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# APPENDIX 8

## REVIEW OF BRITISH CHAMBERS OF COMMERCE LABOUR MARKET INSIGHTS



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EXECUTIVE SUMMARY	3
THE BCC AND THE INSIGHTS UNIT	4
THE SURVEYS	5

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# EXECUTIVE SUMMARY

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This report sets out a bespoke collection of evidence collated from the British Chambers of Commerce (BCC) Insights Unit leading Business Survey programme. We have drawn together findings from tens of thousands of businesses who make up the Chamber of Commerce membership, asking them about the workforce challenges they currently face, and what opportunities exist in the future.

- Over the past few years, the vast majority of UK firms have faced some form of **skills shortage**. Certain sectors, such as hospitality, have been disproportionately impacted.
- **Labour costs** have grown into a considerable challenge for businesses over the past year, becoming a more significant cost pressure than utility bills or raw materials.
- The majority of businesses offer some form of **flexible working** to staff, but this varies between sector.
- Only a small proportion of businesses are actively engaged with the skills system or in preparing **young people** for the workforce, whether through skills plans, apprenticeships or engagement with education providers.
- Current take-up of **artificial intelligence technology** is low and there is uncertainty among businesses about its impact on the labour market.

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# THE BCC AND THE INSIGHTS UNIT

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The BCC is an unrivalled network of 53 local Chambers of Commerce in the UK and 75 globally, collectively representing around 80,000 businesses. BCC has been extensively collecting and analysing data from UK businesses. BCC's research programme consists of two main strands of survey data, which will form the basis for this report:

The **Quarterly Economic Survey** – the UK's largest and longest-running independent business survey established in 1989 testing economic conditions. This is conducted by local Chambers of Commerce and the BCC aggregate, analyse, and produce national reports. The data correlate tightly to official data on the UK economy and is a leading indicator for big shifts in the UK economy. Through this survey, BCC was among the first institutions to uncover the extent of the 2008-09 recession, Covid-19 recession, and 2021 inflation crisis. Crucially, the survey reinforces the wide distribution of impacts on businesses, depending on business size and sector.

A **programme of thematic surveys** consisting of four major surveys per year managed entirely in-house by the BCC research team:

- Business Outlook Survey
- Workforce Survey
- International Trade Survey
- Net Zero Survey

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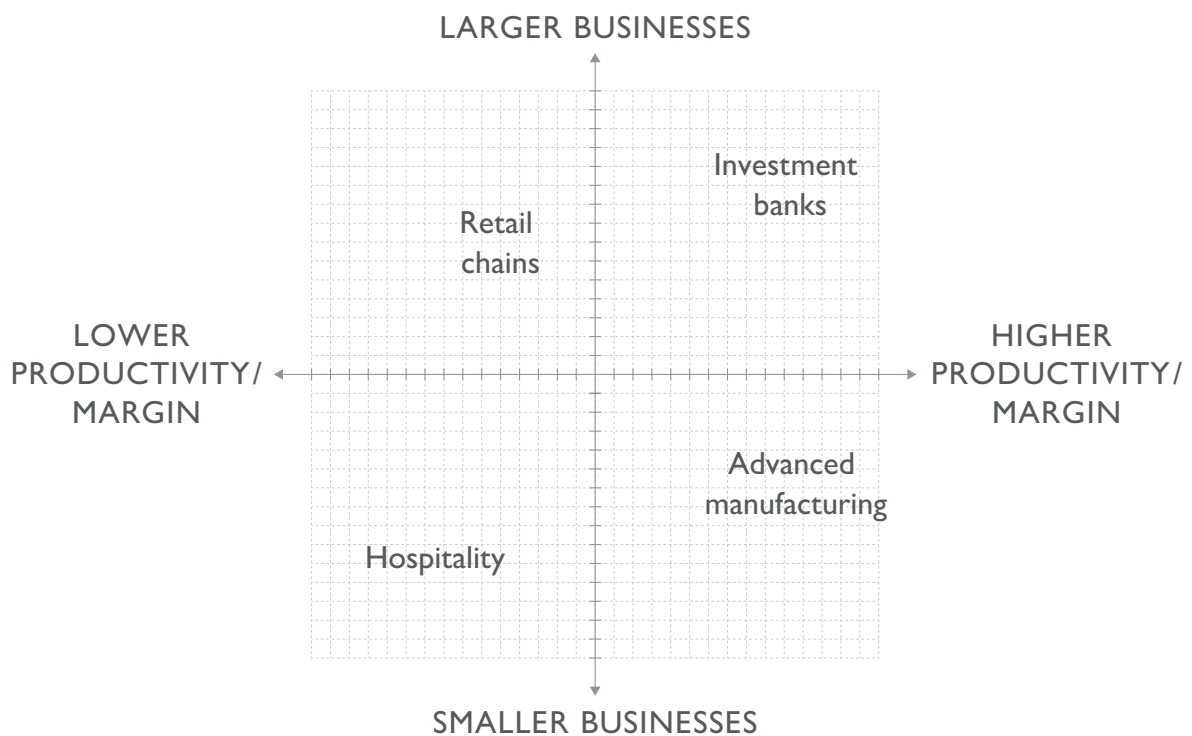
## THE SURVEYS

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### HAVE THE NEEDS OF THE LABOUR MARKET CHANGED OVER THE LAST TEN YEARS AND IF SO, HOW?

Long-term shifts in the labour market that had taken place over the last two decades were significantly accelerated during global Covid-19 lockdowns in 2020-21. These long-term trends include greater flexible working patterns, transformational use of technology (e.g. video calling and software that enables automation), and changing employee attitudes in relation to how job satisfaction can be achieved. BCC evidence has consistently shown that skills shortages have been a top concern for UK businesses, particularly since 2020.

However, wide disparities exist depending on business type, and a trend that may be taking place in one particular sector (e.g. working from home in the professional service sector) may not be possible or desirable in another (e.g. hospitality). The general differences between sectors can broadly be conceived of in the below grid.



## WHAT ARE THE ANTICIPATED CHANGES TO THE LABOUR MARKET OVER THE NEXT TEN YEARS, INCLUDING THE SKILLS REQUIRED BY EMPLOYERS?

The following trends are likely to have a significant impact on the labour market over the next ten years:

- The pace of technological change, particularly AI
- Changing demand from consumers
- The changing structure of the skills system
- The the ability of firms to attract talent from outside the UK

However, most businesses that BCC speaks to are not planning for long-term changes. Most firms we speak to, for example, have not done an impact assessment on what skills they will need over the next ten years. Instead, businesses look to their immediate skills requirements – this is a symptom of resource constraints and a lack of ability to plan for the long-term.

In our 2023 Workforce Survey, respondents who reported skills shortages were asked to state which specific role or skillset they were facing shortages for. Respondents were asked to give answers in their own words so that we could identify the specific roles or skillsets and 719 responses were received. As we would expect, the types of skills required by an organisation varies significantly by sector.

Organisations involved in manufacturing mostly listed engineers of various disciplines as the main shortages they faced. They also flagged skilled trades as an area of shortage as well as specific roles in their manufacturing processes such as machinist.

Those in the business-to-business (B2B) sector were most likely to report shortages in administrative and support roles. They also listed IT and software development as well as sales and account management as areas where they were experiencing shortages.

The business-to-consumer (B2C) sector cited hospitality and catering roles as those they were most likely to be missing. Alongside these types of workers, they listed IT, web and marketing jobs as an area of shortage. Administrative and support roles were also mentioned by firms in this sector.

Respondents in the public, health or third sectors reported a wide range of roles, including sector-specific, such as education and healthcare.

Three-quarters of firms facing skills shortages say this has caused increased workloads on other staff, with almost half reporting reduced activity or output.

## HOW HAVE WAYS OF WORKING CHANGED SINCE THE COVID-19 PANDEMIC ACROSS DIFFERENT SECTORS?

During the Covid-19 crisis, BCC data identified a large-scale shift towards flexible and remote working among certain sectors, largely caused by:

- Covid-19 requirements set by the Government;
- Acute labour shortages caused by sickness, inactivity, and emigration.

These two broad external factors prompted a cultural shift within many organisations towards remote and flexible working.

When the COVID-19 crisis began in March 2020, the BCC immediately launched A COVID-19 business impacts tracker poll which sought to understand how businesses were being impacted by the lockdown as well as other changes they were seeing within their business.

The first tracker poll conducted in March 2023 of 625 businesses found that the most immediate and largest-scale impact was on revenue – 82% of respondents reported a decrease in revenue from UK customers and 75% reported a decrease in their cash reserves. This highlighted the magnitude of the crisis which was unlike any other faced by businesses in recent years.

### Covid-19 adjustments

Respondents were also asked in what ways if any they were seeking to maintain continuity during this. The top answer cited by 66% of respondents was ‘use of remote working’, followed by 50% citing ‘use of video conferencing’. This immediate switch to flexible working became permanent for many businesses. In the BCC’s 2021 workforce survey, one year after the first Covid lockdown, 66% of businesses said they offered working from home as to their staff with a further 38% offering flexible or staggered hours.

Rates have continued to grow even after the initial Covid lockdowns. In the BCC’s 2023 Workforce Survey, 76% of respondents say flexible working is offered in some way to staff, either informally or contractually. In an October 2023 BCC survey, most firms expected their workforce to be mostly in-person (47%) or fully in-person (27%) over the next five years, while 16% expect mostly remote, and 8% fully remote. B2B firms are far more likely to expect remote working compared to manufacturers and B2C firms.

### Sectoral divisions

However, a significant disparity exists among sectors in their ability to implement flexible working. For instance, in the 2021 Workforce Survey, 80% of business-to-business firms (such as legal, finance, media sectors) offered working from home arrangements. This fell to 61% for manufacturers, and 54% for business-to-consumer firms (such as retail and hospitality). For flexible working in general, the 2023 Workforce Survey showed that 87% of B2B firms offered this, falling to 74% for manufacturing and 75% for B2C firms.

Firms within the manufacturing and business to consumer sectors have a hard limit on their ability to offer flexible working. Their business models often rely heavily on a physical presence, e.g. through operating equipment or through face-to-face contact. This limitation also explains why firms in the hospitality and retail sectors were disproportionately impacted by COVID restrictions.

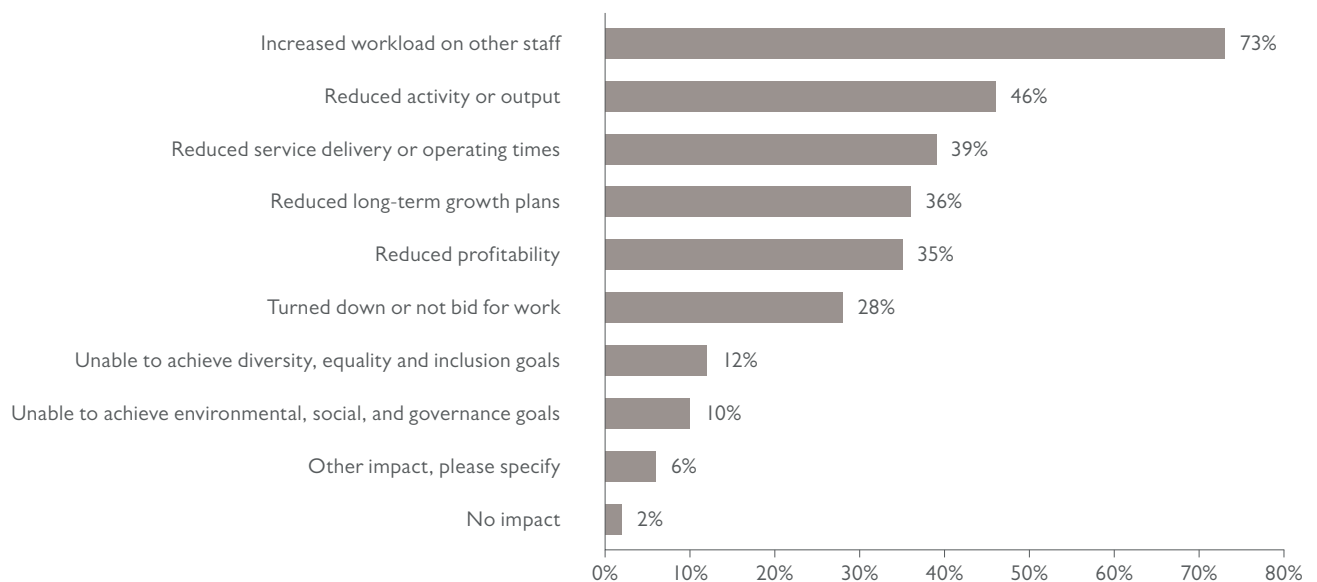
## Skills shortages

Another major factor in prompting a shift towards more flexible working is the skills shortage issue that many businesses face. Two major factors have contributed to acute skills shortages in the UK since 2020:

- The COVID-19 crisis, which saw emigration of foreign nationals and an increase in long-term sickness
- The implementation of the Trade and Cooperation Agreement with the European Union in 2021, which ended the free movement of EU citizens to the UK.

In the BCC's 2022 Workforce Survey, 71% of respondents 'agreed' they are facing skills shortages, while 25% 'disagreed'. When asked what the impact of these skills shortages are, the top answer by far, cited by 73% of respondents was 'increased workload on other staff'.

### Workforce Survey 2022: What, if anything, is the impact of these skills shortage(s)? n=902



There are many specific impacts cited by businesses:

#### “Senior staff doing lower grade activities”

Small logistics firm in Staffordshire

#### “Increased workload leading to total burnout, hence early retirement”

Mid-sized health or third sector firm in Wales

#### “Unable to comply with legal requirements”

Small hospitality firm in Cumbria



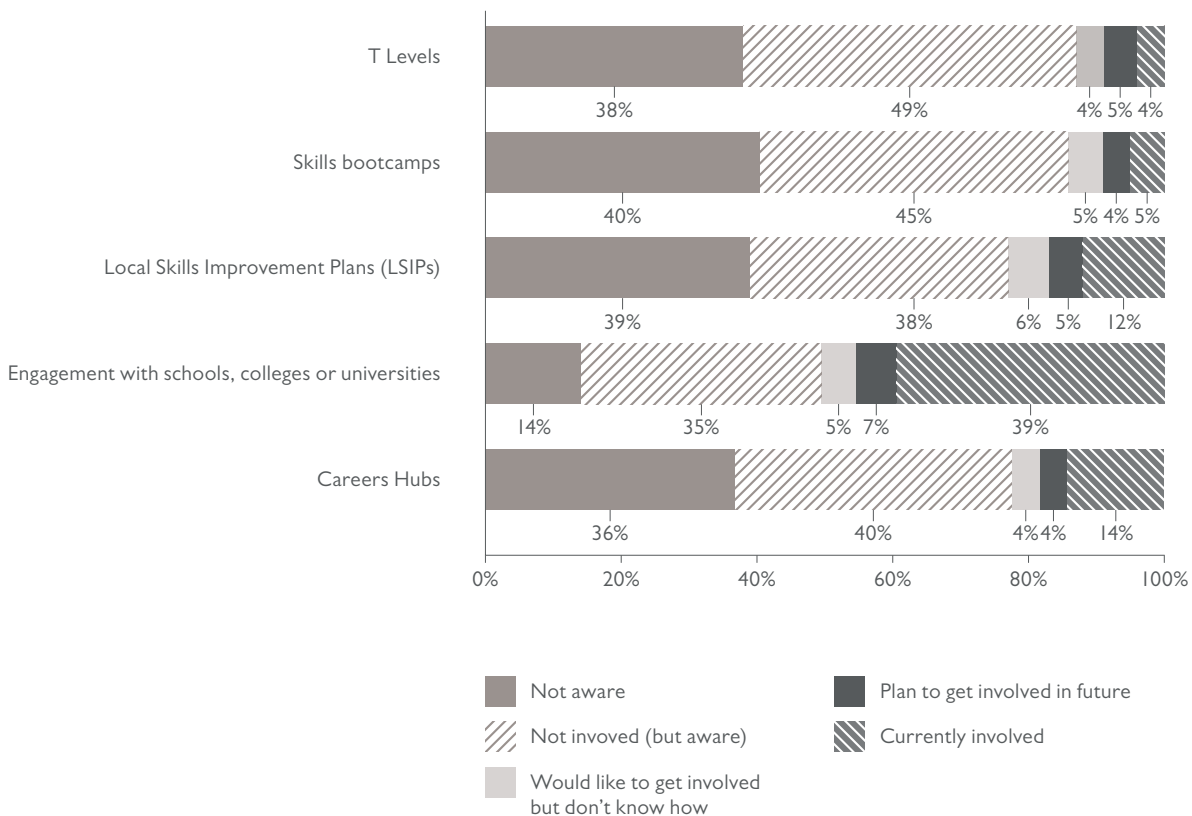
Increasing employee remuneration is the most common way that businesses seek to recruit and retain staff, but many firms increasingly see the implementation of flexible working as an effective strategy. In the 2022 Workforce Survey, when asked what approaches they had taken, if any, to retain employees, 65% cited 'salary or remuneration increases', followed closely by 61% citing 'flexible working arrangements'.

2022 data shows larger firms, B2B services, and public/health/third sector orgs are more likely to view remote working as a way of attracting new staff. B2C service firms are the least likely to say remote working has helped them to attract new staff.

### WHAT IS IT THAT YOUNG PEOPLE NEED TO KNOW ABOUT THE LABOUR MARKET? HOW COULD THIS BE BEST ACHIEVED?

Young people need to understand the careers available to them in their local area, the skills that employers value, and the education and skills pathways available to them. This can best be achieved by ensuring careers is a mainstream activity in schools and that every young person receives support. In addition, schools must have the resources and targets to engage with employers of all sizes. In our 2023 Workforce Survey, 39% of respondents say they are engaging with schools/colleges/unis, falling to 12% for Local Skills Improvement Plans (LSIPs) and 4-5% for T levels and skills bootcamps.

Workforce Survey 2023: Is your organisation involved in any of the following initiatives? n=663



There is a segment of the business community which does not consider the skills of school leavers to be suitable to their business. For example, in the BCC's 2021 Workforce Survey, respondents were asked which, if anything, they consider to be barriers to meeting their skills and talent needs. The top answer, selected by 28% of respondents was 'skills of education or school leavers not matched to my business's needs', followed by 16% citing 'lack of budget for investment in workforce training', 15% citing 'costs of training too high', and 12% selecting 'my industry is not considered attractive to UK workers'.

However, there is also a disconnect between businesses and the education sector. BCC surveys consistently find that only a small proportion of businesses actively engage with education providers or students. In the 2021 Workforce Survey, only a third (33%) of respondents said they were supporting either schools, colleges or universities with providing careers information to young people. Almost half (44%) said 'no', while 20% said they would consider doing so in future.

There are two key barriers preventing employer engagement in careers provision: 1) lack of awareness of various schemes and modes of engagement, lack of capacity to engage due to skills shortages, or practices that make engagement difficult. These factors are more pronounced for smaller firms.

In 2022, a fifth (20%) of respondents said that they didn't have capacity to deliver apprenticeships, while slightly fewer (17%) cite a lack of apprentices applying and standards not being suitable.

Only 18% of respondents in the BCC's 2023 Workforce Survey reported that their organisation has a specific skills programme for under 25s, rising slightly to 26% for firms with more than 250 employees.

## **WHAT ARE THE MAIN FEATURES OF MODERN RECRUITMENT PRACTICES? DO DIFFERENT SECTORS / SIZED ORGANISATIONS DO THIS DIFFERENTLY?**

BCC has surveyed businesses on their recruitment practices for several years. In 2022, when we asked respondents for unprompted feedback on the challenges they are currently facing, recruitment difficulties were cited as one of the most significant pressures, alongside global supply chain disruption, soaring inflation and ongoing cost pressures. Once again, a key distinction is between larger, corporate entities and smaller firms.

In our 2022 Workforce Survey, almost half (44%) of respondents said they recruited employees using recruitment agencies/websites in the last twelve months. 40% said they had recruited via word of mouth, 29% had advertised on their own website, and 22% had used apprenticeships. Public, health, or third sector organisations were far more likely to have attempted to recruit than organisations from other sectors – only 14% had not recruited. Likewise, only 7% of large organisations had not attempted to recruit.

In addition to the main routes for recruiting employees, a small minority (7%) of respondents highlighted other means of recruiting. Among these, social media and more traditional forms of advertising emerged as the most common options. Traditional advertising includes local newspapers, local radio, leaflets, buses, in shop windows and on the side of vans.

Those businesses that used recruitment agencies or websites spent £27k on recruitment agencies or websites based in UK over the previous twelve months.

## WHAT ARE THE CHALLENGES AND OPPORTUNITIES OF CHANGES IN TECHNOLOGY IN RECRUITMENT?

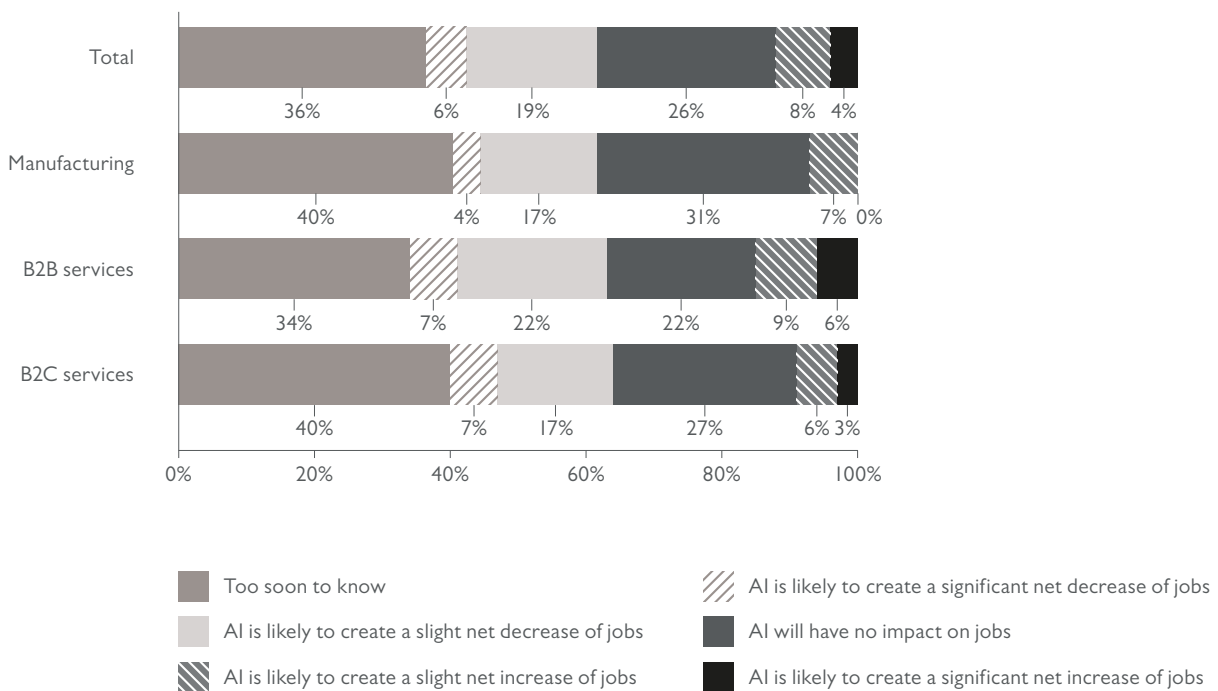
BCC surveys find that the adoption of new technology is often very low among small and medium-sized enterprises (SMEs).

In August 2023, BCC undertook a survey to specifically understand the take-up of AI, and the reasons why firms were or were not using the technology. Overall, the research found very low levels of intended usage of AI technologies and found that:

Almost half of all respondents (48%) have no plans to use AI technology, with a further 22% not currently using AI but intend to use in future. Customer facing businesses (B2C) such as hospitality and retail firms are less likely to use AI, with 58% stating they have no plans to use it. Business facing businesses (B2B) such as finance, legal, and marketing firms are slightly more likely to be using AI, with only 39% saying they have no plans to use it.

One in four respondents (26%) think AI is going to lead to a net decrease in jobs in their sector, while 12% expect a net increase. The rest either expect no change or don't know at this stage.

August 2023 Survey: Over the next three years, do you expect to see a net increase or decrease in the number of jobs created by AI technology in your sector? n=694



## BCC'S RECOMMENDATIONS FOR IMPROVING SKILLS PROVISION

**Plan for growth:** Deliver a long-term, stable, Industrial Strategy that works for all parts of the country, underpinned by national strategies for skills and infrastructure.

**Better skills planning:** Fund a business support service to help employers identify, plan, and invest in the skills of their current and future workforce. Ensure a coherent, stable national skills system, that accounts for the needs of local economies, and commit to long term investment in Local Skills Improvement Plans.

**Get the first steps right:** Deliver a broad education, where young people master the essential skills for life and work, and enjoy more opportunities for applied, digital, and technical learning.

**Work-readiness:** Invest more to make Careers Information, Education and Guidance a mainstream priority for school leaders, embedded in every part of the curriculum. Support employers to engage more with education, to inform, inspire, and support young people to transition to the world of work. Provide quality careers advice to learners, adult job seekers, returners, and career changers.

**Incentivise and reward private sector skills investment:** Incentivise greater transparency around business investment in skills. Recognise employers who invest in workplace training through the tax system and introduce a skills investment kitemark that is credited in the public procurement process.

**Boost in-work progression through upskilling:** Ensure access to apprenticeships and progression pathways; flex the apprenticeship levy, roll out the Lifelong Learning Entitlement on time and in consultation with employers, and promote accredited short courses and modular Higher Technical Qualifications. Ensure leaders, managers, and workforces are equipped for a more digital and automated workplace and the artisan skills and craftsmanship needs of the circular economy.

**Remove barriers to work:** Help people transition successfully from Universal Credit into work, by increasing the taper relief, boosting the provision and uptake of bootcamps, and ensuring access to high quality, affordable childcare.

**Promote workplace flexibility and a more equitable workplace culture:** Encourage greater transparency, extend pay gap reporting to cover ethnicity, boost the weighting of social value in public procurement, and roll out the midlife MOT<sup>1</sup> to SMEs.

**Support a healthier workforce:** To help employers keep people in work and help people return to work, introduce a business health support service to offer guidance, ensure that employers have choice over what services to put in place to support employees' needs, and reduce the excessive tax burden on employers offering health and wellbeing related services.

**Make the immigration system work for UK businesses:** Reduce the burden and costs on employers who need essential access to skilled talent from overseas when they cannot fill urgent job vacancies from the local labour market. Ensure more proportionate criteria for SMEs using the immigration system and extend and increase youth mobility schemes.

<sup>1</sup> The "Midlife MOT website encourages people to review their skills and help to break down barriers to the labour market ... it will allow people to identify job opportunities across the UK as well as better preparing them for later life and their retirement. GOV.UK (updated 19 July 2023) [DWP launches new Midlife MOT website](#)