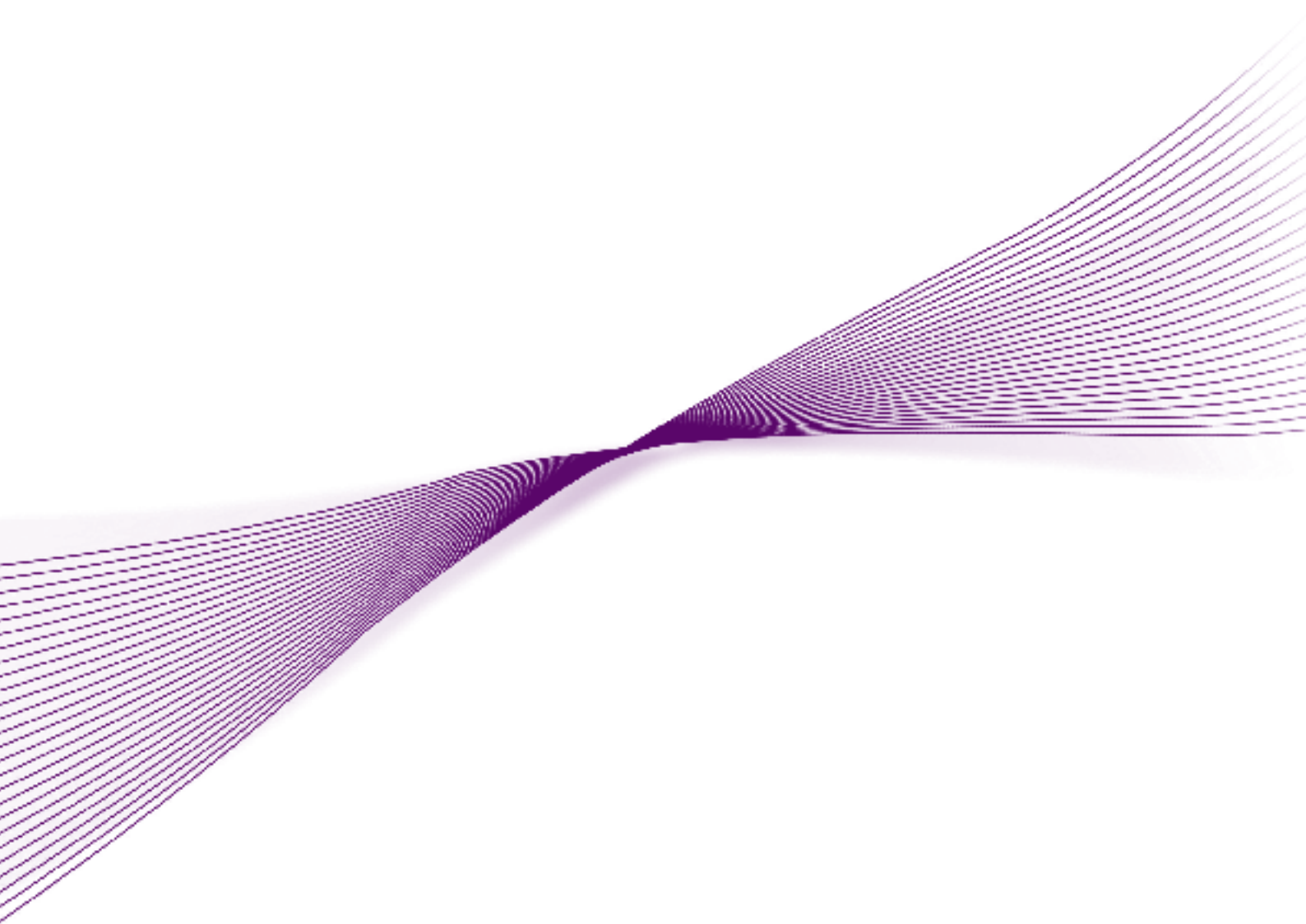


Quarterly survey report
Spring 2006



LABOUR MARKET OUTLOOK

Contents

Summary of key findings	3
1 Current economic and labour market indicators	5
2 Recruitment and redundancy outlook	10
3 Pay outlook	12
4 Medium-term employment and pay outlook	14
5 Focus: recruitment of Incapacity Benefit claimants and managing long-term sickness absence	15
6 Research methodology	22
7 Respondent profile	23

Summary of key findings

Labour Market Outlook is based on a quarterly survey of more than 1,000 CIPD members. The survey sample is representative of employers of all sizes, all sectors, and all regions and nations of the UK.*

Recruitment and redundancy outlook

- Forty-one per cent of employers will be recruiting additional staff this quarter. This is a further improvement on the autumn 2005 trough, although recruitment intentions still remain below those recorded in 2004 and the first half of 2005.
- Twenty-seven per cent of employers intend to make some staff redundant this quarter – slightly higher than in the winter quarter and above the figure recorded throughout 2005.
- Forty-one per cent of employers anticipate recruitment difficulties this quarter. Vacancies expected to be most difficult to fill are those for skilled tradespeople (23%), general and middle managers (19%) senior managers and directors (14%) and sales and customer services staff (11%).

Pay outlook

- Fifty-five per cent of employers intend to conduct a pay review between now and the summer. The average expected pay increase resulting from pay reviews is 3.2%.

Medium-term employment and pay outlook

- Forty-three per cent of employers expect their staff numbers to be about the same by summer 2007. Fifteen per cent expect to be employing up to 2% more staff, with a further 19% expecting staff numbers to rise by 2% or more.
- There is a 12% positive balance of employers expecting to employ more staff over those expecting to employ fewer in a year's time – an improvement on the 8% positive balance reported in the winter survey.

- Most employers expect pay rises to be relatively modest in the coming year. The average expected pay increase is 3.3%.

Recruitment of Incapacity Benefit (IB) claimants

- Almost one in five employers (18%) state that they exclude people on IB for reasons of mental ill-health. This is almost twice the rate of exclusion of people on IB for reasons of physical ill-health. For both groups of IB claimants, exclusion is relatively high in the private sector (manufacturing and services) and among small and medium-sized employers.
- The main deterrents to recruitment of IB claimants or the long-term unemployed are employer concern about lack of skills on the part of applicants and the possibility that they might have ongoing problems with ill-health (both factors cited by 17% of employers). This offers a useful signpost for policy-makers seeking to increase recruitment from these groups.
- Almost two-thirds of employers think that more IB claimants would be hired if grants were available to assess and improve the skill and development needs of potential recruits. Training grants are relatively popular among smaller employers (70% of those with fewer than 50 employees support this idea), as are tax breaks or subsidies for recruiting IB claimants (57% compared with the all-employer average of 40%).

Managing long-term sickness absence

- Flexible work options (offered by eight in ten employers), occupational health support (offered by seven in ten employers) and appropriate training for line managers (provided by six in ten employers) are the most common methods of managing long-term sickness absence. These are also the areas most likely to see improved provision in the next

two years. By contrast, only around four in ten employers offer staff private medical insurance, although the proportion is around six in ten in the private sector.

- More than 90% of employers responding to the survey think that GPs could play a more informed and proactive role in helping people return quickly to work. Eighty per cent of respondents think that employers and GPs should jointly develop return-to-work strategies.

*For details of the research methodology and the profile of employers surveyed, see sections 6 and 7. All the quarterly reports and other CIPD survey reports are available on our website at www.cipd.co.uk/surveys

1 Current economic and labour market indicators

Overview

The economy grew at around its long-run trend rate in both the final quarter of 2005 and the first quarter of this year.

Employment has recovered after falling in the autumn. But, while the redundancy rate has remained low, employers have remained relatively reluctant to recruit additional staff. Against a background of continued strong growth in labour supply, net job creation has been insufficient to prevent an ongoing rise in unemployment.

However, there is at present no discernible evidence of either a structural fall in the demand for labour, or a permanent deterioration in the trade-off between unemployment and wage inflation. A combination of higher unemployment and subdued wage pressure instead indicates that the recent rise in unemployment is cyclical.

The current weakness of recruitment is more likely to be due to employers achieving higher productivity from existing staff as economic conditions improve. Consequently, while unemployment may continue to rise for a while, the level should start to fall again once the economy gathers sufficient speed to stimulate an increase in hiring.

Output and demand

The preliminary Office for National Statistics (ONS) estimate is that real gross domestic product (GDP) increased by 0.6% in the first quarter of 2006 (Table 1). This was the same quarterly rate of growth as recorded

in the fourth quarter of 2005 but up from the 0.2% increase in the first quarter of 2005. The year-on-year growth rate is estimated at 2.2% – still below the long-term trend (2.5–2.75%) but an improvement on the 1.8% growth achieved in the year to the fourth quarter.

Manufacturing output increased by 0.5% (compared with a fall of 1.1% in the fourth quarter), while total service sector output increased by 0.6% (down from 1.0% in the fourth quarter and the slowest rate of growth since the fourth quarter of 2004). This indicates that the economic recovery in the last two quarters has involved a degree of rebalancing of the overall pattern of growth between manufacturing and service sectors.

At the time of writing, full national accounts are available only for the period to the fourth quarter.

Household (in other words consumer) spending showed further signs of recovery, rising by 0.7% compared with 0.5% and 0.2% in the third and second quarters respectively (Table 2). Although real household disposable income was unchanged between the third and fourth quarters, households decided to spend more rather than save (the savings ratio fell from 5.5% to 4.8%).

This outcome is perhaps surprising considering the rise in unemployment during 2005 and may be a response to the cut in interest rates last August, plus signs of improvement in conditions in the housing market. It is possible, however, that the consumer recovery was not sustained into 2006. Aside from the recorded weakness

Table 1: UK economic growth, to first quarter 2006

	GDP	Manufacturing	Total services
% change in Q1	0.6	0.5	0.6
% change in year to Q1	2.2	0.8	3.0

Source: ONS

Table 2: UK expenditure, quarterly national accounts, to fourth quarter 2005

	GDP	Households	Investment	Government
% change in Q4	0.6	0.7	0.5	1.2
% change in year to Q4	1.8	1.5	3.1	4.3

Source: ONS

in service sector output in the first quarter, following a buoyant Christmas period retail sales dipped in January and February before picking up again in March.

Meanwhile, total investment fell by 0.5% in the fourth quarter. This was due partly to slower growth in government investment (which increased by 3.4% compared with 16.5% in the third quarter), but mainly to the continued weakness of business investment. Total business investment fell by 0.9% in the fourth quarter. This was disappointing given lower interest rates, fairly healthy conditions in UK equities markets and reasonable profitability. UK corporate profitability – measured by the net rate of return on capital enjoyed by non-financial corporations – weakened slightly from 13.4% to 13.1% between the third and fourth quarters but remained good by recent standards. It's likely that reluctance to invest reflects continued uncertainty about consumer demand as well as the need of businesses to cover higher fuel costs and meet pension pressures.

Government spending was still making a relatively strong contribution to economic growth in the fourth quarter, while there was an improvement in net export performance. Total exports increased by 2.2% compared with growth of 1% in total imports.

Inflation and interest rates

The rate of inflation as measured by the Consumer Prices Index (CPI) has in recent months been close to or below the 2% rate targeted by the Bank of England's Monetary Policy Committee (MPC), having reached a recent peak of 2.5% in September 2005.

A dip in the CPI to 1.8% in March 2006 reflects a combination of below-trend economic growth in the first half of last year and the easing of oil price inflation in the second half. But with the economy now growing at around trend, gas and electricity prices already rising, and

prospects for oil and petrol prices uncertain, the MPC has left interest rates unchanged at 4.5% since August.

At present, the balance of opinion among economists seems to favour no change in rates for the time being, assuming the economy continues to recover as expected and there are no further pulses of inflationary pressure. In recent months, however, voices favouring a rate cut have become fewer while talk of a possible rate increase has grown louder.

An ongoing concern is that higher fuel or utilities prices will trigger compensatory cost-of-living-related pay rises. In this respect it's therefore also important to keep a weather eye on the rate of inflation as measured by the Retail Prices Index (RPI), which remains the most common cost-of-living benchmark used in UK wage-setting. The RPI increased from 2.2% to 2.4% – in other words above CPI inflation – at the start of the year and has since remained at that rate.

Demand for labour

According to the Labour Force Survey (LFS) of households there was a (seasonally adjusted) rise in total UK employment of 76,000 (to 28.84 million) in the three months ending in February 2006 (Table 3).

This rise helped offset a fall in employment in the autumn, though the employment rate was unchanged. Full-time employment accounts for 90% of the increase. Total hours worked increased by 0.5% to 926 million.

Just under two-thirds of the additional people in work were women. And around two-thirds of the additional people in work were employees, the remainder self-employed. But of the additional employees, half were in temporary jobs. The relatively high incidence of self-employed and temporary staff in the rise in employment suggests that employers were more willing to hire

Table 3: UK employment, LFS, December 2005 to February 2006

	Employment ('000)	Employment rate (%)	Hours (million)
	28.84	74.5	926
% change in quarter	0.3	0.0	0.5
% change in year	0.5	0.4	0.4

Source: ONS

contract staff during this period, possibly indicating a degree of uncertainty about the outlook for business.

Data based on the alternative ONS measure of employment – the Workforce Jobs series, obtained from a survey of employers – is at the time of writing available for the period up to December 2005. This shows a quarterly increase of 92,000 jobs, almost 80% of them for the self-employed.

The Workforce Jobs series is considered a more accurate barometer of changes in employment by sector. In the year to December, two sectors suffered net job reductions. Manufacturing shed 98,000 jobs (a drop of 2.8%), while distribution, hotels and restaurants shed 81,000 jobs (a 1.1% cut). Almost two-thirds of net new jobs were in the private sector. However, the rate of growth in public sector employment (1.1%) was more than double that in the private sector (0.5%).

A slowdown in demand for labour since the middle of 2005 is mainly evident in fewer job vacancies rather than any significant rise in redundancies (Table 4).

This pattern is consistent with the CIPD's quarterly *Labour Market Outlook* survey findings for recruitment and redundancy intentions, although the latest survey suggests some gradual improvement in hiring alongside a slight increase in redundancies (see Section 2).

Labour supply

The supply of labour available to employers is measured by the economically active population, with unemployment providing the best indication of the amount of unused labour. Part of the economically inactive population of working age might also be considered a potential, but not immediately available, source of labour (Table 5).

Table 4: UK job vacancies and redundancies, December 2005 to February 2006

	Vacancies ('000)	Redundancies ('000)
	593	141
% change in quarter	-0.6	0.8
% change in year	-6.8	4.5

Source: ONS

Table 5: UK economic activity, unemployment and economic inactivity (working age), December 2005 to February 2006

	Economically active (million)	Unemployed (million)	Economically inactive (millions)
	30.39	1.55	7.92
% change in quarter	0.4	2.0	0.2
% change in year	0.9	8.3	1.4

Source: ONS

The economically active population continues to grow strongly – by 107,000, or 0.4%, in the quarter December 2005 to February 2006, and by 266,000, or 9%, from February 2005 to February 2006. Unemployment (seasonally adjusted) as measured by the LFS increased by 30,000 in the quarter and 120,000 over the year (to 5.1% of total labour supply), while the number of people unemployed and claiming Jobseekers' Allowance (the claimant count) increased by 106,000 (to 3%) in the year to March 2006.

The number of economically inactive people of working age increased by 108,000 (to 7.92 million) during the year to December – February. One in four economically inactive people (2.05 million) state that they want a job. This number increased by 90,000 in the year.

Why has unemployment risen?

The most likely explanation for the rise in unemployment during the past year is that a period of weak demand for labour has coincided with a period of relatively strong growth in the supply of labour. If so, the rise should prove temporary. However, it has been suggested that the rise might, at least in part, be structural and thus persist.

This could occur for a number of reasons. One possibility is that employers' reduced propensity to hire new staff might reflect not only weaker demand for goods and services but also an increase in the direct or indirect cost of employing people.

Another possibility is that permanently higher fuel or utility costs require a corresponding reduction (or at least slower growth) in labour costs. If this is not forthcoming – say, because workers resist it – employers may either decide to employ fewer people or pass on the cost to consumers in the form of higher prices for goods and services. Either way this spells bad news for job prospects since, if the result is above-target inflation, the MPC will raise interest rates, with higher unemployment needed to curb pay increases.

Pay, productivity and unit wage costs

However, the probability that the rise in unemployment is simply the temporary result of a combination of weaker demand for labour and increased labour supply is strengthened by the observation that the past year has witnessed a moderation in underlying wage pressure (Table 6). Similarly, relatively few employers cite higher minimum wages and National Insurance contributions as major sources of upward pressure on employment costs, although there is increasing concern about the impact of pension costs (see Section 3).

In the three months to February, average earnings excluding bonus payments were rising at an annual rate of 3.8%. Although the average rise outpaced price inflation, it was well below the 4.5% consistent with the MPC's 2% CPI inflation target and lower than the 4.3% rate recorded during the same period in 2005.

This suggests that higher fuel and utility prices have not so far had noticeable second-round wage effects – and the latest CIPD quarterly survey shows no obvious sign that such effects are imminent. However, there does appear to be a modest increase in the rate of expected pay rises, while employers also suggest that the cost of living and the need to keep up with pay inflation are the major influences on pay-setting this quarter.

It should of course be remembered that earnings are not the only component of unit labour costs. For much of 2005, moderation in earnings growth was unable to prevent a rise in unit labour costs because of deterioration in labour productivity growth. As noted in the previous *Labour Market Outlook*, the annual rate of growth of output per hour worked fell to zero in the third quarter of 2005, pushing the average rate of growth of unit wage costs to 3%. But, by the final quarter, productivity began to recover again (Table 7).

Table 6: Growth in UK average earnings, February 2006

	Whole economy (%)	Private sector (%)	Public sector (%)
February 2005	4.3	4.2	4.7
February 2006	3.8	3.8	4.0

Source: ONS

The most likely explanation for last year's slump in productivity is that employers hoarded labour during the period of slower demand rather than resorting to substantial job cuts. This has enabled employers to respond to the emerging recovery in demand by obtaining more output from existing staff, which in turn helps explain why recruitment remains subdued. Another factor is still relatively strong growth in public sector employment, the

public sector registering relatively low productivity. A key question, however, is whether productivity will eventually recover to what is generally thought to be the UK's long-run trend rate of growth of labour productivity (generally thought to be around 2% per annum). If not, workers might have to adapt to a lower affordable rate of pay increases in order to prevent deterioration in the trade-off between inflation and unemployment.

Table 7: Annual growth in UK productivity and unit wage costs, fourth quarter 2002 – 2005

	Output per worker (%)	Output per hour (%)	Unit wage costs (%)
2002 Q4	0.8	0.8	2.6
2003 Q4	2.5	2.6	1.0
2004 Q4	1.1	1.4	3.0
2005 Q4	1.1	1.0	2.2

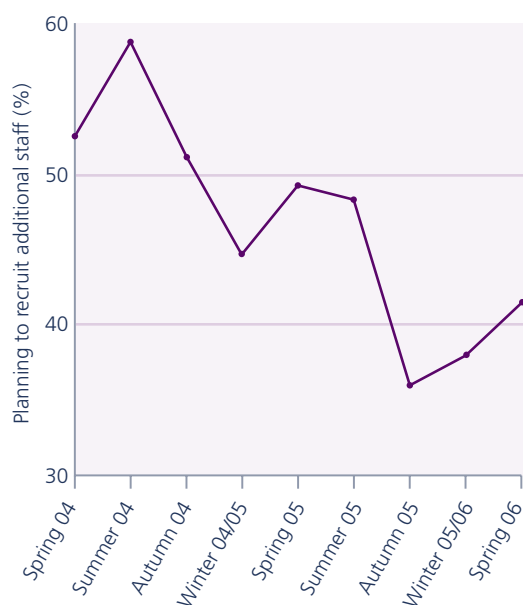
Source: ONS

2 Recruitment and redundancy outlook

Net recruitment and employment levels

Four in five employers (80%) responding to the survey intended to recruit staff in the spring quarter (March to May 2006). Two in five employers (41%) who will be recruiting will be recruiting additional staff (in other words, over and above replacement recruitment). This is a further improvement on the trough reported last autumn but indicates that net recruitment intentions still remain below those recorded in 2004 and the first half of 2005 (Figure 1).

Figure 1: Net recruitment intentions



The weakest net recruitment intentions are in the public services, which, as in the winter survey, is also the sector with the highest proportion of employers expecting to make some workers redundant (Table 8). This finding is consistent with the expectation that the Gershon efficiency drive will have a further dampening effect on growth in public sector employment between now and 2008, not to mention much-publicised evidence of ongoing job cuts in many parts of the NHS.

Table 8: Net recruitment intentions, by sector, spring 2006

	%
Manufacturing and production	44
Voluntary sector	44
Private sector services	53
Public services	31
All	41

Net recruitment intentions are higher than average in only two regions: London (51%) and Yorkshire and Humberside (43%).

Twenty-seven per cent of employers say that they expect to make redundancies (Table 9), higher than the winter figure (25%), which was itself higher than that recorded throughout 2005 (22%).

Table 9: Employers expecting to make some employees redundant, spring 2006

	%
Manufacturing and production	27
Voluntary sector	28
Private sector services	22
Public services	34
All	27

Table 10 combines net recruitment intentions and redundancy expectations to indicate how proposed recruitment and redundancy is likely to affect employment levels. Fifty-eight per cent of employers expect to either maintain staff levels or increase these by less than 2%.

Table 10: Effect of planned recruitment on staff numbers, spring 2006

	%
Maintain current staff numbers	38
Increase by 0–2%	20
Increase by 2–4%	10
Increase by more than 4%	11
Offset by a higher number of redundancies by 0–2%	4
Offset by a higher number of redundancies by 2–4%	5
Offset by a higher number of redundancies by more than 4%	5

Recruitment difficulties

Forty-one per cent of employers anticipate recruitment difficulties (Table 11). Vacancies considered most likely to be difficult to fill are those for skilled tradespeople (23%), general and middle managers (19%), senior managers and directors (14%) and sales and customer services staff (11%).

Shortages of skilled tradespeople are of greatest concern for manufacturing employers (45% expect difficulty recruiting this group). For private sector services employers, sales and customer services staff present the most difficult recruitment problems (22%), while the main problem for public sector employers is recruitment of senior managers.

Table 11: Employers expecting recruitment difficulties, spring 2006

	%
Manufacturing and production	34
Voluntary sector	44
Private sector services	44
Public services	42
All	41

3 Pay outlook

Expected scale of pay rises

A majority (55%) of employers surveyed intend to conduct a pay review between now and the summer. Two-thirds expect pay levels to increase on average by 2 – 4% as a result of the review (Table 12).

Compared with the previous quarterly survey, there are signs of a modest increase in pay pressure, with fewer employers expecting pay to increase in the range 0–2% and more expecting increases in the range 3–4%. The overall average expected increase is 3.2%, the average being highest in private sector services (3.4%) and lowest in the public sector (2.9%).

Unlike previous quarterly surveys, professional staff rather than directors are the group most likely to receive a pay rise of 3% or above (Table 13).

Table 12: Expected impact of next pay review

	%
Remain stable	–
Increase by 1%	–
Increase by 2%	9
Increase by 3%	44
Increase by 4%	13
Increase by 5% or more	5
Not stated	30

Table 13: Expected impact of next pay review, by job type

	Directors (%)	Professional (%)	Skilled trade (%)	Clerical (%)	Manual (%)
Remain stable	–	–	–	–	–
Increase by 1%	–	–	–	–	–
Increase by 2%	7	8	7	9	7
Increase by 3%	35	39	31	41	33
Increase by 4%	10	11	8	10	7

Factors affecting pay increases

The single most important labour market influences on expected pay increases are higher costs of living (cited by 23% of employers) and the need to retain skilled staff (20%). In addition, 31% of employers reckon that the need to keep up with pay inflation will be a key factor at the time of their next pay review (Table 14).

Table 14: Influences on pay increases

Labour market influences	%
Higher cost of living	23
To improve retention of skilled staff	20
To improve recruitment of skilled staff	3
Individual demands	3
Wider factors	
To keep up with pay inflation	31
Pay review set by management	25
Pay review bargained with trade union bargaining	25
Increased business confidence	3

Other employment costs

Aside from pay set by management or collective bargaining, employers report that they expect recruitment costs (33%) and pension provision (27%) to have the biggest impact on their total employment costs this spring, broadly in line with the results of previous CIPD quarterly surveys (Table 15).

Table 15: Biggest impact on employment costs, spring 2006

	% citing this as having biggest impact
Recruitment costs	33
Pensions	27
Training cost	10
National minimum wage	10
Sick pay	10
Other staff benefits	5
Flexible working arrangements	5
National Insurance contributions	5

4 Medium-term employment and pay outlook

The CIPD quarterly survey asks employers how they expect staffing levels and pay to change in the next 12 months as well as in the next quarter. While this should not be read as a forecast of what will happen, it nonetheless reflects employers' general mood or sentiment about the economy and the labour market at the time of each survey.

Changes expected in staffing levels in the coming year

Forty-three per cent of employers surveyed expect their staff numbers to be about the same by spring 2007. Fifteen per cent expect to be employing up to 2% more staff, with a further 19% expecting staff numbers to rise by 2% or more (Table 16).

Table 16: Expected total number of employees in 12 months' time

	%
About the same	43
Lower by 0–2%	9
Lower by 2–4%	6
Lower by more than 4%	7
Higher by 0–2%	15
Higher by 2–4%	8
Higher by more than 4%	11

There is a 12% positive balance of employers expecting to employ more staff over those expecting to employ fewer (Table 17). This suggests an improvement in employer optimism since the winter survey (when the positive balance was only 8%). Sentiment is unchanged in manufacturing (a positive balance of 6%) but has improved markedly in both the voluntary sector and private sector services where, on balance, one in three employers expect to be employing more staff in a

year's time. By contrast, public sector employers are pessimistic. But even here the negative balance of 8% is an improvement on the winter survey finding of a 14% negative balance.

Table 17: Balance of medium-term employment expectations, by sector

	%
Manufacturing and production	6
Voluntary sector	34
Private sector services	33
Public services	–8
All	12

Expectations of average pay rises in the coming year

Most employers responding to the survey expect pay rises to be relatively modest in the coming year (Table 18). Sixty-nine per cent expect pay for their staff to rise on average by 4% or less. The average expected increase is 3.3%.

Table 18: Anticipated changes in average pay in the next 12 months

	%
Remain stable	2
Increase by 1%	1
Increase by 2%	9
Increase by 3%	43
Increase by 4%	14
Increase by 5%	6
Increase by more than 5%	3
Don't know	22

5 Focus: recruitment of Incapacity Benefit claimants and managing long-term sickness absence

In January, the Department for Work and Pensions (DWP) published its long-awaited Green Paper on welfare reform, *A New Deal for Welfare: Empowering people to work*. The Green Paper highlighted the Government's long-term aspiration of reducing unemployment and economic inactivity in order to raise the national employment rate from around 75% at present to 80% in the future.

To meet this aspiration, the DWP estimates that it will be necessary to eventually help 1 million additional older workers into jobs, as well as reducing the number of jobless people on Lone-Parent Benefit and Incapacity Benefit (IB) by 300,000 and 1 million respectively.

Measures to reduce the level of IB claims by helping more claimants into work and enabling more people with health problems avoid moving onto IB in the first

place form the centrepiece of the Green Paper. Similarly, the Government's proposals for achieving this comprised the bulk of the questions for consultation outlined in the Green Paper.

The consultation is now officially closed – the DWP will in due course publish its informed policy conclusions. However, given the consultation was active during the course of this quarter's *Labour Market Outlook* survey, we decided to ask respondents about their practice in hiring people already on IB, their experience of hiring IB claimants, what public policy measures might encourage them to hire more IB claimants, and how they manage staff developing potentially long-term health problems in order to enable them to remain in work.

Table 19: Groups excluded when recruiting (% respondents)

	Manufacturing and production	Voluntary sector	Private sector services	Public services	All
Older workers	2	–	1	2	1
Lone parents	–	–	1	1	1
IB mental ill-health	25	10	23	8	18
IB physical ill-health	17	5	10	5	10
Don't exclude	71	88	73	88	78
Employer size (number of employees)					
	Fewer than 50	50–99	100–249	250–499	500+
Older workers	2	3	1	–	2
Lone parents	1	–	–	–	–
IB mental ill-health	26	21	20	16	14
IB physical ill-health	9	9	10	9	10
No exclusions	71	74	77	81	82

Recruitment of IB claimants

Employers were asked if they excluded applications from any of the key target groups referred to in the DWP Green Paper – older workers, lone parents and people on IB for reason of physical or mental ill-health – when recruiting staff (Table 19).

Encouragingly, almost eight in ten employers said they did not exclude any of these groups. However, with respect to the minority of employers who did exclude some groups, barriers to recruitment are clearly much higher for IB claimants than lone parents or older workers.

Almost one in five employers (18%) state that they exclude people on IB for reasons of mental ill-health. This is almost twice the rate of exclusion of people on IB for reasons of physical ill-health. For both groups of IB claimants, exclusion is relatively high in the private sector (manufacturing and services) and among small and medium-sized employers.

Degree of disadvantage experienced by IB claimants and the long-term unemployed

In order to establish whether exclusion of IB claimants was due to their health status as opposed to some other disadvantageous factor – such as a prolonged period of time without work – employers were also asked to state their experience of hiring IB claimants relative to the long-term unemployed (Table 20).

While both groups experience disadvantage in the hiring process – especially when it comes to finding jobs in the private sector and with smaller employers – the degree of disadvantage facing IB claimants is relatively severe.

When asked what it is that might discourage hiring of IB claimants or the long-term unemployed, two factors stand out: concern about lack of skills, and the possibility that recruits might suffer continuing problems with ill-health (both cited by 17% of employers). These factors seem to be the main cause of concern among employers across all sectors (Table 21).

Employers' experience of IB claimants and the long-term unemployed

The survey in turn asked the subset of employers who had hired IB claimants or the long-term unemployed about their actual experience of employees drawn from these two groups (Table 22). Employers were asked to rate their experience as 'positive', 'neutral' (in other words, no better or worse than other employees) or 'negative'.

Encouragingly, around two-thirds of employers across all sectors rate their experience as neutral, with only a minority rating their experience as negative (although in manufacturing, negative experience is slightly more widespread than positive). Ironically, positive experience is most in evidence among smaller employers,

Table 20: Have you hired IB claimants or the long-term unemployed?

	Manufacturing and production	Voluntary sector	Private sector services	Public services	All
IB claimants	5	12	5	9	7
Long-term unemployed	31	30	23	21	25
Both	18	34	21	41	27
Employer size (number of employees)					
	Fewer than 50	50–99	100–249	250–499	500+
IB claimants	2	8	5	9	8
Long-term unemployed	15	26	25	30	26
Both	9	15	18	25	41

Table 21: What discourages the hiring of IB claimants and the long-term unemployed?

	Manufacturing and production	Voluntary sector	Private sector services	Public services	All
Punctuality	–	4	2	2	2
Productivity	7	1	4	2	4
Attendance	6	10	10	5	7
Teamworking	2	–	3	2	2
Lack of skills	14	10	21	19	17
Quality of work	3	2	4	3	3
Customer service	–	–	3	1	1
Reliability	11	7	8	5	8
Ongoing ill-health	21	17	18	12	17
Loyalty	–	–	–	–	–

that is, those least likely to hire IB claimants or the long-term unemployed. This suggests scope for targeting information on positive experiences at smaller employers.

In addition, employers with experience of hiring IB claimants and the long-term unemployed were asked to assess their experience of the performance of employees drawn from these groups against the various concerns (as shown in Table 21) that might discourage hiring (Table 23). Ongoing ill-health emerges as the most important performance issue.

Encouraging recruitment of IB claimants

In light of the Green Paper proposals and other suggested policy options, the survey asked employers for their views on a variety of possible public policy measures that might encourage the recruitment of IB claimants (Table 24).

There is a reasonable degree of support for all such measures, but most popular (cited by almost two-thirds of respondents) would be the provision of training grants to enable employers to assess and improve the skill and development needs of potential recruits from

Table 22: Employers' experiences of employing IB claimants or the long-term unemployed

	Manufacturing and production	Voluntary sector	Private sector services	Public services	All
Positive	13	28	20	17	18
Neutral	65	65	66	67	66
Negative	17	8	8	8	10
Employer size (number of employees)					
	Fewer than 50	50–99	100–249	250–499	500+
Positive	43	30	19	14	14
Neutral	41	63	68	74	67
Negative	8	9	11	9	10

Note: A small percentage of respondents did not answer the question.

Table 23: In which areas do employees drawn from IB claimants or the long-term unemployed have greatest performance difficulties?

	Manufacturing and production	Voluntary sector	Private sector services	Public services	All
Punctuality	7	6	7	6	7
Productivity	12	5	10	10	6
Attendance	21	9	10	14	14
Teamworking	11	6	10	11	10
Lack of skills	13	15	15	13	14
Quality of work	4	5	4	3	4
Customer service	–	2	6	2	3
Reliability	10	9	7	6	7
Ongoing ill-health	20	20	24	22	22
Loyalty	2	–	1	1	2

Table 24: What might the Government do to encourage employers to recruit IB claimants?

	Manufacturing and production	Voluntary sector	Private sector services	Public services	All
Improved access to state-funded occupational health provision	47	58	44	38	44
Employment advisers in GPs' surgeries	44	47	43	39	42
Tax breaks/recruitment subsidies	40	52	42	41	42
Training grants to assess skills and development needs of IB claimants	60	73	62	69	64
More evidence from Pathways to Work	45	48	42	47	45
Work trials while on benefit	–	–	–	–	–

Table 25: Measures in place/to be introduced in next two years to manage long-term employee sickness and absence

	Manufacturing and production	Voluntary sector	Private sector services	Public services	Fewer than 50 employees	All
Occupational health support						
Currently	70	70	51	92	30	69
In next two years	7	3	8	1	65	5
Improve occupational health support						
Currently	17	13	5	23	2	14
In next two years	17	18	16	27	10	20
Flexible working						
Currently	68	84	72	91	67	78
In next two years	7	6	6	3	4	5
Improve flexible working						
Currently	15	10	12	19	11	14
In next two years	15	18	19	19	13	18
Rehabilitation programmes						
Currently	51	41	29	57	9	43
In next two years	5	5	4	6	2	5
Employee well-being programmes						
Currently	33	24	25	58	17	36
In next two years	17	26	13	14	7	15
Employee assistance programmes						
Currently	28	41	34	50	13	36
In next two years	12	12	12	6	5	10
Private medical insurance						
Currently	63	15	63	10	34	43
In next two years	5	6	6	5	7	5
Use of HSE stress management standards						
Currently	20	33	24	45	23	30
In next two years	20	19	16	18	8	18
Other stress risk assessment						
Currently	25	27	25	49	20	32
In next two years	16	11	13	9	6	12
Training for line managers to help manage absence						
Currently	54	59	56	76	33	61
In next two years	25	25	23	15	11	21

the IB register. These are relatively popular among smaller employers (70% of those with fewer than 50 employees support this idea), as are tax breaks or subsidies for recruiting IB claimants (57% compared with the all-employer average of 40%). By contrast, there is little apparent enthusiasm for hiring incapacity benefit claimants for a trial period – while they remain on benefit.

Forty-five per cent of employers would also like more practical evidence of how existing policy measures, such as Pathways to Work, help IB claimants make a lasting and effective return to work. In light of the survey result (reported above) that smaller employers are reluctant to hire IB claimants even though those that do hire them report positive experiences, such evidence could prove particularly useful in changing recruitment behaviour in this segment of the employer market.

Managing long-term sickness absence

Although public policy debate on IB tends to focus on welfare to work, reducing the flow of people with health problems from work to welfare is just as important. And, in this respect, employer practice, and relations between employers and health professionals, can make a big difference to retaining people with health problems in the workplace.

The survey asked employers about the measures they have in place to manage long-term sickness and sickness-related absence in an effort to enable staff to remain in work or make a successful return to work. The survey asked both about existing measures and whether employers were planning to introduce such measures within the next two years (Table 25). Flexible work options (offered by eight in ten employers), occupational health support (offered by seven in ten employers) and appropriate training for line managers (provided by six in ten employers) are the most common absence management policies. These are also the three areas most likely to see improved provision in the next two years. By contrast, only around four in ten employers offer staff private medical insurance, although the proportion is around six in ten in the private sector.

Of increasing popularity are employee well-being programmes (set to be offered by more than half of all employers in the next two years), use of the Health and Safety Executive’s stress management standards, and other forms of stress risk assessment. Interestingly, however, these latter measures register few highest-level ratings when employers are asked to rate their effectiveness on a scale of 1 (highly effective) to 5 (ineffective) (Table 26).

Table 26: How effective are measures to manage long-term employee sickness and absence?

	Very effective	Ineffective	Mean score (1–5 scale)
Occupational health support	23	2	2.23
Improve occupational health support	18	3	2.38
Rehabilitation programmes	10	2	2.44
Employee well-being programmes	3	4	3.02
Employee assistance programmes	4	4	2.91
Private medical insurance	9	8	2.86
Use of HSE stress management standards	1	4	3.10
Other stress risk assessment	2	4	2.99
Training for line managers to help manage absence	24	4	2.22

Use of health professionals to help manage sickness absence

Finally, the survey asked what might be done to improve relations between employers, health professionals and health services in an effort to improve the management of long-term sickness absence.

More than 90% of employers responding to the survey think that GPs could play a more informed and proactive role in helping people return quickly to work. Among suggestions for improving on current practice, most popular (supported by around 80% of respondents) are that employers and GPs should jointly develop return-to-work strategies and revise medical certification to encourage more emphasis on advice about how to return to work (Table 27).

Table 27: What could improve co-ordination and communication between GPs and employers?

	Manufacturing and production	Voluntary sector	Private sector services	Public services	Fewer than 50 employees	All
More support for GPs in recording sickness certification	48	62	56	52	48	53
Revising the medical certificate to encourage provision of better return-to-work advice	84	83	81	82	69	82
Occupational health advice line for GPs	45	54	38	54	33	46
National education programme for GPs on health and work	49	51	41	53	33	47
Online learning modules and other courses for GPs on fitness-for-work issues	26	28	25	32	23	27
Employment advisers in GPs' surgeries	49	52	47	44	42	47
GPs and employers jointly develop return-to-work strategies	84	80	80	78	68	80
Rewarding primary care staff who take active steps to help people stay in or return to work	26	30	27	28	26	27
GPs not to sign off employees too easily	3	2	1	2	2	2
Medical reports to employers	–	–	–	–	–	–

6 Research methodology

In total, 12,000 questionnaires were sent out to a range of CIPD members and 1,048 usable returns were obtained – a response rate of 8.7%. Respondents answered a series of questions on employment issues relating in the main to spring 2006. In particular, the questionnaire was concerned with recruitment, redundancies, pay expectations and the Government's Welfare to Work programme.

The responses were collated and compiled by Plus Four Market Research Limited. To provide more detail, the results were then re-analysed by size of company, sector, region and type of business. The *Labour Market Outlook* survey report is prepared at the CIPD by John Philpott and Gerwyn Davies.

The CIPD would welcome comments on this report and ideas and suggestions for how the *Labour Market Outlook* might be developed. These should be sent to: j.philpott@cipd.co.uk

7 Respondent profile

Table 28: Respondents, by business type

	%
Agriculture and forestry	1
Chemicals, oils and pharmaceuticals	3
Construction	2
Energy and water	1
Engineering and electronics	4
Food, drink and tobacco	3
General manufacturing	4
Mining and quarrying	1
Paper and printing	1
Textiles	–
Other manufacturing	5
Professional services	9
Finance, insurance, real estate	4
Hotel, catering, leisure	3
IT services	2
Call centres	1
Media (broadcasting/publishing)	1
Retail, wholesale	6
Transport, distribution, storage	4
Communications	1
Other private services	8
Care services	2
Charity services	3
Housing association	3
Other voluntary	2
Local government	8
Central government	4
Education	7
NHS	5
Other public services	5

To make better use of the survey data by business type (Table 28), the data were recoded into sector categories (Table 29) and by organisation size (Table 30) and by region/nation (Table 31).

Table 29: Shorter business type/sector list

	%
Manufacturing and production	22
Private sector services	38
Public sector	29
Voluntary sector	10

Table 30: Respondents, by organisation size

Number of employees	%
Fewer than 25	9
25–49	4
50–99	9
100–249	24
250–499	12
500 or more	42

Table 31: Respondents, by region/nation

	%
Scotland	9
Wales	4
Northern Ireland	9
North-west England	24
North-east England	12
Yorkshire and Humberside	42
West Midlands	8
East Midlands	7
Eastern England	7
London	13
South-east England	17
South-west England	10

Note: Regional percentages are based on a total of 771 respondents whose response relates to the region in question. The remaining respondents' responses relate to the whole of the UK.

We explore leading-edge people management and development issues through our research. Our aim is to share knowledge, increase learning and understanding, and help our members make informed decisions about improving practice in their organisations.

We produce many resources on people management and development issues including guides, books, practical tools, and survey and research reports. We also organise a number of conferences, events and training courses. To find out more, please visit www.cipd.co.uk

Chartered Institute
of Personnel and
Development

151 The Broadway London SW19 1JQ
Tel: 020 8612 6200 Fax: 020 8612 6201
Email: cipd@cipd.co.uk Website: www.cipd.co.uk
Incorporated by Royal Charter Registered charity no.1079797

