

# Jobs for the future

The business vision for sustainable  
employment in the UK



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For Siemens:

Anne Keogh  
Head of Media Relations  
Communications & Government Affairs  
Siemens plc  
T: +44 (0)1276 696312  
E: [anne.keogh@siemens.com](mailto:anne.keogh@siemens.com)

For the CBI:

Ben Digby  
Employment policy directorate  
CBI  
T: +44 (0)20 7395 8154  
E: [ben.digby@cbi.org.uk](mailto:ben.digby@cbi.org.uk)

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For a copy of this report in large text format,  
please contact:

Ben Digby  
Employment policy directorate  
T: +44 (0)20 7395 8154  
E: [ben.digby@cbi.org.uk](mailto:ben.digby@cbi.org.uk)

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## Foreword



At a time when we are seeing the early stirrings of economic recovery, rising unemployment remains a black cloud over the UK. The past six months have seen the labour market under severe pressure. Job losses have mounted across most sectors. For some time to come, we face the prospect of rising unemployment as businesses continue to grapple with the twin shocks of a severe drop in demand and constrained credit conditions. These are extremely challenging times.

Contrary to the idea that the main victims of this recession are stockbrokers in the Home Counties, the fastest increase in unemployment in recent months has been among unskilled workers in lower income groups, with young people the worst affected. These groups are among the least well equipped to cope with hard times, since their job opportunities are limited and they have few – if any – savings to fall back on. Government and business must do all they can to help people speedily into new work.

While our efforts are rightly focused on tackling these urgent short-term challenges, we must not lose sight of the longer-term picture. Economic prosperity will be achieved only if the UK remains an attractive place to do business and employ people. Little more than 18 months ago, the debate about

how the UK should deal with the challenges of globalisation was in vogue amongst policy makers. The issue has been sidelined in the fallout of the recession, but it remains fundamentally important. The challenges of globalisation are here to stay.

New possibilities for business location have opened up in ways that few people ever imagined. Business and jobs now flow to where they can be performed best – the simple fact is the UK must reinforce its reputation as an attractive business location if it is to win investment.

This report sets out our vision of what needs to be done if we are to generate sustainable employment on a major scale in the UK, taking account of the globalised economy we now live in. The UK has great strengths. We need to build on those to achieve jobs for the future.

**Richard Lambert**  
Director-general  
CBI

# Overview

Unemployment will almost inevitably rise over the coming months. That unwelcome reality poses a challenge for government and business alike. We need action to address the economic waste and social damage that unemployment can inflict.

We also need to look further ahead, facing up to the reality that we operate in an increasingly globalised economy. This both opens up opportunities and exposes UK businesses to competition on an unprecedented scale.

So what needs to be done to create jobs in the short term and to sustain them in the longer term? This report aims to set out the business vision for how we can achieve sustainable employment in the UK in the years ahead.

## The rapidly changing UK labour market

- The UK entered the economic downturn with an impressive track record on job generation
- While there is an understandable focus at present on job losses, it is important to recognise movement between jobs is normal and happens all the time as part of economic change
- The make-up of the workforce is constantly evolving, with a rising proportion of jobs requiring skills and qualifications
- Movement in the jobs market sometimes includes spells of unemployment – it is essential these are of limited duration
- The priority must be to avoid a rise in long-term unemployment. This makes it all the more important to press ahead with measures to reduce the numbers out of work for lengthy periods and tackle the rising numbers of young people not in education, employment or training.

## Assisting restructuring in the short term

- The worst of the fall in economic activity is probably behind us, but unemployment is likely to rise over the months ahead
- Businesses are using a variety of measures to limit job losses and retain staff, ranging from short-time working to pay freezes
- Retaining employees is highly desirable, though calls for generalised wage subsidies to help with this are misconceived
- But a new alternative to redundancy scheme that employers could opt to use could greatly help – an outline scheme is set out in the report
- The consultation period for redundancies should be reviewed
- The increase in employer NICs planned for 2011 should be deferred
- Jobcentre Plus is coping well but there is scope for improvement, particularly in matching jobs and candidates more closely
- A continued focus on skills is required to ensure staff have the ones employers need
- Apprenticeships are key to skilling the future workforce – more support is needed.

### The longer-term employment challenge

- The UK has to face up to the reality that long-term employment security can be achieved only by ensuring that this country is an attractive place to do business – and to employ people
- Firms and people alike are dramatically more mobile and more internationally minded than just a few years ago
- The UK has some great legacy and intrinsic advantages, ranging from its reputation for top-quality scientific and technological research to its time-zone position
- But these are not enough to guarantee businesses will always see Britain as an attractive location to employ large numbers of people
- Major firms are increasingly able to move key elements of their operations to alternative locations overseas with minimal disruption
- Two prime considerations for selecting locations are the ease of getting work done and the availability of a well-educated, adaptable workforce. The government needs to recognise the global challenge and strengthen the UK's performance in both these areas.

### Making the UK an employment location of choice

- The UK must put in place a framework that encourages businesses to retain and expand the creative, higher-value work they do here. That framework must build on the advantages the UK already enjoys
- There has been a huge increase in the amount of employment regulation – a near 500% increase measured by numbers of pages since the early 1980s
- New employment regulation has added over £70bn to business costs since 1998 – equivalent to the employment costs for more than 215,000 people in full-time jobs paid at average earnings throughout the period
- We have reached a tipping point, where more of the same risks serious damage to the attractions of the UK as an employment location
- A new overriding test should be applied to all future employment regulation: how will this measure help to create sustainable jobs? The same test should be applied to future reviews of existing regulation
- Action is needed to curb the escalating costs and complexity of employment tribunal claims. Lodging of claims under multiple headings must be tackled
- The government should consider introducing an upper limit on discrimination claims, if necessary taking action with its European partners to review this issue
- Raising the quantity and quality of skills in the UK workforce is an indispensable part of increasing employment
- More must be done to help young people develop their employability skills
- The demand for skills – particularly higher-level skills – is rising and improved performance in science, technology, engineering and maths (STEM) is necessary to meet this demand
- More should also be done by employers, colleges and universities to boost the skills of those already at work. This requires better co-operation and partnership.

# 1 The rapidly changing UK labour market

The UK entered the economic downturn with an impressive track record on job generation. From the early 1990s to 2008, the number of jobs increased to record levels, raising the proportion of working age adults in work and pushing down unemployment. In this chapter we outline these positive trends, which are inseparably linked to an ever-changing labour market. In particular, it is important to recognise that:

- Movement between jobs is normal and happens all the time as part of economic change
- The make-up of the workforce is constantly evolving, with a rising proportion of jobs requiring skills and qualifications
- Movement in the jobs market sometimes includes spells of unemployment – what is essential is that these are of limited duration
- The priority therefore must be to avoid a rise in long-term unemployment, making it more important to press ahead with measures to reduce the numbers out of work for lengthy periods.





### The UK's impressive track record on jobs

Between late 1992 and mid-2008, the total number of workforce jobs in the UK climbed by more than four million, reaching a total of just over 31.6 million in the second quarter of 2008. This represents a 16% increase in jobs, including self-employment, over the period. **Exhibit 1** shows this impressive track record. If we look at the record in terms of the alternative measure of numbers of people in employment, it is equally impressive: the total climbed from 25.3 million in 1993 to 29.4 million in 2008.

This dynamic generation of new, additional jobs has enabled a steadily growing proportion of the adult population to move into work. Among those aged 16 to 64 (59 for women), the employment rate rose from just above 70% in 1993 to 74.5% from 2002 onwards (**Exhibit 2**). The government's goal is to push the employment rate higher still in the longer term to 80% – an ambitious objective and one the CBI welcomes.

### Real progress had been made on unemployment...

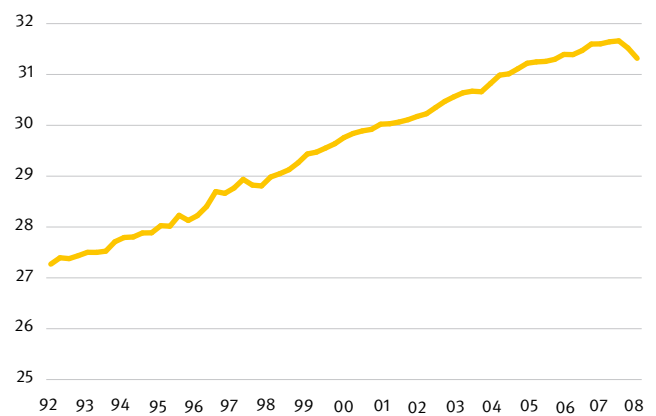
In large part because of the UK's success in generating jobs, unemployment before the onset of the recession had dropped to its lowest level for many years. According to the ILO measure of those actively seeking work, the unemployment rate fell by more than half, from 10.4% of the workforce in 1993 to 4.8% in 2004, and remained at around this level until recently (**Exhibit 3**).

On the alternative measure of claimant unemployment – those receiving jobseeker's allowance (JSA) – the decline was even more marked. On the claimant measure, the unemployment rate fell from 9.9% in 1993 to a low of 2.7% in 2005.

### ...though many people of working age remain on benefit

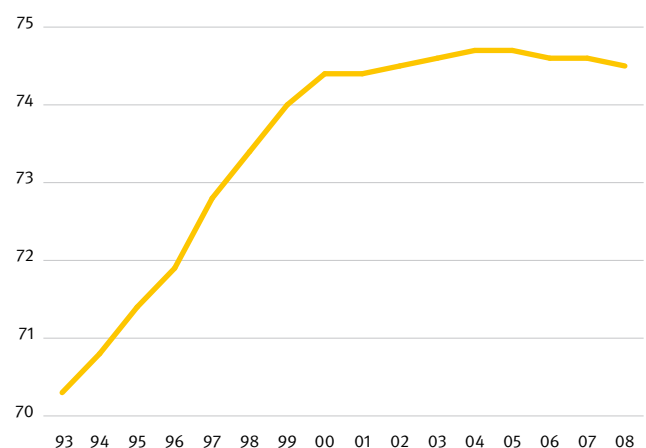
But it is important to recognise that another large group of people of working age remains dependant on state benefits. From the mid-1980s onwards, there was a surge in the number of people relying long term on benefits such as incapacity benefit (IB). Overall, people classified as sick and disabled now make up three fifths of all working-age people in receipt of an out-of-work state benefit, with many remaining on benefit for years on end. **Exhibit 4** illustrates the make-up of this group.

**Exhibit 1 UK workforce jobs (millions)**



Source: ONS. Seasonally adjusted figures.  
Note: A person can hold more than one job.

**Exhibit 2 Employment rate among those of working age (%)**



Source: ONS

**Movement between jobs is normal**

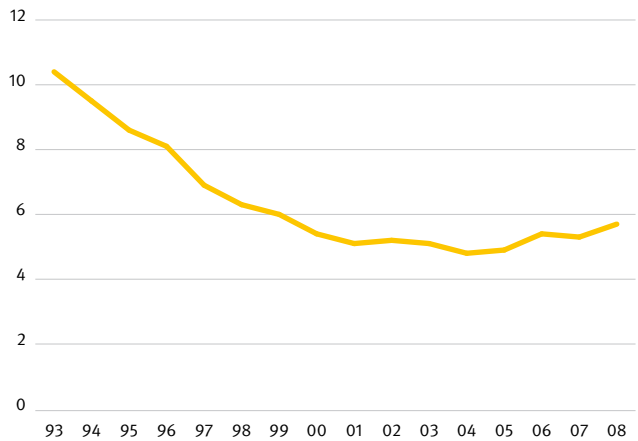
At a time of recession, there is an understandable focus on job losses and job insecurity in those sectors and organisations under greatest pressure. In this sense the pain of a recession is unevenly distributed. The fact that some organisations face a tougher challenge than others is a stark reality – in the recession of the early 1990s, just a fifth of firms accounted for 94% of all job losses.<sup>1</sup> There are inevitably calls for measures to protect employment in those companies facing the sharpest reductions in business activity.

The case for any intervention needs to be assessed in the context of the economy as a whole. In a dynamic and changing economy, at any given time large numbers of people are leaving old jobs and taking up new ones. Old jobs disappear in shrinking parts of the economy and new job openings are created in expanding firms and sectors, where there is increasing demand for their products and services. This type of movement is central to economic growth.

Successive CBI surveys provide some measure of the scale of movement in the jobs market. Labour turnover across the economy typically ran at around 15% each year in the period 1997 to 2007, with big variations between different sectors and regions.<sup>2</sup> Job tenure overall has shown only modest change.<sup>3</sup>

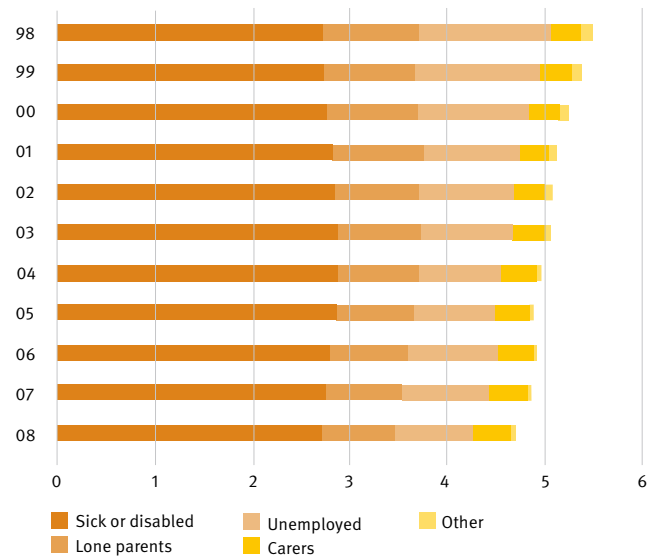
Proponents of greater employment protection often characterise the UK as being like the USA in terms of employers’ ability to hire and fire people easily. This is misleading. The UK combines its relatively lightly regulated labour market traditions with observance of EU obligations. Moreover, all workers are covered by anti-discrimination protection from day one, and after a qualifying period, employees are also protected against unfair dismissal.

**Exhibit 3 Unemployment as a percentage of workforce (%)**



Source: ONS

**Exhibit 4 Number of working-age claimants of out-of-work benefits (millions)**



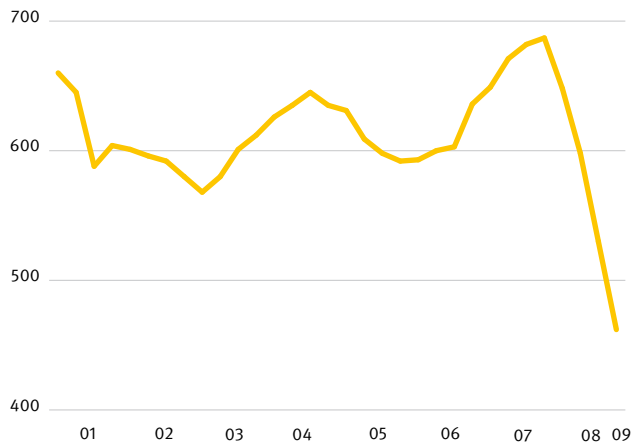
Source: DWP Longitudinal Study, August 2008

### The make-up of the workforce is constantly evolving

Even in a time of recession, new job opportunities are constantly opening up. As **Exhibit 5** shows, at any given time there are hundreds of thousands of job vacancies across the economy. Much of this is a product of normal staff turnover, retirements and so on, but there are also additional and different jobs emerging.

The shape of the workforce is perpetually changing. A century ago, manual jobs made up three quarters of the workforce, while managerial and professional posts accounted for just 7.5%. Even in 1971, over half of all jobs were manual ones.<sup>4</sup> Since then, the movement towards more highly skilled work has greatly accelerated (**Exhibit 6**).

### Exhibit 5 Vacancies (000s)



Source: ONS. Seasonally adjusted figures.

### Exhibit 6 Changes in occupational structure 1987-2017 (000s)

Employment levels (000s)	1987	1997	2007	2017
Managers and senior officials	3,271	3,799	4,828	5,700
Professional occupations	2,517	3,034	4,091	4,733
Associate professional and technical	2,860	3,591	4,472	5,126
Administrative and secretarial	4,009	3,927	3,715	3,319
Skilled trades	4,177	3,620	3,404	3,178
Personal services	1,202	1,791	2,482	2,925
Sales and customer service	1,595	2,101	2,418	2,522
Machine and transport operatives	2,954	2,661	2,290	2,173
Elementary occupations	4,058	3,703	3,536	3,507
<b>Total</b>	<b>26,642</b>	<b>28,227</b>	<b>31,234</b>	<b>33,184</b>
Net changes (000s)	1987-97	1997-2007	2007-17	
Managers and senior officials		528	1,029	872
Professional occupations		518	1,057	643
Associate professional and technical		731	881	654
Administrative and secretarial		-82	-212	-396
Skilled trades		-557	-216	-226
Personal services		589	691	443
Sales and customer service		506	317	104
Machine and transport operatives		-293	-371	-117
Elementary occupations		-355	-168	-29
<b>Total</b>		<b>1,585</b>	<b>3,008</b>	<b>1,949</b>

Source: Working Futures 2007-2017, UKCES

In the coming decade, the expansion in the number of managers, professional and associate professional roles is expected to continue. Further growth is also anticipated in service jobs in areas such as personal care and customer care. In contrast, declines are forecast in administrative, clerical, secretarial and lower-skilled manual jobs, though even here there is a constant need to replace those leaving because of retirement or other factors. In brief, all the indications are that the structure of employment is continuing to shift towards jobs requiring more skills. There will be a steadily dwindling proportion of openings for those with low levels of skills and qualifications. More details of the expected changes are given in **Exhibit 7**.

The continuing internationalisation of economic activity will also be a feature of the decades to come. Inward investment is likely to become more, not less, important to the UK economy – as will ensuring we create an environment that helps UK-domiciled businesses base new activities here. Recent years have seen high levels of migration. While we must never forget the need to manage the social implications of migration – avoiding an ‘open-door’ policy – the UK’s work permit system will need to ensure business can access key skills from a UK base through a flexible, targeted work-permit system. Allowing firms to move members of their own staff, with important company-specific skills, into the UK to work on projects with UK staff, will be vital to keeping key operations in the UK.

### Exhibit 7 What job openings will there be?

Forecasting the future shape of the economy isn’t an exact science, but there are long-term trends in the overall pattern of jobs that show every sign of remaining robust.

#### More skilled openings in the UK

In its assessment of the UK labour market to 2017,<sup>5</sup> the UK Commission for Employment and Skills (UKCES) concludes:

- Employment is expected to continue to rise, with job growth of just under half a percent each year on average, adding up to almost two million extra jobs over a decade
- The groups expected to show the biggest growth are managers, professionals, and associate professional and technical roles. Some expansion is also expected in personal service occupations and sales and customer services
- Declining employment levels are forecast for administrative, clerical and secretarial roles, though these will still employ more than 3 million people in 2017
- Some decline is also expected in skilled trades and machine and transport operative jobs
- Across all occupations, replacement of those leaving jobs for retirement or other reasons accounts for vastly more of the movement in the labour market than big structural shifts. Over the decade 2007 to 2017, retirements alone are expected to generate some 11.5 million job openings.

#### Around 20 million new jobs across Europe by 2020

Across EU member states plus Norway and Switzerland, substantial growth in jobs is also expected:<sup>6</sup>

- Over 20.3 million additional jobs are expected to be generated between 2006 and 2020, with a further 85 million job openings caused by employees leaving the labour market through retirement or for other reasons
- Almost 40% of the EU workforce is already employed in higher-level jobs such as management/professional work or technical roles and this proportion is expected to grow further
- Even in sectors where employment is expected to decline, such as manufacturing, there will still be many job openings – particularly for those with skills – to replace workers leaving the job market
- The need for qualifications is increasing in all occupational categories, but the main growth in job numbers is expected to be in posts requiring medium and high-level qualifications. The proportion of jobs open to those with no or low levels of qualifications will steadily shrink.

### More people are now experiencing unemployment...

Unemployment is now rising. The CBI expects the number of those unemployed on the ILO measure to continue rising until the second quarter of 2010, to a peak of 3.03 million (9.6%), before edging lower during the remainder of 2010.<sup>7</sup> While commentators inevitably focus on the headline total, it is important to be clear that becoming unemployed does not mean joining a static pool. Every day, substantial numbers of people become unemployed while others move out of unemployment into work. The unemployment total is a snapshot, reflecting the number of people who happen to be in the pool of unemployed at a particular time.

There are flows into and out of unemployment, and those flows are not solely to do with the jobs market, though this of course plays a major part. Every three months, around 7% of the working-age population moves between economic inactivity, employment and unemployment.<sup>8</sup> In just one four-month period in 2009, more than a million people moved off JSA.<sup>9</sup> Unemployment rises or falls depending on the changing balance between the inflows to unemployment and the outflows from it. The current rise in unemployment is due in part to more people losing their jobs and in part to those in the unemployment pool taking longer to find new jobs or pursue other options. It is also fed by those completing full-time education and training and so entering the labour market.

### ...but some groups are at greater risk than others

Some groups are much more likely to enter unemployment than others. Although much has been made in the media of professionals from finance and other services experiencing unemployment in this recession, the record shows that those in manual jobs are typically about three times more likely to become unemployed than professional and managerial employees.<sup>10</sup>

Unskilled manual workers are particularly prone to unemployment – they are both more likely to lose their jobs and subsequently are typically out of work for longer. This pattern is closely related to educational attainment. Across Europe, those leaving compulsory school education with little or nothing in the way of qualifications have a higher unemployment rate than their more qualified peers.<sup>11</sup> The link between low educational achievement and unemployment

is particularly strong in the UK. People with educational attainment below GCSE level have an unemployment rate three times higher than those with higher education qualifications.<sup>12</sup> And as we have seen, job openings for unqualified workers are steadily declining.

There is evidence that young people are being hit particularly hard by this recession. Unemployment for 18-24 year-olds was 695,000 in the three months to April 2009, up 74,000 from the three months to January 2009.<sup>13</sup> And the numbers of young people aged 16-18 who are not in education, employment or training (NEET) is rising, up from 9.7% in 2007 to 10.3% in 2008.<sup>14</sup> There is a serious risk of this troubled group expanding rapidly as job market conditions become tougher. Government figures suggest each new entrant to the NEET group who fails to engage with the world of work could cost the public £300,000 over their lifetime,<sup>15</sup> quite apart from all the associated human costs.

### Duration of unemployment is what really matters

In a dynamic economy, many people will inevitably experience a spell of unemployment in the time between finishing one job and finding a new one. What is essential is that the period of unemployment should be as short as possible – it is long-term unemployment that causes major, enduring damage.

The consequences of prolonged unemployment are well known. The resulting hardship, adverse impact on family and social life, and effects on physical and mental health have been well documented down the years.<sup>16</sup> Critically, long-term unemployment erodes skills, particularly the type of generic employability skills essential for gaining a job and performing well in it. The longer someone remains unemployed, the greater the risk they will lose any effective contact with the jobs market.

As well as the human damage, unemployment harms the wider economy by underusing the resources available for productive activity. It also comes with substantial costs attached. Someone on jobseeker's allowance has been estimated to cost the government £4,100 a year, with wider costs of £8,100 when direct and indirect taxes and tax credits are taken into account. For those on incapacity benefit the cost figures are higher – at £5,900 and £9,000 a year respectively.<sup>17</sup>

### The focus must be on helping long-term claimants

The government has rightly focused efforts on reducing the number of people of working age dependant on benefits long-term. Over the decade from 1993, the number of people unemployed for more than 12 months was reduced by two thirds, falling to less than 300,000 in 2004. The numbers have risen since then, and it is essential that resources are targeted on minimising the numbers remaining long-term without work or activity that boosts their employability.

Long-term benefit claimants frequently suffer multiple and complex disadvantages that can be hard to tackle, but a common characteristic is a shortfall in skills:

- Of those out of work, 29% have no formal qualifications, compared to 8% of those in work<sup>18</sup>
- Basic skill needs among benefit claimants are more than double the national average<sup>19</sup>
- 38% of claimants lack functional literacy skills and 45% lack functional numeracy skills<sup>20</sup>
- 40% of people in receipt of IB have no recognised qualifications.<sup>21</sup>

The CBI has supported the government's determination to tackle these problems. This requires concerted and sustained action, underpinned by resources on an appropriate scale.

## 2 Assisting restructuring in the short term

The global economic storm has affected businesses of all sizes and in all sectors. Tight credit conditions and shrinking order books have piled on pressure, leading many employers to adapt by restructuring their workforces and work patterns. While businesses have tried to minimise redundancies, some cutbacks in employment have been inevitable.

There are now signs that the worst of the fall in economic activity is behind us. The consequences in terms of rising unemployment, however, are likely to become more intense over the months ahead.

Unemployment is a challenge for us all. The actions taken now by government and businesses can either exacerbate or lessen the levels of unemployment the UK experiences in the coming months. The choices made can add to long-term unemployment or minimise the number of people sliding into that category. In this section we set out the steps the CBI believes are needed to help workforce restructuring and job generation in the short-term:

- Businesses are using a range of measures to limit job losses and retain staff
- Generalised wage subsidies are not effective
- But a new alternative to redundancy (ATR) scheme could greatly help
- The consultation period for redundancies should be reviewed
- The increase in employer NICs planned for 2011 should be deferred
- Jobcentre Plus is coping well but there is scope for improvement
- A continued focus on skills is required to ensure staff have the skills employers need
- Apprenticeships are key to skilling the future workforce – more support is needed.



### Businesses are using a range of measures to limit job losses and retain staff

Employers are keenly aware that their staff – and business reputations as employers of choice – are essential to making the most of opportunities in the recovery. Businesses that have invested heavily in the training and development of staff are reluctant to lose those skills. They are using a range of measures to keep as many of their employees in work as they can.

Results from the CBI/Harvey Nash employment trends survey 2009 show how extensive these initiatives have been. Of the 704 firms surveyed,<sup>22</sup> 45% of respondents have tried to deal with economic pressures by introducing more flexible working arrangements, with a further 24% either considering or intending to make such changes. One fifth of respondents have made, intend to make, or are considering changes to shift patterns and 30% have introduced or are contemplating short-time working. Paid overtime has also been reduced by almost half (43%) of respondents.

As well as changing working patterns, firms have also been looking closely at recruitment plans and pay. Nearly two thirds (61%) of respondents reported that a recruitment freeze was in place across the whole of their organisation or in parts of their organisation (**Exhibit 9**). Freezes on recruitment have been most prevalent in the construction sector, where 71% of respondents were operating either a partial or organisation-wide freeze.

But many employers are still looking for graduate talent as part of the push for higher-level skills. Nearly two thirds (62%) of survey respondents were not freezing graduate recruitment and most of these companies remain committed to the same levels of graduate recruitment as in 2008 and 2007 – 69% expected to take on similar numbers to 2008, and 66% expected similar numbers to 2007 levels.

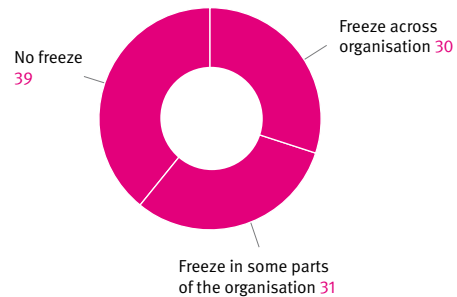
On pay, most firms were either operating a pay freeze or planning only a modest pay rise in the coming year. Looking ahead to their next pay review, over half of respondents (55%) were planning to freeze pay. Pay freezes have been common across the UK economy in firms of all sizes, but most prevalent in the construction (82%), manufacturing (64%), retail (62%), professional services (60%) and hi-tech, science & IT (60%) sectors.

### Exhibit 8 Changes to working patterns in the downturn (%)

	More flexible working	Reducing paid overtime	Implementing short-time working	Other changes to shift patterns
Have made	45	43	17	13
Intend to make	13	7	2	3
Considering	11	5	11	4
Have made, intend to make or considering	69	56	30	20

Source: CBI/Harvey Nash employment trends survey 2009

### Exhibit 9 Percentage of organisations operating a recruitment freeze (%)



Source: CBI/Harvey Nash employment trends survey 2009

The creativity and drive of firms to minimise redundancies and hold teams together are well illustrated by the examples of Renolit Cramlington, Pinstripe Print Group and KPMG (**Case studies A, B and C**).

### Generalised wage subsidies are not effective

The desire to retain skilled staff has led some organisations to call for government financial assistance to hard-hit employers to help keep staff on. Specifically, it has been proposed the government provide wage subsidies for employers who put staff on short-time working.



## Case study A:

### Renolit Cramlington: taking creative steps to avoid redundancies



Manufacturing firm Renolit Cramlington Ltd in the north east of England has been able to reduce operating costs and avoid redundancies by moving to short-time working.

Faced with a reduced order book and cost pressures, Renolit Cramlington took a number of actions to minimise the impact of the downturn on its financial situation and to try to avoid making employees redundant. At the same time, the business wanted to make improvements to

be even stronger when the recession ended.

The company set targets with all managers to reduce their operating expenses – reductions that did not damage the long-term health of the business. These targets are being exceeded with no detrimental effects. All overtime working and recruitment was frozen and a plan to gain new business developed. In addition, with the full support of trade unions and employees, working time was reduced by an average of 13.5% and salaries by 6.75%. This affected everyone from the top to the bottom of the business. The 100% participation ensured that key skills were retained in the business and morale was not just maintained, but improved.

With costs controlled and investment in lean manufacturing training, the business has been able to get through a difficult time. It is now seeing orders pick up and returned to full-time working from 1 June 2009.

## Case study B:

### Pinstripe Print: engaging employees in strategy to pull through recession

Pinstripe Print Group is a leading Birmingham print and print management business, employing 27 staff. Over the past year Pinstripe has been faced with cost and margin pressures and a squeeze on credit, as well as ongoing challenges of overcapacity and highly competitive pricing in the print sector.

To meet these challenges and minimise redundancies, Pinstripe has made a number of changes: non-essential spending has been cut, credit lines with suppliers have been extended and marketing has been ratcheted up to improve Pinstripe's public profile.

The most important change, however, has been gaining staff support for an average 15% reduction in salary for all staff. The decision to reduce pay was first discussed in an all-staff meeting in October 2008 and, with their buy-in achieved, implemented in November 2008 for an initial four-month period. During this time regular meetings took place between staff and senior management, with sessions often held in small groups to encourage greater staff participation.

In March 2009 the decision was taken to extend the reduction, subject to monthly review, with further all staff meetings held to discuss the situation. With no union presence at Pinstripe, direct and regular engagement with staff has been key to ensuring their support for the action the company has had to take. Nigel Lyon, Managing Director at Pinstripe, also believes the transparency of the process has helped maintain staff morale, with a 'sense of togetherness' amongst all staff, pulling through this difficult period.

Having taken action to cut costs early, Pinstripe is well-positioned to take on the challenges the recession brings for the print industry.



## Case study C:

### KPMG: flexibility through the downturn

The ability to flex the cost of staff and the amount of time they work during the recession can be valuable in protecting long-term employment and keeping skilled teams together. An innovative example of a scheme to achieve this is the Flexible Futures initiative launched by KPMG, the major professional services firm.

#### A voluntary approach

The temporary scheme, in place until September 2010, enables staff to opt for one – or both – of two options:

- The firm would have the right to require the individual to take one day's unpaid leave per week as and when it requires, with a minimum of one week's notice, at any time in the period up to 30 September 2010
- Individuals could be required to take between four and 12 weeks' leave in 2009 and again in the period January to September 2010, with a minimum of four weeks' notice, paid at 30% of salary.



The maximum salary loss for participating staff was initially capped at 20% of salary. Although the scheme runs to September 2010, staff volunteering to take part in the scheme will have the opportunity to opt out at the end of 2009.

#### Flexibility to respond

Over 85% of staff at KPMG have opted to take part in the scheme. As a result of the high take-up, the cap on salary loss has been improved from 20% to 10%. The company has stressed that volunteering for the scheme does not mean that participants' working time will automatically be reduced. But it gives the company the flexibility to alter work patterns and staffing in response to changes in workload and client needs if this should be required.

Short-time working can be an attractive alternative to redundancy. It allows employers to maintain the relationship with their employees and retain the skills and expertise necessary to take advantage of the eventual upturn. Some firms, however, face financial difficulty in meeting their payroll costs during the short-time working period and the case has therefore been made for government financial support.

Although general wage subsidies might save some jobs in the short term, similar initiatives did not work in the 1970s and 1980s.<sup>23</sup> In the 1979-82 recession, the Temporary Short Time Working Compensation Scheme (TST) was an important feature of UK labour market policy. Introduced in April 1979, the scheme aimed to avert redundancies by subsidising firms to share out available work by reducing the working week of their employees. The subsidy was paid by government to employers who agreed to withdraw an impending redundancy of ten or more employees.

Evidence shows the effect of the TST was to delay – rather than avert – redundancies.<sup>24</sup> At its peak, TST supported 984,000 employees working short-time at a cost of £1bn to the taxpayer at 1983/84 prices. Generalised wage subsidies are also almost impossible to ring-fence to support only viable businesses. There are significant deadweight costs attached to such subsidies, with many jobs supported that would not have been lost anyway.<sup>25</sup>

### A new alternative to redundancy (ATR) scheme could greatly help

Economic shocks and sudden downturns in demand can cause major short-term threats to jobs in companies that are fully viable – and able to sustain employment – in the longer term once the immediate crisis is over. But the blunt instrument of a wage subsidy for short-time working is not the solution. A more selective, targeted approach is needed.

To meet this need, the CBI proposes an alternative to redundancy (ATR) scheme. The scheme aims to contain the burden of paybill costs on employers in the event of a sudden but temporary decline in business, while at the same time enabling employers to retain valuable skills among their existing workforces. Equally, it aims to provide financial support and a sense of continued involvement in the business for the employees affected.

### Exhibit 10 What do we mean by employability?

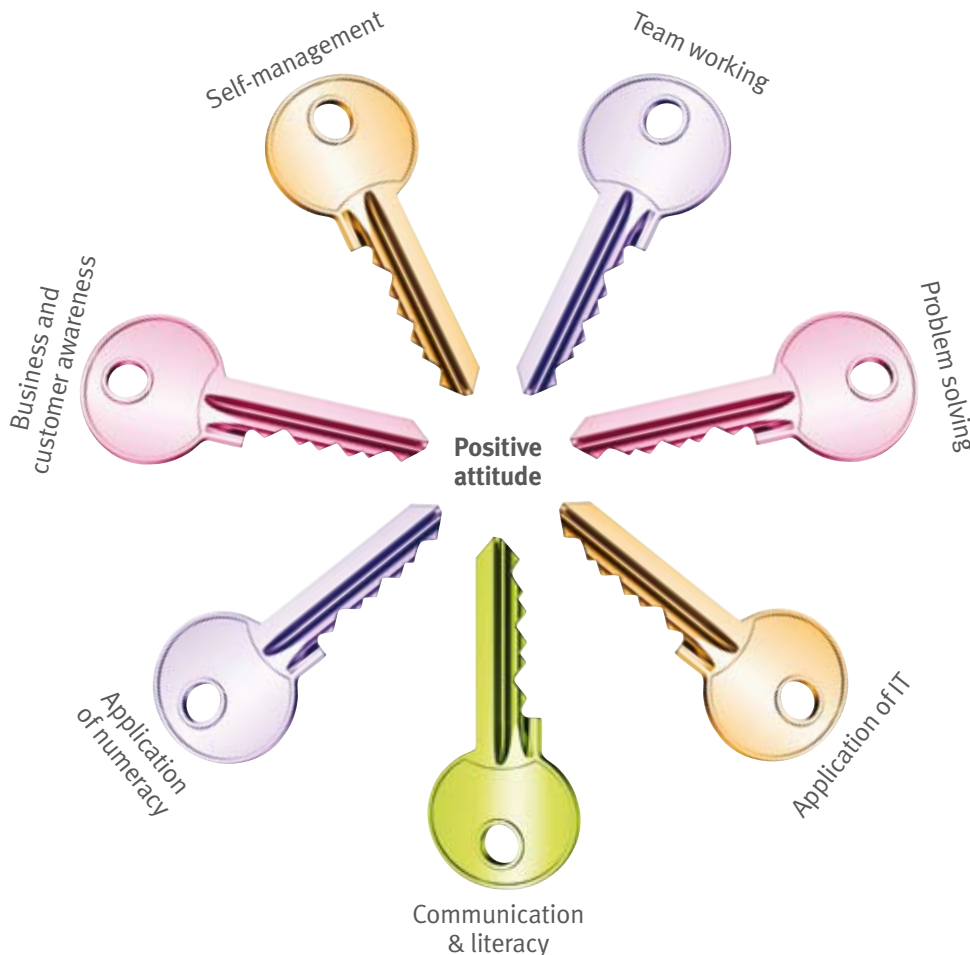
In a flexible and fast changing economy, it is essential that all employees and those seeking work possess generic employability skills. The CBI believes employability is best defined as:

“A set of attributes, skills and knowledge that all labour market participants should possess to ensure they have the capability of being effective in the workplace – to the benefit of themselves, their employer and the wider economy.”<sup>26</sup>

A positive attitude is the key foundation of employability, which underpins the following seven-point framework:

- **Self-management** – readiness to accept responsibility, flexibility, resilience, self-starting, appropriate assertiveness, time management, readiness to improve own performance based on feedback/reflective learning
- **Teamworking** – respecting others, co-operating, negotiating/persuading, contributing to discussions, awareness of interdependence with others
- **Business and customer awareness** – basic understanding of the key drivers for business success and the importance of providing customer satisfaction and building customer loyalty
- **Problem solving** – analysing facts and circumstances to determine the cause of a problem and identifying and selecting appropriate solutions
- **Communication** – application of literacy, ability to produce clear, structured written work and oral literacy, including listening and questioning
- **Application of numeracy** – manipulation of numbers, general mathematical awareness and its application in practical contexts (eg measuring, weighing, estimating and applying formulae)
- **Application of information technology** – basic IT skills, including familiarity with word processing, spreadsheets, file management and use of internet search engines.

### Employability is...



More details of how the ATR scheme could work in the UK are outlined in annexe A, but in brief it would allow employers a new option where appropriate:

- Rather than declaring employees redundant, the employer could place them on an ATR register for a set period of up to, say, six months. Being placed on the register would not constitute grounds for a breach of contract or unfair dismissal claim
- Contracts of employment would remain in force for the purposes of statutory continuity and accrual of service-based contractual benefits
- Rights to salary and bonus would be suspended and instead an ATR allowance would be paid amounting to the equivalent of job seeker's allowance paid by the government and matched by the employer. An employer could make higher payments should they wish to do so
- On expiry of the ATR suspension period, or earlier, the employer could elect either to take employees back into permanent employment on their previous terms and conditions or declare them redundant and make the normal redundancy payments.

### The consultation period for redundancies should be reviewed

Despite their best efforts, sometimes employers have to make redundancies. The law requires a consultation period of at least 90 days where 100 or more employees face redundancy in a three-month period. This prolongs uncertainty for employees and delays employers in reshaping their workforces in response to rapidly changing circumstances. The government should review whether the current provisions are really working as intended.

### Exhibit 11 Are 'green jobs' the solution?

Government forecasts suggest that 400,000 new jobs will be created in low-carbon industries over the next decade, in addition to the 880,000 jobs that are estimated already to exist in the sector. Substantial change will be needed in the way the economy works if the UK is to tackle climate change effectively.

#### 'New' jobs may not be 'additional' jobs

While there will be growth in low-carbon industries, there is a key distinction between 'new' jobs – that is jobs that do not currently exist – and 'additional' jobs that boost the total number of people in work.

We will need, for instance, increasing numbers of skilled engineers working on renewable energy projects if we are to comply with our 2020 commitments. But the engineers working on a new wind farm are not normally workers who would otherwise have been economically inactive. They represent displaced economic activity – they work in 'green' jobs because of investment being switched into low-carbon sectors, but these skilled people would equally have found employment in other sectors had investment flowed in different directions.

There is also much confusion over what qualifies as a 'green' job. An engineer working on a renewable project that will help to reduce UK carbon emissions will be widely seen as holding a 'green' job. But does the same engineer continue to represent a 'green' worker when moving onto their next project helping to install an offshore oilrig?

The divide between 'green' and 'traditional' jobs becomes more opaque when supply chains are considered. While the worker directly delivering low-carbon projects can be considered to be a 'green' job-holder, it is not obvious all those supporting that worker – working in procurement, human resources, finance or facilities for instance – can claim the same classification, although they do vital jobs without which the green job-holder could not work as efficiently.

#### The key is adaptable skills

The changing nature of the economy will alter the shape of the labour market – with growth in some sectors and contraction in others, reflecting the changing regulatory and investment environment. The real challenge of the shift to a lower carbon economy is the need to boost skill levels – particularly in STEM areas – so the UK has a workforce able to adapt to new technologies and contribute to their development.

### The 2011 increase in employer NI should be deferred

The practical reality of employer NICs is that the government in effect taxes businesses for employing people. Now, against the backdrop of rising unemployment, the government is planning to increase the level of that charge.

It is essential not to add to employment costs in this period, so at the very least the increase in employer NICs planned for 2011 should be deferred.

### Jobcentre Plus is coping well but there is scope for improvement

Jobcentre Plus (JCP) has a crucial role to play – not only in helping the unemployed speedily back into work, but also in working effectively with employers and private employment agencies to manage the increased number of unemployed. The CBI recognises that JCP is coping relatively well given the pressures on its resources, with JCP reporting half of new JSA claimants leave within three months. But the challenge it faces has changed.

Until recently, JCP largely served a clientele often less in touch with the world of work and seeking low-skilled roles. As more – and more varied – clients are newly unemployed, JCP needs to achieve a more targeted, personalised service, ever more focused on matching jobs at appropriate levels to seekers. Improving service delivery, including access to and quality of IT services, will also be important:

- **Greater consistency** – a number of businesses have reported a lack of consistency between JCP regions, with multi-site businesses being offered support and help in one region but not receiving the same in another
- **Good account management** – in the downturn, many unemployed look to re-skill and transfer from one sector of the economy to another. JCP should help employers think creatively about the way vacancies are advertised to ensure they do not deter applicants from other sectors. This requires good account management at national level in JCP
- **Partnership with private employment agencies** – the CBI wants to ensure that JCP and private employment agencies work together to manage the flow of unemployed.

### Exhibit 12 Off welfare into work – new initiatives

The government has announced initiatives aimed at encouraging the long-term unemployed into work and ensuring the newly unemployed, many of whom are highly skilled, are back in work as quickly as possible.

A £500m package of initiatives has been announced, aimed at getting 500,000 long-term unemployed back into work over two years. The funding will be moved between initiatives depending on demand and their success:

- **Recruitment subsidy.** Eligible claimants will attract a £1,000 recruitment subsidy and Train to Gain funding worth on average £1,500 to employers in England. For the full subsidy to apply, claimants will have to be in their new job for at least six months and work an average of at least 16 hours a week
- **New training places.** Access to 75,000 new work-focused training opportunities will be created. Delivered on a part-time or full-time basis, the training will enable people to progress to a full qualification if they are in or out of work
- **Work-focused volunteering option.** Opportunities to volunteer to help people back into work habits.

Measures geared to help the newly unemployed include:

- **An additional £1.7bn for Job Centre Plus (JCP) and the Flexible New Deal (FND).** More people are coming to JCP with the skills required to move straight back into work and JCP may not be their natural choice as a job search avenue
- **An offer of a guaranteed job, training or work placement for all 18-24 year-olds who reach 12 months unemployed:** there will be a new guarantee of six months work or training for everyone under the age of 25 who has been on JSA for 12 months
- **£40m of support for the newly unemployed.** Funding has been set aside to provide targeted support to unemployed professionals. The number of professionals and managers receiving JSA almost doubled from 53,000 to 98,000 in the 12 months to January 2009. The scheme will be developed with the help of private employment agencies, offering one-to-one meetings with a personal adviser and advice on job hunting skills and changing careers.



### Developing welfare to work services

An active and effective approach to welfare to work is needed. The CBI recognises the progress that has been made in the provision of welfare to work services in the last decade, but the current economic climate makes reform more important than ever. Much progress can be made by harnessing the strengths, experience and expertise of each sector through a mixed market provision. A vibrant welfare to work market involving a partnership approach and the best expertise from the public, private and voluntary sectors must be the long-term goal.

### A continued focus on skills

Demand-side measures will work to best effect if they are combined with steps to ensure potential employees are equipped with the right skills. It is clear that both government and employers have a role to play in achieving this aim. Employers spend £39bn a year on training their staff and know investing in skills will help them remain competitive in the recession and beyond. But as with all investment, employers expect to realise a return. This expectation is more acute in the current economic climate when training budgets – like many areas of business activity – are under pressure. The recent CBI/Harvey Nash employment trends 2009 survey found 44% of firms are reducing training investment.

Despite this reduction, the survey showed that two-thirds of firms (66%) would be targeting their training more effectively in response to the downturn – making sure they get more bang for their buck by focusing training in areas yielding the greatest benefit.

### Train to Gain must be sufficiently flexible

Train to Gain – the government's flagship employer programme on skills – provides employers with a combination of funding and brokerage advice. Funding for the scheme is due to reach £925m this year and to top £1bn by 2010-11. During the recession, the delivery of Train to Gain must be sufficiently flexible to ensure employers receive targeted help on skills quickly and efficiently.

The programme currently provides employers with full funding for training employees to acquire basic level qualifications (up to Level 2), in addition to some partial support for intermediate level training (Level 3). Businesses also have access to brokers who can work with them to identify their skill needs and advise on training providers.

In January, a £350m government package of Train to Gain flexibilities took effect, aimed at supporting smaller firms through the recession:

- **Funding for retraining:** employees can receive funding to acquire a second Level 2 or Level 3 qualification. This allows firms to retrain staff whose current qualifications may be irrelevant or out-of-date and re-skill them for new areas of work
- **Support for unitised learning:** funding is being made available for SMEs to support 'units of learning' – as opposed to whole qualifications – in those areas believed to be of greatest business relevance. This will provide greater flexibility for firms to focus training where it can achieve the most immediate returns, with employees able to build up units of learning over time, potentially leading to qualifications
- **Extension of leadership and management:** eligibility for the Leadership and Management Programme – which provides tailored support for managing directors or other key directors of SMEs – was extended from firms with 10-249 employees to those with 5-249.

The measures are a welcome step in reforming the funding criteria and begin to address business concerns by further shifting the focus of Train to Gain away from first full Level 2 qualifications.

## Apprenticeships are key to skilling the future workforce

Apprenticeships play a vital role in up-skilling and re-skilling the current and future workforce. Employers want an apprenticeship programme that enables young people and adults to develop a broad range of skills – sector-specific competence and strong underpinning knowledge, alongside transferable employability skills that will stand apprentices in good stead in the labour market. Inevitably the downturn is putting pressure on apprenticeship programmes. The CBI/Harvey Nash employment trends 2009 survey found that, although 58% of employers are planning to maintain their apprenticeship programmes, almost a quarter (23%) are taking the decision to reduce apprenticeship numbers. Small firms are particularly likely to reduce participation, with a quarter (24%) ceasing to train apprentices altogether. Measures are required to encourage business involvement in apprenticeships:

- **Employers need financial support** – the CBI/Nord Anglia education and skills survey 2009 found 51% of employers backed the introduction of wage subsidies and/or incentive payments for apprenticeships
- **Red tape should be reduced** – employers still report having to be spend significant time navigating the system and complying with numerous rules and regulations, rather than undertaking the primary objective of training apprentices
- **Qualifications must be business relevant** – the survey found 50% of employers believe the qualifications on apprenticeship frameworks must be made more relevant to their business needs.

If strong employer involvement in apprenticeships is to be maintained – providing important training and employment opportunities for young people – through the downturn and beyond, the government must do all it can to ensure the programme better meets business needs. But its proposals for new statutory apprenticeship standards are a move in the wrong direction. Specifying a ‘one-size-fits-all’ minimum period of off-the-job training for all apprentices will have a detrimental impact on business involvement. It fails to recognise the necessary diversity of training across different sectors that meets the needs of individual employers and apprentices, and that the workplace is a different learning environment from the classroom. It will only increase red tape. We strongly urge the government to rethink these plans.

## In the longer term, a more strategic approach is required

Whilst it is right for policy-makers to focus their efforts on tackling the short-term challenges of the recession, they must not lose sight of the longer-term need to ensure the UK is an attractive place to do business and employ people. In the next two chapters we look at the scale of the longer-term employment challenge and steps the CBI believes should be taken to respond effectively.

### 3 The longer-term employment challenge

The economic slowdown has been a global phenomenon, underlining how interconnected the world has become. Firms and people alike are dramatically more mobile and more internationally minded than they were just a few years ago. An increasingly global economy brings new opportunities for businesses based in the UK and their workforces, but also new threats.

When the economy emerges from recession, the UK has to face up to the reality that long-term employment security can be achieved only by ensuring this country is an attractive place to do business – and to employ people:

- The UK has some great legacy and intrinsic advantages
- But these are not enough to guarantee that businesses will always see Britain as an attractive location to employ large numbers of people
- Major firms are increasingly able to move key elements of their operations to alternative locations overseas with minimal disruption
- Two prime considerations for selecting locations are the ease of getting work done and the availability of a well-educated, adaptable workforce. The government needs to recognise the global challenge and strengthen the UK's performance in both these areas.





### The UK starts with some important advantages

Britain's legacy as an industrial, commercial and financial powerhouse stands it in good stead for the future. It means the UK has many more major international firms headquartered in this country or with extensive operations here than might be expected, given the current size of the economy. The presence of so many major firms in itself acts as a magnet for others.

Britain's long-standing reputation for top-quality scientific, technological and engineering research is also a continuing strength. In 2007, the UK attracted investment in more R&D jobs than any other country in the developed world.<sup>27</sup>

A variety of other factors help make the UK an attractive location for companies considering where they should base operations. Adoption of English as the international language of business and the UK's time-zone position, enabling it to overlap with daytime working hours in both North America and much of Asia, for example, give us important advantages. The UK's political stability and the general observance of the law are further strengths. Ease of access to mainland European markets and the particular attractions of London as one of the handful of great international cities are further advantages for those weighing up the UK as a location to do business.

### Advantages are not guarantees

Important as these and other advantages are, though, they give no guarantees about the future. Many major existing businesses may have their origins in the UK, but more competitors are appearing all the time in other parts of the world. Back in 1995, the Fortune Global 500 list of the world's largest companies featured only 20 multinationals with their home base in an emerging-market economy. By 2007, just 12 years later, the number of emerging-market multinationals on the list had jumped to 70.<sup>28</sup> These new major companies have their roots in other continents: the UK is simply one European market, and one potential location for operations, among many alternatives.

Even among those multinationals originating in Britain, there are no guarantees they will always opt to employ large numbers of people here. The world is changing far too fast for that to be taken for granted.

The presence of international companies on a substantial scale has a value that goes beyond their direct role as businesses. They act as an important driving force for efficiency and productivity. Multinational businesses are on average more productive than purely domestic ones.<sup>29</sup> Their ability to spread good practice and new technologies between countries serves as a catalyst for improved productivity across the economy as a whole. If the UK becomes less attractive as a location to employ people, either to major firms originating in the UK or for multinationals with parent operations elsewhere, the economy will suffer the consequences.

### It is increasingly easy to relocate key business activities

The movement of work out of the UK is nothing new. From the 1950s onwards, the manufacture of textiles, clothing and many consumer goods and other items was transferred to lower cost locations. More recently, routine service work such as credit-card receipt processing, airline reservations and the writing of basic software code began to be moved offshore. With the passage of time and improvements in technology and communications, the list of activities that businesses can carry out elsewhere has rapidly lengthened, spreading up the value chain. The pressures of the current recession have given added impetus, with 23% of employers reporting they have moved jobs or operations overseas in response to the downturn or are considering doing so.<sup>30</sup>

While production, processing or distribution might be moved abroad, government and policymakers seem to assume that the critical decision-making and associated headquarters functions of global companies remain fixed in their country of origin. Increasingly, that is a questionable assumption. As one senior manager interviewed for this report put it: "In the time it takes to put people on a plane, we could move our headquarters to Switzerland."

The characteristics traditionally seen as defining a firm's national identity – where it was incorporated, where it was listed, the nationality of its investor base, the location of its headquarters – are no longer necessarily unified nor bound to one country. A company's legal base, its financial home and its centre for managerial talent do not today need to be co-located – and increasingly are not.<sup>31</sup>

As the experience of IBM illustrates (Case study E), multinational corporations – formerly badged with a particular national identity – are evolving into globally integrated enterprises. Rather than each subsidiary in each country having duplicate functions – finance, purchasing, IT and so on – companies are increasingly centralising these functions in a limited number of locations. Such companies are regularly reviewing where certain types of work can be carried out most effectively, and whether they want to carry it out themselves or contract it to an outside partner.

The reality is that virtually any task that does not require physical proximity to the customer or presence at a particular location – such as construction or mineral extraction – can be done from almost any location in the world.<sup>32</sup>

### Critical factors: ease of getting work done...

There are many factors that influence choice of business location, ranging from the tax regime<sup>33</sup> to a nation's transport and energy infrastructure. But a critical factor is the ease of getting the day-to-day work of a business done. How straightforward is it to hire staff and dispense with underperformers? How readily can work patterns be changed or jobs restructured to respond to changing circumstances? How easy is it to move key employees into and out of the country? The answers to questions like these are of central importance.

The scope for firms to make these kind of adaptive changes was long seen an important strength of the UK economy by comparison with mainland Europe. That flexibility, however, has been steadily eroded.<sup>34</sup> The rising tide of well-intentioned employment regulation has added to costs and curbed the ability of firms to adapt to the changing demands of customers and competitive pressures generated by the wider world. More analysis of the costs and consequences of regulatory changes over recent years is given in chapter 4.

### ... and availability of a well-educated, adaptable workforce

A second critical factor affecting choice of location is the availability of a pool of well-educated, adaptable potential employees. Education enhances productivity.<sup>35</sup> In common with other western economies, the UK has long enjoyed an advantage in this respect relative to most other parts of the world, but that is changing rapidly as levels of education and skills rise across the globe.

One of the biggest shifts in the global labour market is what has been termed 'the great doubling'.<sup>36</sup> In a short period in the 1990s, China, India and the former Soviet bloc states joined the global market economy. This had the effect of virtually doubling the size of the global labour pool, from approximately 1.46 billion workers to 2.93 billion. It has opened up new possibilities for business location in ways that few people ever imagined.

More recently, another doubling has been identified, namely a near doubling in the numbers of university students across the world, from 33.4 million in 1995 to 62.9 million in 2005.<sup>37</sup> The huge expansion in higher education is creating many more choices of location for employers seeking higher-level skills and talent. The traditional lead of the UK and other advanced economies is eroding. A few statistics highlight the scale of the change:

- By 2000, nearly two thirds of university enrollees were in emerging economies
- In China alone, the number of people graduating with a first degree rose fivefold between 1999 and 2005 to four million<sup>38</sup>
- By 2006 China had over ten times as many university students as the UK<sup>39</sup>
- Asia is already producing more engineers and physical scientists than Europe and North America combined<sup>40</sup> and by 2010 China will produce more PhD holders in science and engineering than the USA.<sup>41</sup>

At lower levels of educational attainment, the UK's relative position is also under pressure. Only 45% of all school leavers have a grade C or above in both English and maths at GCSE. Since 1995 the number of students taking chemistry at A-level has fallen by 31%, physics by 56%, other sciences by 14% and maths by 29%. The OECD's 2006 survey of performance in science subjects showed we are below average in the number of students taking science at GCSE. Overall among OECD nations, we rank joint 11th for science.<sup>42</sup>

Moving to functional skills essential for work, weaknesses in numeracy and literacy are long-standing problems that have been well-documented.<sup>43</sup> They remain a serious handicap to the UK's economic performance and its attractions as a place for companies to base operations.

**Action is needed to strengthen the UK’s performance in both these areas**

The UK cannot expect to compete as a location to employ people on the basis of labour costs. **Exhibit 13** provides some measure of the scale of challenge on that front. Nor can the UK cut itself off from the realities of the globalised economy.

The response has to be to ensure the UK is a great place to do business. The world is increasingly evolving into a single global marketplace. International companies are responding by reshaping themselves into globally integrated operations. The UK has great strengths and attractions and has shown itself able to prosper in this new environment. But it cannot rely on that record of past success to ensure prosperity and jobs for the future.

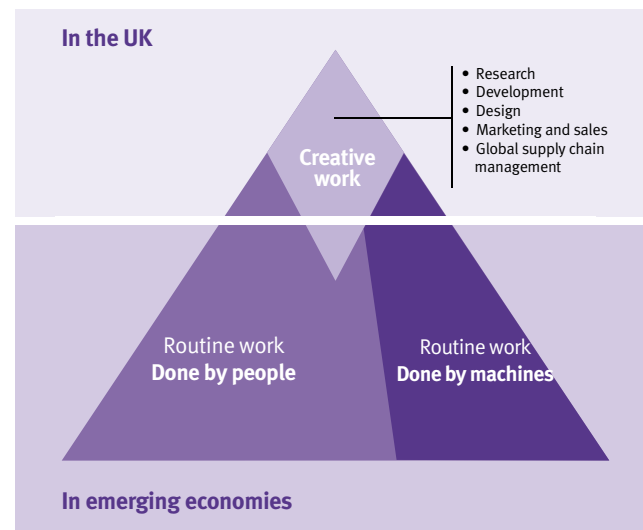
**Exhibit 14** illustrates the profile that successful UK-based businesses are likely to have in future. More and more of the routine, lower-value work is likely to be performed outside the UK. What is essential is to ensure that Britain has in place a framework that encourages businesses to retain and expand the creative, higher-value work they do here. In chapter 4 we look at steps needed to bring this about.

**Exhibit 13 Hourly compensation costs in manufacturing 2007**

Country	USA = 100	
	All employees	Production workers
USA	100	100
UK	120	121
France	123	116
Germany	166	153
Hungary	34	32
Poland	25	25
Brazil	23	24
Korea	60	65
Taiwan	27	27
Singapore	50	34
China (2006)	2.7	N/A

Source: US Bureau of Labor Statistics  
 Note: Compensation costs include all earnings, benefit costs and social insurance charges

**Exhibit 14 Profile of successful firms in the future**

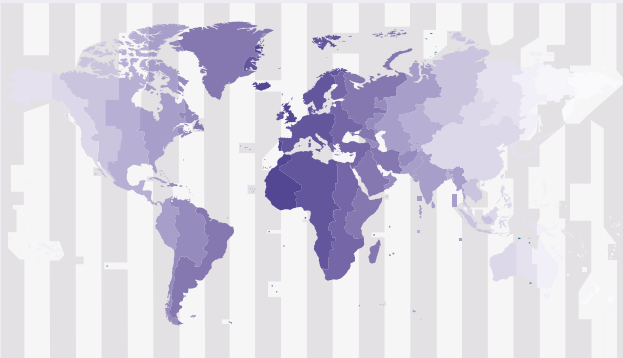


Source: Adapted from Tough Choices, Tough Times, Report of the New Commission on the Skills of the American Workforce, Washington, 2007

## Case study D:

### Accenture: building on the UK's strengths

One feature of globalisation is the increasing ease with which businesses can access lower-cost labour in emerging markets. With many businesses having restructured to take advantage of these cost efficiencies, the UK and other mature economies have increasingly become hubs for jobs requiring high-end skills. The experience of global management consulting, technology services and outsourcing organisation Accenture illustrates this restructuring process and highlights the importance of the UK building on its current advantages as a place to do business.



### High-end skills are vital to the UK

As well as moving from traditional partnership to a corporate structure, the last decade has seen a marked change in the distribution of Accenture's workforce. One of the company's major business streams is managing the back-office support functions for a wide range of organisations across all sectors of the economy. The need to handle this type of activity – ranging from administrative tasks to basic computer coding – in a cost-effective way has greatly expanded Accenture's presence in emerging markets. Its Indian workforce alone has risen from just 300 in 1999 to more than 38,000 today. With employment costs for a graduate in India substantially lower than those in the UK, the transfer of lower-value activity to this and similar locations is an almost inevitable process.

Consulting work, in contrast, requires forging relationships, achieving understanding of organisations and operations, face-to-face communication and non-routine activity that needs to be done close to clients. These high-value activities need mixes of high-value skills. As a result, though the numbers of Accenture's UK workforce have remained fairly stable, their skills profile has changed markedly over recent years, with the majority now in client-facing, high-value roles.

### The UK has in-built advantages as a place to do business

With UK employment costs relatively high compared to emerging economies, how can the UK continue to be attractive as a location for companies? Investment in high-end skills is important, but as Dan Flint, HR director at Accenture UK & Ireland outlines, the UK must also build on the many advantages it already has as a place to do business.

Positioned between US and Asian time zones, businesses with global operations can easily co-ordinate dealings with both regions from the UK. The readiness of UK workers to undertake overseas assignments and their ability to work effectively with those from a wide range of other cultural backgrounds also allows international projects to be easily resourced.

The UK – and London in particular – remains a top global financial centre, which itself draws companies to the UK. As Flint explains, "There is still a feeling that if you want to be taken seriously, you need a presence here." Many skilled employees from across the world also see London as a career destination of choice. Whether it is young singles or those with families, the UK is perceived as having much to offer as a place to live and this allows businesses to attract top quality staff. For Flint, "Building on these advantages and creating strong local economies" will be important if the UK is to continue to be an attractive place to do business and employ people.

## Case study E:

### IBM: the emergence of the globally integrated enterprise

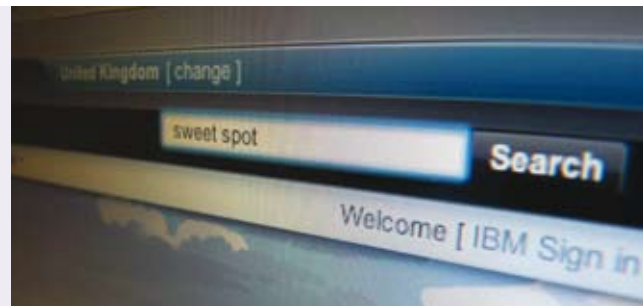
The globalisation of the world economy has changed the way multinational businesses operate. The liberalisation of trade and investment flows has altered corporate perceptions of the type of global operations that are now permissible. In parallel, technological advances and the standardisation of IT and other systems have changed the sorts of global operations that are possible. These twin drivers have encouraged firms to look again at where best to locate different parts of their business.

The traditional multinational simply replicated self-contained structures and processes in the different countries in which it operated. So like a purely domestic company, each national subsidiary had its own full range of functions, from sales teams and production operations through to procurement and finance. In contrast, global businesses today can site functions such as human resources, procurement, R&D, sales and customer services in a limited number of locations – or even a single location serving worldwide operations – where they can be performed best, taking advantage of efficiency gains and the availability of talent.

#### IBM – a business without borders

For IBM, the movement from traditional multinational to what it has termed the ‘globally integrated enterprise’ has been rapid. With around 20,000 employees in the UK out of a world-wide workforce of around 400,000, IBM is the world’s largest IT and consulting services company, providing technology-based solutions to clients around the world.

The way IBM manages the support functions which enable it to deliver these services has changed markedly over the last five to ten years. In 2003, IBM’s procurement activities, for example, were run from 300 individual centres around the world. Today the same operation is run from just three centres, all located in China. And this is not an isolated instance. In the same period IBM has moved from operating 163 purchasing functions to just one.



What is driving this change? From an IBM perspective it is the revolution permitted by the web in driving efficiencies via globalisation of business activity. In today’s global business “everything is connected” and this means that the principles of global integration – economic, expertise and openness – determine where work will be done. As it becomes easier for businesses to physically move capabilities to different parts of the world, it makes sense for them to consider where they can best perform business functions.

#### Reaffirming the UK’s attractions as a business location

Companies are not only now globally integrated, but the ease and speed at which decisions are made to locate investment in different parts of the world is increasing.<sup>44</sup> In IBM’s view it is not a question of a ‘race to the bottom’ but rather a race to the ‘sweet spot’ – locations differentiated on the basis of their expertise and openness.

Economies are increasingly in competition with each other for business investment and they will need to keep adapting and innovating to maintain differentiation and competitive advantage. A particularly key priority has to be education and skills: “The single most important challenge in shifting to globally integrated enterprises – and the consideration driving most business decisions today – will be securing a supply of high-value skills.”<sup>45</sup>

A prime example of those high-value skills in action is provided by IBM Hursley, near Winchester, the largest software development lab in Europe. Employees at the lab work at the boundaries of technology, submitting scores of patent applications every year.

## Case study F:

### Ylem: software developer turns to Kraków for graduate talent

Looking for international talent is usually regarded as restricted to multinational firms. But companies of all sizes are broadening their horizons, as the experience of Ylem illustrates.

Ylem is a software development company employing 15 staff, with offices near Exeter and Oxford. Established nearly 40 years ago, the company now competes against other software developers across the world. Not having the low cost base of many of those competitors, it has to stand out on the basis of the quality of its products and customer responsiveness.

As part of Ylem's commitment to developing future talent, the company offers a year-long placement to a business studies graduate each year. Until 2004, these graduates were sourced from local universities. Over the years, however, the company has become increasingly frustrated over the calibre of UK graduates. Applicants have often shown weak numeracy skills and lack of IT understanding – knowing how to use Windows programs for example but not grasping the underlying IT concepts.

As part of a town-twinning relationship between Dulverton and Kraków, the company decided in 2004 to offer a placement to a graduate from Poland. Although initially started as a one-year scholarship, the impressive performance of the Polish graduates has meant that Ylem now offers placements regularly to Kraków graduates, and some of those arriving by this route have moved into permanent jobs with the company.

So how do the Kraków graduates compare to those from UK universities? For managing director Bill Wilson, the biggest difference has been the increased work ethic and motivation the Polish graduates bring to the business, plus excellent IT skills. Like any small business, retaining a highly productive staff base is vital if Ylem is to remain competitive. When new staff are brought into the business, Ylem looks for them to possess technical understanding and employability skills, with high levels of motivation and a drive to succeed – what Wilson describes as a 'can do' attitude or 'willingness to do what is required to get the job done'.

Wilson believes the relationship with Kraków will continue to serve Ylem well: "Although we are a UK business we are acutely aware that we have to compete in the worldwide market when it comes to talent. We are competing for contracts with businesses around the world and high quality staff are key to our success. That means casting our net wide in our recruitment strategy."

## Case study G:

### Rolls-Royce: moving from a national to a global stage



The speed with which companies have globalised their operations is well illustrated by the experience of Rolls-Royce. In the space of less than 20 years, it has been transformed from a purely UK-based company to a global business with employees and customers worldwide.

#### Speed of change

Back in 1990, all its workforce was based in Britain and 60% of its business was defence, with

the UK government as the primary customer. Today it has become a technology company specialising in integrated power systems for use on land, at sea and in the air. As well as diversifying its output, the company is

now heavily involved in providing services as well as manufacturing, with around 50% of its income coming from service activities.

The 38,000 employees are spread across manufacturing bases in about 20 counties and customer support facilities in 50 countries, with customers in around 120 countries. In all, over 40% of employees are outside the UK.

#### Changing identity

As chief executive Sir John Rose, puts it, "In the UK we are thought of as a British company, but in Germany we are a German company. In America we are an American company, in Singapore we are a Singaporean company – you have to be in order to be close to the customer but also to the suppliers, employees and communities in which we operate."<sup>46</sup>

From a starting position of virtually all research and technology development being conducted in the UK, Rolls-Royce now carries out 60% in other locations. These range from the USA, Scandinavia and Spain to India, Japan and Singapore. "As a global company, the UK represents one of a number of choices where Rolls-Royce can invest. Despite my personal enthusiasm for the UK, we approach these choices objectively and base decisions on what will deliver the best outcomes."<sup>47</sup>



## Case study H:

### GlaxoSmithKline: ease of movement essential for global business

A global business needs an integrated multinational workforce. That in turn depends on the ability to move people easily between different countries through staff transfers, secondments and the provision of training placements. GlaxoSmithKline (GSK) aims to be 'a truly global organisation, head-officed in London', so it sees barriers that impede its ability to draw on and develop a global talent pool as a severe handicap.

#### Talent development and diversity need openness

Employing over 90,000 people in more than 100 countries, including over 17,000 in the UK, GSK is one of the world's leading research-based pharmaceutical and health product companies. Scientific and technical expertise is fundamental to its activities, and the processes on which scientific progress depend are greatly facilitated by face-to-face contact, often over extended periods.

In the words of Martin Swain, GSK's head of UK employee relations, diversity & inclusion, a global business has to 'think globally' in its approach to talent management. GSK's activities in emerging markets are growing fast, and the company sees it as essential to develop talent in those markets if it is to compete successfully. Increasing the numbers of locally developed general managers is also a key part of GSK's global diversity agenda. To succeed in their roles, general managers need exposure to head office activities. With strategic operations driven from GSK's London headquarters, head office experience is vital if they are to gain an understanding of how GSK functions as a global business. Enabling this kind of knowledge transfer and entrenching shared corporate values is indispensable to developing key talent outside the UK.



#### Training initiatives under threat

GSK's concerns are focused not only on moving its own staff into the UK, but also its ability to bring scientific specialists into the UK for training and development.

One scheme under threat as a result of changes in migration management is GSK's involvement in the government-backed UK India Education and Research Initiative (UKIERI). GSK annually provides year-long placements in its laboratories for up to 20 outstanding chemistry students from India.

The graduates are offered the opportunity to be part of integrated, multi-disciplinary teams contributing to core business, to gain specific and specialist knowledge and experience in the pharmaceuticals industry using the skills and knowledge gained during their studies. The scheme has also been a good basis for training Indian graduates in UK ways of working and building mutual cultural understanding. The project has bilateral government support and relationship management is provided by the British Council. At the end of their training, the trainees return to India to work there and use the knowledge and experience gained in the UK. Some of them are offered positions with GSK in India, while others secure specialist positions with other companies. Ending the UK training and work experience scheme element of migration arrangements may mean the end of the scheme.

Similarly under threat is a scheme to develop talent in biochemical science from Singapore, where GSK has invested heavily and has major operations. With support from the Singapore Economic Development Board (EDB), GSK runs training placements in the UK for engineers and chemists. Being able to have these 18-month placements in the UK rather than other countries is crucial – not only is it easier from a language point of view (all Singaporean trainees have excellent command of English), but it also allows GSK to give trainees exposure to head office and important manufacturing and R&D sites in the UK. The scheme has been actively supported by both the EDB and GSK as part of developing a more internationally-minded cadre of skilled employees, the majority of whom go on to be recruited by GSK Singapore.

#### More mobility needed, not less

For GSK to maintain its position as a leading global science-based company, it believes it cannot behave as 'a UK-centric organisation'. To remain competitive, GSK believes UK companies must be able to draw on new talent from across the globe, as well as the freedom to move and train existing talent within the company. While government policy is having the effect of reducing its ability to move people in and out of the UK easily, GSK believes it needs to support and increase that mobility.

## Case study I:

### Prudential: investing in future leaders needs a global approach

Global businesses take a global approach to talent management. Motivated partly by the importance of top managers having international experience and partly by the need to source high quality staff as widely as possible, businesses are increasingly committed to giving their staff exposure to business operations in different countries. One way this can be done is through international staff development programmes – such as Prudential's 'Momentum Programme'.

#### Fast growing Asian markets

Providing staff with global experience is especially important in a business like Prudential, where core business functions are now strategically located in different parts of the world, offsetting risk and targeting products to markets where demand is highest. About 6,000 of Prudential's 30,000 employees work in the UK, some in head office roles and others in specialised functions such as investment management, but the largest section of the workforce is now in Asia.

Though the UK and USA remain important mature markets, the bulk of new growth and profit come from elsewhere. In 2008, over three quarters of new business profits came from outside the UK – a large part accounted for by the rise of Asian markets. Over the past decade demographic and technological changes in the Asian markets, such as the emergence of an affluent middle class and increased access to the internet, have opened up new opportunities and new markets for Prudential. Selling life assurance and pensions in China, for example, is much easier today than it was even five years ago.



#### A programme to build global talent

The Momentum Programme is a four- to six-year programme open to employees in their second management role in the business. Placing participants in different business units around the world, those taking part are expected to take on at least three different positions in the commercial, human resources, communications or finance parts of the business before progressing to senior management level.

Hilary Oliver, Prudential's director of group reward and employee relations, describes the programme as designed to create 'the global leadership teams of the future'. Backed by mentoring and bi-annual development conferences to give participants the chance to meet up, participants gain an understanding of the different markets in which Prudential operates, equipping them with the skills required to analyse investment opportunities and risk when making business decisions. The access to a peer community of fellow employees taking part also encourages unity within the business, which is retained as participants rise through the business and eventually progress into senior management roles.

For companies to be able to develop their global talent pools in this manner, it is important that barriers to mobility are minimised. A concern for the company is that the UK tax regime is being reshaped in ways that may act as a disincentive for highly skilled staff to spend time working in the UK in essential strategic roles.

#### Specialised, functional skills are vital to the UK

As well as London's role as an international financial centre, the UK remains a good source for the type of highly skilled staff a company like Prudential requires. Functional specialists in group head office, for example, undertake demanding strategic roles, managing 'virtual' teams of people who may be based in a number of different international locations. High levels of attainment in education and skills, with a particular focus on improving graduate numbers and quality in science, technology, engineering and maths (STEM), will be important if the UK is to build on its advantage in this area.



## 4 Making the UK an employment location of choice

In chapter 3 we showed the UK has to face up to the reality that long-term employment security can be achieved only by ensuring this country is an attractive place to do business and to employ people. Action is needed in two critical areas:

- The ease of getting day-to-day work done – fostering labour market flexibility in all its forms
- The availability of a well-educated, adaptable workforce.

Britain must put in place a framework that encourages businesses to retain and expand the creative, higher-value work they do here. That framework must build on the advantages the UK already enjoys. In this section we outline the steps needed to bring this about:

- There has been a huge increase in the amount of employment regulation – a near fivefold increase measured by numbers of pages since the early 1980s
- New employment regulation has added over £70bn to business costs since 1998
- We have reached a tipping point, where more of the same risks serious damage to the attractions of the UK as an employment location
- A new overriding test should be applied to all future employment regulation to assess whether and how it will help to create sustainable jobs
- The government should consider introducing an upper limit on discrimination claims, if necessary taking action with its European partners to review this issue
- Action is needed to curb escalating costs and complexity of employment tribunal claims. Lodging of claims under multiple headings must be tackled
- Raising the quantity and quality of skills is an indispensable part of increasing employment
- More must be done to develop young people's employability skills
- The demand for skills – particularly higher-level skills – is rising
- Improved performance in science, technology, engineering and maths (STEM) is necessary to meet that demand
- More should be done by employers, colleges and universities to boost the skills of those already at work.



### Huge increase in the volume of employment regulation

Preoccupied as they tend to be with specific measures, our legislators and policy makers can lose track of just how much regulation they are generating. The reality is that there has been a huge increase in the sheer volume of employment regulation.

Back in 1981, one of the standard sources of employment law – bringing together UK statutes, statutory instruments, EC regulations and directives, statutory codes of practices and so on – ran to 616 pages. The 2008 edition of the same work amounts to a more than 2,900 pages, a near five times increase in the volume of employment law.<sup>48</sup>

### Employment regulation has added over £70bn to business costs

Taken on their own, most new employment rights and the regulation they involve do not seem unreasonable. But it is the cumulative impact of new rights that is heavy, piling mounting costs on UK firms. For example, a major retailer estimated that the work of assessing and revising all its HR policies and procedures to ensure compliance with just one new set of regulations took the equivalent of four person-years, with all the costs and diversion of senior staff from other business activities that entailed.

Using the government's own Regulatory Impact Assessments, the CBI calculates that employment regulations introduced since 1998 have added more than £70bn to employers' costs.<sup>49</sup> This huge sum is, for example, equivalent to the employment costs for more than 215,000 people in full-time jobs paid at average earnings, including overtime and employer NICs, throughout the period.

And those costs keep on rising. As annexe B shows, the initial one-off cost when a new regulation is implemented are relatively minor – it is the recurring costs of regulation, rising year on year with inflation, which pile on the costs.

Some of the costs of regulations arise because so many measures are poorly executed and implemented. An Ipsos Mori survey<sup>50</sup> on behalf of the Better Regulation Executive found confusion expressed by businesses about the volume of legislation and sheer pace of change. It found businesses calling for clarity, brevity, an appropriate burden relative to each regulation and time to make good any breaches that occur. A prime example of measures that failed on all these points were the Dispute Resolution Regulations 2004, now thankfully repealed.

### We have reached a tipping point – more of the same risks serious damage

The growing cost of employment regulation has led many CBI members to believe the UK has reached a tipping point, where further regulation risks serious damage to the economy, making it less attractive as a place to do business and employ people. Results from the 2008 employment trends survey<sup>51</sup> found 64% of employers feel the current burden of employment regulation has become a serious threat to the flexibility of the UK labour market. Significantly, 67% of employers feel regulation will continue to threaten competitiveness and flexibility in future.

There is independent evidence to support this view. According to the World Bank, although the UK remains the sixth best economy in 2009 in which to do business overall, when evaluated for ease of employing workers it slipped from 22nd in 2008 to 28th position in 2009 – the US remains at number one, followed by Singapore.<sup>52</sup> Analysis by the World Economic Forum's Business Competitiveness Index<sup>53</sup> shows the UK sliding from seventh to eighth place on its measures of labour market efficiency. Whatever the ranking awarded, it is the direction that matters. Further movement in the same direction over the coming years would be extremely concerning: in terms of its employment regulation, the UK would be a less attractive place to employ people.

### A new overriding test should be applied to all future employment regulation

So what should be done? No one wants to live in a society with no employment legislation. But protection and rights for employees and trade unions must be balanced with business need. What is required is regulation that is intelligent, proportionate and evidence-based.

The CBI has previously put forward detailed proposals for changes in elements of UK employment law and its institutions.<sup>54</sup> What is most needed, however, is a rethink of overall approach. The essential requirement in the future is for government to focus on the importance of making the UK a great place to do business and employ people, recognising the global realities. This requires a change of mindset and the application of a simple new test for all employment regulation: 'How will this measure help to create sustainable jobs?'

The test should be applied to all new proposals for employment regulation from the UK government and the EU. We believe, for example, that the proposals for a new ATR scheme set out in Annex A pass the test. Over time, existing employment regulations should be assessed against the test to determine whether they should be repealed, amended or applied in different ways to support the generation of jobs for the future.

### Action to curb escalating costs and complexity of employment tribunal claims

A fresh approach of the kind outlined above will bring about important changes. It is not the aim of this report to try to anticipate their precise nature. One area of regulation, however, cries out for urgent action to protect the reputation of the UK as a good place to employ people.

The number of claims to employment tribunals has been escalating – with unfair dismissal claims for example up from just under 41,000 in the year to March 2008<sup>55</sup> to more than 47,000 in the ten months to February 2009.<sup>56</sup> The majority of these claims never progress to a tribunal hearing, but they divert management time and energy from productive activity, as well as adding to costs. Employers settle more than a quarter (26%) of employment tribunal claims despite receiving advice they are likely to win the case. Moreover, weak and vexatious claims are on the rise, with 44% of employers in 2008 reporting an increase compared with only 9% reporting a drop.<sup>57</sup>

The number and complexity of claims is being pushed up by the growing trend for individuals to lodge claims under multiple headings in relation to the same event. This tendency is encouraged by the uncapped compensation currently available for discrimination claims by comparison, for example, with the £66,200 upper limit on unfair dismissal compensation. As well as complicating conciliation and tribunal processes, the absence of any upper limit means there are no clear parameters within which discussions can take place with a view to reaching a compromise agreement.

The government should be exploring ways to discourage this trend. Introducing an upper limit on discrimination claims could have a big impact. The government should be examining practice on upper limits elsewhere across the EU and, if necessary, taking action with its European partners to review this issue.

### Building a well-educated, adaptable workforce

As we have seen, the structure of the global economy is changing fast. In this new world, UK businesses must compete on the basis of an advantage in high value-added, innovative, high-skilled sectors. As President Obama recently put it: “All of us must recognise that education and innovation will be the currency of the 21st century.”<sup>58</sup> Raising the quantity and quality of skills is an indispensable part of improving our economic performance and increasing employment:

- More must be done to embed employability skills
- The demand for skills – particularly higher-level skills – is rising
- Improved performance in STEM is necessary to meet that demand
- More action is needed to add to the skills of those already at work.

### More must be done to embed employability skills

At every level of work, possessing employability skills is essential. These form the underpinning for effective functioning in the modern workplace. In **Exhibit 10** we outlined the CBI’s concept of employability, shaped through extensive discussions with employers.

We still have a long way to go before virtually every job seeker possesses employability skills. Employers continue to find extensive weaknesses among school, college and university leavers in areas ranging from numeracy and communication skills to general attitudes to work (**Exhibits 15 and 16**).

Employers do not expect young people to emerge from education ready-skilled to tackle specific jobs – they invest heavily in training for that. But they do expect them to be able to draw on employability skills to find their feet in the workplace, be equipped to function at work reasonably effectively, and be in a position to benefit from training. Employers have an important part to play – in partnership with the education system – in helping young people recognise the importance of employability, by providing work experience placements for example.<sup>59</sup> But they should not find themselves, as they often do, having to provide remedial help with literacy, numeracy and basic IT for school leavers and even graduates.

### The demand for higher-level skills is rising

As outlined in chapter 2, the proportion of jobs requiring higher levels of skills is rapidly increasing and the number of jobs open to those with low levels of skill is decreasing. To emphasise the point, CBI data<sup>60</sup> shows 71% of firms reporting an increased need for higher level skills over the next three to five years. And there is recognition from business leaders of the need to ensure the UK has the right skills to address strategic challenges – whether competing in high value-added science and technology, tackling low-carbon energy production or delivering huge infrastructure projects such as Crossrail.

It is therefore concerning that over half (57%) of employers<sup>61</sup> lack confidence in their ability to find enough high-skilled staff in future. The focus for employers is not necessarily increasing the quantity of university graduates – only 3% of employers<sup>62</sup> believe this should be the priority at undergraduate level – but is instead on the quality of highly skilled staff. In particular, business needs staff with STEM skills and employability skills.

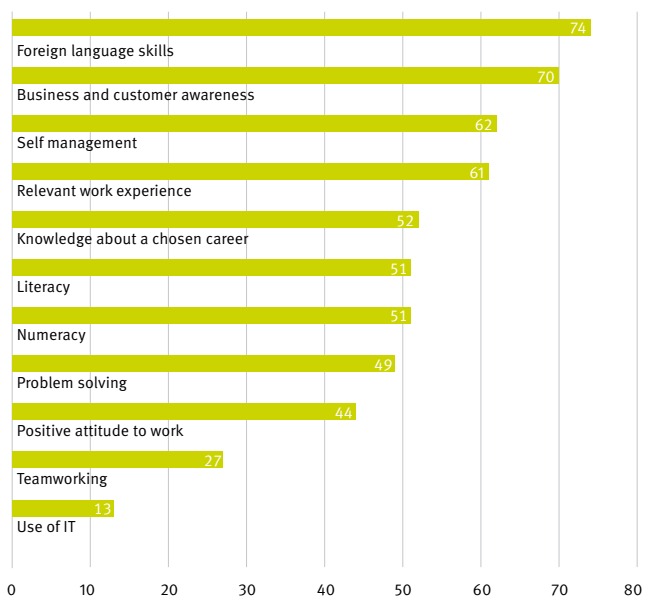
A diverse and vibrant higher education sector is crucial to delivering this agenda. Last autumn, the CBI launched a Higher Education Task Force to explore what business wants from higher education and how business and universities can better work together. The Task Force will set out recommendations for government, universities and business later this summer.<sup>63</sup>

### Improved performance in STEM is necessary

Businesses across the economy value STEM graduates for their numerical and analytical abilities – 40% of employers<sup>64</sup> express a preference for STEM degrees when recruiting. But clearly they are particularly relevant in key areas – such as energy and hi-tech manufacturing – which are predicted to grow and provide employment opportunities in future.

But two thirds (66%) of employers report difficulty recruiting STEM-skilled staff, with a particular difficulty at graduate and postgraduate level (**Exhibit 17**). Currently, less than one in six (16%) of undergraduates read the STEM subjects.<sup>65</sup>

### Exhibit 15 Employers' dissatisfaction with school leavers' key skills (%)



Source: CBI employment trends survey 2008

The importance of STEM skills needs to be ingrained in the DNA of our education system. We should be looking for more young people taking separate GCSEs in all three science subjects to give themselves the best platform for future scientific study, more teaching of maths and sciences by subject specialists, and improved careers advice so young people are aware of the interesting and well-rewarded careers available in technical and scientific fields. Business also has a role to play in engaging young people through programmes such as the STEM Ambassadors Scheme. There are currently 1,500 employers involved in the scheme which links 19,000 ambassadors with schools to promote STEM skills to young learners.

The CBI Higher Education Task Force is currently exploring what more universities and businesses can do to increase take up of these valuable subjects at universities and will publish recommendations in its final report.

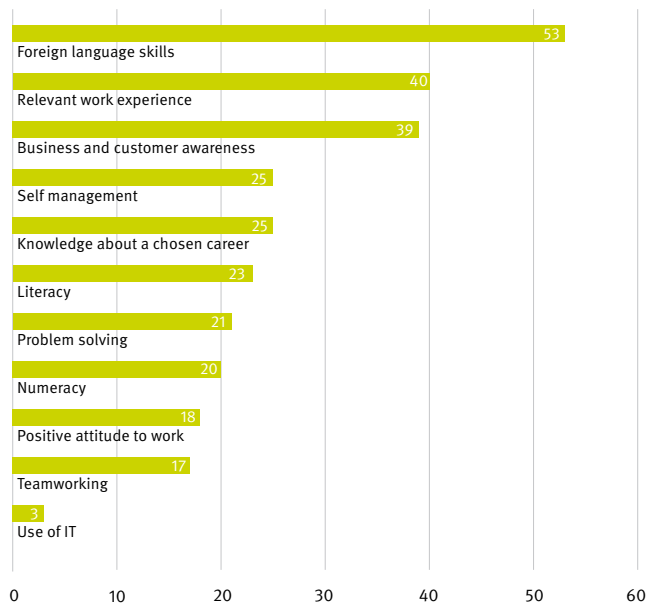
**Adding to the skills of those already at work**

While there is a need to focus on improving graduate quality, over 70% of the 2020 workforce has already left formal education. There is therefore also a need to develop and upgrade the skills of those already in the workplace.

Further and higher education institutions have great scope to work with employers to tackle this challenge. Strong links already exist between many businesses and FE colleges and universities, but recent reports<sup>66</sup> produced by the CBI in partnership with other bodies have shown just how much more could be achieved.

In both education sectors there is an urgent need to put in place the infrastructure required for this new market – particularly in managing relationships with business. The reports show the importance of a changed mindset within the institutions, moving on from the traditional student-centred model of education so both the employer and the learner are recognised as clients. Recognising the employer as a client involves a big cultural shift – with employers playing a varying but essential role in course design/delivery and potentially paying some costs, and colleges and universities showing flexibility in the time, location, and delivery methods for programmes.

**Exhibit 16 Employers’ dissatisfaction with graduates’ key skills (%)**



Source: CBI employment trends survey 2008

**Exhibit 17 Employers reporting difficulty recruiting STEM-skilled employees (%)**

	All respondents	Energy and water	Manufacturing	Science, hi-tech and IT
<b>Difficulty recruiting at some level</b>	<b>66</b>	<b>92</b>	<b>80</b>	<b>77</b>
Graduate and postgraduate	32	74	50	62
Experienced	21	42	32	21
Technician	16	47	32	17
Qualified apprentices	12	32	27	13

Source: CBI education and skills survey 2009

### Exhibit 18 What is labour market flexibility?

Labour market flexibility is important. But what does it actually mean?

The Department for Business, Innovation & Skills (BIS) defines labour market flexibility as “The ability of labour market outcomes to adapt over time and in response to shocks”.<sup>67</sup> So a ‘flexible’ labour market is one that is responsive and well-placed to adapt to rapidly changing circumstances and pressures.

But what indicators do we look for when assessing the responsiveness of labour markets to new challenges?

To help answer this question the CBI has identified seven different types of flexibility that provide a benchmark against which UK performance on labour market flexibility can be judged:

- **Flexible working patterns:** these include part-time, agency, fixed-term working as well as telework and flexible working time
- **Numerical flexibility:** the ease with which companies can adjust the size of their workforce
- **Geographical flexibility:** ease of employee mobility both between and within countries
- **Wage flexibility:** at a macro level, the ability of wages to respond across the whole economy to changing GDP growth or rising unemployment. At a micro level, it is the ability of companies to set wages which reflect the conditions of the local, regional and sectoral labour markets
- **Skills flexibility:** availability of an adaptable workforce with skills relevant to the needs of employers and transferable from job to job, and means of updating those skills as necessary
- **Functional flexibility:** the ability of employees to perform more than one task or to do a job other than the one they do on a regular basis
- **Active labour market policies:** programmes designed to improve individuals’ employability, particularly for those currently not participating or under-represented in the job market. These might include those on incapacity benefits, certain ethnic minorities and ex-offenders.

A flexible labour market is not about performing well in just one of these areas. Instead, a judgement needs to consider performance across all these indicators. Some may be more important than others. For instance, in a recession making it easier for businesses to take on new staff – increasing numerical flexibility – will be vital in speeding up an economy’s return to growth and avoiding long-term unemployment. Access to a workforce with the right skills, who are themselves adaptable both within and between jobs, will also be important.

## Case study J:

### Siemens: developing the skills pipeline for UK manufacturing

The past 20 years have seen UK manufacturing evolve into a high-skill, high-value sector. The growth of automation and increasing complexity of products and processes has led to a decline in low-skilled work, with demand now focussed on high-end skills and technical capacity. Manufacturing and engineering employers such as Siemens have increasingly recognised that they must play an active role to ensure an adequate supply of employees with these skills for the future.

#### A range of technical skill needs

Siemens is a specialist electrical engineering and electronics business, employing over 18,000 people across the UK. It operates in highly varied markets, including the supply of MRI and CT scanners in healthcare, wind power technology in the energy sector, maintenance of trains and rolling stock, automation for manufacturing, and management of IT systems. High-end skills are vital in all areas of the business, from project management to technical operations.

According to Juergen Maier, managing director of Siemens Industry in the UK, 'resourcing these operations successfully has increasingly required higher-end skills' and a workforce proficient in science, technology, engineering and maths (STEM). With fewer young people pursuing these subjects to degree level and beyond, Siemens has sought ways of creating greater interest in them.

#### Encouraging university students

In 2004, Siemens embarked on a joint venture – the Power Academy – with other leading companies to try and increase take-up of power engineering courses at selected UK universities, ranging from Imperial College London to Queens University Belfast. Under the scheme, Siemens and the other participant companies provide students studying power engineering with bursaries, summer work placements and mentoring by industry partners. The venture has been a resounding success, with some student participants progressing to employment with Siemens, equipped with the skills they require and better understanding of day-to-day business operations.

On the back of this success, Siemens has recently become a lead participant in a similar scheme – the E3 Academy – with the aim of encouraging more undergraduate students to study electrical engineering at leading UK universities. The scheme will offer a bursary for each year of study, eight weeks of paid summer vacation work and access to events, such as a summer school, where students can meet and mix with those working in the electrical energy engineering field.



#### Developing the right apprentice skills

Siemens has a national training contract in England with the Learning and Skills Council and is about to sign a similar contract in Scotland. Contracting with government agencies directly gives Siemens overall control over the delivery of the apprenticeship content within the respective apprenticeship framework and allows the company to deliver training of the right quality for young people. By working closely with schools from year nine it ensures that students get a realistic view of engineering through work experience and increasingly the new engineering diplomas.

#### Spreading the message in schools

To help fire enthusiasm for STEM subjects at an earlier stage, Siemens works directly with schools and other bodies running workshops and competitions for schools throughout the UK. These have included the recent 'Healthcare Challenge', run in cooperation with Surrey Science and Technology Regional Organisation to inspire the workforce of the future in the areas of science, technology and engineering. Siemens has also been working with the Education Business Partnership for Manchester, assisting Trafford College, one of the first colleges in Greater Manchester to offer the engineering diploma for 14-16 year-olds. Appreciating the potential of a more diverse workforce within engineering, Siemens has also been working with groups such as Women in Science and Engineering to promote STEM subjects to a wider audience. Juergen Maier sees this type of involvement as an essential part of changing UK attitudes to manufacturing: 'If you're at school in the UK, your impression of an engineer is likely to be the car mechanic with an oily rag, versus Germany where you're more likely to see an engineer as someone who has just developed a high-speed rail system, puts up wind farms or develops sophisticated medical diagnostic equipment.'

#### A promising future for manufacturing in the UK

Juergen Maier believes UK manufacturing has a potentially promising future. The sector has proven it can achieve radical and continuing improvements in productivity, putting the UK at the top of European league tables and mitigating its higher labour costs. As environmental issues become more important, the costs and impact of moving heavy components thousands of miles is likely to make less sense. This may well push an increasing amount of manufacturing activity back closer to other producers and local markets.



## Case study K:

### Barclays: flexing the workforce essential for innovation



To develop new products and achieve strategic change, companies need to be able to bring together teams with specific mixes of skills for limited periods. This type of flexibility in its UK operations is seen as essential by Barclays if it is to succeed in the ferociously competitive international market in financial services.

#### Globalisation and more centralisation

With a workforce of 170,000 people spread across more than 50 countries, Barclays has grown into a major global financial services provider in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. Its extensive presence in Europe, the Americas, Africa and Asia has seen a huge expansion in the customer base – up from 32 million to 48 million in the past two years alone. With its headquarters in London, Barclays employs over 68,000 staff across the UK. The retail bank remains by far the largest part of Barclays' UK operation, employing over 34,000 people in 1,700 high-street outlets. Other major areas of UK jobs are investment banking (Barclays Capital), Barclaycard and the wide range of functions involved in a global headquarters.

Back-office work in financial services can be performed almost anywhere in the world. Barclays has in the past moved some work of this type out of the UK to other locations, but more recently has been bringing some of it back. Factors behind this include improved functionality of technology and high levels of expertise and customer service. The tendency has been to concentrate support activity in fewer UK locations to achieve economies of scale.

#### Agency and temporary staff a valuable resource

Although most staff are employed on permanent contracts, the Barclays business model is reliant on what HR chief of staff Angus MacGregor refers to as “a fluent and vibrant interim market” of short-term staff, often brought in to work on specific projects. The project teams usually bring together a mix of temps, permanent Barclays staff and project-specific consultants, each with skills relevant to the task in hand.

Temporary staff are of great importance to these teams. Often working on the development of new products the business can take to market, MacGregor says that the teams are seen as strategic change agents of the business. Faced with a rapidly changing and highly competitive business environment in financial services, continually researching and developing new products is essential if Barclays is to retain its status as a market leader and expand into new areas.

The need for temporary staff applies at all levels. When Barclays takes new products to market, ad hoc customer service teams are often set up for a limited period, resourced with people from the temp market with experience of dealing with inbound and outbound calling. Often these centres may begin with 80 to 100 staff and slowly rationalise to a core of 20 to 30 when processes become established and the operation moves to a ‘business as usual’ phase. As well as being highly valued by the business, MacGregor believes the temporary staff who come to Barclays also appreciate the flexibility of not being tied to a permanent contract. On the IT side, for example, around 20% of Barclays' 7,000 specialists are on temporary contracts and are directly sourced to plug specific skills gaps. These often highly-paid specialists move in and out of the business as and when their skills are required and value their autonomy.

The requirements of the Agency Workers Directive are a concern for Barclays. New restrictions – particularly through establishing a 12-week qualifying period for the right to equal treatment in basic working and employment conditions – could make it harder to employ temporary staff. It may make them more reluctant to offer their services to Barclays because of the reduced contractual flexibility they would have. For a business operating in a market where the ability to flex staff numbers is essential to remain competitive, these are worrying changes.



## Case study L:

### Shell and Qatar Petroleum: using UK skills to tackle global challenges

In an increasingly globalised economy, the UK needs to specialise in applying high-end skills as a source of competitive advantage. This potential is illustrated by the nature and range of UK skills being used in the joint development by Qatar Petroleum and Shell of the world's largest gas to liquids plant.

Pearl GTL is an integrated gas to liquids (GTL) project, chemically converting natural gas into high quality liquid fuels and products. It is the largest energy project ever launched within the borders of Qatar. The plant is an important step towards meeting demand for energy, using gas to produce cleaner-burning diesel and kerosene. It also produces a range of other outputs, including base oils for lubricants and the chemical feedstocks, naphtha and normal paraffins.

Despite its location in a desert where summer temperatures exceed 40 degrees, the Pearl GTL plant is designed to be self-sufficient in water use, with the GTL process producing up to 300,000 barrels of water a day.



#### UK skills underpin the project

More than 40,000 workers from over 60 countries are working on construction of the Pearl GTL plant. But key parts of the high-end work underpinning the project have been conducted in the UK:

- The conceptual engineering of the whole plant was executed in London, involving a million hours of design work
- The project management contractor and the detailed design of the utilities and the tanks were based in London, involving several thousand UK engineers
- The process automation system – the largest ever built in the oil and gas industry – has been designed by Honeywell in Bracknell and is being tested in Scotland
- In all, over \$1bn of orders related to the project have been placed in the UK.

In a separate project, Shell Shipping, with headquarters in London, has been appointed as the shipping and maritime services provider for Qatar Gas Transport Company's (Nakilat) fleet of some 25 new-build liquefied natural gas carriers. A large part of the shipping training and development takes place in the UK.

The UK higher education sector is also involved. Qatar Petroleum, Shell, the Qatar Science & Technology Park and Imperial College London are working together in a \$70m programme to further understanding of carbonate reservoirs, which constitute the vast majority of hydrocarbon reservoirs across the Middle East, as well as the storage of carbon dioxide.

# Annexe A: The alternative to redundancy scheme

This annexe outlines a proposed alternative to redundancy where employers experience a sharp but purely temporary downturn in business. It would not be applicable to situations where there is no realistic prospect of business picking up within a short period. The scheme would require primary legislation.

The proposed approach – the alternative to redundancy (ATR) scheme – seeks to alleviate the burden on employers of paybill costs in the context of temporarily low order books, while at the same time enabling employers to retain valuable skills among their existing workforces. Equally, it aims to provide financial support and a sense of continued involvement in the business for the employees affected.

Flexibility must be built in so that both employer and employee can adapt to changing circumstances. The scheme would be an option for employers in appropriate circumstances. Although some public funding support is a key element, the core principle of risk sharing – by employer, employee and Exchequer – means the cost of the proposal to the taxpayer should be no greater than would have been incurred had the employees involved been declared redundant and faced a period of unemployment.

## The ATR scheme in outline

An employer seeking to participate would need to satisfy the relevant government department that it would otherwise be declaring the same number of redundancies as the number of employees proposed to be covered by the ATR scheme. It would also need to have included its prospective participation in its initial redundancy consultation process and gained approval from employees or their representatives, depending – as now – on the number involved:

- Rather than declaring employees redundant, the employer would place them on an ATR register for a stated period of up to, say, six months
- Being placed on the register would not constitute grounds for a breach of contract or unfair dismissal claim

- Contracts of employment would remain in force with the aim of providing statutory continuity, accrual of service-based contractual benefits, and entitlement to insured benefits
- Rights to salary and bonus at pre-ATR suspension levels would be suspended
- In place of previous remuneration an ATR allowance would be paid amounting to the equivalent of jobseeker's allowance (JSA) paid by government and matched by the employer. An employer could make higher payments should they wish to do so
- During the ATR suspension period the employee would not be eligible for JSA and other out of work benefits
- During the ATR suspension period, the employer could require the employees to attend the workplace for training, new product or production methods familiarisation, plant maintenance/repair/cleaning or similar operational need. Days spent by employees attending the workplace for such purposes would be paid at full contractual rates and funded solely by the employer
- At any time during the ATR suspension period, the employee could take up permanent alternative employment elsewhere and resign. The ATR allowance would cease and no redundancy entitlement would arise.

At any time during the ATR suspension period the employer could, without further consultation either individually or collectively, either:

- a) require the employee to return to work permanently on the previous terms and conditions, in which event a refusal by the employee would rank as a resignation of employment with no right to redundancy or unfair dismissal claim; or

b) confirm to the employee or his/her representative (without further obligation to consult either individually or collectively) on not less than four weeks' notice (which period would override any otherwise rights to contractual or statutory notice) that the economic situation of the employer had not improved and thus that on expiry of such notice the employee would be redundant. The termination date would be used to calculate redundancy entitlements. Redundancy pay would be calculated using the statutory formula or any contractual formula. It would not include money in lieu of short notice, shortened consultation periods or similar payments sometimes discussed in collective consultations. Such a redundancy would not be capable of being challenged as an unfair dismissal unless on grounds of unlawful discrimination or trade union activity.

On expiry of the ATR suspension period the employer could elect, without further consultation either individually or collectively, either:

- a) to take the employees, or such of them as it specifies, back into permanent employment on their previous terms and conditions; or
- b) declare redundant the employees, or such of them as it specifies, on four weeks' notice, redundancy pay being calculated on the same basis as a redundancy occurring during the ATR suspension period. This period of notice would override any other applicable statutory or contractual period of notice. Such a redundancy could not be challenged as a breach of contract or unfair dismissal unless alleged to have been on grounds of unlawful discrimination or trade union activity.

### Benefits of the ATR scheme

The ATR scheme carries a degree of complexity and would require legislation to override otherwise rights and obligations, but it would bring a range of benefits:

- **Universal in nature:** The scheme would potentially apply at employer discretion to any redundancy situation, without judgments having to be made by government
- **Time-limited:** To concentrate the minds of employers and provide a basis for prudent budgeting by all stakeholders, it is suggested that the ATR scheme can be used at any time but for a defined period only
- **Speedier process:** Employers and employees would be likely to agree on the issue of participation much more quickly than they currently take to agree on redundancy terms. The limited duration of the ATR suspension scheme should ensure this, so the trend towards full 30- or 90-day consultations (or their 'buying out') should be reversed
- **Saving jobs:** The ATR scheme would provide much-desired certainty for the workforce and lower cost to the employer for a limited period, enabling more jobs to be preserved. If employee representatives rejected use of the scheme in a situation of potential redundancy, employers would be less likely to feel it necessary to make generous but financially onerous redundancy payments. There would thus be an incentive to agree to the ATR scheme rather than engage in lengthy wrangling over redundancy terms
- **Geared to temporary problems:** The underlying philosophy is one of risk-sharing in extreme economic circumstances for a limited period. Whilst some redundant workers will see themselves as missing out if their employer does not seek to use the scheme, they have to recognise that those who are participating are doing so because they have confidence in their problems being only temporary
- **Cost limited:** The appropriate level of contribution by the taxpayer to the ATR allowance would need to be explored further, based on modelling of potential costs in JSA and other out-of-work benefits
- **Avoiding deadweight costs:** The scheme would not incur the deadweight costs associated with wage subsidy schemes, since only companies facing severe temporary problems would take it up
- **Consultation issues:** Employees or recognised trade unions may object to the prescriptive nature of the ATR scheme and the lack of opportunity for consultation or negotiation over its implementation or terms. This is deliberate: in the circumstance envisaged there is simply no time to indulge in lengthy debate on such issues, otherwise more jobs will be lost.

## Annexe B: The cost of employment regulation 1998-2009

Based on government regulatory impact assessments, we have estimated the cost of employment regulation for the period since April 1998.

We have calculated the cost of each regulatory measure by taking the one-off initial cost of each regulation and adding the yearly recurring cost, uprated for inflation, based on the average increase in the RPI for each year. The only exception is the cost of the national minimum wage each year, which has not been indexed as regular uprating applies.

Using this method of calculation, the total cost of employment regulation to the UK economy for the period 1998-2009 is £72,760m.

We have also estimated how many full-time jobs paid at average earnings this cost equates to over the period 1998-2009. To calculate this we took the mean average earnings of all full-time employees – including overtime and employer NICs – for the period, based on ASHE data. We then divided the total cost of employment regulation by this total. This gave us a figure of 215,090 jobs a year over the period.

Year	Regulation	Non-recurring (£m)	Recurring (£m)	Total recurring 1998-2009 (£m)	Total recurring and non-recurring (£m)
1998	Working time regulations	—	1,900 (2,300)*	21,801.19	21,801.19
<b>1998 Total</b>		—	<b>1,900 (2,300)</b>	<b>21,801.19</b>	<b>21,801.19</b>
1999	National minimum wage regulations	85.00	1,000.00	11,000.00	11,085.00
	Reduction in qualifying period for unfair dismissal	—	9.45	117.75	117.75
	Public Interest Disclosure Act	—	—	—	—
	Right to take time off for study	—	60.00	747.60	747.60
	Employment Rights (Increase of limits) Order 1999	—	15.01	187.02	187.02
	Parental leave regulations	—	43.20	538.27	538.27
	Maternity leave regulations	—	15.80	196.87	196.87
	Time off for dependants	—	6.90	85.97	85.97
<b>1999 Total</b>		<b>85.00</b>	<b>1,150.36</b>	<b>12,873.48</b>	<b>12,958.48</b>
2000	European works councils	8.40	14.50	163.55	171.95
	NMW adult rate increase	—	180.00	1,800.00	1,800.00
	NMW development rate increase	—	45.00	450.00	450.00
	WFTC paid through the payroll	39.90	102.90	1,160.66	1,200.56
	Student loans repayment regulations	42.90	12.50	140.99	183.89
	Trade union recognition	1.70	5.90	66.55	68.25
	Dismissal of striking workers	—	—	—	—
	Part-time workers regulations	—	27.40	309.06	309.06
	Accompaniment for disciplinary/grievance hearings	—	2.30	25.94	25.94
<b>2000 Total</b>		<b>92.90</b>	<b>390.50</b>	<b>4,116.75</b>	<b>4,209.65</b>
2001	Sex Discrimination (Indirect discrimination & burden of proof) regulations	—	0.58	5.79	5.79
	NMW adult and development rate increases	—	485.00	4,365.00	4,365.00
	WTD – amendment to remove 13 week qualifying period	8.10	30.00	299.40	307.50
<b>2001 Total</b>		<b>8.10</b>	<b>515.58</b>	<b>4,670.19</b>	<b>4,678.29</b>

Year	Regulation	Non-recurring (£m)	Recurring (£m)	Total recurring 1998-2009 (£m)	Total recurring and non-recurring (£m)
2002	Parental leave regulations – changes to extend entitlement	—	22.50	69.09	69.09
			4.5 (year 4)	4.50	4.50
			1.5 (thereafter)	6.34	6.34
	NMW adult and development rate increases	—	225.00	1,800.00	1,800.00
	Part-time workers amendment regulations 2002	2.00	108.70	961.71	963.71
<b>2002 Total</b>		<b>2.00</b>	<b>356.20</b>	<b>2,841.64</b>	<b>2,843.64</b>
2003	Placing union learning representatives on a statutory footing	—	6.30	48.42	48.42
	NMW adult and development rate increases	—	289.50	2,026.50	2,026.50
	Employment Act 2002				
	a) Paternity leave	10.00	41.00	315.12	325.12
	b) Maternity leave	17.00	72.50	557.23	574.23
	c) Adoption leave	1.00	1.25	9.61	10.61
	Equality (religion or belief) regulations	14.40	2.00	15.37	29.77
	Equality (sexual orientation) regulations	14.40	3.35	25.75	40.15
	Right to request flexible working	34.00	296.30	2,277.35	2,277.35
	Amendment of Young Workers Directive: end of UK opt-outs	—	24.00	184.46	184.46
	WTD – amendment to extend coverage	—	264.00	2,029.09	2,029.09
<b>2003 Total</b>		<b>90.80</b>	<b>1,000.20</b>	<b>7,488.91</b>	<b>7,579.71</b>
2004	Prohibiting the blacklisting of trade unionists	—	0.31	2.02	2.02
	NMW adult and development rate increases and new 16-17yrs rate	—	344.00	2,064.00	2,064.00
	Statutory dispute resolution procedures	56.00	41.50	221.10	277.10
	Employment Relations Act 2004 – Review of ERA	—	0.01	0.07	0.07
	Information and consultation regulations	38.80	33.24	216.19	254.99
<b>2004 Total</b>		<b>94.80</b>	<b>419.06</b>	<b>2,503.37</b>	<b>2,598.17</b>
2005	Implementation of Equal Treatment Directive	8.27	—	—	8.27
	NMW adult and development rate increases	—	122.20	611.00	611.00
<b>2005 Total</b>		<b>8.27</b>	<b>122.20</b>	<b>611.00</b>	<b>619.27</b>
2006	TUPE – Revision of 1981 regulations	—	45.35	191.76	191.76
	Employment Equality (Age) Regulations 2006	219.00	254.30	1,075.29	1,294.29
	Maternity leave and parental leave (amendment) regulations**	—	51.00	—	—
	NMW adult, development and 16-17yrs rate increase	—	107.00	428.00	428.00
<b>2006 Total</b>		<b>219.00</b>	<b>457.65</b>	<b>1,695.05</b>	<b>1,914.05</b>
2007	Extension of the right to request flexible working	116.00	153.00	476.32	592.32
	Collective redundancies – Employers duty to notify SoS	—	0.08	0.25	0.25
	Public sector gender duty	1.25	1.80	5.60	6.85
	Increasing statutory holiday entitlement	—	3,850.00	11,985.94	11,985.94
	NMW uprating	—	0.18	0.54	0.54
	Extension of information and consultation requirements	94.00	43.00	133.87	227.87
	Changes in rules on harassment in the Sex Discrimination Act 1975 and discrimination on grounds of pregnancy or maternity leave	8.76	156.92	488.53	497.29
	Additional paternity leave and pay**	—	—	—	—
	<b>2007 Total</b>		<b>220.01</b>	<b>4,204.98</b>	<b>13,091.05</b>
2008	Employment Bill 2008	6.00	14.00	28.42	34.42
	NMW uprating	—	62.00	124.00	124.00
<b>2008 Total</b>		<b>6.00</b>	<b>76.00</b>	<b>152.42</b>	<b>158.42</b>
2009	Extension of the right to request flexible working	—	88.00	88.00	88.00
<b>2009 Total</b>		<b>—</b>	<b>88.00</b>	<b>88.00</b>	<b>88.00</b>
<b>Total</b>		<b>826.88</b>		<b>71,933.04</b>	<b>72,759.92</b>

Note: All non-recurring and annual recurring figures are taken from the DTI's/BERR's Regulatory Impact Assessments. When costs have been assigned a range, we have taken the mid-point value. Adjustments for inflation are CBI calculations based on the RPI. Where no cost is listed, figures cannot be realistically estimated or are negligible.

\* The increase in recurring cost from £1,900m to £2,300m reflects the rise in statutory holiday entitlement from three to four weeks in November 1999.

\*\* These figures have a value of zero as Business Secretary Peter Mandelson has chosen to postpone the implementation of both regulations.

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For further information  
on this report contact:

Ben Digby  
Policy adviser  
Employment policy directorate  
T: +44 (0)20 7395 8154  
E: ben.digby@cbi.org.uk

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