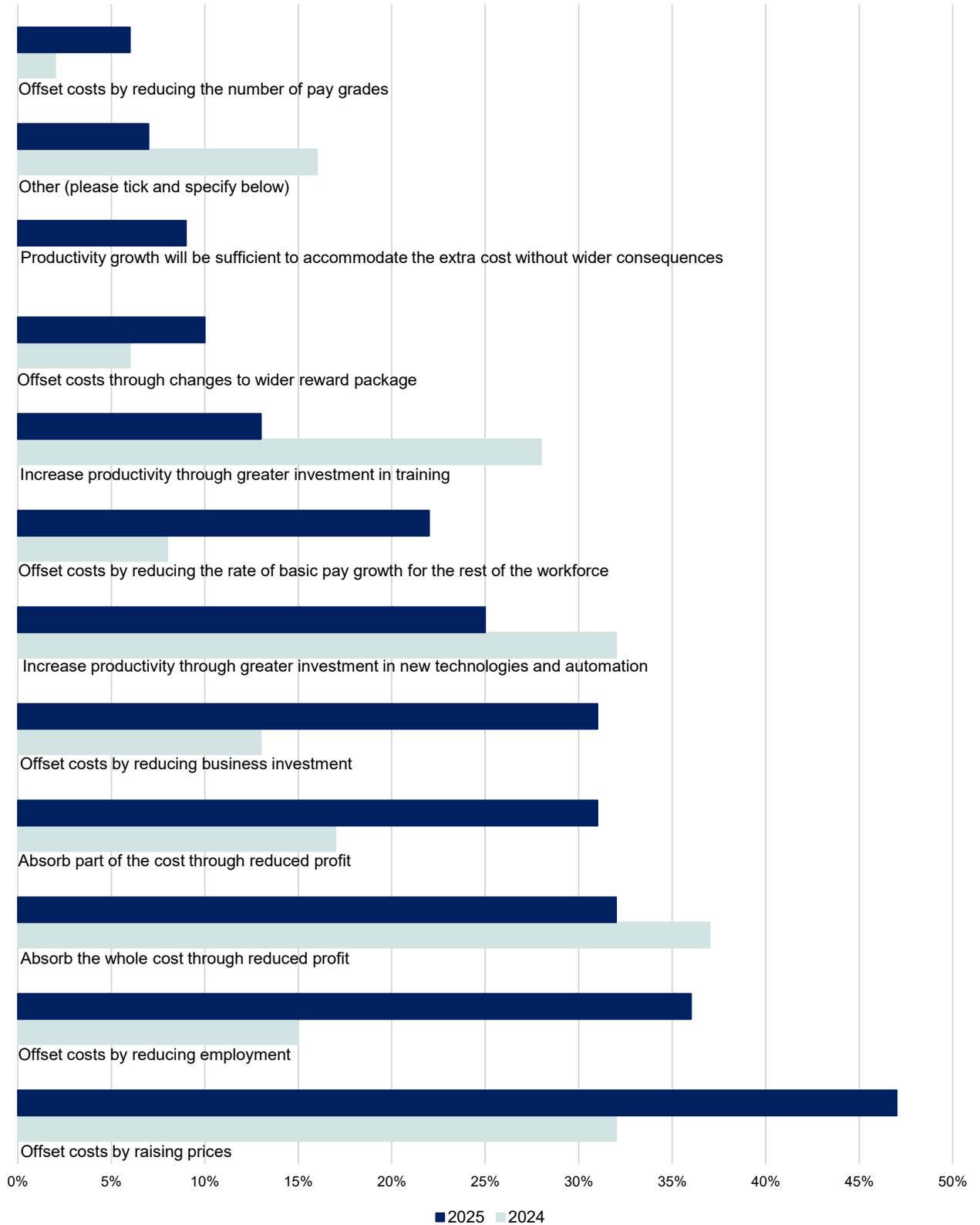


Exhibit 3.3. Actions that affected businesses are currently taking in response to the NLW increase, 2024 versus 2025 (Respondents asked to select all options that apply) (% of respondents)¹⁰



... and this is set to continue next year

Raising consumer prices will continue to be the most common action that affected firms intend to take to offset NLW cost next year (cited by 40% of respondents). Absorbing part of the cost through reduced profits (24%) and reducing employment (23%) ranked second and third, respectively). Businesses are being forced to navigate the precarious balance of enforcing price rises that are competitive and affordable for consumers, as well as maintaining some sort of financial headroom so that they can invest in jobs and protect job security during challenging economic headwinds. In the context of poor productivity, this effectively makes the NLW zero-sum, with individuals losing out in their role as a worker or consumer. Therefore, it's not a question of whether the NLW policy is currently hurting workers, but how.

The UK now has one of the highest minimum wages in the world compared to average pay, with low and middle-income earners being disproportionately hit by squeezed pay differentials and higher consumer prices deployed to offset NLW increases.¹¹ Moreover, while businesses have previously been able to minimise job losses through cutting profit, increasing prices and reducing other benefits, vacancies falling sharply in sectors such as hospitality indicate that this may no longer be the case.¹² As ever, the route to making the NLW increases sustainable for businesses and beneficial for workers is reducing the cost pressures that they are confronted with so they can invest and deliver productivity-led growth.



Business confidence in the UK labour market is continuing to fall

Continuing the trend of rising business concern with the UK labour market's competitiveness in recent years, this year's findings indicate a new low point, raising questions about the deliverability of government's growth objectives. Employment costs, inflexible employment regulation and access to skills rank as the top threats to current and future competitiveness and are key policy areas that policymakers should prioritise in the months ahead.

Key findings:

- On balance, businesses believe that the UK labour market has become a less attractive place to do business over the past five years (-84%), and confidence has fallen below the dire levels recorded in 2024 (-60%) and 2023 (-71%).
- Since last year's survey, the proportion of respondents who believe the UK has become much less attractive has more than doubled (24% to 54%).
- Most businesses are not confident that UK labour market conditions will improve over the next five years (net balance -76%). This also represents a marked decline on levels recorded last year (-50%) and the year before (-49%).
- The nature of business concern with the UK labour market has changed considerably, with labour costs now ranking as the top threat to current labour market competitiveness (cited by 73% of respondents), followed by inflexible employment regulation (65%). This replaces access to skills (58%) as the top threat.
- Businesses expect that the impact of employment regulation on flexibility will become the biggest threat to the UK's labour market competitiveness in five years' time (cited by 69% of respondents). The result is likely due to concerns about the Employment Rights Bill which would have been implemented by then, changing how businesses are required to offer shifts, change contracts and engage with their workforce.
- Labour costs (67%) are expected to continue to be a more significant threat to competitiveness than access to skills (60%) for the medium-term, highlighting that businesses believe that the high cost of employment will hold back job creation for the foreseeable future.
- The fact that these areas are emerging as top concerns in this survey is not surprising. They are also the issues that businesses believe will make it harder for them to deliver the workforce they need to operate and grow. Government must therefore treat cost, skills and employment regulation as priority policy areas requiring an updated policy approach.

Businesses overwhelmingly believe that the UK labour market is less attractive than it was five years ago...

On balance, businesses believe that the UK labour market has become a less attractive place to do business over the past five years (-84%), and confidence has fallen below the dire levels recorded in 2024 (-60%) and 2023 (-71%) (**Exhibit 4.1**). Since last year's survey, the proportion of respondents who believe the UK has become 'much less' attractive has more than doubled (24% to 54%). Meanwhile, the share of firms who believe that labour market conditions have improved over the past five years has fallen to just 3%.

... and many expect this trend to continue

Most businesses are not confident that UK labour market conditions will improve over the next five years (net balance -76%). This also represents a marked decline on levels recorded last year (-50%) and the year before (-49%) (**Exhibit 4.2**). An additional 1 in 5 respondents believe the UK labour market will become 'much less' attractive compared to last year (36% to 55%). In total, only a small proportion of respondents (6%) believe that UK labour market conditions will be better in 2030, which is half of the proportion of employers who felt that labour market conditions would improve last year and the year before (both 12%).

This year's findings highlight firms overwhelmingly believe that the UK labour market has not improved since 2020, and that the labour market will become even less attractive by the end of the decade. This is a damning statement, given that businesses would have used the early stages of the pandemic – when ill-health and lockdown drove many parts of the economy to a halt – as their comparison point. While it's too early to gauge the full effect of the Government's policy agenda on UK labour market conditions, the survey responses indicate a lack of business confidence in the proposed approach, and that a more fundamental policy re-set may be needed.



Exhibit 4.1. Business views on whether the UK labour market has become a more or less attractive place to invest/do business over the past five years (% of respondents)¹³

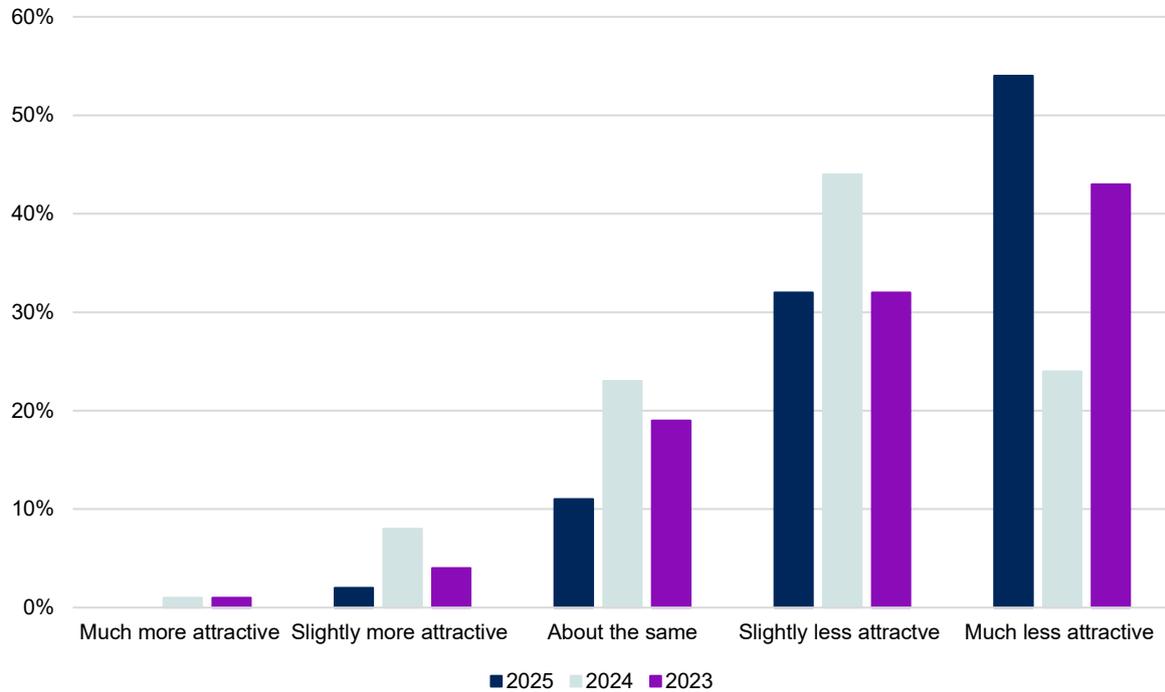
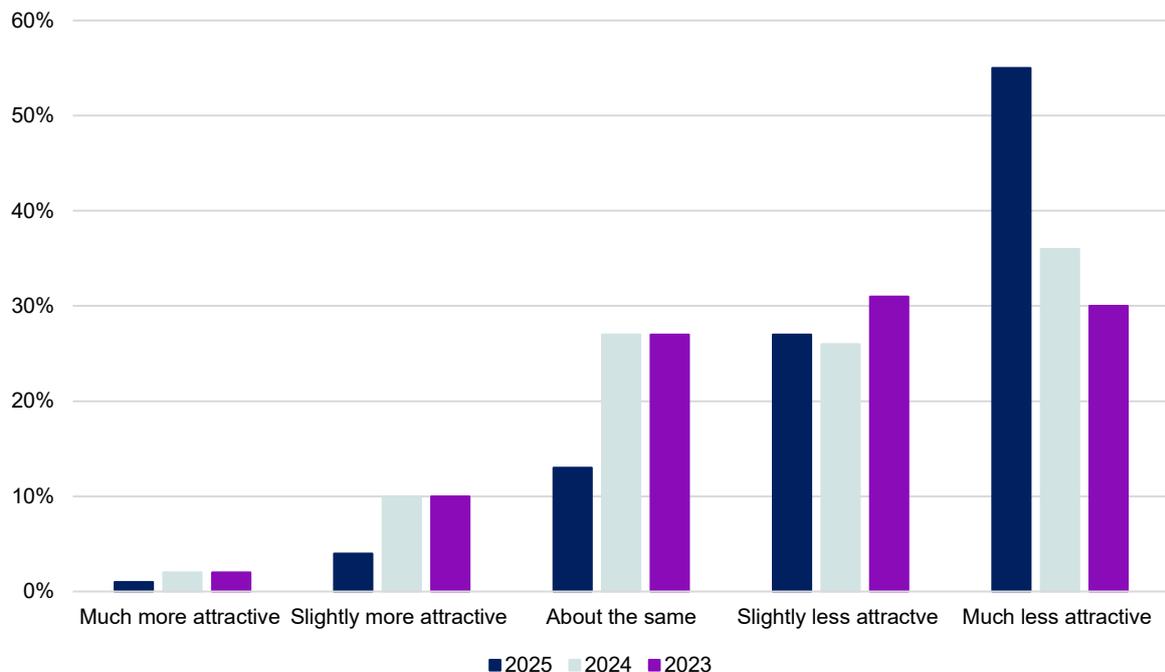


Exhibit 4.2 Business views on whether the UK labour market will become a more or less attractive place to invest/do business in 5 years' time (% of respondents)¹⁴



Low confidence in the UK labour market is being driven by employment costs, access to skills and employment reform...

The nature of business concern with the UK labour market has changed considerably, with labour costs now ranking as the top threat to current labour market competitiveness (cited by 73% of respondents), followed by inflexible employment regulation (65%) (**Exhibit 4.3**). This replaces access to skills (58%) as the top threat. Again, these results complement business feedback, with recent cost rises hurting the many firms who were already battling tight financial headroom. The relative rise in concern about employment regulation is also unsurprising, with businesses clear that Employment Rights Bill changes, such as the removal of a qualifying period for unfair dismissal and new guaranteed hour provisions, will negatively impact their organisation's ability to expand their workforce and seize new growth opportunities. Access to skills now graduating in third position is unlikely due to a material improvement in businesses' ability to address their skills gaps, as this survey identified that they remain as widespread as last year (**see Exhibit 7.2, page 53**).

... and firms anticipate that they will continue to be the biggest threats to labour market competitiveness in the years ahead

Businesses expect that the impact of employment regulation on flexibility will become the biggest threat to the UK's labour market competitiveness in five years' time (cited by 69% of respondents) (**Exhibit 4.4**). The result is likely due to concerns about the Employment Rights Bill which would have been implemented by then, changing how businesses are required to offer shifts, change contracts and engage with their workforce. Labour costs (67%) are expected to continue to be a more significant threat to competitiveness than access to skills (60%) for the medium-term, highlighting that businesses believe that the high cost of employment will hold back job creation for the foreseeable future. The fact that these areas are emerging as top concerns in this survey is not surprising. They are also the issues that businesses believe will make it harder for them to deliver the workforce they need to operate and grow. Government must therefore treat cost, skills and employment regulation as priority policy areas requiring an updated policy approach.



Exhibit 4.3. Business views on the current threats to UK labour market competitiveness (Respondents asked to select all options that apply) (% of respondents)¹⁵

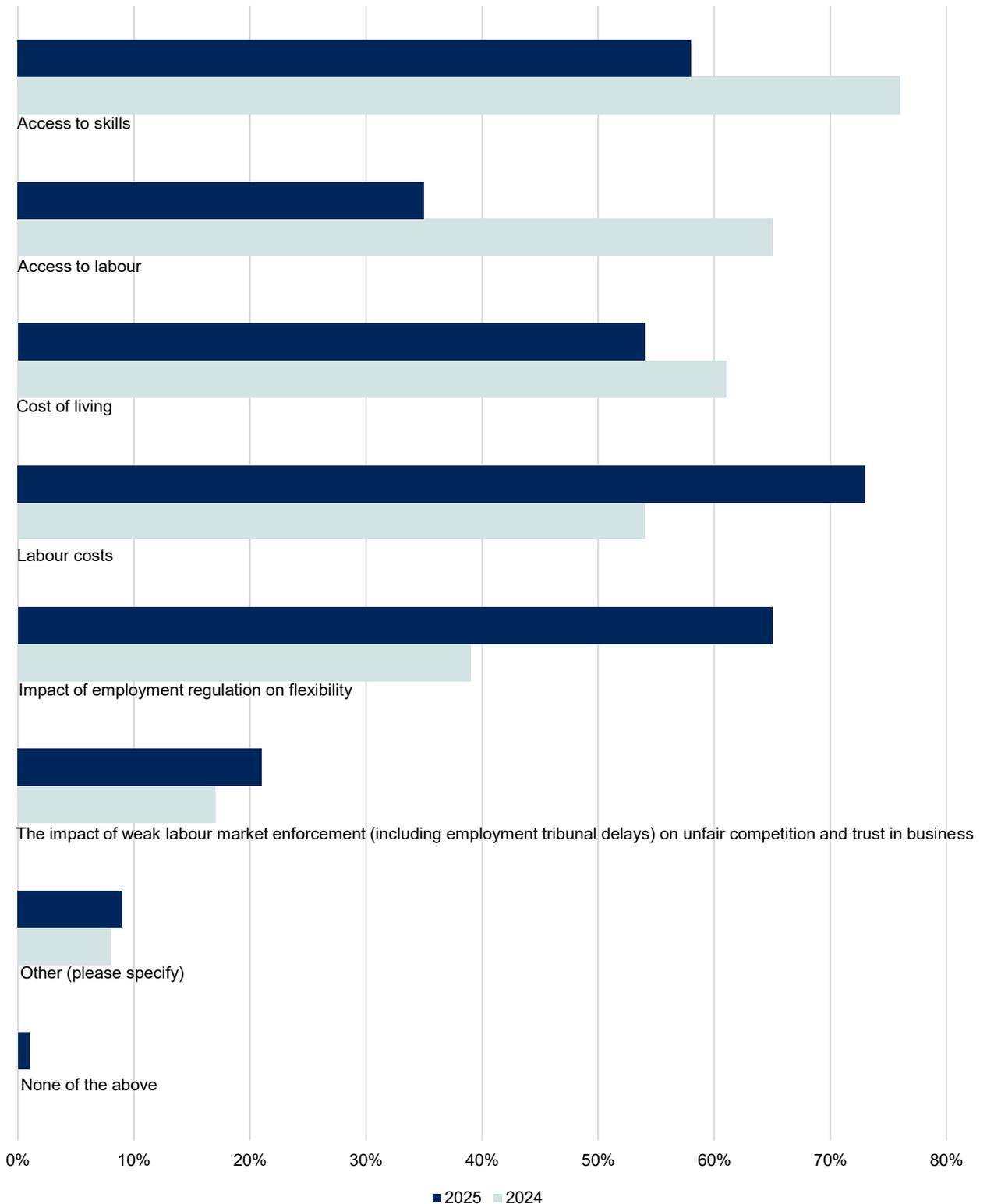
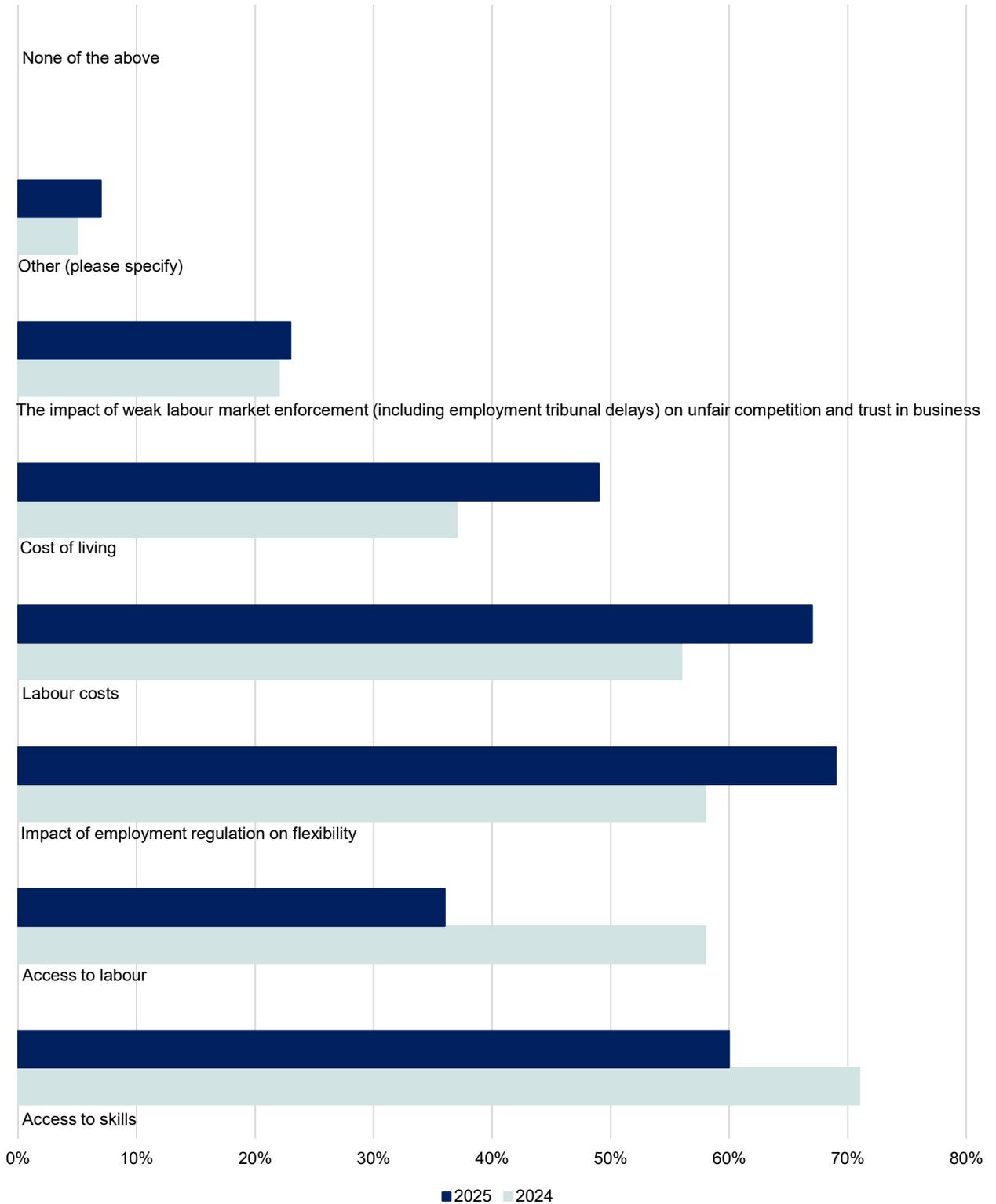


Exhibit 4.4. Business views on the expected threats to UK labour market competitiveness in 5 years' time (Respondents asked to select all options that apply) (% of respondents)¹⁶



Firms cannot continue to absorb higher employment costs and deliver growth

While the problem of rising business costs is not new, the costs that businesses are dealing with today are markedly higher than the ones that they were managing twelve months ago. Rising employment costs threaten businesses and their ability to invest and grow the economy. Without targeted policy action to improve firms' financial headroom so that they can make the investments key to unlocking productivity-led growth, jobs, living standards and growth are all on the line.

Key findings:

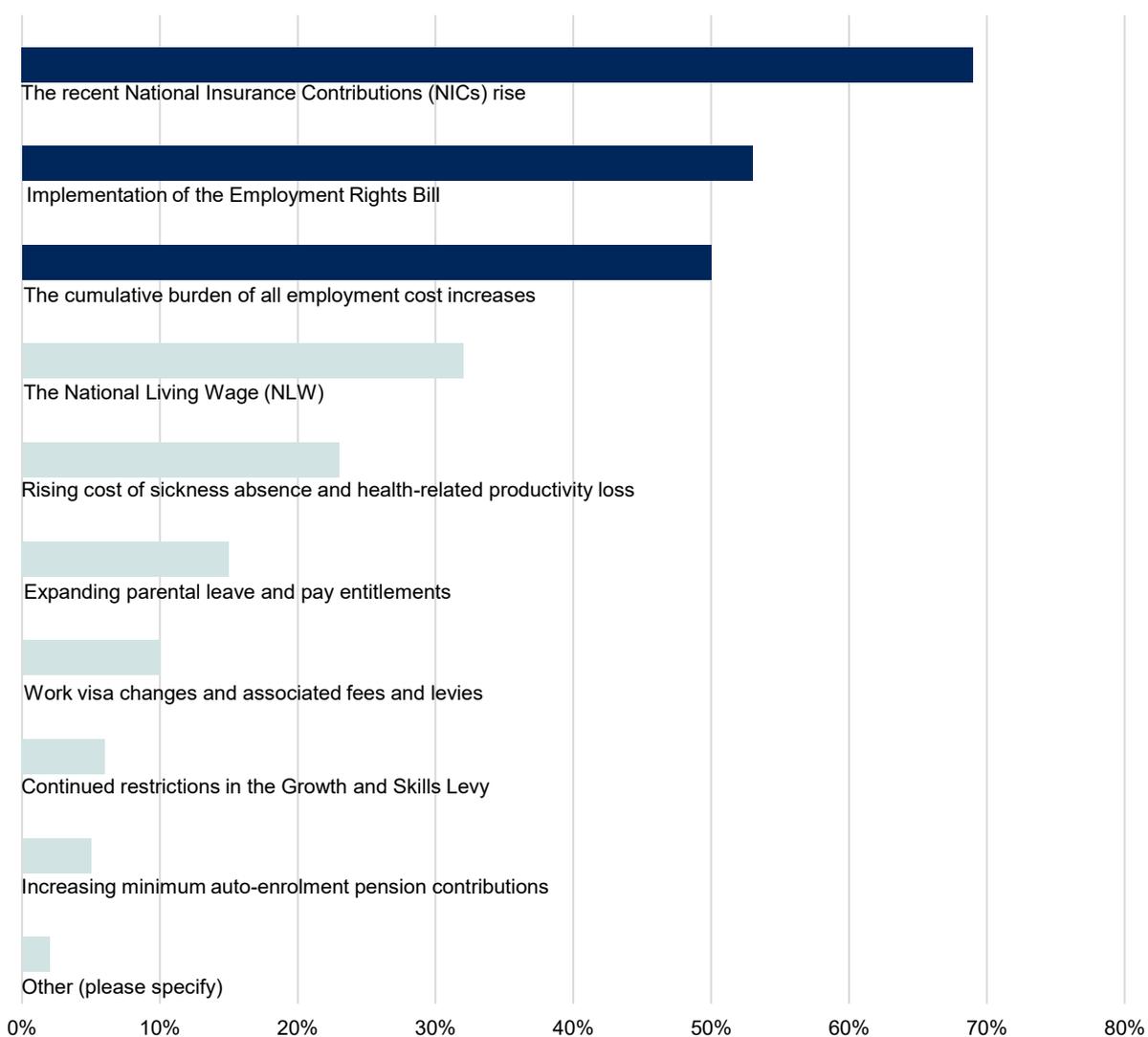
- When asked to select up to three employment costs which represent the biggest threat to the UK labour market's competitiveness, 7 in 10 respondents (69%) selected the recent NICs rise. While evidence of the £25bn additional cost's impact on the business community is still emerging, business feedback has been clear: productivity growth does not pay for it, forcing businesses to absorb costs through cut budgets for jobs, pay and investment.
- The Employment Rights Bill ranked as the second biggest threat to business competitiveness, selected by half of respondents (53%), reinforcing employer feedback that the benefits of the Bill are overstated and the trade-offs they will face when implementing it will be more severe than the Government thinks.
- In total, half of businesses (50%) reported the cumulative burden of all employment cost increases as a top threat to competitiveness. Moving forward, policymakers must be choiceful when setting policies that add to employers' cost base and engage with the ways that businesses will absorb higher costs when implementing different policies. For example, when asked how they would respond to minimum employer pension contributions rising from 3% to 7%, 6 in 10 businesses answered that they would offset cost by reducing pay or limiting future pay rises (58%) and reducing employment (57%).



The NICs rise has represented a particularly big hit to employers' cost base

When asked to select up to three employment costs which represent the biggest threat to the UK labour market's competitiveness, 7 in 10 respondents (69%) selected the recent NICs rise (**Exhibit 5.1**). While evidence of the £25bn additional cost's impact on the business community is still emerging, business feedback has been clear: productivity growth does not pay for it, forcing businesses to absorb costs through cut budgets for jobs, pay and investment. The Bank of England reached a similar conclusion in their engagement with industry, noting firms feel that higher employer NICs, coupled with uncertainty around its impact, have "weighed on growth".¹⁷

Exhibit 5.1. Business views on the employment costs that constitute the biggest threat to UK labour market competitiveness (Respondents asked to select up to three options) (% of respondents)¹⁸



The cost of implementing the Employment Rights Bill will outweigh the benefits to businesses, workers and growth

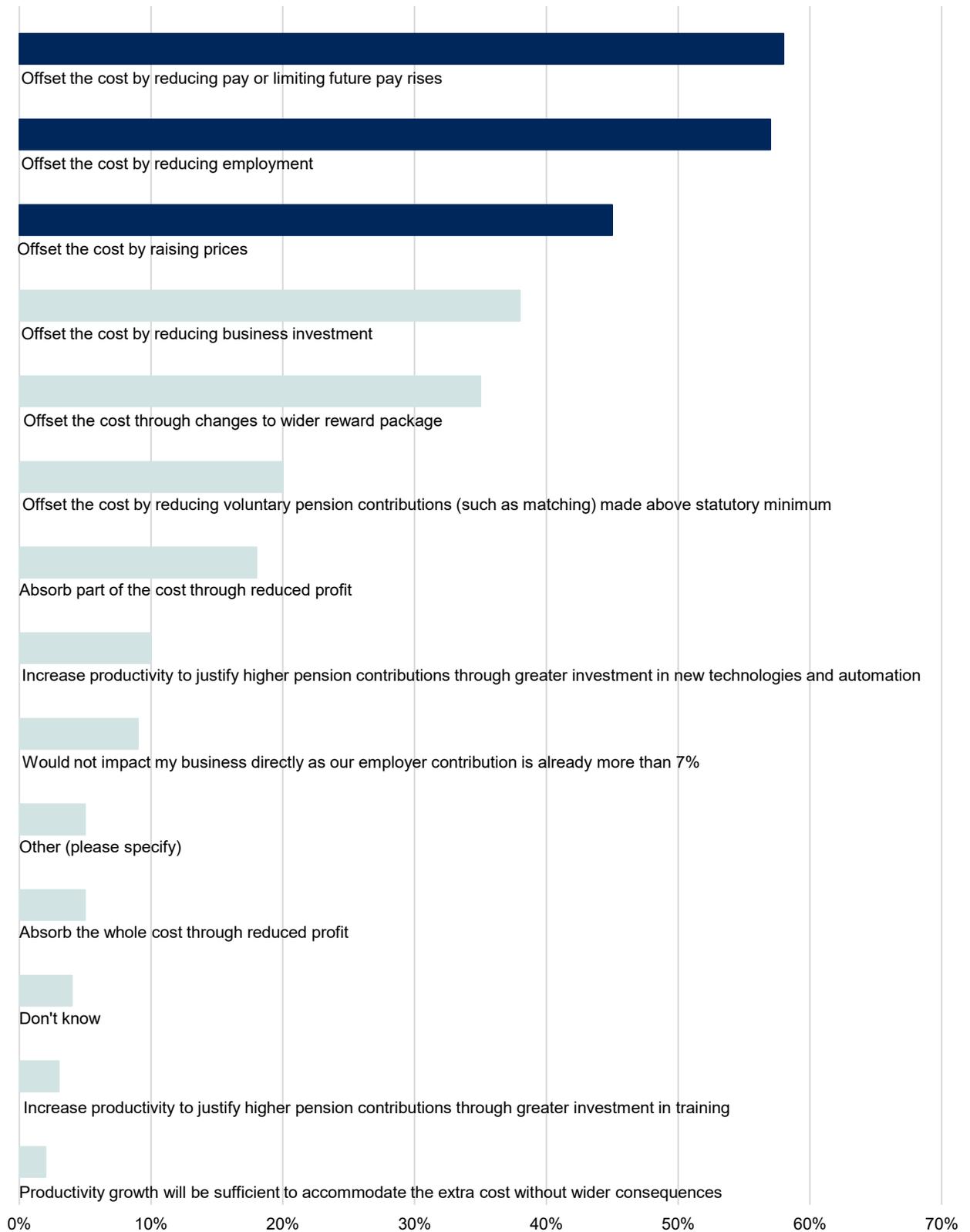
The Employment Rights Bill ranked as the second biggest threat to business competitiveness, selected by half of respondents (53%), reinforcing employer feedback that the benefits of the Bill are overstated and the trade-offs they will face when implementing it will be more severe than the Government thinks. Alongside the money that they will lose as a result of complying with new provisions, businesses also highlighted a huge opportunity cost in the form of services that they will no longer be able to deliver, and growth opportunities that they will have to forego, because of new changes. For example, limiting operations during seasonal peak periods due to guaranteed hour provisions, and 'Day 1' provisions forcing businesses to limit external recruitment. The risks and costs attached to the Employment Rights Bill therefore significantly outweighs any expected benefits for businesses, workers and growth.

The cumulative burden of employment costs mean policymakers must be choiceful when making decisions that add to employers' cost base

In total, half of businesses (50%) reported the cumulative burden of all employment cost increases as a top threat to competitiveness. The reality of businesses paying multiple costs – and these costs individually rising – is proving increasingly difficult for many firms to manage. This means that a policy's affordability cannot be fairly benchmarked by looking at whether firms can manage to pay for an individual cost – it must also recognise the multiple other costs that firms are confronted with. In the context of growth, it should also factor in firms' financial headroom to invest. Together, this will lead to higher costs being judged as problematic, if not outright unworkable, for businesses trying to operate competitively and grow.

Moving forward, policymakers must be choiceful when setting policies that add to employers' cost base and engage with the ways that businesses will absorb higher costs when implementing different policies. For example, when asked how they would respond to minimum employer pension contributions rising from 3% to 7%, 6 in 10 businesses answered that they would offset cost by reducing pay or limiting future pay rises (58%) and reducing employment (57%) (**Exhibit 5.2**). Over 4 in 10 respondents (45%) said that they would respond by raising prices. It is unclear how many workers would support higher statutory employer pension contributions if they were aware that in the long run, they are still paying for it, just through lower wages or a higher risk of job loss instead. Raising productivity is the only way that these objectives can be met without wider unintended consequences.

Exhibit 5.2. Businesses' intended response to minimum employer contributions rising from 3% to 7% (Respondents asked to select all options that apply) (% of respondents)¹⁹



Employment reform must support meaningful workforce engagement and avoid adding to spiralling business costs

Business concern with the Government's package of employment reform has grown since last year's survey, reflecting problems with primary legislation which have not been rectified through government amendments. As policymakers turn their attention to the implementation of reforms, it is crucial that secondary regulations support meaningful workforce engagement by helping employers to identify, and respond to, workforce priorities. They must also avoid adding to firms' cost base and support firms to create the much-needed headroom to protect jobs, invest and grow.

Key findings:

- The Government has spent the last year trying to convince businesses that its 'Plan to Make Work Pay' is pro-business and pro-worker and that it will boost productivity and support growth. This survey finds that businesses are more sceptical of these claims than ever, with more than three-quarters (78%) worried that they cannot afford the changes without it negatively affecting growth, business investment, jobs or discretionary employee benefits. This is up significantly from 54% last year. The proportion of respondents who strongly disagree with the statement that it will be affordable without unintended consequences has doubled from 23% to 48%.
- Over 8 in 10 businesses (86%) believe that the risk of costly tribunal claims for unfair dismissal during probation will make their organisation more cautious about creating jobs and taking on new people. Firms have been clear that an effective probation period (meaning one without the possibility of incurring insurmountable legal costs) of twelve months would be needed to avoid a material impact on hiring.
- Three quarters of businesses (77%) believe that reference periods that last twelve weeks will lead to guaranteed hour contract offers that can't be sustained all year round. Many businesses are confronted with seasonal peaks in demand, meaning a 52-week reference period is the only way to ensure that contracts accurately reflect the hours that firms can offer on a permanent basis without a considerable risk of job loss.

- 9 in 10 respondents (90%) believe that firms should be able to offer short notice work on a voluntary basis. It is important that regulations creating a right to notice of shifts ensure individuals who value last-minute opportunities to work continue to receive them.
- 7 in 10 businesses (69%) believe that compensation for short notice changes to shifts should be proportionate to the notice given, reflecting firms' preference to avoid a scenario where two businesses are forced to pay significantly different compensation amounts despite offering notice a short time apart.
- Half of businesses (49%) believe that removing the minimum level of support for statutory recognition and the minimum turnout for strike ballots will give trade unions greater powers to act without the support of workers, weakening the legitimacy of their position as the collective representative of the workforce. This is more than double the proportion of businesses who disagree with the statement (23%). To reset industrial relations, it is important that the law encourages a reasonable and respectful approach by both employers and unions.
- 8 in 10 businesses (79%) believe that changes to benefits in kind should not be treated as fire and rehire leading to a finding of automatic dismissal. Firms have been clear that treating all forms of benefit in kind as a restricted variation would prevent them from acting on workforce preferences, such as prioritising limited budgets for basic pay.
- 8 in 10 businesses (84%) also believe that fire and rehire rules should not give employees an unconditional veto over reasonable changes to work organisation, such as shift timing and lengths. There are various examples of where this could unfairly penalise businesses from needing to make reasonable changes. For example, adjusting shifts to reflect changes to operating hours.



The proportion of businesses who are concerned with the impact of employment reform plans has grown over the past twelve months

The Government has spent the last year trying to convince businesses that its 'Plan to Make Work Pay' is pro-business and pro-worker and that it will boost productivity and support growth. This survey finds that businesses are more sceptical of these claims than ever, with more than three-quarters (78%) worried that they cannot afford the changes without it negatively affecting growth, business investment, jobs or discretionary employee benefits. (**Exhibit 6.1**). This is up significantly from 54% last year. The proportion of respondents who strongly disagree with the statement that it will be affordable without unintended consequences has doubled from 23% to 48%.

Rising business concern with the Bill's impact on their ability to grow, respect workforce mandates and protect jobs is hardly surprising, with the Government's own impact assessment calculating that it will cost employers up to £5bn per year to implement, with no definitive growth benefits.²⁰ While the damage to growth locked in by primary legislation decisions cannot be fixed once the Bill has passed, there is scope to find a more workable landing zone through their approach to secondary regulations by recognising the importance of flexibility, meaningful workforce engagement and financial headroom for workers, employers and growth.

Firms' confidence to hire relies on probation period dismissal claims being kept out of the tribunal system

At the time of writing, no proposal has been accepted by government that reconciles the promise to introduce a day-1 right to unfair dismissal with its commitment to a light touch process for probation. Over 8 in 10 businesses (86%) reported that the risk of costly tribunal claims for unfair dismissal during probation will make their organisation more cautious about creating jobs and taking on new people (**Exhibit 6.2**). As has been observed by the Resolution Foundation, "reducing workers' insecurity is a good thing to do, but there are trade-offs" attached to Day 1 changes, including fewer jobs. There also practical factors to consider, including the Employment Tribunal system's capacity to take on new claims.²¹

Firms have been clear that an effective probation period (meaning one without the possibility of incurring insurmountable legal costs) of 12 months would be needed to avoid a material impact on hiring. Even at 6 months, there will be a rush to dismiss underperforming staff before they have had a chance to improve, but retaining a qualifying period of this length would at least go some way to mitigate the impact on hiring in the first place. In lieu of that, it is important that the Government uses its powers to design new probation rules in such a way that businesses retain as much confidence as possible in their ability to dismiss without incurring insurmountably high legal costs defending themselves.

Exhibit 6.1. Business agreement with the statement: “My business is confident that it can afford the higher employment costs arising from Government’s ‘Plan to Make Work Pay’ (which includes the Employment Rights Bill) without it negatively affecting growth, business investment, jobs or discretionary employee benefits” (% of respondents)²²

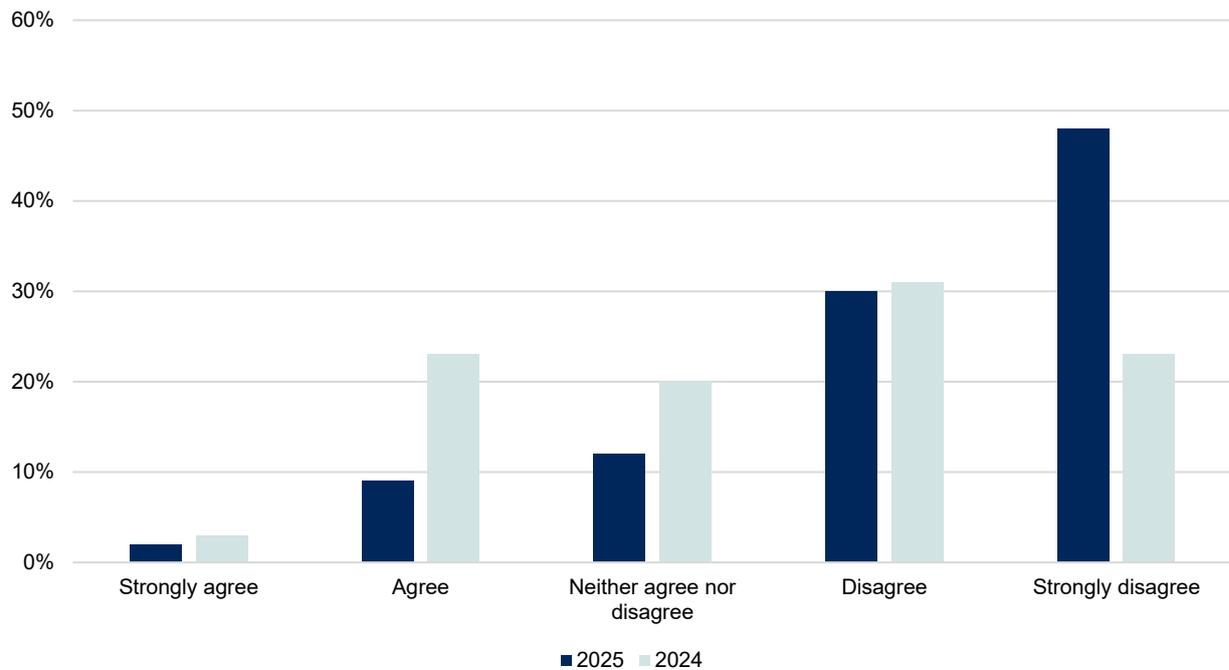
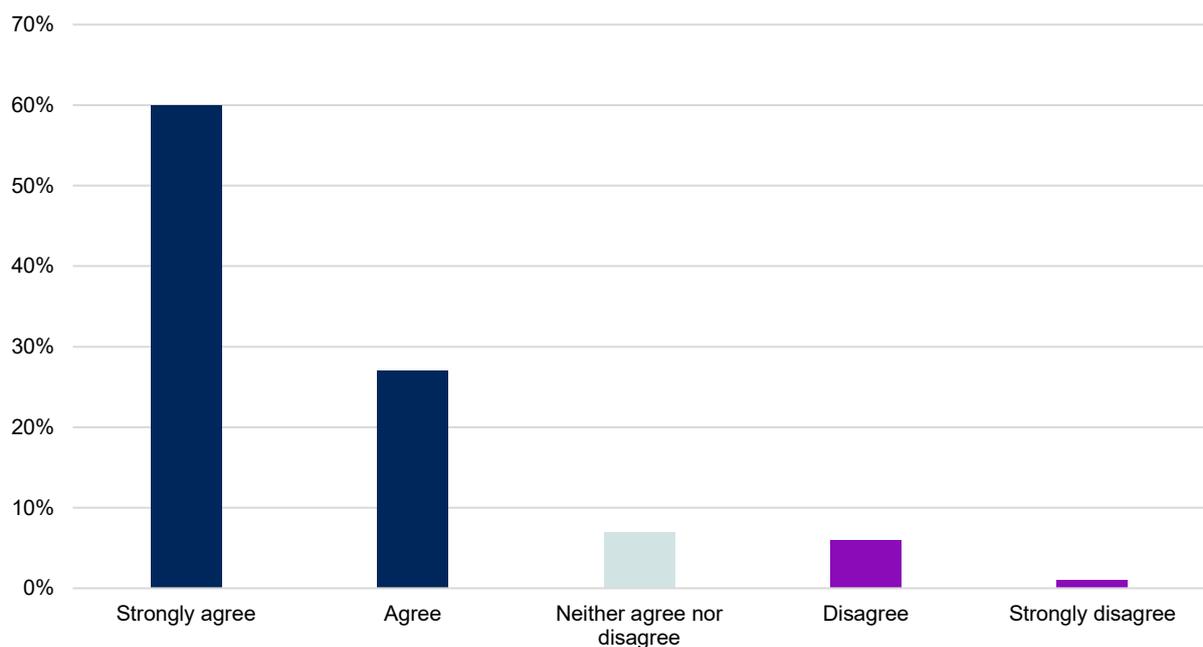


Exhibit 6.2. Business agreement with the statement: “The risk of costly tribunal claims for unfair dismissal during probation will make my organisation more cautious about creating jobs and taking on new people” (% of respondents)²³

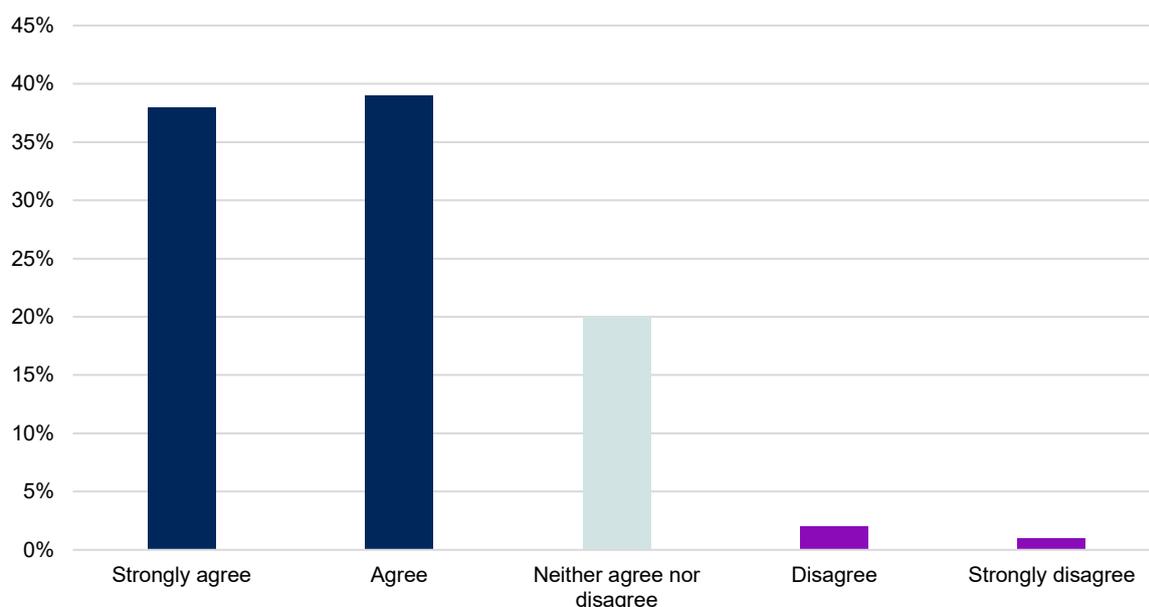


It is in the interest of all parties that guaranteed hour provisions reflect the hours that businesses can offer on a permanent basis

The Government is introducing a new requirement whereby employers must offer a new permanent contract reflecting the overtime performed by qualifying ‘low hours’ workers over a given reference period. The requirement extends to offering contracts to workers with no demonstrable interest in receiving – let alone accepting – a new contract with higher hours. The duration of the reference period has not been set in primary legislation, but the Government has been clear that they intend the initial reference period to last 12 weeks.

Three quarters of businesses (77%) believe that reference periods that last twelve weeks will lead to guaranteed hour contract offers that can’t be sustained all year round (**Exhibit 6.3**). Many businesses are confronted with seasonal peaks in demand, meaning a 52-week reference period is the only way to ensure that contracts accurately reflect the hours that firms can offer on a permanent basis without a considerable risk of job loss. Pushing ahead with the 12-week reference period will ultimately lead to fewer jobs and no benefit for the 60% of workers on zero-hour contracts who do not want higher hours.²⁴ If the Government is serious about using guaranteed hour contracts to improve job security, it is critical that they show a genuine willingness to explore the benefits of 52-week reference period in upcoming consultations.

Exhibit 6.3. Business agreement with the statement: “Reference periods that last twelve weeks do not take account of seasonal peak in demand and will lead to guaranteed hours contracts that can’t be sustained all year round” (% of respondents)²⁵



Provisions should not stop businesses from offering last-minute overtime to the workers that want it

Variable hour provisions will require employers to give reasonable notice for shifts that they request *or* require an individual to work where the hours are not set in their contract. This effectively drives out the space for businesses to offer last-minute work opportunities which mutually benefit the business and the worker. It will also make managing sickness-related absence through meaningful workforce engagement practically impossible. 9 in 10 respondents (90%) believe that firms should be able to offer short notice work on a voluntary basis (**Exhibit 6.4**). It is important that regulations creating a right to notice of shifts ensure individuals who value last-minute opportunities to work continue to receive them. This may involve consulting on workers being able to waive their right to receive reasonable notice for work requests.

Short notice payments should be fair and proportionate to the notice given

Much of the policy detail on employers' shift notice obligations is being determined through secondary regulations. Key questions yet to be answered include how much will be automatically deducted from company payrolls when an employer cancels, curtails or moves a shift at short notice, as well as what qualifies as short notice. 7 in 10 businesses (69%) believe that compensation for short notice changes to shifts should be proportionate to the notice given, reflecting firms' preference to avoid a scenario where two businesses are forced to pay significantly different compensation amounts despite offering notice a short time apart (**Exhibit 6.5**).

However, a staggered payment approach will not automatically make short notice payments fair. It is important that policymakers acknowledge that short notice may not always be unreasonable, and there will be external factors that influence firms' ability to offer more notice. For example, where workers have privately swapped shifts and not notified the employer. Businesses have also explained that they try to provide workers with advanced notice of shift changes where possible and honour initial shift patterns when workers are unable to commit to proposed shift changes. Government must use upcoming consultations to explore the reasons why employers may change shifts at short notice (and whether changes are approached through meaningful workforce engagement), as well as the financial implications of proposals for businesses. In the context of spiralling business costs, the unintended consequences from the cumulative cost of short notice payments could be huge, negatively impacting workers and businesses alike.

Exhibit 6.4. Business agreement with the statement: “Businesses should be able to offer short notice work on a voluntary basis” (% of respondents)²⁶

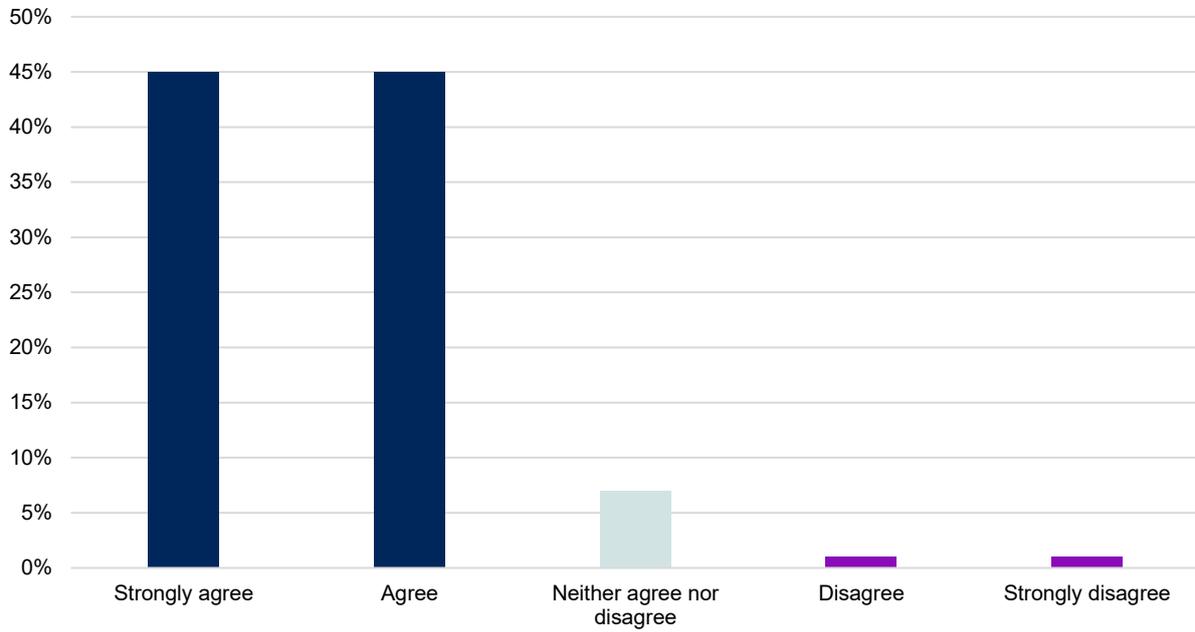
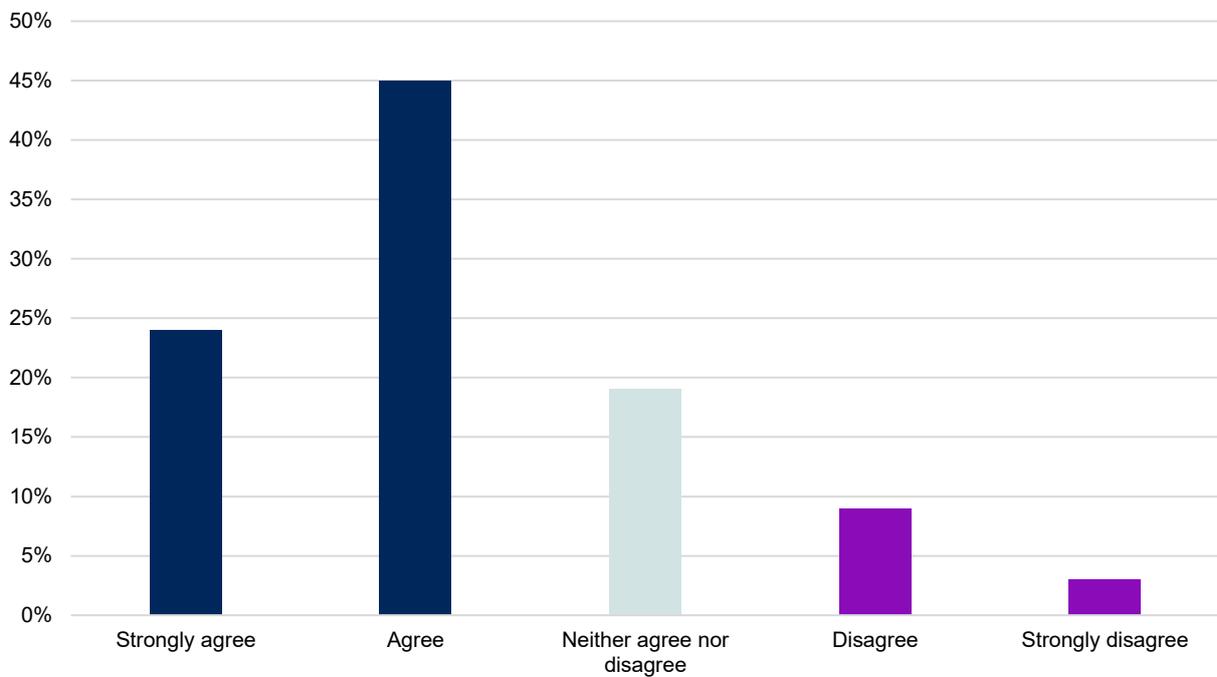


Exhibit 6.5. Business agreement with the statement: “Compensation for short notice changes to shifts should be proportionate to the notice given” (% of respondents)²⁷

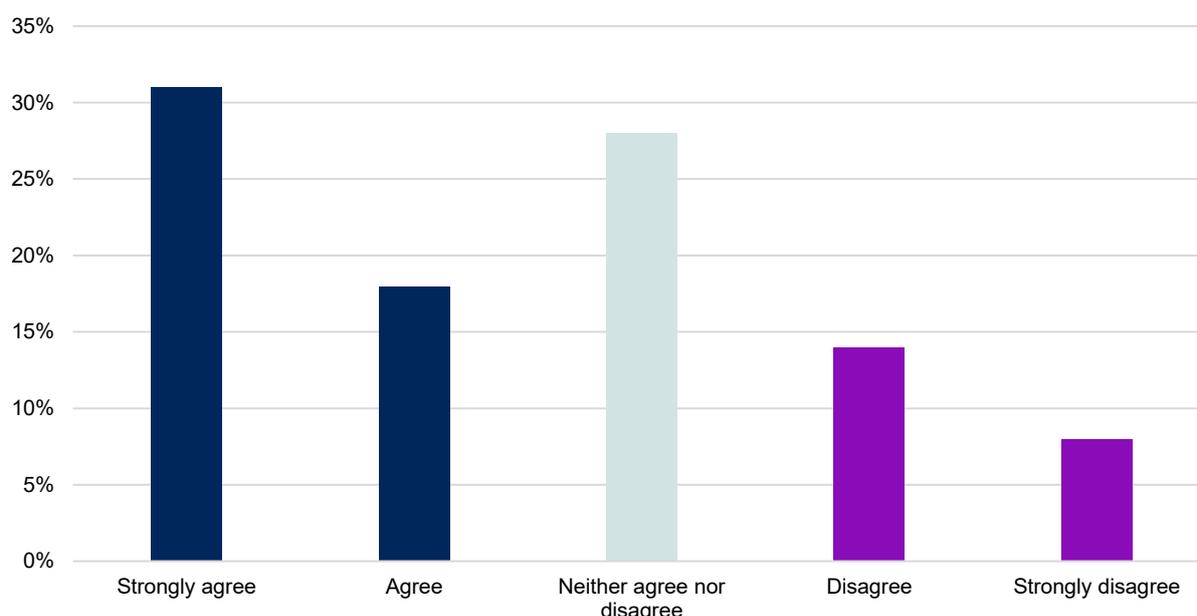


A meaningful reset of industrial relations is impossible as long as unions' mandate is in doubt

Half of businesses (49%) believe that removing the minimum level of support for statutory recognition and the minimum turnout for strike ballots will give trade unions greater powers to act without the support of workers, weakening the legitimacy of their position as the collective representative of the workforce (**Exhibit 6.6**). This is more than double the proportion of businesses who disagree with the statement (23%). To reset industrial relations, it is important that the law encourages a reasonable and respectful approach by both employers and unions. Removal of the turnout threshold for industrial action does not achieve this as it allows strikes to go ahead when very few workers support them or care about the issue enough to vote.

Strikes in these cases are disproportionate to the disruption they cause for businesses, workers and the public at large – a point the Government has been keen to stress in its response to recent industrial action across the NHS. Similarly, the removal of the support threshold for statutory recognition means a trade union could be recognised, despite not having a strong link with the workforce they are supposed to represent – undermining both their ability to be good representatives and employers' trust in them. Attention is now turning to how the Government intends to implement its wider reforms of the industrial relations framework, including the new right for unions to access workplaces. It is key that effective, democratic employee engagement is put front and centre of these reforms and that freedom of association – which includes the right not to associate – is respected.

Exhibit 6.6. Business agreement with the statement: *“Removing the minimum level of support for statutory recognition and minimum turnout for strike ballots will weaken the legitimacy for some trade unions as the collective representative of the workforce”* (% of respondents)²⁸



It is important that fire and re-hire provisions do not stop businesses from making reasonable contractual changes

The amendment to fire and re-hire provisions over the summer, and the acknowledgement that not all contractual changes are unreasonable through the addition of the restricted variations clause, is a positive step in the right direction. However, its usefulness for business depends on changes that are yet to be made in secondary regulations. 8 in 10 businesses (79%) believe that changes to benefits in kind should not be treated as fire and rehire leading to a finding of automatic dismissal (**Exhibit 6.7**). Firms have been clear that treating all forms of benefit in kind as a restricted variation would prevent them from responding to workforce mandates, such as prioritising limited budgets for basic pay.

8 in 10 businesses (84%) also believe that fire and rehire rules should not give employees an unconditional veto over reasonable changes to work organisation, such as shift timing and lengths (**Exhibit 6.8**). There are various examples of where this could unfairly penalise businesses from needing to make reasonable changes. For example, adjusting shifts to reflect changes to operating hours. If the Government commits to include factors such as these as restricted variations, they must accept that many businesses will respond to this risk by reducing business activity, cutting jobs and making redundancies.

Firms' limited financial headroom must be factored into policy details that haven't yet been set

Unlike other elements of Labour's 'Plan to Make Work Pay' policy package, changes on parental leave have not been announced. Instead, the Government announced a Review that will last for 18 months and will investigate how all parental leave entitlements interact together. This thoughtful approach to policy design is positive, and many businesses recognise parental leave as an important lever that supports workforce participation and drives employee engagement. However, the reality is that many businesses do not have the financial headroom left to absorb the cost of delivering big policy changes. This explains why nearly 3 in 10 (28%) of respondents believe that statutory maternity pay should be improved, as the policy is fully funded by the Government and it does not represent a cost for employers. Likewise, only 3 in 10 respondents (30%) believe that no measures are needed to improve the parental leave system (**Exhibit 6.9**). Furthermore, the Review must be mindful that unlocking productivity-led growth is the only way to introduce higher entitlements without wider unintended consequences for businesses and growth.

Exhibit 6.7. Business agreement with the statement: “Changes to benefits in kind should not be treated as fire/rehire leading to a finding of automatic dismissal” (% of respondents)²⁹

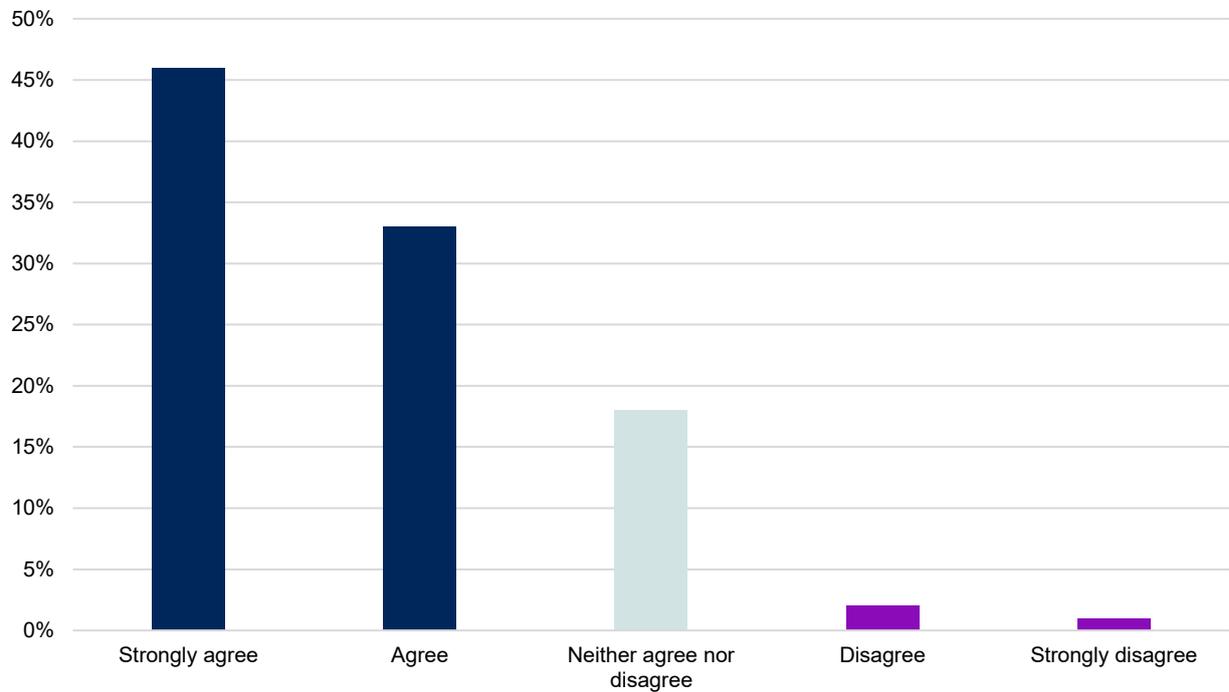


Exhibit 6.8. Business agreement with the statement: “Fire/rehire rules should not give employees an unconditional veto over reasonable changes to work organisation such as shift timing and lengths” (% of respondents)³⁰

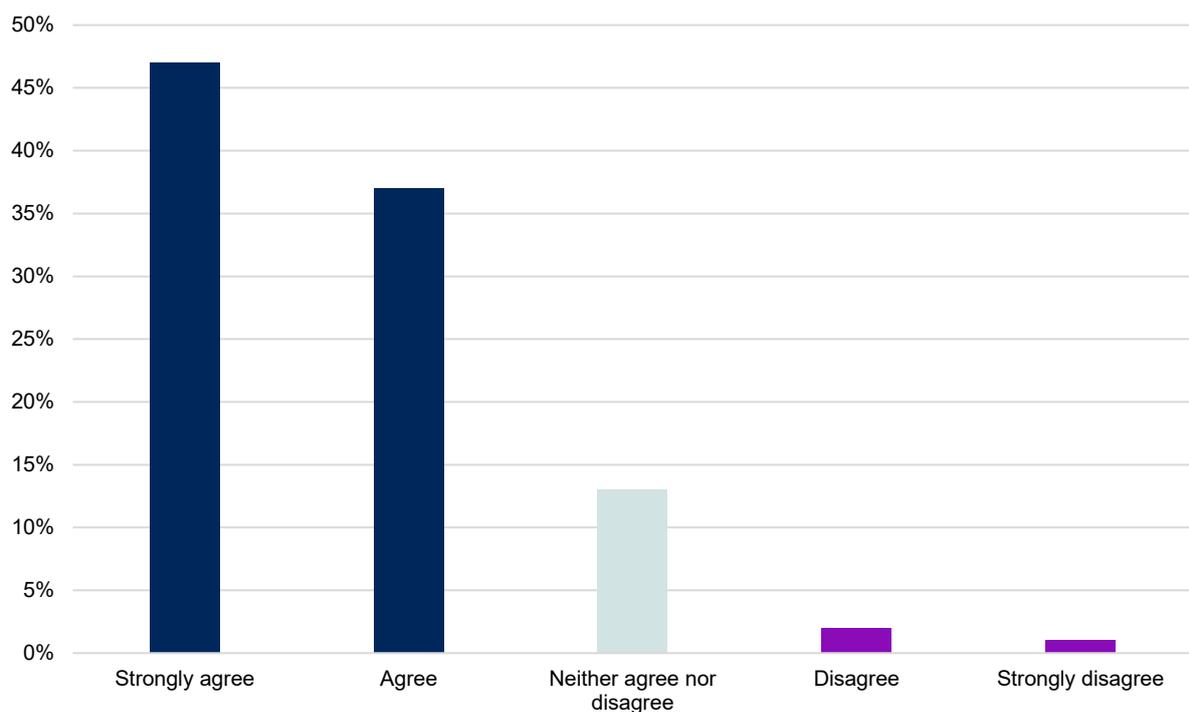
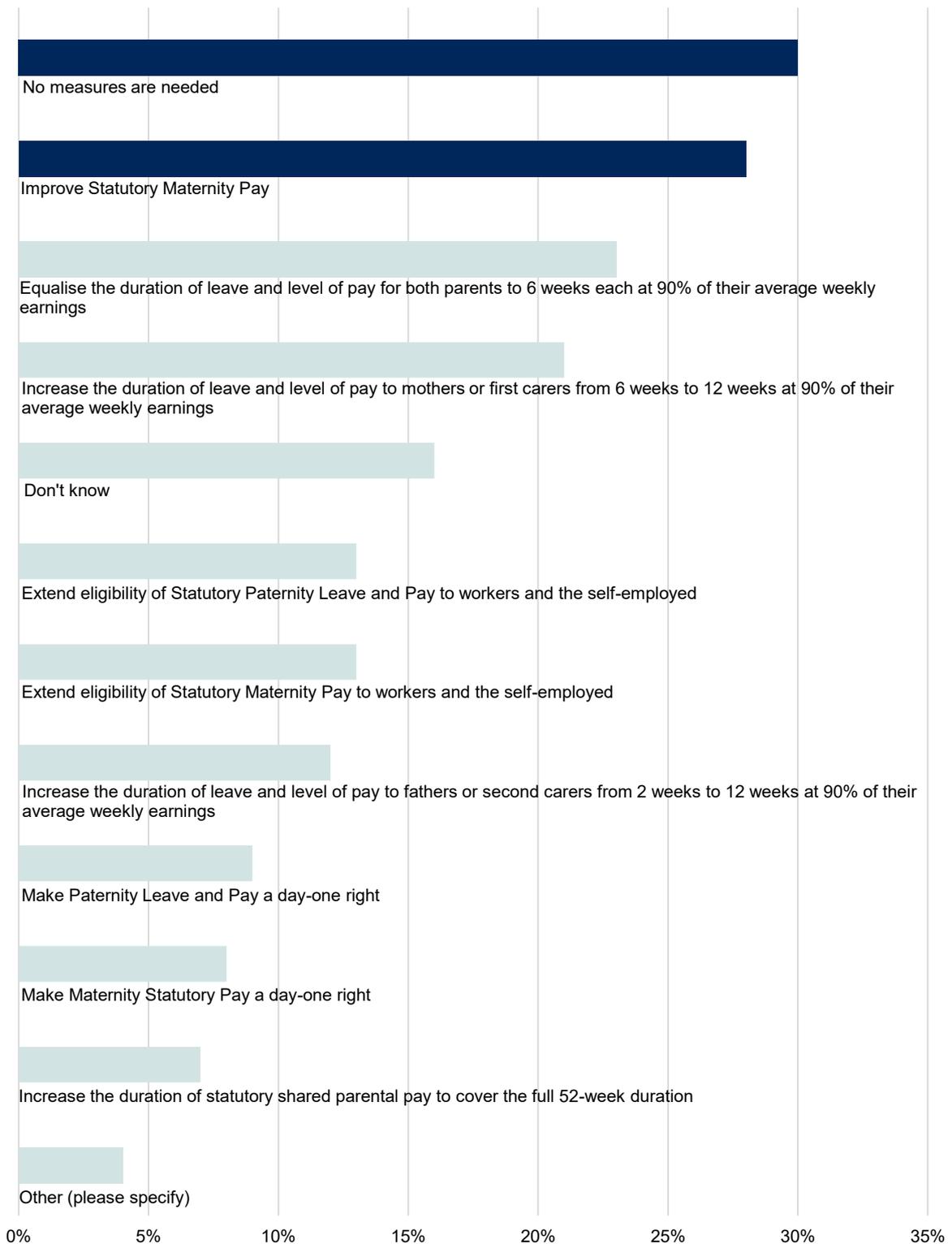


Exhibit 6.9. Business support for additional statutory entitlements to support working parents (Respondents asked to select all options that apply) (% of respondents)³¹



High costs are making businesses' skills gaps worse

More businesses intend to cut investment in training over the next twelve months despite the share of firms experiencing a skills gap increasing, highlighting another area where squeezed financial headroom is having a material impact on firms' ability to invest and grow. Alongside tackling cost barriers to delivering training, it is important that steps are taken to strengthen the alignment between individuals' skills base and employers' skills needs, and opportunities to incentivise people to transition into high priority careers are explored. Supporting firms to address their skills gaps will also require the Government to acknowledge that poor business engagement with public training programmes is not exclusively being driven by low employer awareness.

Key Findings:

- The balance of businesses intending to invest in training over the next twelve months is negative (-11%) and markedly down on investment intentions recorded in 2024 (+22%). This has been driven by the proportion of firms who intend to invest more in training (13%) falling sharply since 2024 (32%) and 2023 (38%), and those looking to cut their investment doubling over the past twelve months (9% to 23%). The findings reflect employer feedback that rising business costs – particularly the recent NLW and NICs rise – have forced firms to deprioritise important but optional investments, such as skills and training.
- A small proportion of businesses reported not having a skills gap (12%), which is down on last year's figure (18%). In other words, skills gaps are continuing to impact most businesses, and a greater share of respondents compared to last year.
- The most cited driver of firms' skills gaps was a lack of candidates for jobs with appropriate, industry relevant qualifications (49%). This was followed by a general lack of candidates applying for advertised roles (31%) and candidates prioritising workplace benefits that their sector cannot offer (27%).
- Cost is also proving to be problematic, with 1 in 5 respondents (19%) noting that their organisation's training budget is insufficient to eliminate skills gaps.
- In line with last year's survey, 3 in 10 business (30%) reported that they did not experience barriers to addressing skills gaps through adult education, indicating that the experience of barriers continues to be the norm, rather than the exception.

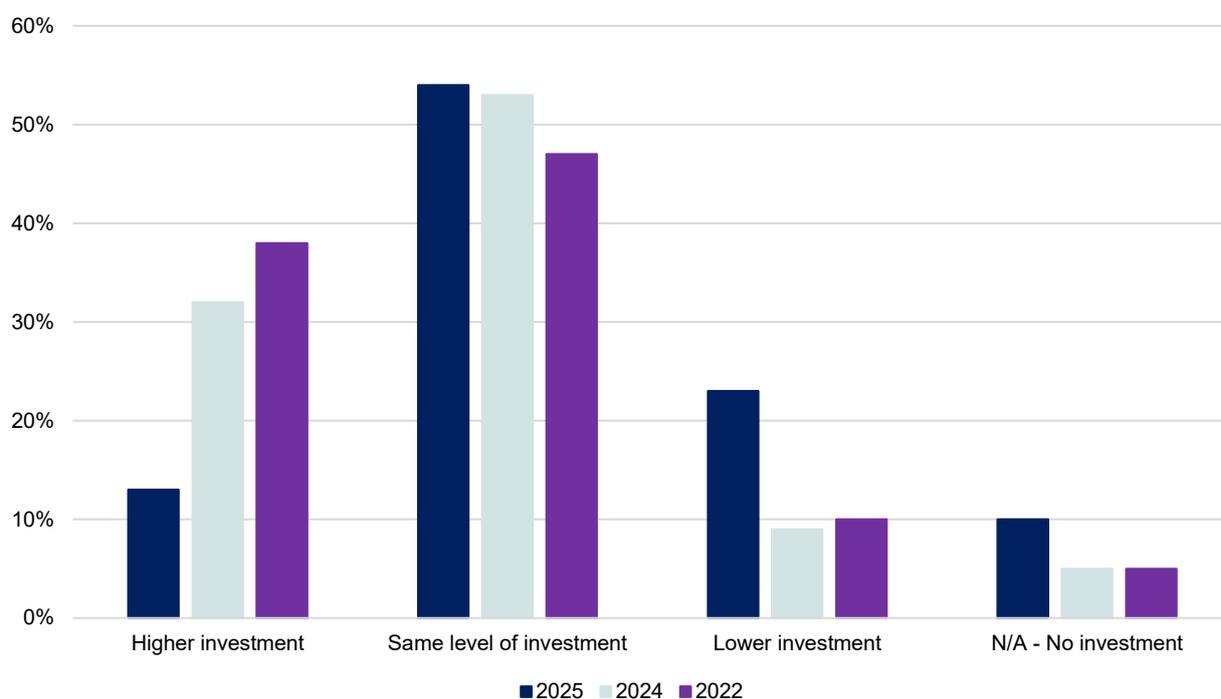
- The inability to find high quality-provision locally has overtaken the lack of time that organisations have to spare employees to training as the biggest barrier for businesses to address their skills needs through adult education (cited by 30% and 29% of respondents, respectively). The prohibitive cost of training (28%) continues to rank as the third biggest blocker.
- Public funding for training should help to offset at least some of the impact of growing pressure on businesses' training budgets. But the usefulness of these schemes in terms of enabling firms to deliver additional training has been limited. On average, around one third to four in ten businesses operating in England were not aware of the different training courses and incentives ran by government, rising to almost half in the case of 'Free courses for jobs' (46%) and Sector-based Work Academies (45%). A further third of respondents were aware of the initiatives but did not find them useful. The main exception to this was apprenticeships, where only 1 in 10 businesses (10%) were not aware of the scheme, but there was still one third of respondents (32%) who believed they were not useful in terms of helping their organisation to deliver more training.

More businesses are planning to cut their investment in training...

The balance of businesses intending to increase their training investments over the next twelve months is negative (-11%) and markedly down on investment intentions recorded in 2024 (+22%) (**Exhibit 7.1**) It is also below levels recorded the time before that in 2022 (+27%). This has been driven by the proportion of firms who intend to invest more in training (13%) falling sharply since 2024 (32%) and 2023 (38%), and those looking to cut their investment doubling over the past twelve months (9% to 23%). Moreover, while a greater proportion of SMEs intend to cut their investment in training next year (25%), there is still a notable share of larger businesses who intend to do the same (16%). The findings reflect employer feedback that rising business costs – particularly the recent NLW and NICs rise – have forced firms to deprioritise important but optional investments, such as skills and training.



Exhibit 7.1. Business training investment intentions over the next year relative to the past twelve months (% of respondents)³²



... and more employers identifying skills gaps in their organisation indicates that this is not driven by a lack of business need

A small proportion of businesses reported not having a skills gap (12%), which is down on last year’s figure (18%) (**Exhibit 7.2**). In other words, skills gaps are continuing to impact most businesses, and a greater share of respondents compared to last year. The most cited driver of firms’ skills gaps was a lack of candidates for jobs with appropriate, industry relevant qualifications (49%). This was followed by a general lack of candidates applying for advertised roles (31%) and candidates prioritising workplace benefits that their sector cannot offer (27%). For example, businesses operating in construction and accommodation and retail sectors noted the impracticality of honouring hybrid and flexible working arrangements for many on-site roles, with some concern this has limited candidate interest. Cost is also proving to be problematic, with 1 in 5 respondents (19%) noting that their organisation’s training budget is insufficient to eliminate skills gaps.

These findings indicate that the misalignment between individuals’ skills base and businesses’ skills needs continues to be a top driver of skills gaps, and it is important that the Government works with businesses to outline the benefits of different careers. Relatedly, the results indicate that candidates’ qualification choices are in some places holding them back. This can be avoided by engaging employers in the design of careers advice and training content, as well as avoiding the introduction of new courses where training pathways are already firmly established and supported by industry.

Exhibit 7.2. Drivers of business skills gaps (Respondents asked to select the top three options) (% of respondents)³³



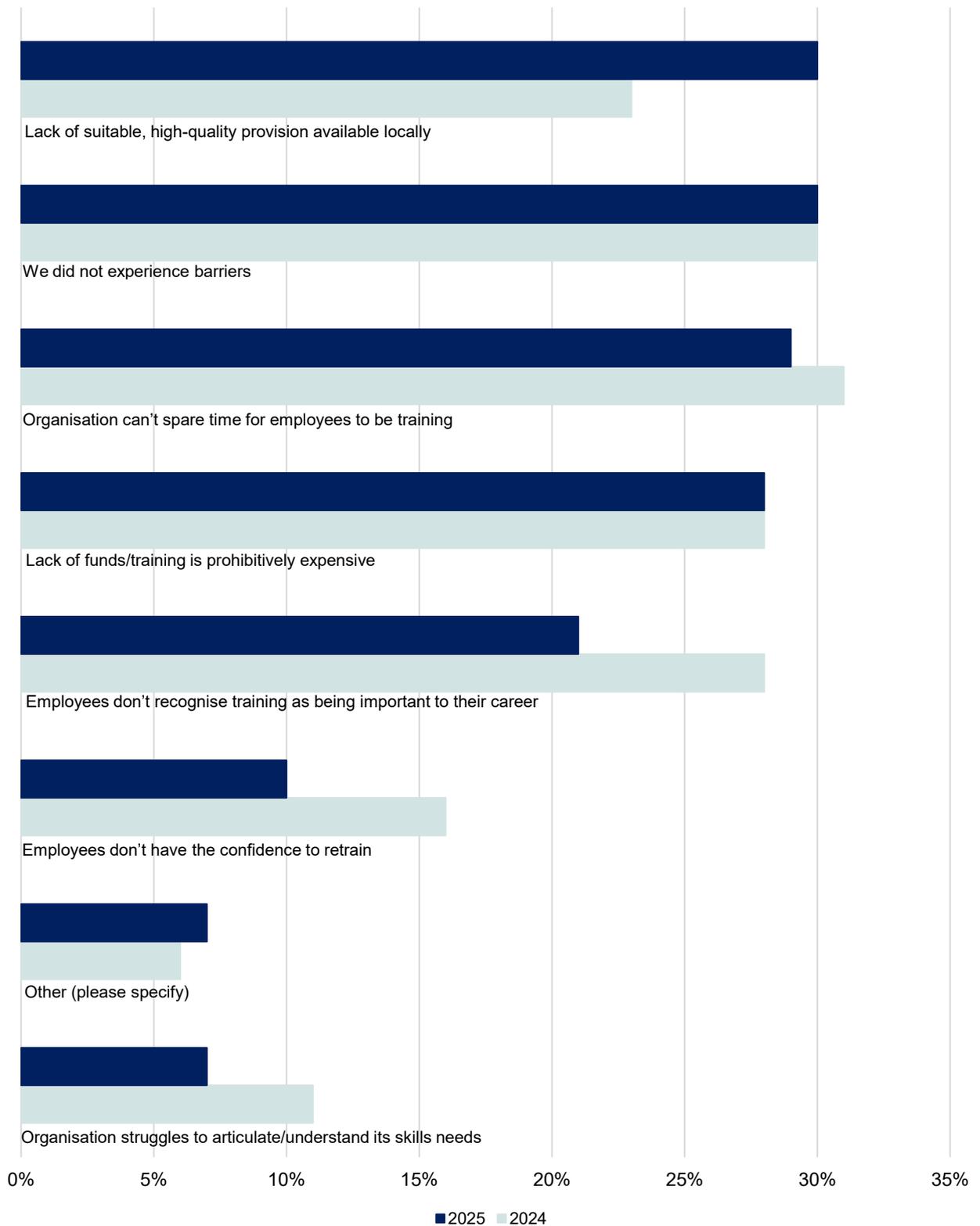
Rising costs are preventing businesses from being able to address their skills gaps...

In line with last year's survey, 3 in 10 business (30%) reported that they did not experience barriers to addressing skills gaps through adult education, indicating that the experience of barriers continues to be the norm, rather than the exception (**Exhibit 7.3**). The inability to find high quality-provision locally has overtaken the lack of time that organisations have to spare employees to training as the biggest barrier for businesses to address their skills needs through adult education (cited by 30% and 29% of respondents, respectively). The prohibitive cost of training (28%) continues to rank as the third biggest blocker.

Survey responses reinforce that rising business costs are causing skills gaps to become a huge dampener on growth by preventing firms from being able to deliver quality, business-relevant training. For training providers, the problem of cost manifests in government funding for training not keeping pace with inflation. For businesses, it involves the cumulative cost of doing business driving out the headroom they have to cover higher training costs. Both scenarios result in quality training existing but not being delivered. Government can help to address this problem by working with employers to tackle rising business costs and making targeted changes to the training system. Supporting businesses to adopt productivity-enhancing technologies can also help improve training participation by reducing the productivity costs attached to individuals upskilling and reskilling during work hours.



Exhibit 7.3. Business barriers to meeting skills needs through adult education (Respondents asked to select all options that apply) (% of respondents)³⁴



... and the usefulness of public funding for training is being held back by a combination of poor business awareness and low relevance

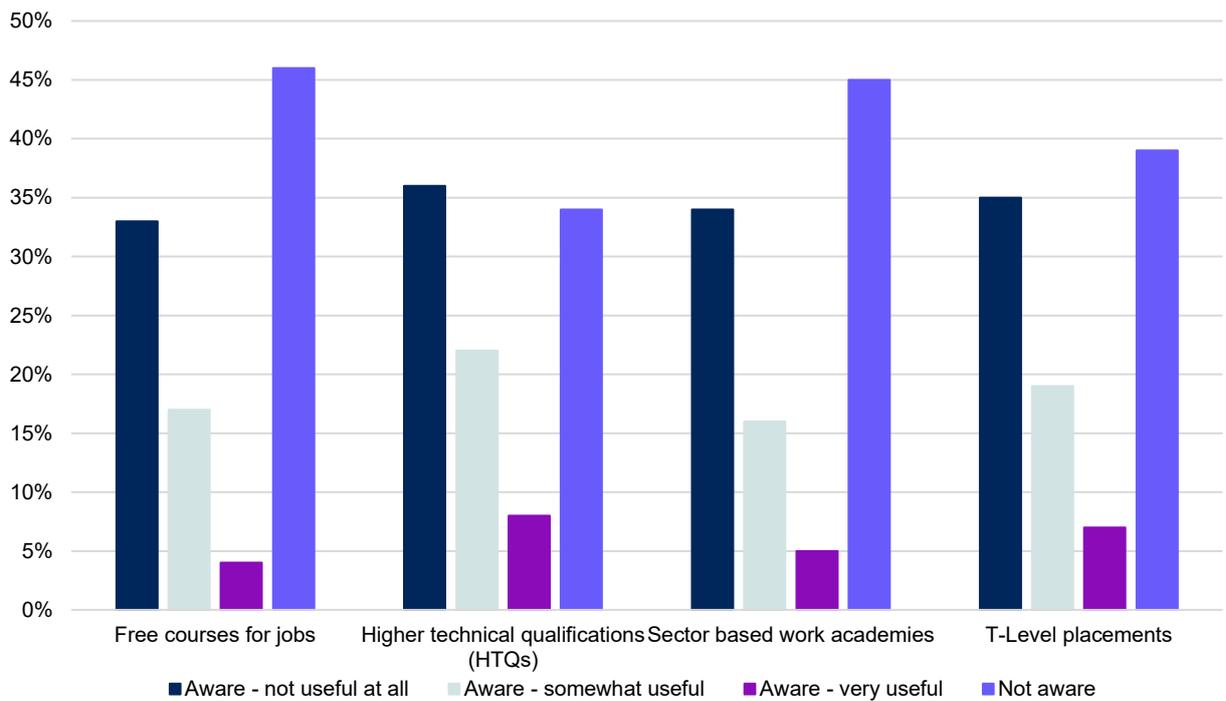
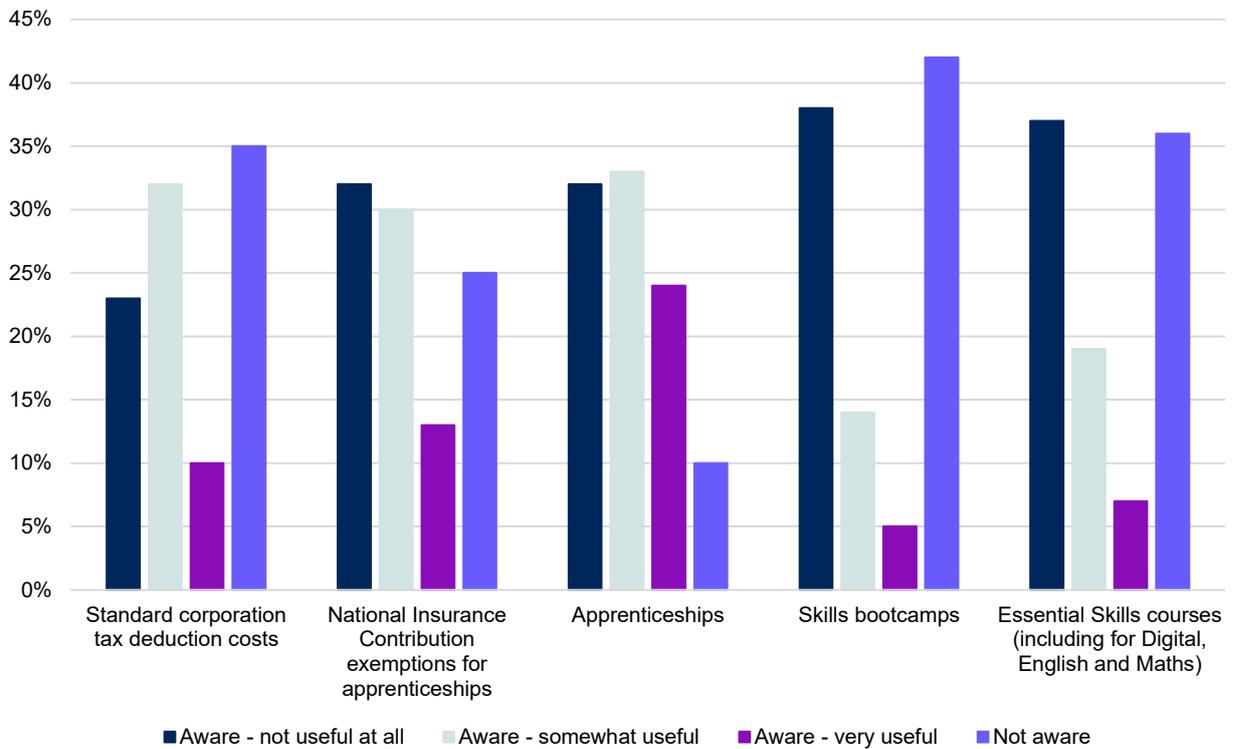
Public funding for training should help to offset at least some of the impact of growing pressure on businesses' training budgets. But the usefulness of these schemes in terms of enabling firms to deliver additional training has been limited. On average, around one third to four in ten businesses operating in England were not aware of the different training courses and incentives ran by government, rising to almost half in the case of 'Free courses for jobs' (46%) and Sector-based Work Academies (45%) (**Exhibit 7.4**). A further third of respondents were aware of the initiatives but did not find them useful. The main exception to this was apprenticeships, where only 1 in 10 businesses (10%) were not aware of the scheme, but there was still one third of respondents (32%) who believed they were not useful in terms of helping their organisation to deliver more training.

Overall, the findings align with anecdotal business feedback as to the reasons why government funding for different training schemes is not helping them to deliver additional training. Limited bandwidth and competing priorities have translated into many firms struggling to find the time to properly engage with different training options, let alone begin to embed these courses into their strategic workforce plans. Firms also explained that ongoing change in the skills system, and the anticipation of further policy changes, means they are reluctant to invest time and resource into engaging with a programme that may be scrapped or difficult to access as a result of limited public funding. Government's previous approach to policy design further helps to explain why employers have not engaged with schemes such as T-Level industry placements. While many firms agree that T-Levels have a role to play in the training system, the initial push to embed them in sectors where apprenticeships were already well-established undermined their relevance for many employers.

With fiscal headroom tight, it is more important than ever that public funding is carefully targeted at training which is relevant and impactful for employers. This may or may not include different training courses overseen by government. If policymakers want to boost engagement for publicly funded programmes, it is imperative that they acknowledge that low employer engagement is not always due to low awareness, and the most impactful courses are often those that firms can tailor to their specific skills and training needs.



Exhibit 7.4. Business response to the statement: “Are you aware of how the following options could help reduce the cost of training for your organisation and if so, how useful have they been in helping your organisation to deliver additional training?” (% of respondents)³⁵



Employers' skills needs are adjusting to a changing world of work

As the world of work changes, it makes sense that many businesses are expecting their need for certain types of skills – such as skills unattached to national qualifications – to increase more than others. Concerningly, many firms do not believe that they will be able to meet their skills needs through training and recruitment. This problem can partly be addressed through an 'all ages and all stages' approach to funding training, and curriculum and assessment policy reflecting the importance that employers attribute to young people's transferable and functional skills.

Key findings:

- On balance, businesses' expected need for employees with workplace skills unattached to national qualifications (such as communication and critical-thinking) is expected to increase the most over the next 3 to 5 years (+19%), followed by higher-level skills (RQF 6) (+10%) and intermediate-level skills (RQF 4-5) (+8%).
- The predicted need for postgraduate taught skills (RQF 7-8) and entry-level skills (RQF 2-3) is expected to rise the least (+3% and +2%, respectively). This suggests that many firms do not expect their need for skills linked to qualifications to change drastically by 2030.
- Firms have become less confident over the past twelve months that they will be able to recruit or train enough workers to meet their organisation's skills needs over the next 3 to 5 years. Skills unattached to national qualifications is the exception to this trend, with net confidence levels improving since last year's survey, but still low (+0% to +12%).
- There is also a correlation between business confidence to train or recruit enough skills over the next 3 to 5 years and skills level in this year's results. On average, firms are most confident that they will be able to meet their entry-level skills needs, and least confident that they will be able to recruit and train enough postgraduate taught skills (+32% and +11%, respectively).
- Attitudes and aptitudes for work ranked as the top factor that employers consider when recruiting for graduate and non-graduate entry-level roles (cited by 57% and 69% of respondents, respectively). Relevant work experience also ranked highly for graduate (35%) and non-graduate (47%) roles, as did literacy and numeracy skills (32% and 46%, respectively) and digital and IT skills (36% and 32%, respectively).

Firms expect their transferable skills needs to rise the most over the next 3 to 5 years

On balance, businesses' expected need for employees with workplace skills unattached to national qualifications (such as communication and critical-thinking) is expected to increase the most over the next 3 to 5 years (+19%), followed by higher-level skills (RQF 6) (+10%) and intermediate-level skills (RQF 4-5) (+8%) (**Exhibit 8.1**). Predicted need for postgraduate taught skills (RQF 7-8) and entry-level skills (RQF 2-3) is expected to rise the least (+3% and +2%, respectively). This suggests that many firms do not expect their need for skills linked to qualifications to change drastically by 2030. However, the relative rise in need for transferable skills and certain higher-level skills echoes business feedback, with megatrends such as automation and more older workers exiting the labour market making upskilling, reskilling and skillsets such as critical-thinking and communication increasingly important for businesses and individuals navigating a changing world of work.

Firms are particularly concerned that they will be unable to meet their transferable and postgraduate skills needs through training and recruitment

Firms have become less confident over the past twelve months that they will be able to recruit or train enough workers to meet their organisation's skills needs over the next 3 to 5 years (**Exhibit 8.2**). Skills unattached to national qualifications is the exception to this trend, with net confidence levels improving since last year's survey, but still low (+0% to +12%). There is also a correlation between business confidence to train or recruit enough skills over the next 3 to 5 years and skills level in this year's results. On average, firms are most confident that they will be able to meet their entry-level skills needs, and least confident that they will be able to recruit and train enough postgraduate taught skills (+32% and +11%, respectively).

Over the past few months, some businesses have noted concern that they will find it particularly challenging to meet their future postgraduate and transferable skills needs. The reasons for this vary from observations that qualification reform in recent years has not properly embraced the importance of transferable skills, to pressures on organisational training budgets coinciding with more vacancies for highly skilled roles emerging as a rising number of workers hit retirement age. Firms have also noted that recent Level 7 apprenticeship defunding reforms will make it harder for them to address their skills needs at postgraduate level. Given that at least 80% of the 2030 workforce are already in the labour market, it is integral that the Government explores opportunities to increase training opportunities for all ages and all levels in their mission to drive growth. This means ensuring that their skills agenda is not narrowly focused on tackling the rising number of young people who are not in education, working or training (NEET), but also supports businesses to upskill and reskill people already in the workplace.

Exhibit 8.1. Expected change in business need for employees at different skills levels over the next 3 to 5 years (% of respondents)³⁶

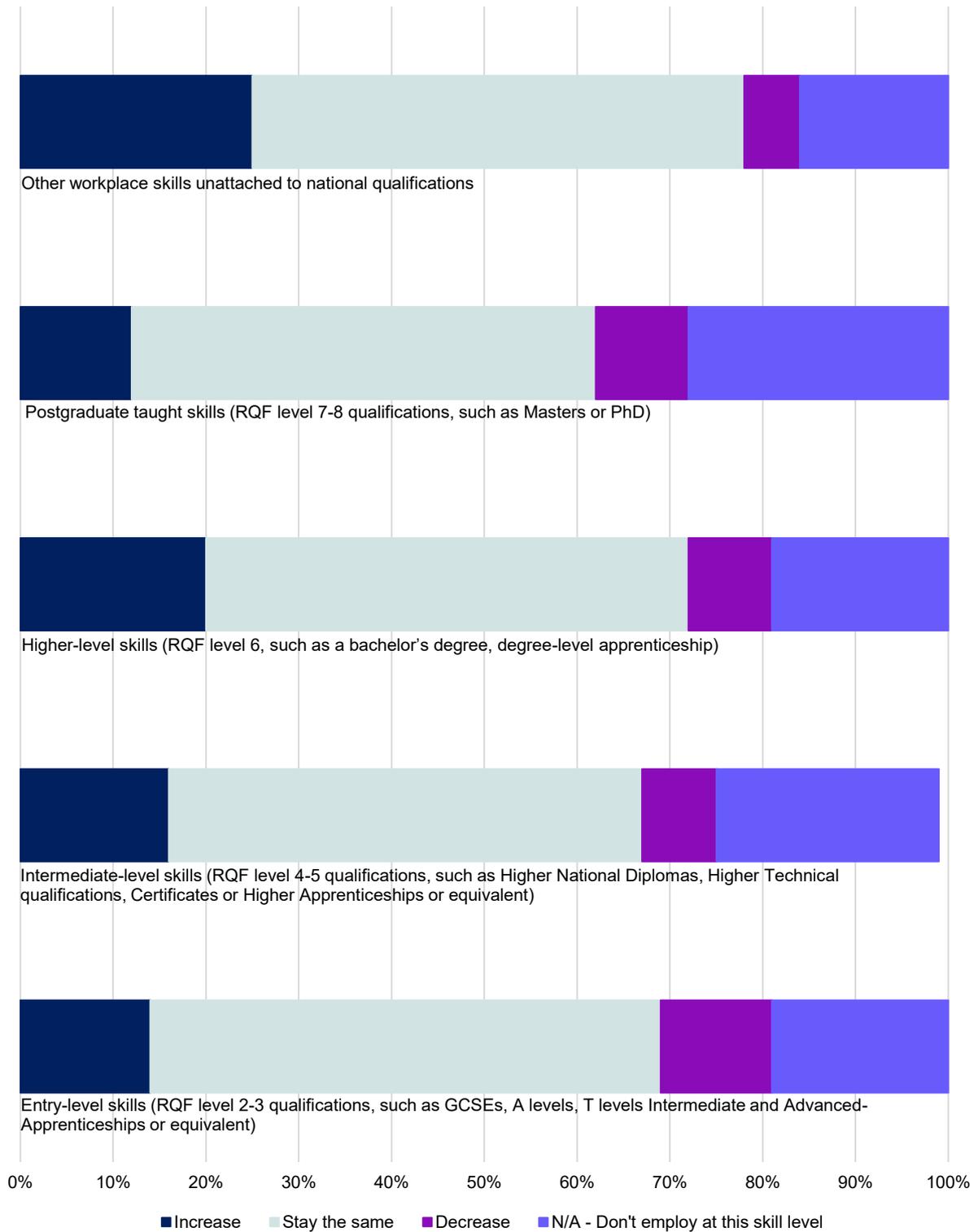


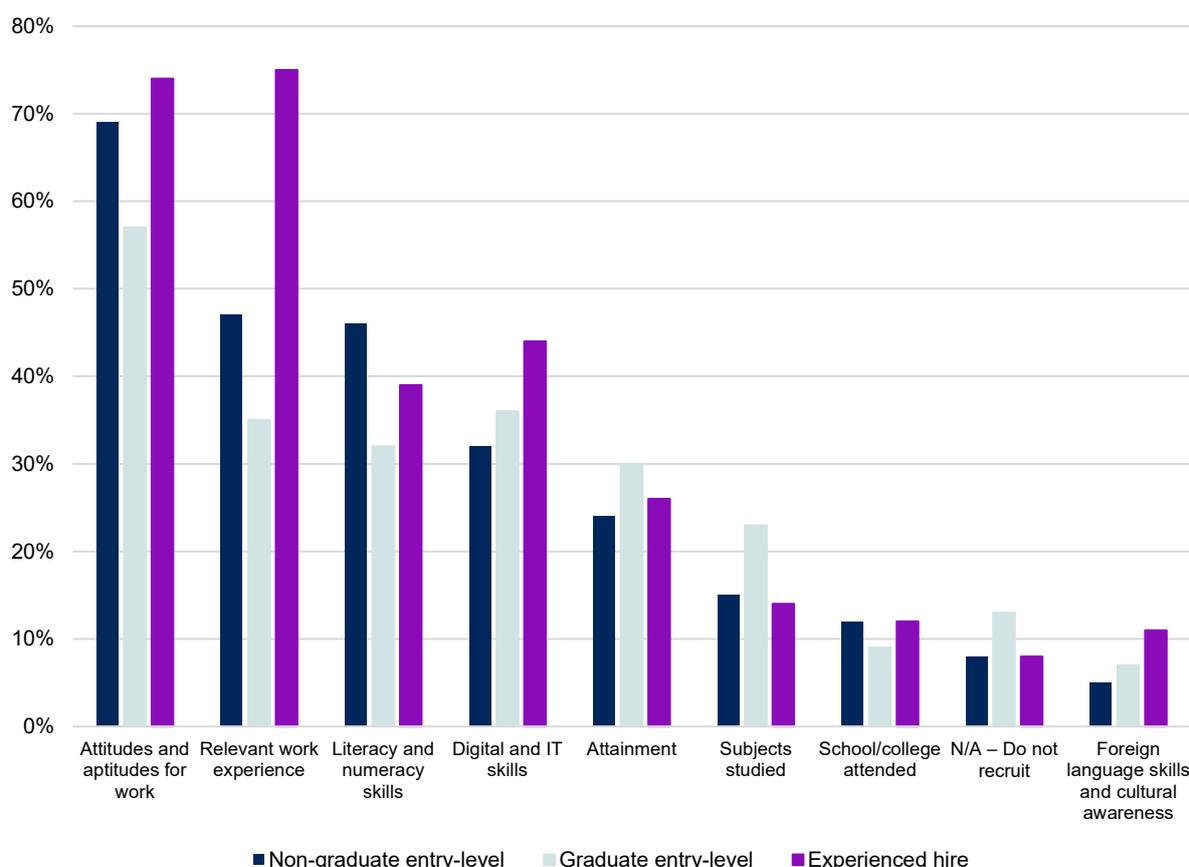
Exhibit 8.2. Balance of businesses who are confident that they will be able to recruit or train enough workers to meet their organisation’s skills needs over the next 3 to 5 years (% of respondents)³⁷



Developing young people’s transferable skills can help support their transition into the labour market

Attitudes and aptitudes for work ranked as the top factor that employers consider when recruiting for graduate and non-graduate entry-level roles (cited by 57% and 69% of respondents, respectively) (**Exhibit 8.3**). Relevant work experience also ranked highly for graduate (35%) and non-graduate (47%) roles, as did literacy and numeracy skills (32% and 46%, respectively) and digital and IT skills (36% and 32%, respectively). A smaller proportion of businesses said they prioritise final attainment when assessing graduate (30%) and non-graduate (24%) roles, while subjects studied ranked even lower (23% and 15%, respectively). Interestingly, relevant work experience and attitudes and aptitudes for work were also top considerations for businesses recruiting experienced hires (selected by 74% and 75% of respondents, respectively). This reinforces employer feedback that regardless of an individual’s age, role or seniority, candidates’ ability to apply themselves in the workplace is a key attribute that they look for during the hiring process.

Exhibit 8.3. Top factors that businesses consider in the recruitment process by role type (Respondents asked to select up to three options for each column) (% of respondents)³⁸



Taken together, the results highlight that businesses are increasingly prioritising young people's transferable and functional skillsets when making recruitment decisions. This is consistent with employer feedback that while some young people will need to achieve certain qualifications to enter specific roles, having a good baseline of durable skills such as critical-thinking, resilience and communication tend to be good indicators as to whether a young person will excel in a role. The findings also highlight the limitations of policy interventions focused on simply delivering more training. While training obviously has a role to play in enabling young people to thrive in the workplace, there are various reasons why someone who participates in training may still struggle to find work and be at risk of falling outside of the labour market. This includes experience of mental health challenges or struggling to complete training programmes because of how content is taught and assessed.

The survey's findings have significant bearing on how policymakers can work with businesses to support young people's transitions into work. Many of the recommendations in the recent Post-16 Education and Skills White Paper³⁹ and the Curriculum and Assessment Review final report⁴⁰ align with these messages and have the potential to positively transform young people's skillsets and improve their preparedness for the workplace. The success of these initiatives will be heavily informed by the Government's willingness to engage industry through the remainder of the policy design process and address barriers which threaten proposals' deliverability, such as the ongoing shortage of training instructors.

In certain areas, it will also require government to be more ambitious. This includes looking at new ways to certify young people's functional skills (not just those students who achieved below a Grade 4 in their English and maths) and reforming the GCSE English and maths re-sit policy, which is often costly for providers and disparaging for students. Where an employer is confident that a young person has the necessary literacy and numeracy skills to perform their role, and revision for a qualification reduces the time they have to study for their main programme which they are more likely to succeed in, it is unclear who benefits from this policy.



Government can be more ambitious in their approach to Growth and Skills Levy reform

Many businesses will welcome the Government's decision to fund certain short courses through the Growth and Skills Levy from April 2026. However, the Levy remains far off from delivering its full potential as a driver of business investment in skills and training. Tight fiscal headroom may mean some changes are off the table for now, but the Government can be more ambitious in their current approach to Growth and Skills Levy reform. This includes ensuring the full funding raised through the Levy is put towards skills, publishing a roadmap outlining which courses will be eligible for Levy funding and when, and strengthening the apprenticeship system through targeted policy changes.

Key findings:

- Twice as many firms believe that the Growth and Skills Levy should be designed so that it is a pot of funding ringfenced for businesses to invest in a range of modular and accredited training (42%) than believe that businesses should only expect to be able to spend a proportion of their Levy, with the rest used to fund other government national skills initiatives (22%).
- Only 4% believe that the Levy should be treated as a tax, where funds prioritise other government initiatives ahead of meeting the skills needs of Levy payers.
- Half of businesses (50%) believe that continued rigidity in the Growth and Skills Levy is preventing their organisation from being able to deliver training to address their skills gaps and less than half (45%) believe that plans to open the Levy out to cover non-apprenticeship courses in digital, AI and engineering will mean their organisation can use more of its Levy pot. As such, business confidence that plans for Growth and Skills Levy reform will have a positive impact on their ability to invest in training is mixed at best.
- Rising business costs mean the Growth and Skills Levy represents a significant proportion of many businesses' training budgets, and half of respondents who have offered Level 7 apprenticeships (49%) are planning to offer fewer in response to the recent defunding decision.
- Two thirds of businesses (67%) reported that the absence of a clear roadmap detailing the exact courses which will be eligible for Growth and Skills Levy funding from April 2026 will hinder their organisation's ability to deliver training and plan effectively.

- Growth and Skills Levy reform will unlikely lead to greater levels of training unless wider problems confronting the apprenticeship system are rectified. When asked what changes would make the apprenticeship system more effective for their organisation, being able to find local providers that offer relevant courses was the most cited response (selected by 35% of respondents), followed by ensuring funding bands are annually uplifted to reflect inflationary pressures (31%) and updating apprenticeship funding criteria so that it reflects a wider range of delivery costs (25%).

Most firms do not support how Growth and Skills Levy funding is spent...

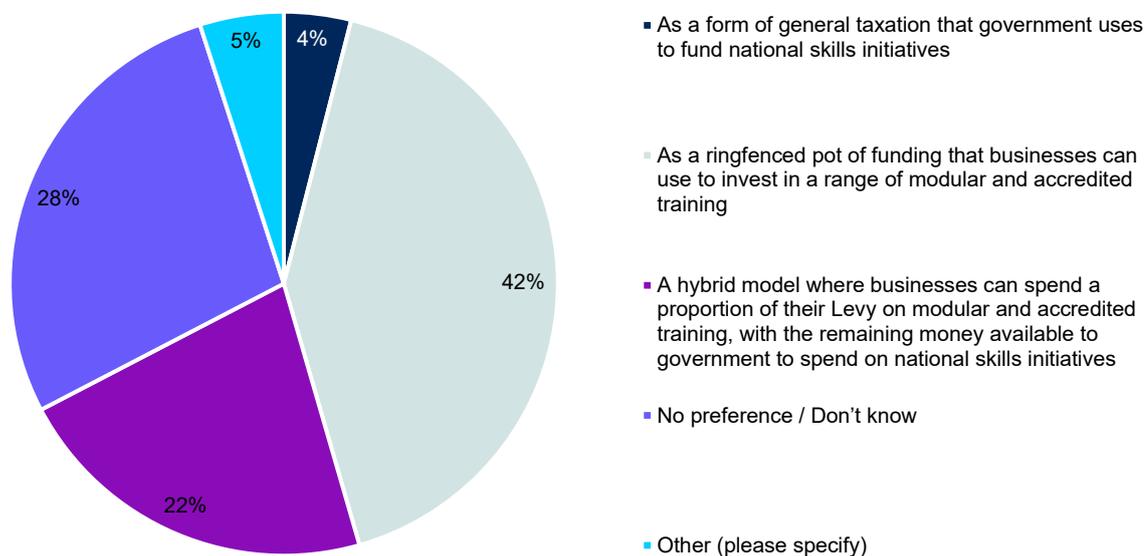
Twice as many firms believe that the Growth and Levy should be designed so that it is a pot of funding ringfenced for businesses to invest in a range of modular and accredited training (42%) than believe that businesses should only expect to be able to spend a proportion of their Levy, with the rest used to fund other government national skills initiatives (22%).

(Exhibit 9.1). Support for firms being able to use their full Levy pot rises to more than half (56%) of larger businesses, reflecting the fact that they are more likely to pay into – and lose money to – the Levy. Moreover, business feedback indicates that support for the first option would likely be higher if the Government committed to protect SME funding from outside of the Levy, with many businesses concerned that greater flexibility will restrict their access to public funding.

Only 4% believe that the Levy should be treated as a tax, where funds prioritise other government initiatives ahead of meeting the skills needs of Levy payers. Businesses operating in England can use their Levy to fund apprenticeships and will be able to spend it on certain short courses from next year. However, the gap between total funds raised through the Levy and the Levy budget – plus recent conversations about prioritising Levy resources for young people – indicates they are increasingly moving to the third camp of using it to fund national priorities and initiatives.



Exhibit 9.1. Business views on how the funding raised through the Growth and Skills Levy should be allocated and spent (% of respondents)⁴¹



Continued rigidity in Growth and Skills Levy funding is hurting businesses' ability to invest in training

Half of businesses (50%) believe that continued rigidity in the Growth and Skills Levy is preventing their organisation from being able to deliver training to address their skills gaps (**Exhibit 9.2**) and less than half (45%) believe that plans to open the Levy out to cover non-apprenticeship courses in digital, AI and engineering will mean their organisation can use more of its Levy pot (**Exhibit 9.3**). As such, business confidence that plans for Growth and Skills Levy reform will have a positive impact on their ability to invest in training is mixed at best.

It is positive that the Government have committed to fund a wider range of short courses through the Growth and Skills Levy, but insufficient increases to the Levy's budget has resulted in the risk of further defunding being high, and available funding for short courses likely being low. In anticipation of further defunding to help the Department for Education to balance their books, many businesses have noted that they are scaling-back their plans to invest in apprenticeships (particularly for higher-level apprenticeships and apprenticeships for adult learners). Increasing the Growth and Skills Levy budget – and eventually funding SME provision from outside of the Levy – is the only way to ensure that the Growth and Skills Levy helps businesses to deliver training and does not act as a dampener on growth.

Exhibit 9.2. Business support for the statement: “Continued rigidity in the Growth and Skills Levy is stopping my organisation from being able to deliver training to address skills gaps” (% of respondents)⁴²

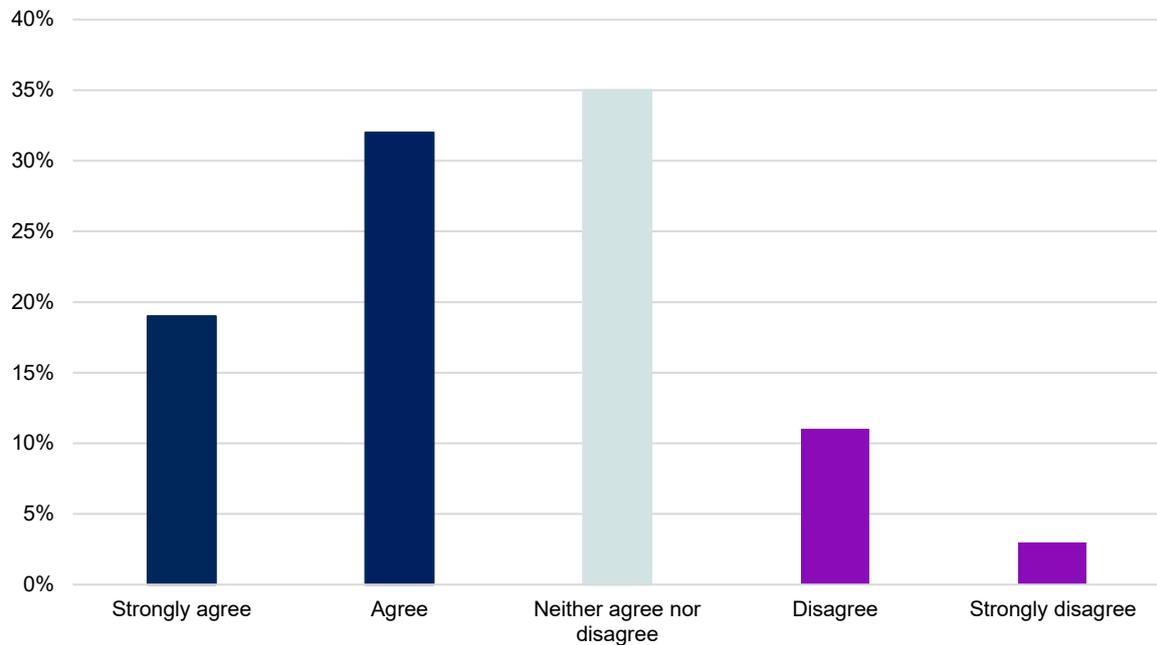
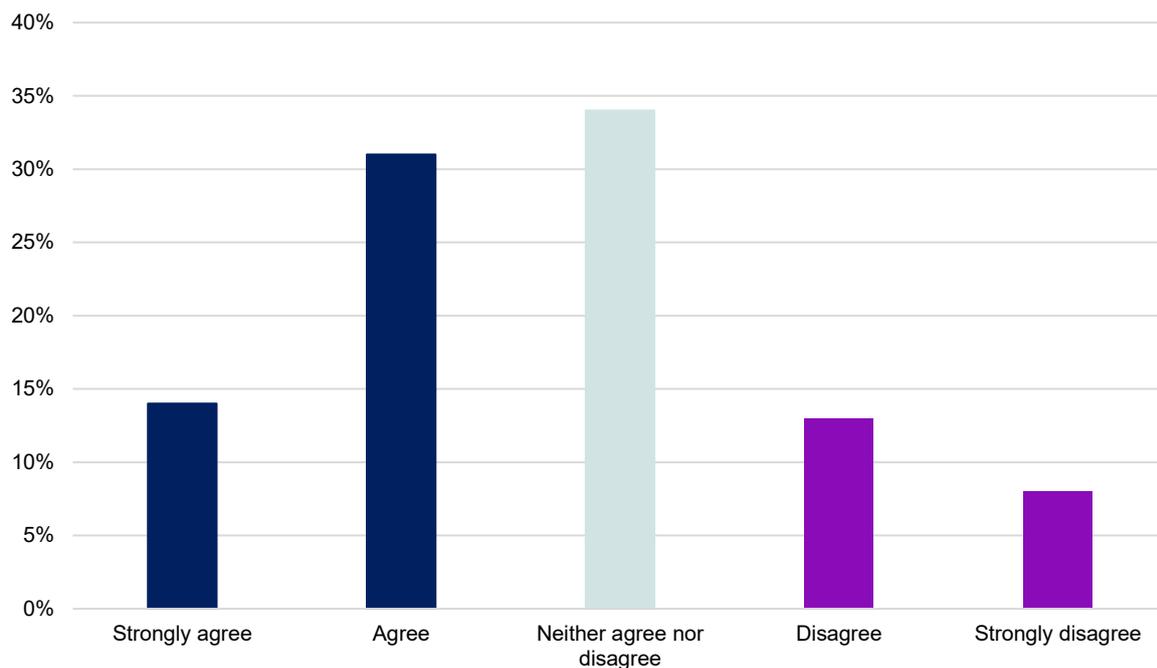


Exhibit 9.3. Business support for the statement: “Plans to open the Growth and Skills Levy to cover non-apprenticeship courses in digital, AI and engineering will mean my organisation can use more of its Levy pot” (% of respondents)⁴³



At a minimum, all Growth and Skills Levy funding should be ringfenced for skills development...

Rising business costs mean the Growth and Skills Levy represents a significant proportion of many businesses' training budgets, and half of respondents who have offered Level 7 apprenticeships (49%) are planning to offer fewer in response to the recent defunding decision (**Exhibit 9.4**). Debate remains as to whether the money raised through the Growth and Skills Levy is government or businesses' money to use. But justifying the risk of deadweight loss as a reason not to fund specific forms of training – and to defund certain apprenticeship standards and learners from the Levy – is becoming increasingly difficult to uphold: less funding (and recent defunding) is increasingly translating into fewer training opportunities.

Moving forward, it is critical that the Government takes the appropriate steps to minimise the need for further defunding, beginning with allocating the fully Levy pot to skills. While there continues to be a lack of transparency around how the full Growth and Skills Levy pot is spent, publicly available data suggests that there is upwards of hundreds of millions of pounds raised through the Growth and Skills Levy which is not allocated to the Department for Education and equivalent skills bodies in the devolved nations every year.⁴⁴ This is ultimately money which could have helped to reduce growing pressure on skills budgets and avoided sub-optimal policy decisions, such as the defunding of Level 7 apprenticeships for most adult learners. Without further evidence that the full Growth and Skills Levy pot is being used for its intended purpose, the Government's commitment to skills will be in serious doubt.

... and a Growth and Skills Levy roadmap should be published

Two thirds of businesses (67%) reported that the absence of a clear roadmap detailing the exact courses which will be eligible for Growth and Skills Levy funding from April 2026 will hinder their organisation's ability to deliver training and plan effectively (**Exhibit 9.5**). Businesses have made clear that, without these details being shared, they will struggle to commit to the training investments key to addressing their skills gaps. Publishing a roadmap is a low-cost but high-impact step that policymakers can take which would have a positive impact on business training delivery and investment. The roadmap should endeavour to answer important questions, including whether courses will be partially or fully funded through the Levy, if there will be eligibility requirements attached to learners' age or level of education, and when the Government intends to deliver the 'subsequent waves' of flexibility announced in the Industrial Strategy paper earlier this year.⁴⁵ Where decisions have not yet been reached, employers have stressed that details concerning when information will be published – and a commitment not to introduce further defunding – would still be useful and help them to make informed training investment decisions.

Exhibit 9.4. Business support for the statement: “The recent decision to defund Level 7 apprenticeships from the Growth and Skills Levy for apprentices aged 22 and above means my organisation will offer fewer training opportunities at this level” (% of respondents)⁴⁶

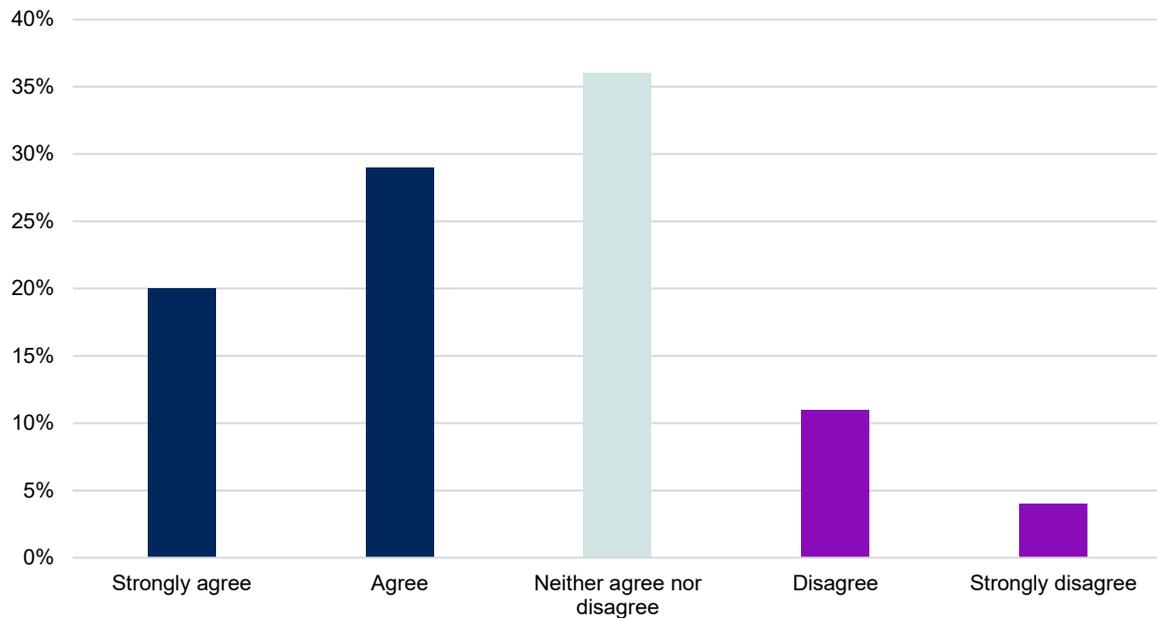
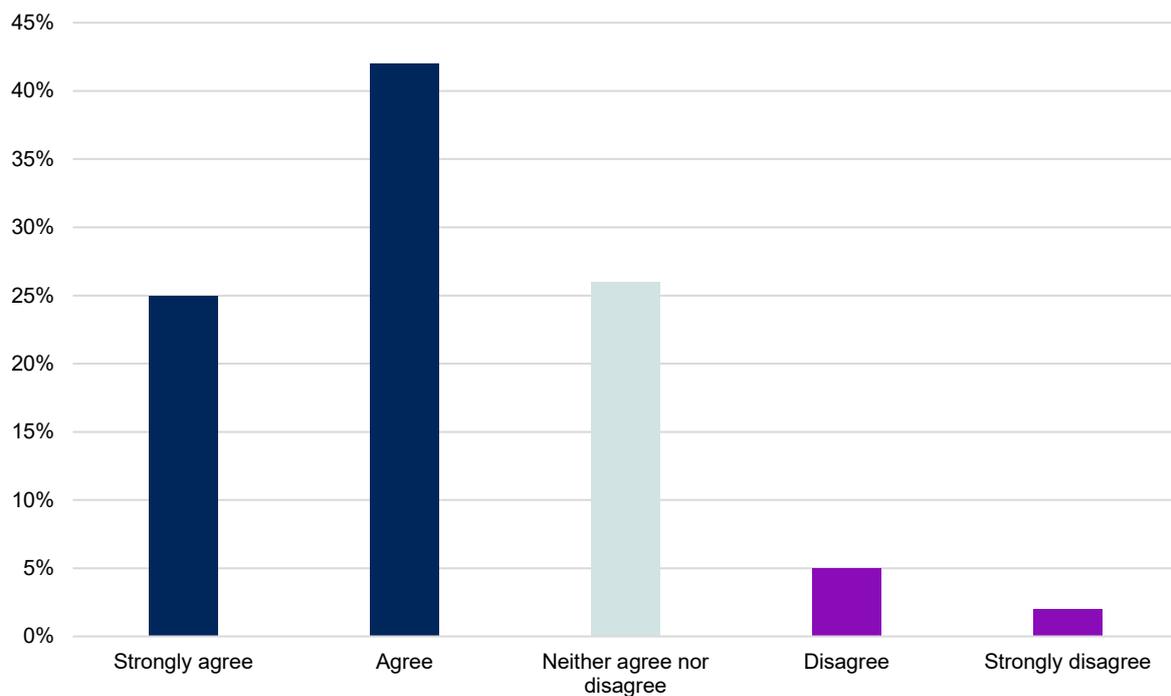


Exhibit 9.5. Business support for the statement: “The absence of a clear roadmap detailing the exact courses which will be eligible for Growth and Skills Levy funding from April 2026 will hinder my organisation’s ability to deliver training and plan effectively” (% of respondents)⁴⁷



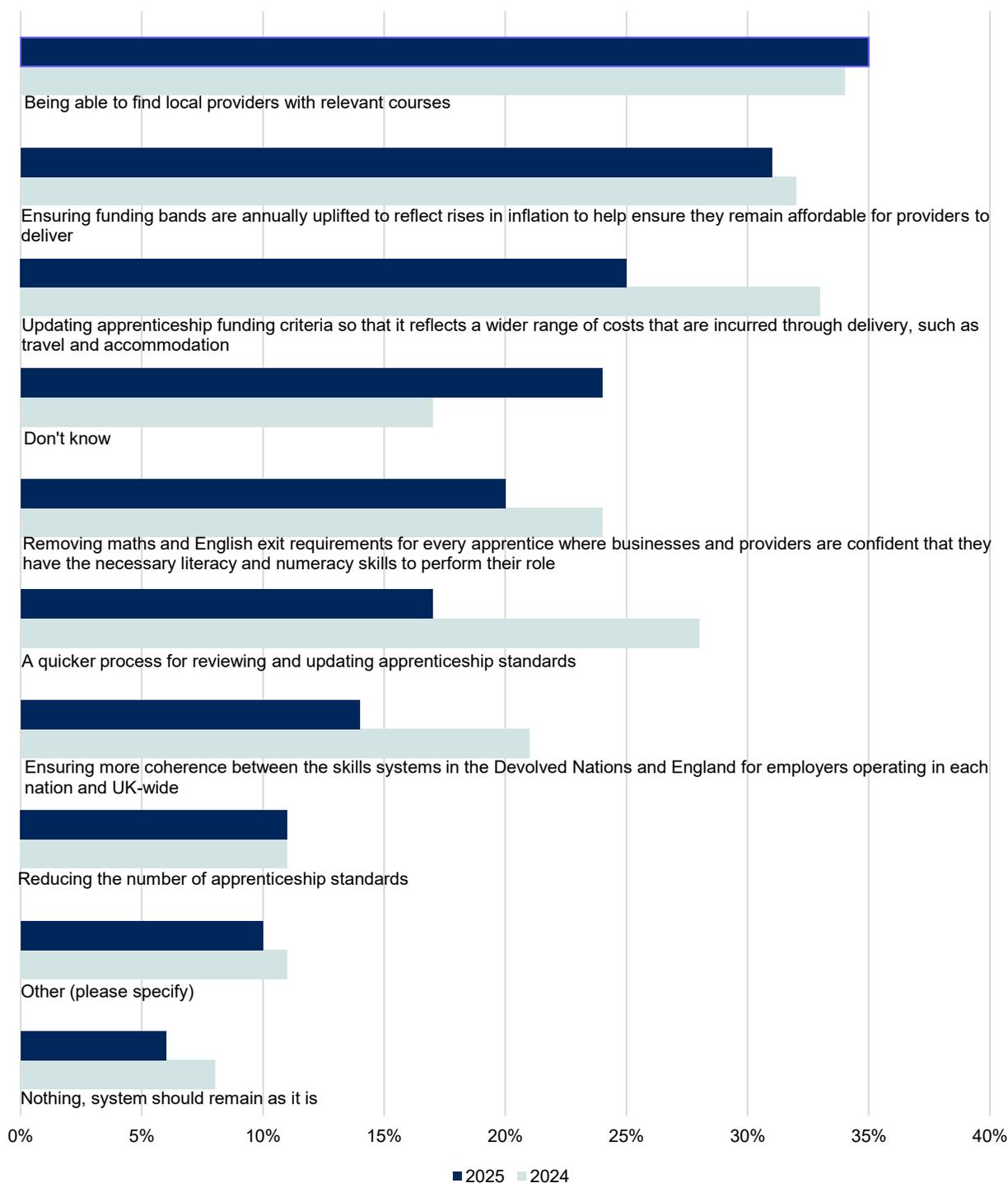
Growth and Skills Levy reform must also address problems confronting the apprenticeship system

Growth and Skills Levy reform will unlikely lead to greater levels of training unless wider problems confronting the apprenticeship system are rectified. When asked what changes would make the apprenticeship system more effective for their organisation, being able to find local providers that offer relevant courses was the most cited response (selected by 35% of respondents), followed by ensuring funding bands are annually uplifted to reflect inflationary pressures (31%) and updating apprenticeship funding criteria so that it reflects a wider range of delivery costs (25%) (**Exhibit 9.6**). This is broadly in line with last year's findings, with the proportion of support for the options differing, but the same three factors ranking top.

The findings reflect business feedback that the real-term decline in funding bands is making various apprenticeship standards financially non-viable to deliver, and using route panels as the mechanism to uplift funding bands is burdensome and inefficient. Updating funding bands should be possible at minimal cost to government because when inflation is increasing the cost of delivering training, it is also likely to be increasing the amount of money raised through the Levy to a similar extent. Moreover, firms have stressed that being able to use Growth and Skills Levy funds to cover expenses such as accommodation and travel would help them to deliver more apprenticeships to a wider range of people. While existing pressure on the Levy budget would make this challenging to deliver without wider unintended consequences (such as further defunding), there could be scope to use public funding reserved for the Youth Guarantee, and youth employment more generally, to help cover this cost.



Exhibit 9.6. Business views on changes that would make the apprenticeship system more effective for their organisation (Respondents asked to select all options that apply) (% of respondents)⁴⁸



Overview

Respondents by company size

In this year's survey, 80% of respondents were from smaller and medium-sized enterprises (SMEs) with 249 and fewer employees, and 20% of respondents were from larger businesses (250+ employees) (**Exhibit 10.1**)

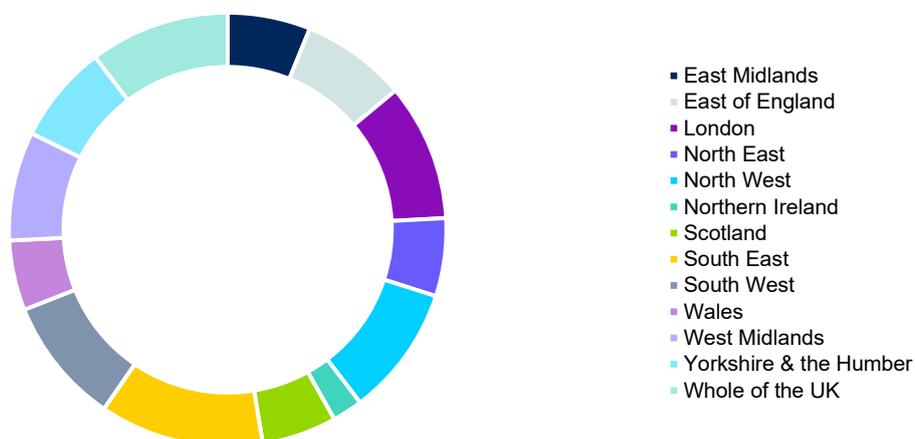
Exhibit 10.1 Respondent by company size (%)



Respondents by region

There was good coverage of businesses from across the UK, with just under one fifth respondents (16%) operating UK-wide (**Exhibit 10.2**). Other popular destinations included the South East (18%), London and the North West (both 15%).

Exhibit 10.2. Respondent by geographical coverage of employees (%)



References

- 1 National population projections, Office for National Statistics, 2022
- 2 False Starts: What the UK's Growing NEETs problem really looks like, and how to fix it, Resolution Foundation and the Health Foundation, October 2025
- 3 Business tax contribution 2024/25, Confederation of British Industry, September 2025
- 4 All of the data used for the exhibits in this chapter have been sourced through the Office for National Statistics
- 5 These figures exclude 'Don't know' from the data analysis
- 6 These figures exclude 'Don't know' from the data analysis
- 7 UK Economic Forecast, CBI, June 2025
- 8 These figures exclude 'Don't know' from the data analysis
- 9 These figures exclude 'Does not affect my business' from the data analysis. Response item '*Productivity growth will be sufficient to accommodate the extra cost without wider consequences*' was added to this year's survey
- 10 These figures exclude 'Does not affect my business' from the data analysis. Response item '*Productivity growth will be sufficient to accommodate the extra cost without wider consequences*' was added to this year's survey
- 11 Are we earning enough? The new squeeze on the middle classes, The Times, October 2025; How has the NLW affected pay differentials within firms? Institute for Fiscal Studies, February 2024
- 12 £3.4 billion annual cost increases hit hospitality, UKHospitality, April 2025
- 13 These figures exclude 'Don't know' from the data analysis
- 14 These figures exclude 'Don't know' from the data analysis
- 15 These figures exclude 'Don't know' from the data analysis
- 16 These figures exclude 'Don't know' from the data analysis
- 17 Monetary Policy Report, Bank of England, August 2025
- 18 These figures exclude 'Don't know' from the data analysis
- 19 These figures include 'Don't know' in the data analysis
- 20 Employment Rights Bill: Economic Analysis, HM Government, October 2024
- 21 Unfair Dismissal – Day One Frights, Resolution Foundation, October 2025

- 22 These figures exclude 'Don't know' from the data analysis
- 23 These figures exclude 'Don't know' from the data analysis
- 24 People in employment on zero hour contracts, Office for National Statistics, November 2025
- 25 These figures exclude 'Don't know' from the data analysis
- 26 These figures exclude 'Don't know' from the data analysis
- 27 These figures exclude 'Don't know' from the data analysis
- 28 These figures exclude 'Don't know' from the data analysis
- 29 These figures exclude 'Don't know' from the data analysis
- 30 These figures exclude 'Don't know' from the data analysis
- 31 These figures include 'Don't know' in the data analysis
- 32 These figures exclude 'Don't know' from the data analysis
- 33 These figures exclude 'Don't know if we have a skills gap' from the data analysis
- 34 These figures exclude 'Don't know' from the data analysis
- 35 These figures exclude 'N/A – My organisation operates only outside of England' from the data analysis
- 36 These figures exclude 'Don't know' from the data analysis
- 37 These figures exclude 'Don't know' and 'N/A' from the data analysis
- 38 These figures have not had any breaks added to the data analysis
- 39 Post-16 Education and Skills White Paper, Department for Education, Department for Work and Pensions, and the Department for Science, Technology and Innovation, October 2025
- 40 Curriculum and Assessment Review Final Report, Department for Education, November 2025
- 41 These figures exclude 'Don't know' and 'N/A – My organisation operates only outside of England' from the data analysis
- 42 These figures exclude 'Don't know' and 'N/A – My organisation operates only outside of England' from the data analysis
- 43 These figures exclude 'Don't know' and 'N/A – My organisation operates only outside of England' from the data analysis
- 44 FE Week, DfE's apprenticeship budget passes £3bn mark, May 2025
- 45 The UK's Modern Industrial Strategy, HM Government, June 2025

- 46 These figures exclude 'Don't know' and 'N/A – My organisation operates only outside of England' from the data analysis
- 47 These figures exclude 'Don't know' and 'N/A – My organisation operates only outside of England' from the data analysis
- 48 These figures include 'Don't know' in the data analysis

About the Sponsor

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