Policy Voice full survey results August 2024

The Autumn Budget edition

- IR35
- National living wage
- Employment rights
- Infrastructure investment

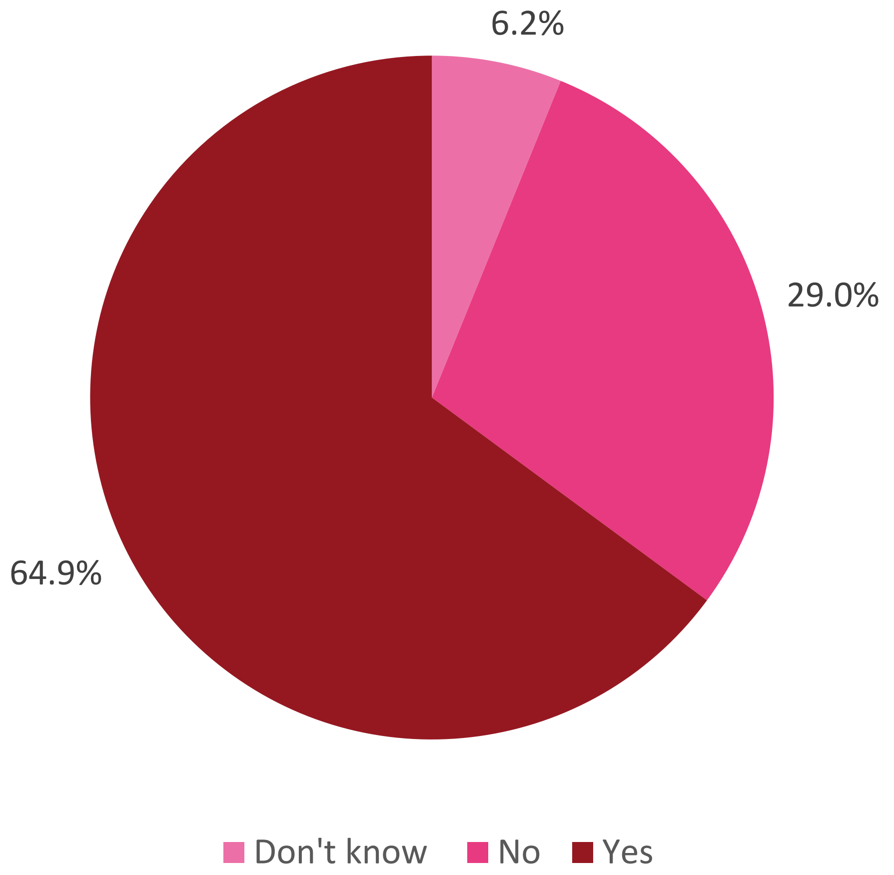
Number of respondents: 715
Survey Dates: 16 – 28 August 2024

The Autumn Budget

On 30 October, the Chancellor of the Exchequer, Rachel Reeves, is set to deliver her Autumn Budget, accompanied by a full economic assessment from the Office of Budget Responsibility.

Ahead of this event, we wanted to get member views on a number of issues including, fiscal rules, the government's Employment Rights Bill, the National Living Wage and the effects of IR35 on their organisation.

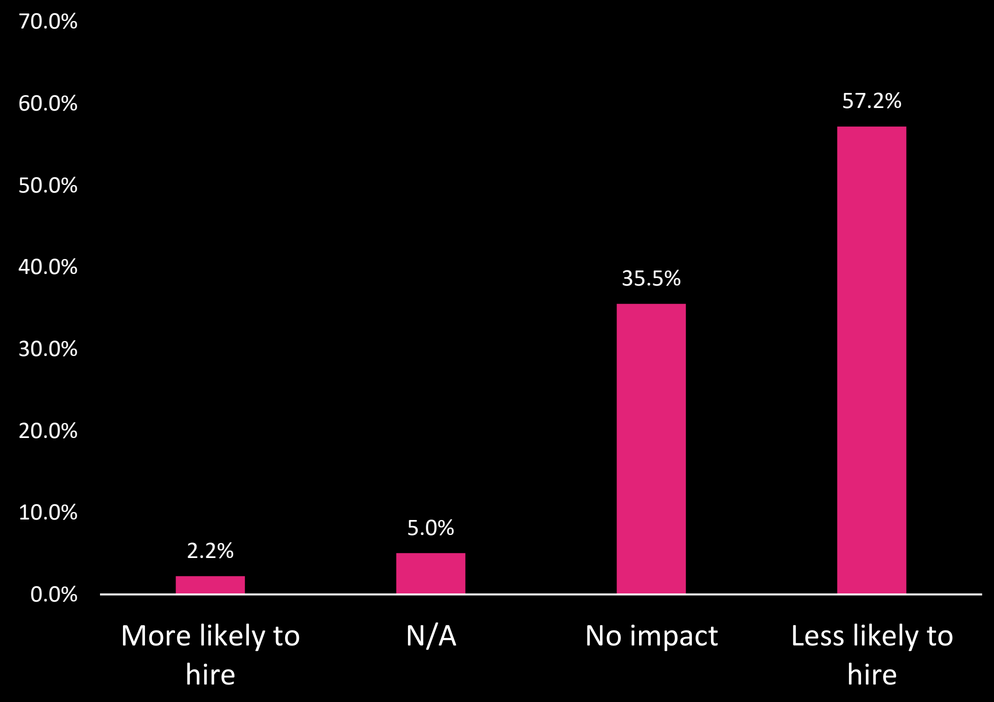
Do you think the government should be able to borrow more if it's to fund investment in infrastructure?



The government is planning to introduce an Employment Rights Bill within its first 100 days of office. Measures expected in the Bill include:

- Giving workers the right to a contract reflecting the hours they usually work
- Strengthening the statutory code on fire and rehire
- 'Day one' employee rights to parental leave and sick pay, and protection against unfair dismissal
- Making it unlawful to dismiss a maternity returner for six months after their return to work, except for in specified circumstances
- Simplifying the statutory trade union recognition process
- Making Statutory Sick Pay available to more workers by removing the lower earnings limit and waiting period

What impact, if any, would these reforms have on your organisation's hiring intentions?



Over half (57%) of business leaders stated that the planned Employment Rights Bill will make them less likely to hire, while a third (36%) reported that the Bill will have no impact on their hiring intentions.

Three major themes emerged in the comments:

Employment as a less attractive proposition to employers.

"We would be less likely to hire employees under permanent contract terms. It is really only the 'Day one' employee rights to parental leave and sick pay, and protection against unfair dismissal, that creates a challenge for us. We can work with the other proposed changes." (Medium-sized employer, Manufacturing, North West England)

"Bottom line, we would be more inclined to hire outside the UK." (Medium-sized employer, Information and communications, Northern Ireland)

"I would like the government to speak to businesses and understand the real challenges we face in managing a workforce with our hand tied behind our backs all the time - it is making the people management one of the biggest challenges of running a business." (Medium-sized employer, Professional, scientific and technical activities, Wales)

Significant concern regarding the impact of day one employment rights on the ability of employers to maintain meaningful probationary periods.

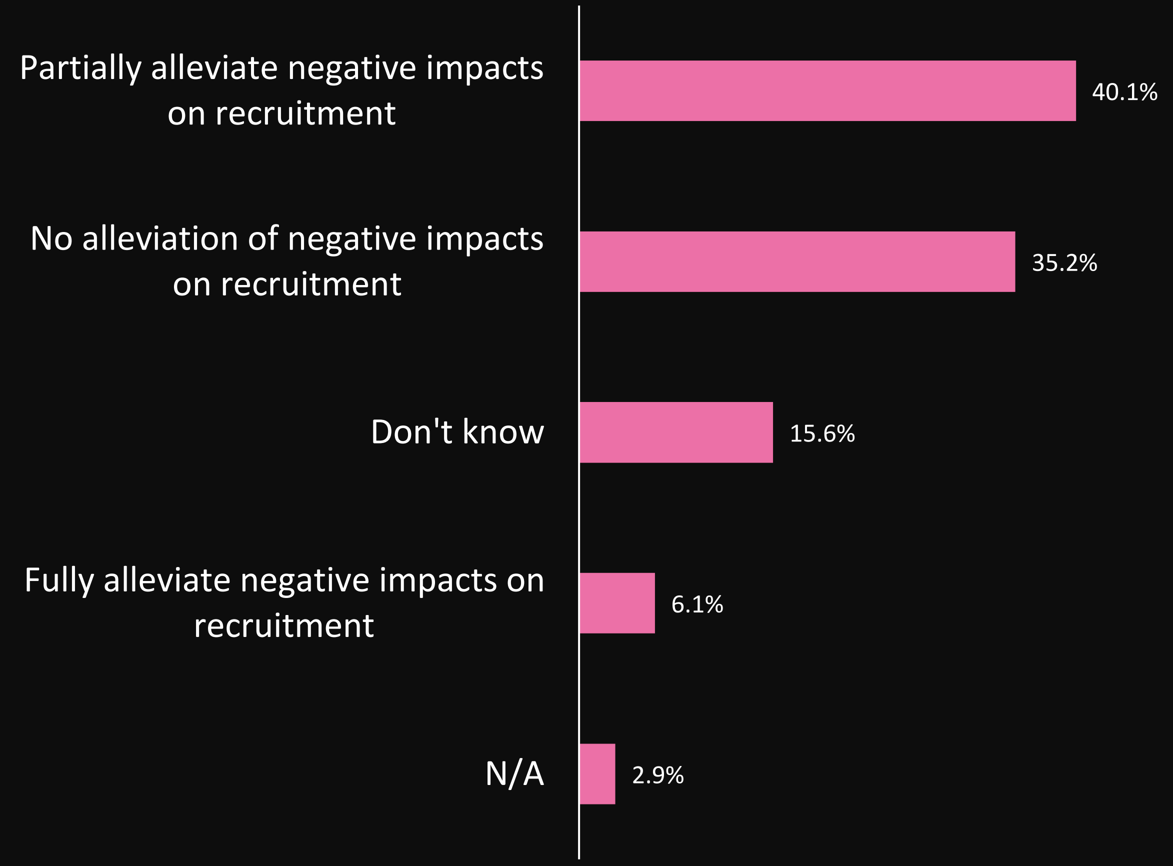
"At least a year is needed to do this and there should always be the opportunity to dismiss within the probationary period without being subject to the roulette, cost and risk of unfair dismissal provisions." (Small-sized employer, Administrative and support services, South East England)

"It's essential that there is a probationary period before full employment rights some into force otherwise any recruitment failures become incredibly laborious and expensive to address - if this is implemented it will reduce new hire appetite and most likely reduce social mobility by encouraging companies and leaders to hire from within their 'known' networks." (Microbusiness, Construction, West Midlands)

The disproportionate impact that the Bill will have on SMEs.

"This penalises smaller businesses who are less likely to be able to afford these additional costs and remain competitive." (Medium-sized employer, Construction, South West England)

The government has indicated that it will look at protecting probationary periods. If probationary periods were protected in their current form for a period of at least 6 months, to what extent would that alleviate any impacts on your recruitment plans?



Respondents who stated that they were less likely to hire were then asked whether a protected probationary period would mitigate the negative impact of the reforms on their hiring intentions. 40% of respondents reported that it would partially alleviate the negative impact, while a third (35%) stated that it would not.

Respondents were highly supportive of retaining a meaningful probationary period:

"Much better - still some concerns but need that 6 months probation" (Medium-sized employer, Construction, South West England)

However, some questioned how far the necessary protections will be possible if a day one right to protection against unfair dismissal is implemented:

"No alleviation at all unless the law specifically excludes anyone during a contractual probationary period or any extension thereof" (Microbusiness, Administrative and support services, North East England)

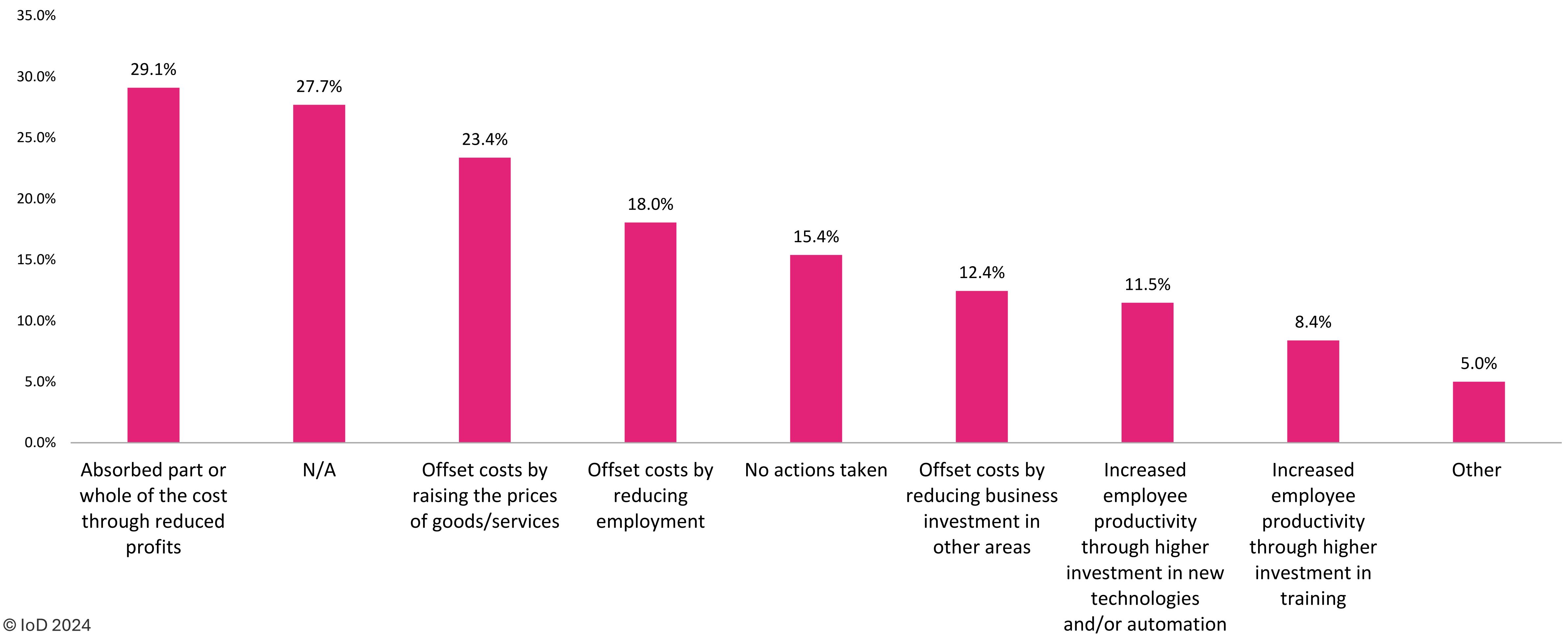
Business leaders diverged on the exact maximum length of probationary period which should be allowed, but most agreed on a period between 6 to 12 months.

"6 months is a fair compromise. Any company should have been able to confirm a successful hire within this period." (Microbusiness, Construction, West Midlands)

"6 months is very tight especially as in the case of a poorly preforming employee it will generally take at least six months of work to help them succeed. This will effectively make it impossible to give someone an opportunity to grow into a role or to take risks on employees" (Medium-sized employer, Manufacturing, Wales)

In the past two years, the National Living Wage has increased from £9.50 to £11.44 an hour.

What action/s if any, has your organisation taken in response to these increases? Please select all that apply.



In the further comments, most members were keen to highlight the fact that all of their employees earn more than the National Living Wage. However, many members still expressed their concerns around these increases.

One concern expressed was the impact a blanket increase has on smaller and growing businesses:

"The rise of National Living Wage has put pressure on SMEs and acts as a deterrent to employment which further stunts growth and productivity of the business. Many businesses have resorted to outsourcing to people abroad e.g. virtual assistants as the costs are cheaper. The government should put different thresholds for National Living Wage according to the size of business." (London, Professional, scientific and technical activities, 2-9 employees)

"This is fine for existing businesses but not for growing businesses" (West Midlands, Accommodation and food services, 2-9 employees)

"This is just a way of shifting more cost onto businesses - for small businesses and those employing part time labour, it's making it more and more difficult to afford to recruit" (East Midlands, Education, 10-49 employees)

"I work with a number of small businesses either in the charity sector or where the margins are low, and this has been a great burden and has resulted in costs having to be saved elsewhere, including hiring freezes so this has stunted growth and caused problems in differentials in pay causing recruitment and retention difficulties." (Scotland, Professional, scientific and technical activities, 2-9 employees)

Members also expressed concern around the inflationary impact of increased minimum wages, highlighting the often-increased cost on the consumer:

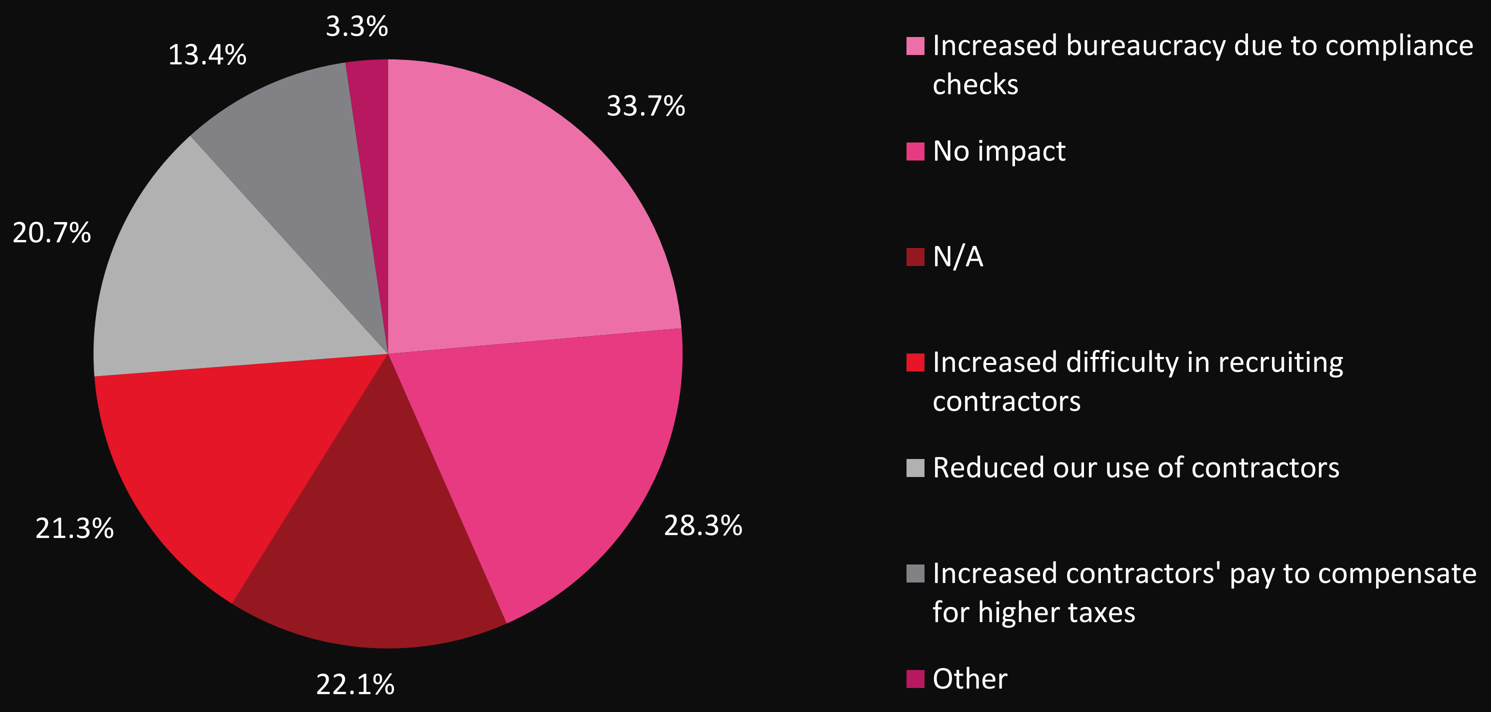
"This approach is flawed and ultimately drives up costs that are passed on to consumers. As a result, employees end up paying more, which only fuels inflationary pressures." (North West, Manufacturing, 10-49 employees)

"Minimum wage growth is the number one reason for driving up sales prices and thus inflation, it is self defeating and negative to growth for manufacturing companies" (South West, Manufacturing, 10-49 employees)

"All of our employees earn more. However, many small businesses struggle with the current minimum. So, either fewer employed or, price rises which then leads to further demands for wage increases!" (London, Financial Services, 50-99 employees)

Since 2021, responsibility for determining the IR35 status of contractors has rested with end clients (other than small businesses and those based wholly overseas).

What effect, if any, has this had on your organisation? Please select all that apply.



Whilst the result were fairly split, in the further comments, many members called for the abolition of IR35 in its entirety. Those who called for this, largely fell into two camps.

Firstly, many members were keen to highlight the administrative burden on their organisations, as well as the increased time and cost associated with ensuring they are IR35 compliant when seeking to use external contractors.

"The IR35 change has been a massive administrative headache both for my company as an end client and for our contractors, and it has benefited nobody." (South East, Professional, scientific and technical activities, 250+ employees)

"There is always a sense of doubt as to whether we are sufficiently accounting for these rules and so we spend a lot of time trying to ensure that we completely comply." (South East, Other services, 10-49 employees)

"I think the IR35 brings more harm to the UK economy rather than bringing benefits. This is a massive headache to us as small business." (London, Information and communication, 2-9 employees)

Secondly, others noted that the regulation is putting people off using contractors as they would have previously, with some now hiring from overseas to avoid the burden of compliance.

"The contractor does not get the same package as a permanent employee so it is fair that they should be able to offset some costs before tax deductions. This is resulting in higher rates which in effect is reducing use of contractors. Definitely one to look into." (London, Professional, scientific and technical activities, 0-1 employees/sole traders)

"IR35 drives us to hire non-UK workers on contract." (London, Information and communication, 2-9 employees)

"IR35 is a pernicious piece of legislation which has dramatically transformed the way we do business. It has directly impacted our ability to attract and retain highly qualified staff, especially data scientists and business analysts from the continent. As a result, we no longer tender for government business and prefer to work outside the UK wherever possible." (South West, Information and communication, 2-9 employees)

"These measures nearly 'killed off' the contractor role which should be properly recognised as an essential component of a competitive vibrant economy." (South East, Professional, scientific and technical activities, 0-1 employees/sole trader)

Those who did not call for abolition of the regulation wished to highlight the need for reform. Different solutions were offered, including switching the responsibility of compliance and liability to the provider of services, redesigning the tax system and implementing it on a case-by-case basis, not blanket rules.

"IR35 is a consequence of a badly designed tax system - aligning self-employed and personal service company taxation with employee taxation would be a much better solution." (London, Professional, scientific and technical activities, 2-9 employees)

"The original purpose of introducing IR35, to tackle wholesale tax avoidance by senior managers, mainly in the UK public sector, was worthy and has largely been successful. Unfortunately, by overstretching its implementation, it has now become a very damaging inhibitor to the flexibility of the UK workforce. There are other ways to tackle systemic tax avoidance without penalising highly skilled executives who wish to sell their expertise to several clients on an interim and fractional basis." (Wales, Professional, scientific and technical activities, 2-9 employees)

"This responsibility should sit with the provider of services. It is their responsibility to verify that they are compliant and their tax liability if it is later determined that they are not." (South East, Professional, scientific and technical activities, 2-9 employees)

"Responsibility should lie with the contractor, NOT the employer." (South West, Transportation and storage, 100-249 employees)

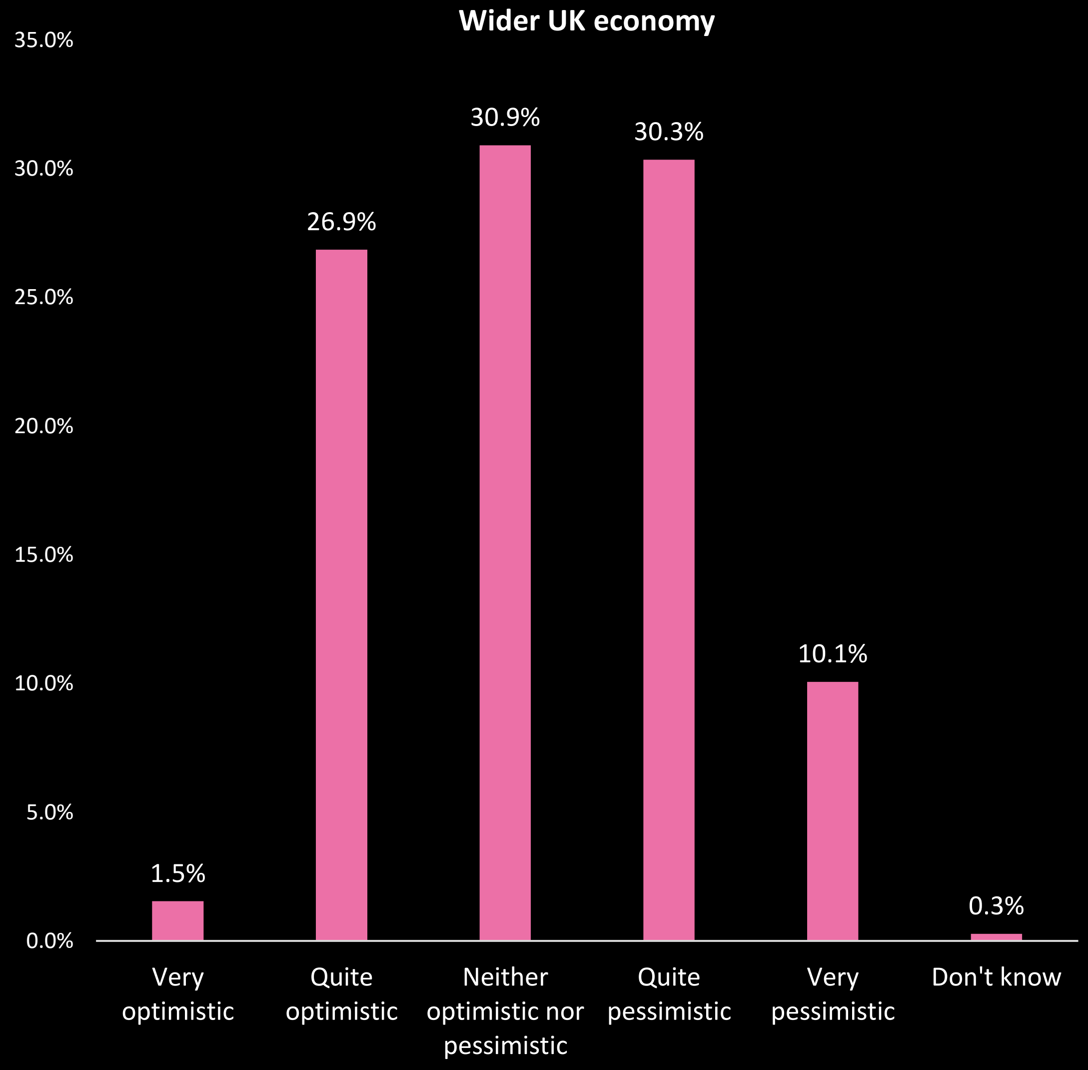
"This liability should sit with the contractor providing services, not the hiring organisation. It adds bureaucracy and slows growth as the genuine need for short term capacity or specialist capability to support investment projects is so hard to come by." (South East, Professional, scientific and technical activities, 2-9 employees)

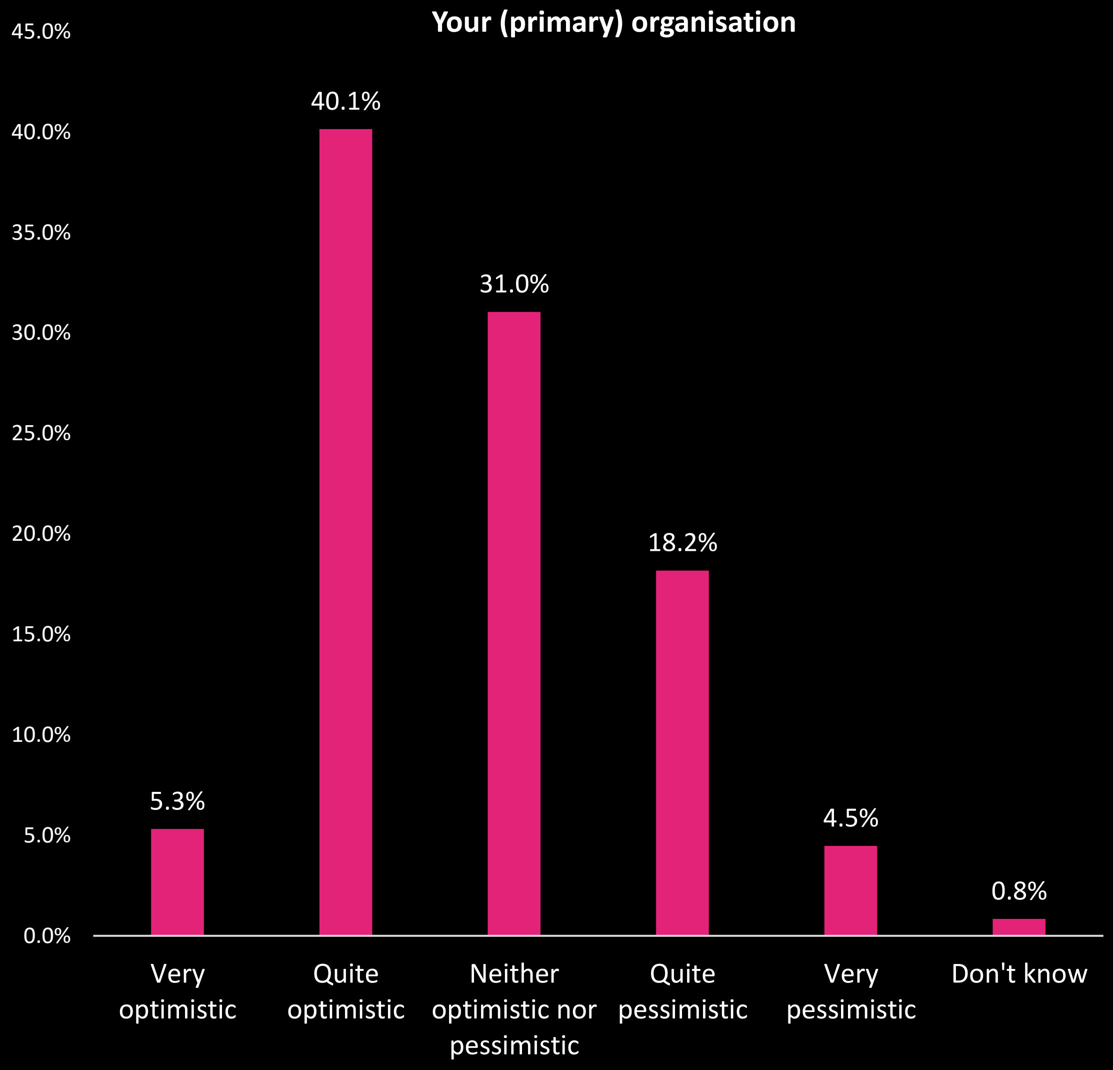
Economic Monitoring: Data

The following data contributed to our Director's Economic Confidence Index, which we send directly into the heart of government each month.

This month's data was widely covered by BBC Online, Sky News, Daily Mail, Express, Daily Telegraph, Sunday Telegraph and The Times. It was also referenced on BBC Radio 4 & Radio 5, LBC and Times Radio.

How optimistic are you about both the wider UK economy and also your organisation over the next 12 months?





Business confidence fizzled out in August, having reached a three year high in July. While the new government showed some early signs that it was following through on its manifesto commitment to growth and stability – in announcements on the National Wealth Fund, Investment Summit and planning reform in particular – the subsequent news flow has been less auspicious.

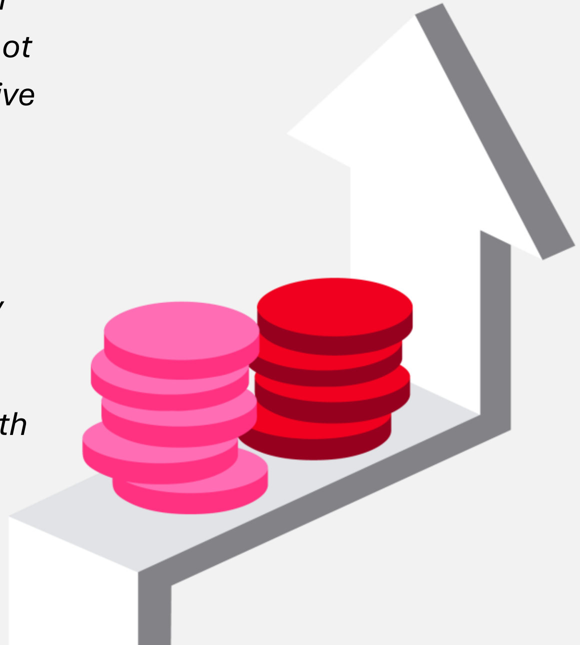
Concerns stem from rumours that Chancellor Rachel Reeves will increase taxes on business and wealth creation in her Autumn Budget – with Capital Gains Tax, inheritance tax, carried interest, employers' national insurance and pensions tax all under the spotlight – and unease at the potential cost of proposed workers' rights measures. It is perceived across much of the IoD membership that the direction of travel implies policy choices that will stifle investment and increase administrative burdens for firms, particularly for SMEs.

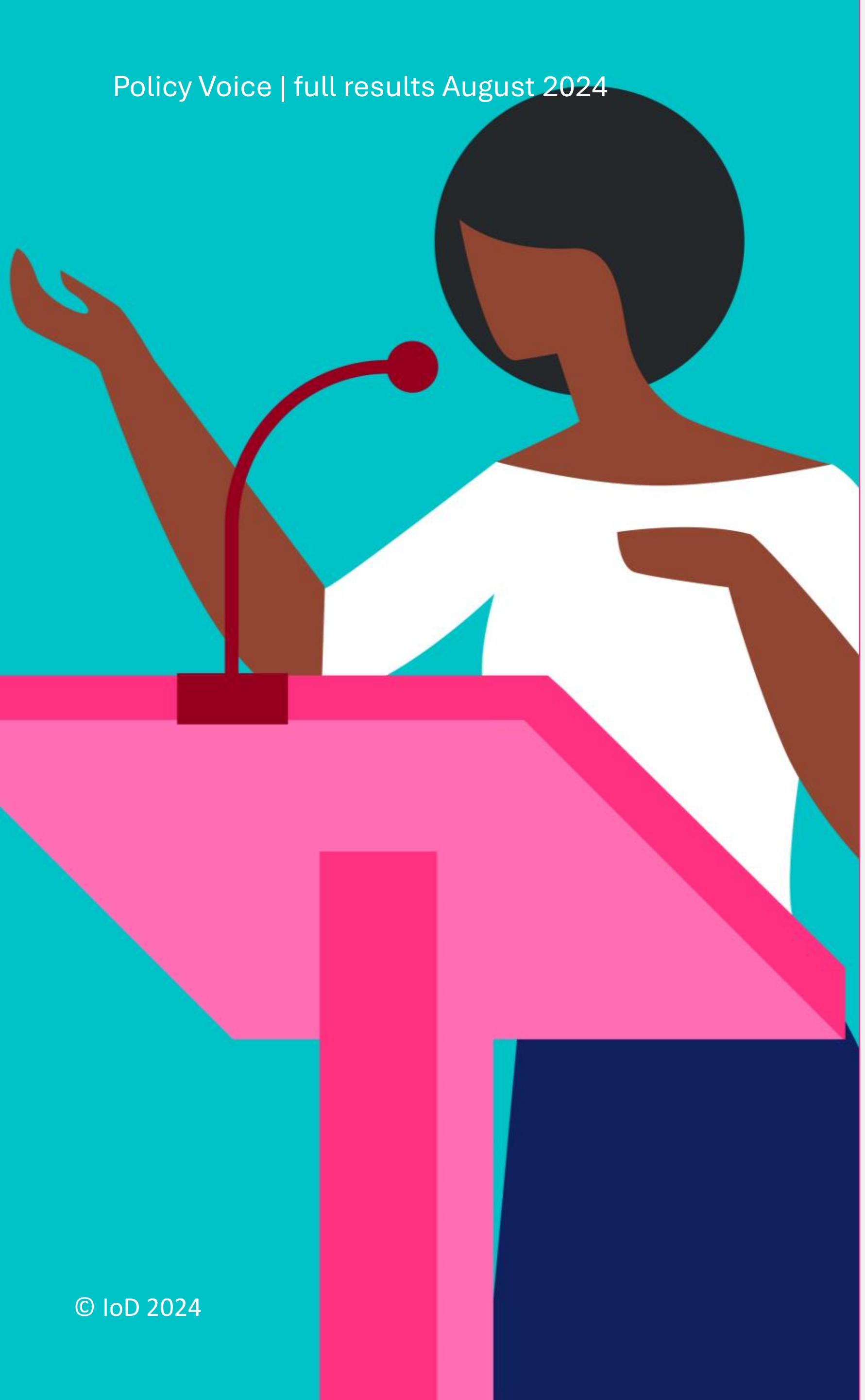
Many businesses feel that a rise in Capital Gains Tax and changes in the taxation of carried interest will undermine any incentive to invest in UK companies:

"LARGE tax hikes on the horizon - concerns about CGT increases, increase in the taxation on carried interest (up to 45%) - as someone who works in the company formation and start-up environment in cutting edge biotech, these 'potential' increases in taxation will be very detrimental to the biotech industry in the UK. I fight hard to form and grow companies in the UK, which is not the most supportive environment, so these two changes will put a huge dent in our ability to form the next unicorns and will drive not only VCs away, but will encourage start ups to form in other EU countries." (West Midlands, Health and social work, 0-1 employees/sole trader)

"I understand that capital gains and inheritance will be taxed more highly now. I am now considering leaving the UK as I have worked hard every day since leaving school, without a break for the last 48 years and paid tax. I don't think I should have to pay again on what I have earned and saved." (East midlands, professional, scientific and technical activities, 2-9 employees)

"The likely change on capital gains rates will lead to some SME's not investing. This group of companies is the bedrock of growth in the economy and hence any negative decision on rates will damage growth." (London, construction, 10-49 employees)





Many businesses feel the plans for workers' rights will increase the cost of hiring and hit employment:

"The workers' rights proposals will certainly stop us employing people. One of the great things about the UK is the flexible working arrangements we have compared to the EU. I work on zero hours contracts. They suit me as both an employee and employer. Ask any uber driver if they like zero hours contracts. All those I have asked say "yes". It enables them to work the hours they want." (London, Professional, scientific and technical activities, 2-9 employees)

"[I am concerned about the] raft of damaging 'workers rights' measures, which will mean employment costs and cost of red-tape go up, resulting in fewer jobs in the economy, and in the end lower tax-take and higher welfare spending." (London, professional, scientific and technical activities, 0-1 employees)

"An increase in worker regulations, more union power and less flexible work contracts will stifle employment opportunities and make employers more reluctant to hire workers." (West midlands, information and communication, 0-1 employees)

Meanwhile, many firms are concerned about the impact of public sector pay settlements on overall wage inflation and public sector costs:

"We have had one round of huge public sector pay rises that will embolden the public sector unions to demand even more year on year. We are already seeing this happen. This causes taxes to have to rise again, which stifles growth." (West Midlands, accommodation and food services, 2-9 employees)

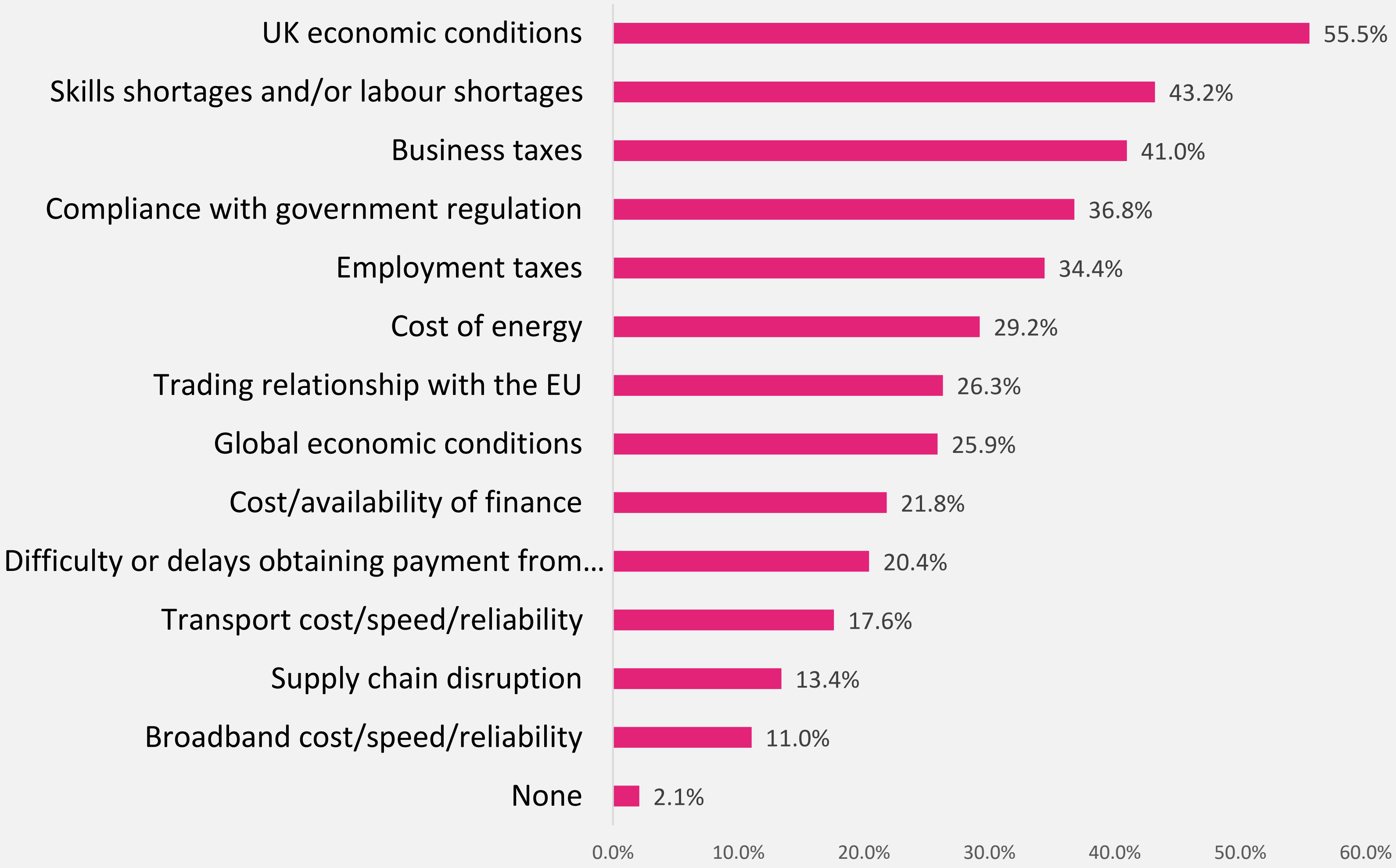
"The new government has seen fit to offer significant pay rises to striking workers which will further escalate the problems the country are facing. There is now a risk that the same unions will instigate further industrial action in the hope of further pay increases." (South West England, transportation and storage, 100-249 employees)

"The public sector pay agreements are a major cause for concern, particularly as other unions have indicated they will push for similar. The lack of productivity targets alongside these pay awards is worrying." (London, professional, scientific and technical activities, 0-1 employees)

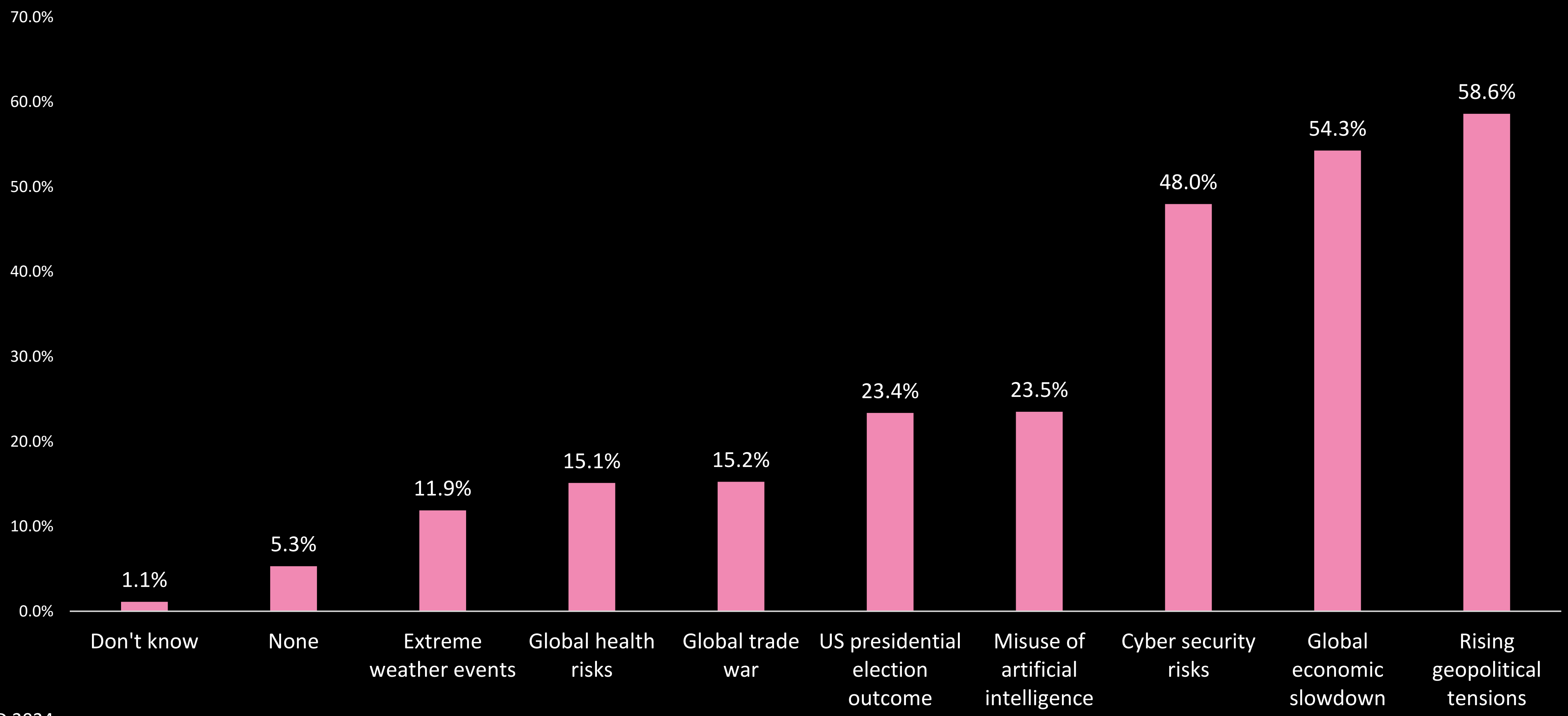
Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of:

Row Labels	Business investment	Costs	Exports	Headcount	Revenue	Wages
Much higher	3.4%	14.0%	2.7%	1.8%	6.3%	6.0%
Somewhat higher	31.2%	71.2%	14.1%	28.7%	44.1%	55.7%
No change	38.2%	11.3%	31.9%	46.7%	24.8%	29.9%
Somewhat lower	17.3%	1.7%	6.2%	16.1%	19.3%	4.5%
Much lower	7.1%	0.4%	2.2%	4.3%	3.5%	1.4%
Don't know	0.8%	0.4%	1.1%	0.6%	1.1%	0.6%
N/A	2.0%	1.0%	41.8%	1.8%	1.0%	2.0%

Which of the following, if any, are having a negative impact on your organisation?



Which of the following global risks are the most concerning for your business in 2024? Please choose up to three



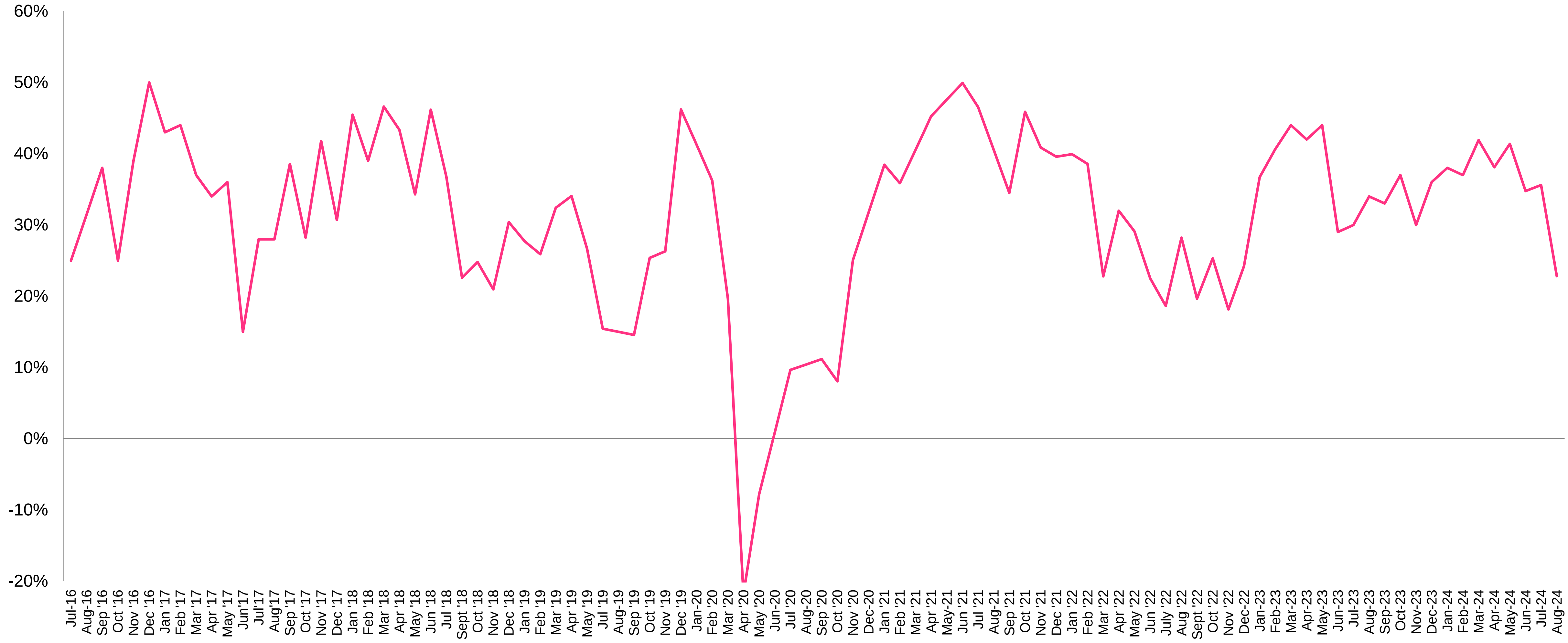
Economic Monitoring: Trends

Confidence fizzles out in August

How optimistic are you about the wider UK economy over the next 12 months?
(5-point scale from very optimistic to very pessimistic, net positive %. Latest reading: August 2024)

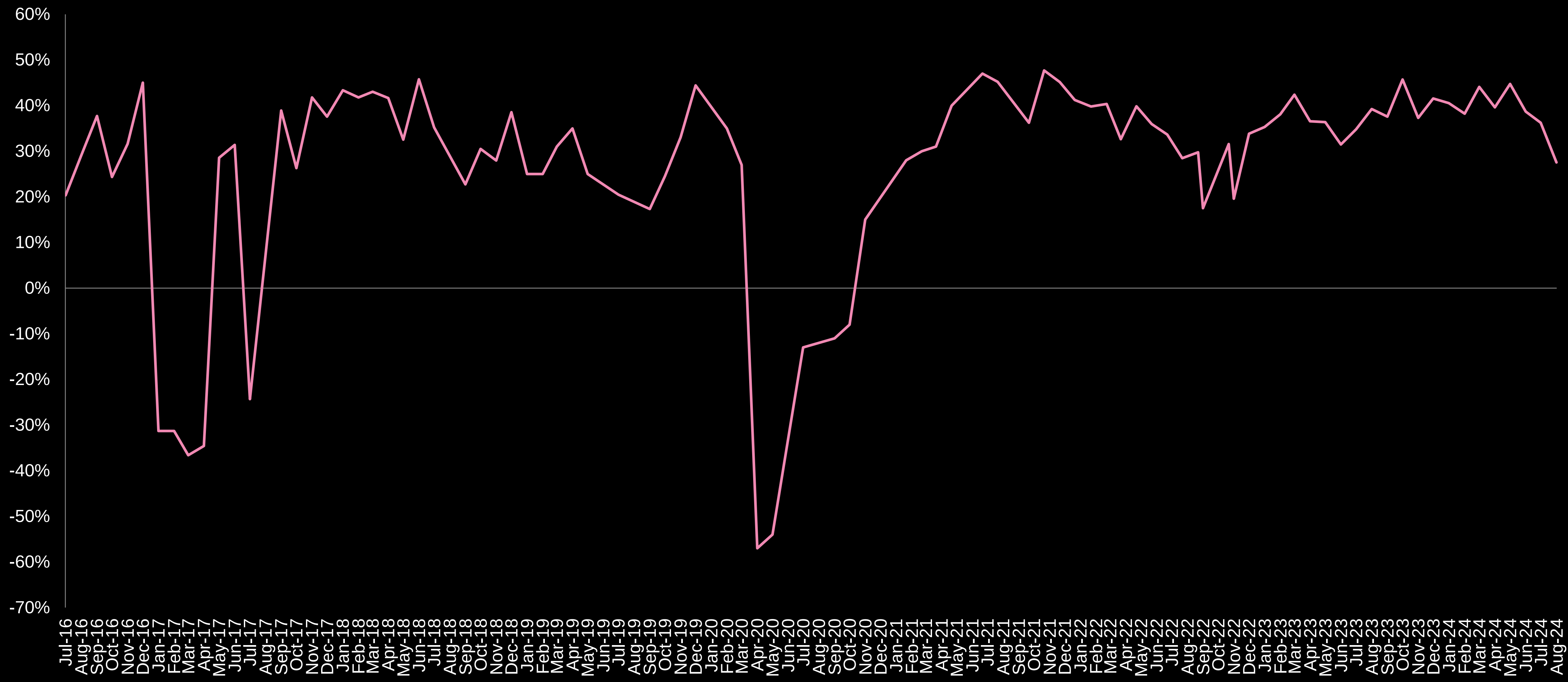
Confidence in own firm’s prospects falls from +36 in July to +23 in August

How optimistic are you about your own organisation over the next 12 months?
5-point scale from very optimistic to very pessimistic, net optimistic % Source: IoD monthly Policy Voice surveys



Net revenue expectations continue to decline

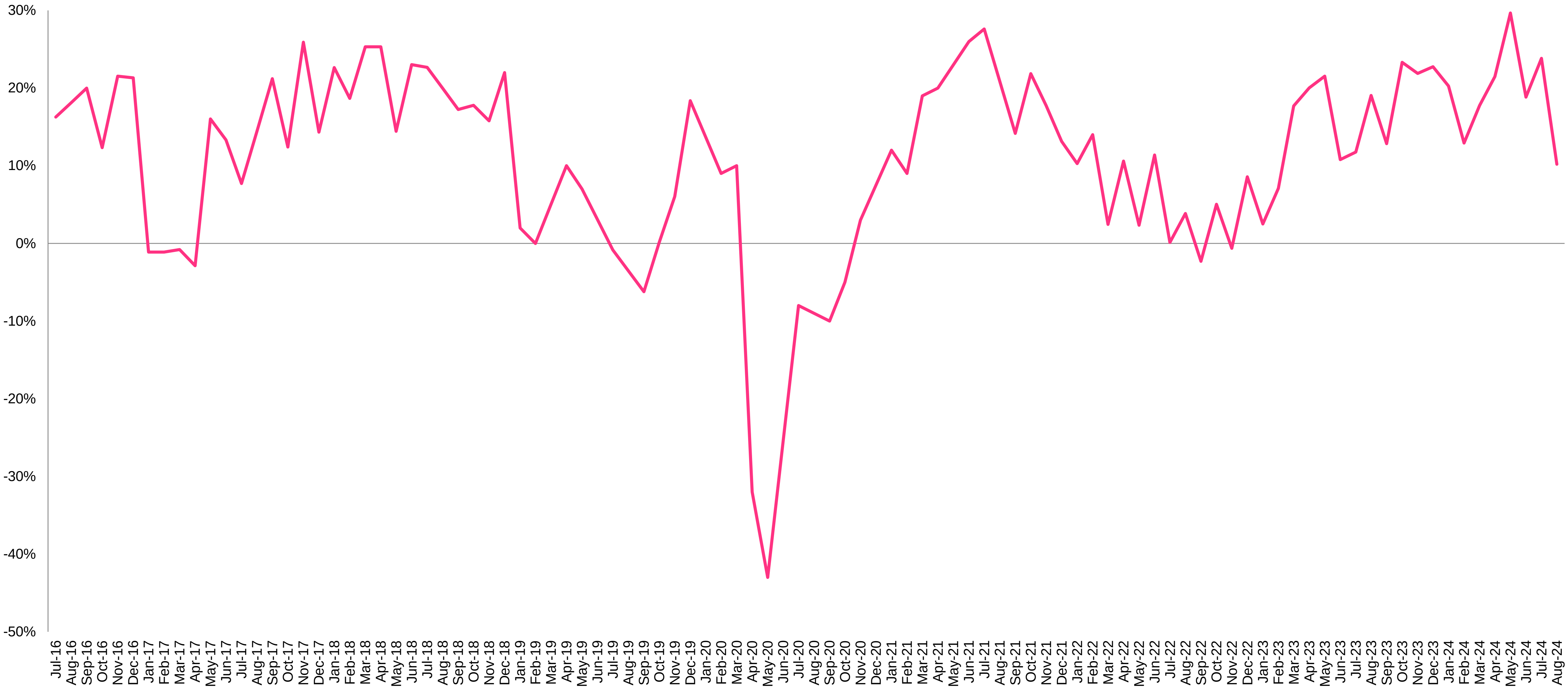
Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of: REVENUE.
Net positive % (% higher minus % lower) Source: IoD monthly Policy Voice surveys



Headcount expectations drop 14 points

Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of: HEADCOUNT.
Net positive % (% higher minus % lower) Source: IoD monthly Policy Voice surveys

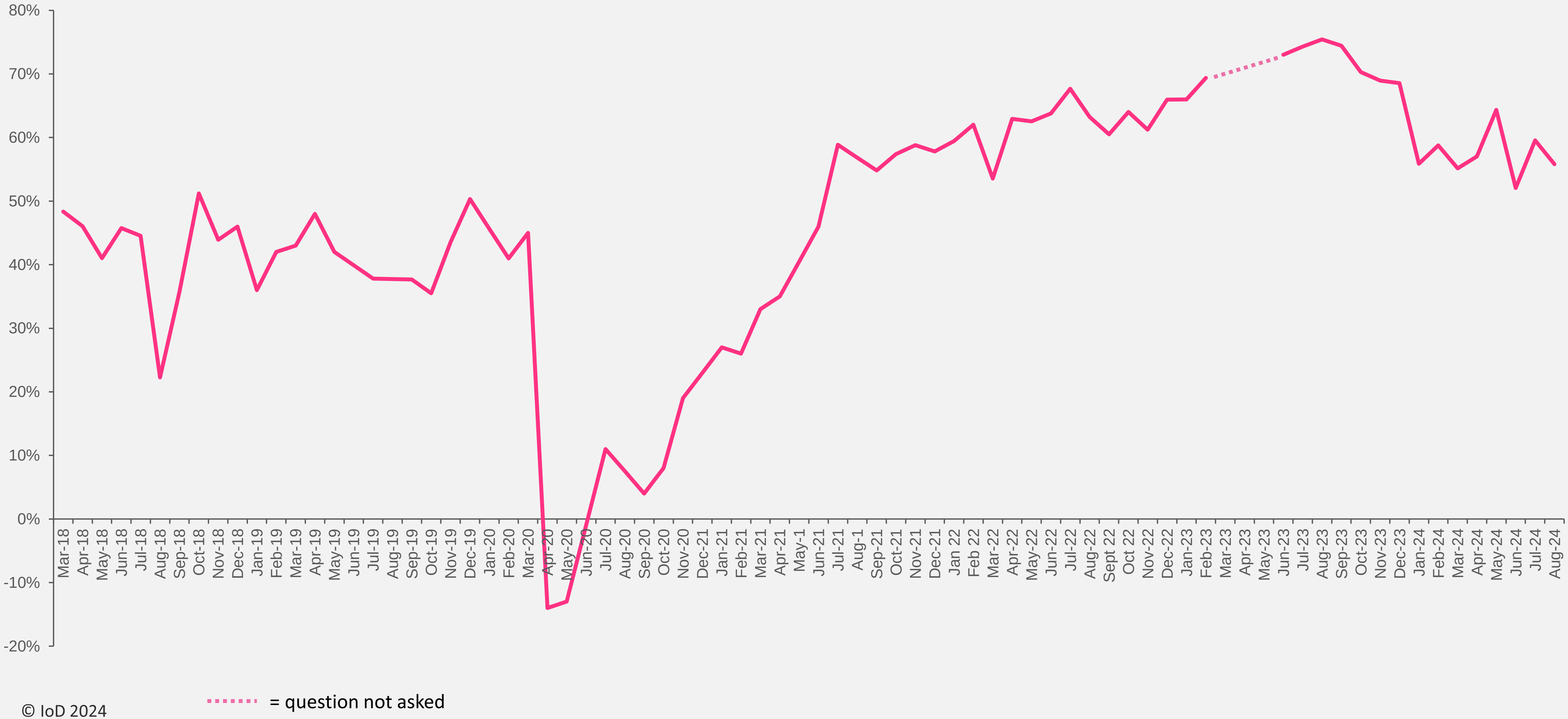
Investment intentions experience sharpest decline since the beginning of the pandemic lockdowns



Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of: INVESTMENT. Net positive % (% higher minus % lower) Source: IoD monthly Policy Voice surveys

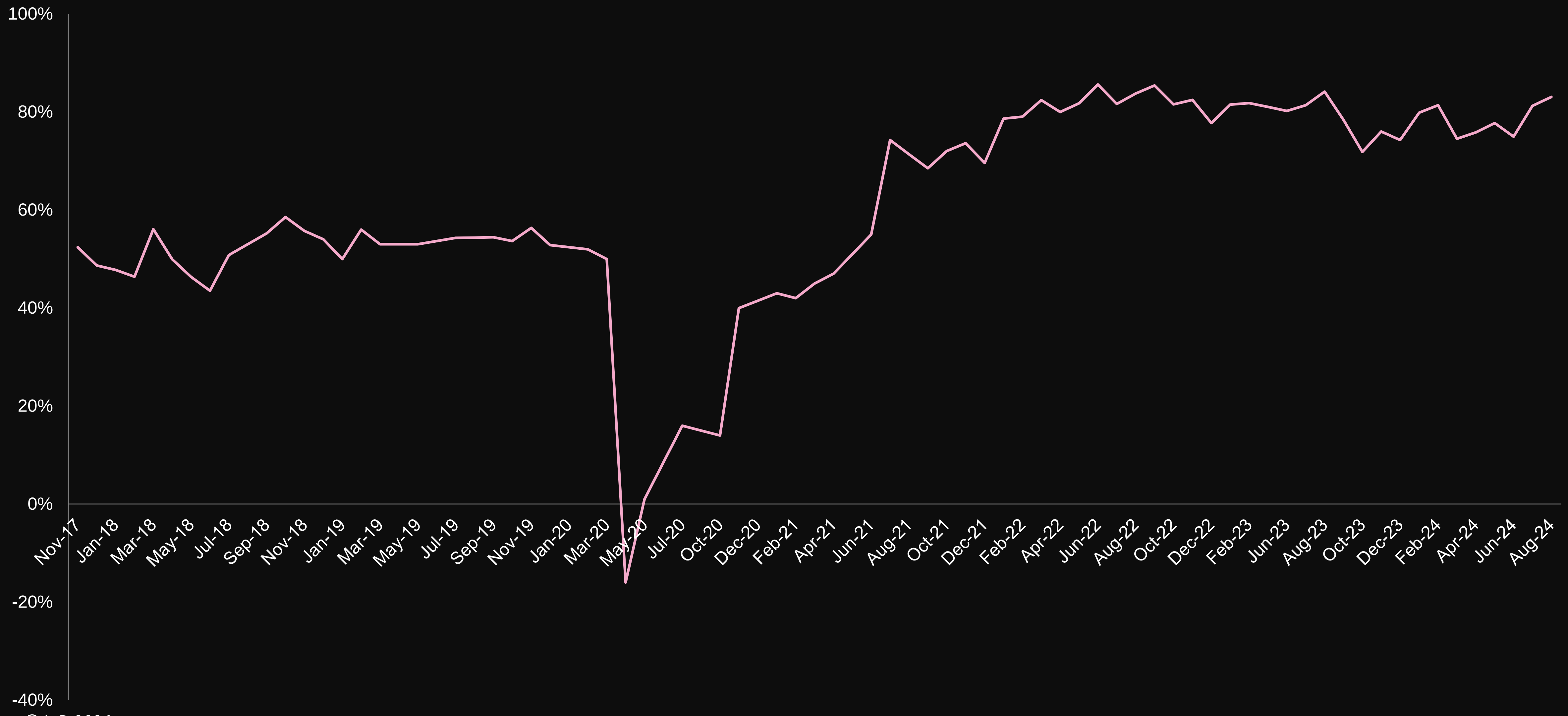
Wage cost pressures fall 3 points

Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of: WAGES.
Net positive % (% higher minus % lower) Source: IoD monthly Policy Voice surveys



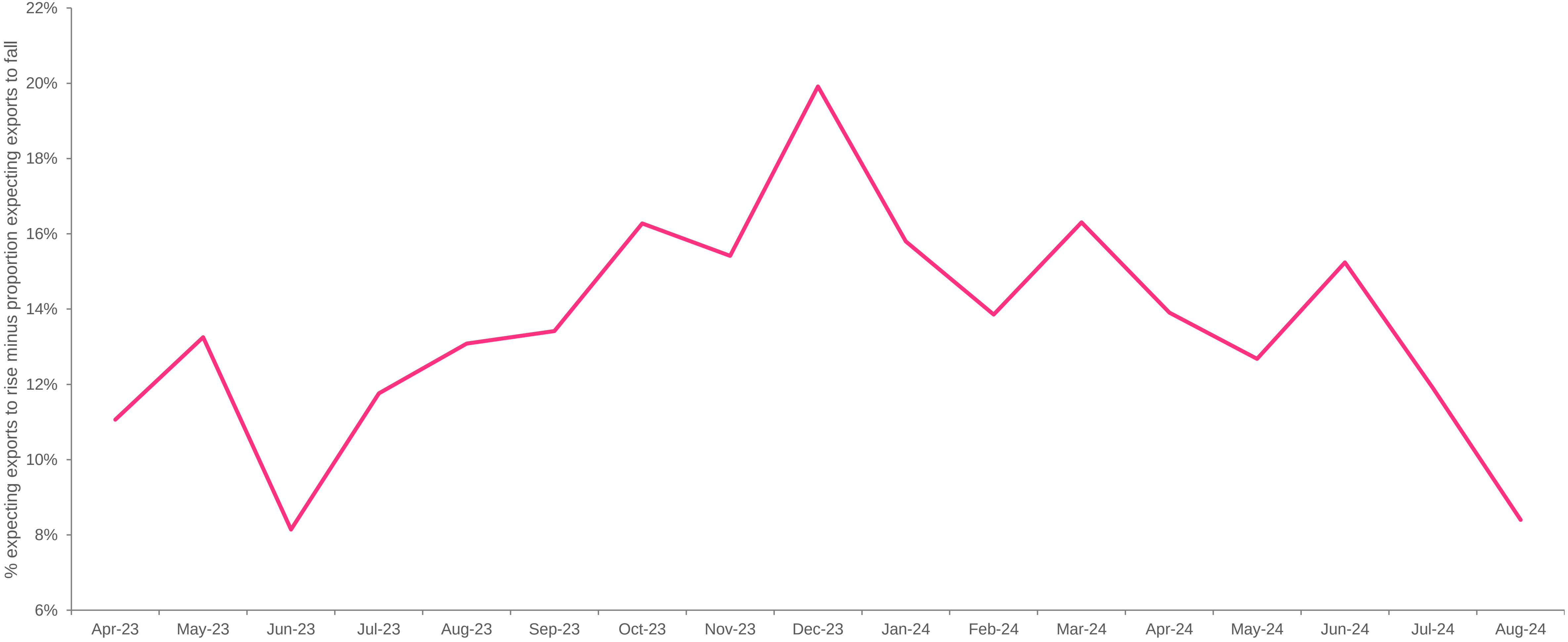
Cost expectations continue to climb in August

Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of: COSTS.
Net positive % (% higher minus % lower) Source: IoD monthly Policy Voice surveys



Export expectations reach lowest since June 2023

Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of: EXPORTS
Net positive % (% higher minus % lower) Source: IoD monthly Policy Voice surveys. Question first asked in April 2023.



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We have a clear vision – The Institute of Directors is the professional institute for responsible directors and leaders.

Our mission is to develop, support and represent skilled, knowledgeable and responsible leaders for the benefit of the economy and society at large.

Integrity and **Enterprise** are our core values.

The objects of the institute are:

To promote for the public benefit high levels of skill, knowledge, professional competence and integrity on the part of directors, and equivalent office holders however described, of companies and other organisations.

To promote the study, research and development of the law and practice of Corporate Governance, and to publish, disseminate or otherwise make available the useful results of such study or research.

To represent the interests of members and of the business community to government and in the public arena, and to encourage and foster a climate favourable to entrepreneurial activity and wealth creation.

To advance the interests of members of the Institute, and to provide facilities, services and benefits for them.