

Ipsos MORI

The National Business Survey

The National Report

**Prepared for the
RDA Network**

August 2008



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Table of Contents

| | |
|---|-----------|
| 1. Introduction | 1 |
| Introduction | 1 |
| Background and objectives..... | 1 |
| Methodology and sample sizes | 1 |
| Report content, layout and contextual information..... | 2 |
| Publication of the Data..... | 3 |
| Acknowledgements..... | 4 |
| 2. Executive Summary | 5 |
| The Current Business Climate | 5 |
| Future Prospects | 5 |
| Pricing and Inflation | 6 |
| The Labour Market | 7 |
| Other Key Business Factors | 7 |
| 3. Business Climate | 8 |
| National Economic Performance | 8 |
| Business and Consumer Confidence | 10 |
| 4. Prices and Inflation | 16 |
| Price Trends | 17 |
| Business Costs | 21 |
| 5. Investment Prospects | 26 |
| National Business Survey Index of Business Confidence | 27 |
| The Development of the Index..... | 27 |
| National Business Survey: Index of Business Confidence | |
| Findings | 28 |

| | |
|---|-----------|
| National Statistics: Investment Levels | 32 |
| Planned Investment: Business Location | 33 |
| 6. Labour Market | 36 |
| Unemployment Levels | 36 |
| Addressing Skills Gaps in the Labour Market | 41 |
| 7. Location Drivers | 46 |
| Sales and Purchases by Region | 48 |
| 8. Strategic Business Planning | 50 |
| 9. Environmental Performance | 54 |
| Environmental Performance at a National Level | 54 |
| Emissions by Industry Sector | 55 |
| Appendices | 61 |
| Appendix A: Topline Data | 61 |
| Appendix B: Guide to Statistical Reliability | 70 |
| Appendix C: Bibliography | 72 |

1. Introduction

Introduction

- This report is based on findings from wave one of the National Business Survey (NBS), Spring 2008, conducted by Ipsos MORI on behalf of the RDA Network. It explores perceptions of businesses across England, on current and recent business conditions as well as looking forward to potential issues and views on projected change over the coming months.

Background and objectives

- The National Business Survey is a large scale research study conducted across England with businesses and organisations from all sectors of the economy (both private and public sector). The survey is conducted on behalf of the RDA Network and as such, fieldwork is divided between England's nine Government Office Regions, with varied sample sizes within each region (as set out in the sample profile below).
- The survey builds on the findings and work of the previously titled, "UK Survey of Regional Economic Trends" which ran over nine consecutive waves, from Spring 2003. The methodology and questionnaire remain largely unchanged from this previous survey to ensure consistency of approach between survey waves and data (see below for more on research methods).

Methodology and sample sizes

- The National Business Survey uses a postal methodology, with the option of completing the survey online for those who find this more convenient.
- An initial mail-out was sent out to a randomly selected, representative sample of businesses and organisations across the country. Following this, supplementary postal reminders were sent out to all organisations which had not responded to the original mailing, as well as email reminders to all organisations with email contact details.

- Fieldwork was conducted between April and June 2008 and the final achieved sample size was 4,797, divided between all regions, with a response rate of 6%. The table below shows how responses were broken down by each region.

| Region | Sample size |
|--------------------------------------|-------------|
| Yorkshire and Humber | 1,144 |
| West Midlands | 319 |
| South West | 454 |
| South East | 657 |
| North West | 357 |
| North East | 307 |
| London | 414 |
| East Midlands | 735 |
| East of England | 410 |
| England | 4,797 |
| Northern Ireland | 438 |
| TOTAL (England and Northern Ireland) | 5,235 |

- Data have been weighted by region and business units by employee size bands to reflect the national profile. Within Yorkshire, the data are also weighted by local authority to reflect the regional profile.

Report content, layout and contextual information

- The report includes a number of sections aimed to highlight the key findings from the survey, and makes extensive use of secondary data and comparator information in order to contextualise the findings. The sections include:
 - Introduction:** Introduction to the survey objectives, methods and notes on interpreting the findings and using the report.
 - Executive summary:** A stand-alone interpretive summary of the key survey findings.

- **Business climate:** The National Business Survey findings on business climate are placed within the context of national statistics on economic performance.
 - **Prices and Inflation:** The National Business Survey findings on prices and costs are placed within the context of inflationary trends.
 - **Investment Prospects:** The National Business Survey findings on output levels and planned spending are placed within the context of national statistics on output and investments levels.
 - **Labour Market:** The National Business Survey findings on employment levels and skills gaps are placed within the context of a range of labour market statistics.
 - **Location Drivers:** This section includes findings on satisfaction with a range of key business location factors.
 - **Strategic Business Planning:** This section includes National Business Survey findings in relation to a range of support services.
 - **Environmental Performance:** National Business Survey findings on actions taken to improve environmental performance are placed within the context of national level progress in reducing environmental emissions.
- The appendices contain a copy of the questionnaire used in the study, marked up with topline findings for each question. They also contain a statistical guide relating to the interpretation of data.

Publication of the Data

- As with all our studies, these findings are subject to our standard Terms & Conditions of Contract. Any press release or publication of the findings of this survey requires the advance approval of Ipsos MORI. This would only be refused on the grounds of inaccuracy or misinterpretation of the findings.

Acknowledgements

- We would like to place on record our thanks for the input and support provided during the study from Bethan Sheridan-Jones, Andrew Lawson and Patrick Bowes at Yorkshire Forward, as well as Ian Kay at the Office for National Statistics (ONS). We would also like to thank all businesses who took the time to take part in the survey.

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*Joe Marshall
Ronan Smyth
Matt Williams
Matt Barnes
Richard Davis
Daniel Tse
Andrew Zelin*

2. Executive Summary

The Current Business Climate

- The National Business Survey¹ (NBS) has found that business confidence is in decline, with almost half (48%) of businesses expecting the business climate to deteriorate in the next 12 months, and only one in eight (12%) expecting it to improve.² This challenging picture is widespread, with little difference by English region and business sector, though pessimism is more pronounced in the hotels and catering, construction and distribution sectors.
- Businesses remain at the sharp end of inflationary pressure and many have reported an increase in their cost base over the last 12 months. Nine out of ten businesses have found that energy costs have increased and 8 in 10 reported that transport costs have increased.
- There are signs that profit margins are being squeezed, as the National Business Survey found 45% of businesses overall said profit margins were lower in the last 12 months, and only 15% said they were higher. The expectations for the next 12 months are along similar lines. Increasing food prices and energy costs are reducing profits in the hotel and catering sector with 6 in 10 firms within this sector reporting lower profit margins over the last 12 months. The transport sector is also suffering from increasing fuel and transportation costs with over 50% of firms reporting lower profit margins over the last year.

Future Prospects

- The July consensus forecasts from HM Treasury and over 30 leading City institutions show that UK GDP is expected to grow by 1.6% over 2008 and by 1.3% in 2009, a significant slowdown compared to historic trends. National statistics show that service sector output is reasonably healthy at 2.3%, though manufacturing output and industrial production are slowing.

¹ All findings in this report are from the National Business Survey unless otherwise stated

² Wave One fieldwork conducted May-June 2008

- It is difficult to gauge the length of the slowdown period. However latest medium-term forecasts point to an improving economic climate in 2010, although unemployment is predicted to rise each year until 2011.
- These trends are reflected in the National Business Survey and this indicates that some sectors are expected to suffer more than others. In the construction, hotels and catering and distribution sectors, four in ten firms stated that output levels will drop in the next 12 months, while only one in seven think it will increase. Around a half of businesses overall say their current level of output is below capacity.
- The picture for manufacturing is more balanced, with around three in ten expecting a decline in output and the same proportion expecting growth, with the remainder expecting stability.
- A higher proportion of businesses expect to increase investment in buildings, training, product and process development and plant and machinery compared to those that expect to decrease investment. These findings suggest that despite the lack of confidence in the overall business climate, many businesses are planning to invest further, and this applies equally to those sectors most affected by rising costs and falling profits.

Pricing and Inflation

- Inflation remains a key threat to the health of the UK economy going forward, reflected in the latest inflation figures of 3.8% for June 2008, up from 1.8% nine months ago, though house prices were 6% lower in June compared to the same month in the previous year.
- The National Business Survey found that a significant proportion of businesses are increasing their prices to counteract the pressures on profit margins - 41% of businesses have increased prices in the past 12 months and only 11% have reduced them.

The Labour Market

- Around a quarter of businesses in the construction, distribution and hotels/catering sector expect a fall in the numbers employed over the next 12 months, with less than one in ten in each sector expecting a rise.
- Despite this, around a quarter of businesses have vacancies which they find hard to fill or could not fill.
- It is notable that the skills most in need of improvement in the next 12 months are sales and marketing, IT skills and, management skills.

Other Key Business Factors

- The National Business Survey found that government regulations and business support from government are important for the competitiveness of their organisations, however there is considerable dissatisfaction around these issues.
- Around two thirds of businesses conduct more than half of their sales within their own region, and around half conduct more than half of their purchases within their own region. This suggests that, though global market trends are increasingly influential, many businesses are heavily dependent on regional markets.
- Around one in eight businesses cooperate with universities for research and development activities and around three in ten belong to specialist industrial networks in order to keep up to date with new and emerging technologies.
- There remains considerable scope for businesses to increase their actions to help the environment. Only 6% have quantified their CO₂ emissions, and around a quarter have actively taken steps to reduce CO₂. Recycling schemes however, are widespread with eight in ten saying that they have undertaken this activity in the last 12 months, and around a half saying they have adopted waste minimising and energy saving schemes.

3. Business Climate

National Economic Performance

Economic growth and output

The prospects for the UK economy remain uncertain. Currently the key economic indicators point towards a continued economic slowdown, rather than contraction and recession. UK GDP grew by 0.3% in Q1 2008, a significantly lower rate compared to 2007.³ The latest summary of consensus forecasts from HM Treasury are for GDP to grow by 1.6% in 2008, a considerable slowdown on 2007 where growth was 3.1%.⁴

Data on manufacturing output and industrial production points to a challenging picture for the UK's manufacturing and primary industries while strong growth in the service sector has been supporting the overall growth levels in the economy over 2008.

Many global indicators of economic health are increasingly negative. In the United States, GDP growth was only 0.2% in the first quarter of 2008, compared to 0.1% in the fourth quarter of 2007, and this is fuelling concern that stagnation and possible contraction in the US economy will adversely affect the UK.

Despite concerns over the strength of the UK economy, inflationary pressures and a weakening housing market, UK consumer spending will be key to the fortunes of the national and Yorkshire and Humber economies. The latest Retail Sales figures (for June 2008) show a 3.9% contraction in sales volumes nationally, following robust expansion in May 2008 (and in the year to May 2008). The pattern of retail sales figures for 2008 shows a significant rise between January and February, followed by a dip in March, before the rise in May (which was the largest monthly increase in over 20 years).

³ HM Treasury *Pocket Databank*, 1st July 2008

⁴ HM Treasury *Forecasts for the UK Economy*, July 2008

Inflation and interest rates

Inflation remains a key threat to the stability of the UK economy. Consumer Price Inflation increased from 3.3% in May to 3.8% in June, significantly higher than the Bank of England's 2% target and considerably above historical trends.⁵

This reflects the increasing pressure on key consumer prices in the food and energy sectors, including a 9.5% rise in food prices in the 12 months to June.⁶ There is strong concern that rising prices may impact consumer confidence and spending if there is a downturn in the rate of average earnings or other shocks such as a sharp decline in house prices or employment levels.

Producer prices have been increasing sharply since September 2007, particularly for inputs which increased by 28% year-on-year in May 2008.⁷ This increase in producer prices presents a dilemma for businesses, as they need to decide whether to pass on these increased costs to the consumer, and if so to what extent. There are risks involved due to the potential impact on profit margins which need to be carefully considered. The National Business Survey has found that certain sectors are more adversely affected by rising costs than others, reflecting the fact that some commodities have increased greatly in price (such as energy and food), whilst others have been much less affected (such as clothing, electronics and many types of professional services).

Headline average earnings grew by 3.9% in the 3 months to April 2008, suggesting that earnings growth is matching price rises, with the consumer price index having grown at the level of 3.8% in the 12 months to June 2008.⁸ As consumers feel the impact of increasing prices on their incomes, there is also strong concern that employers will be under pressure to increase wages among their employees in order to make up the shortfall, fuelling a wage / price inflationary spiral.

The Bank of England base rate climbed steadily from 4.5% in September 2006 to 5.75% in September 2007, before being reduced to the 5.0% level in March 2008, where it has remained since. Should inflation lead the Bank of England to increase

⁵ Office for National Statistics

⁶ Office for National Statistics/BBC News Online

⁷ HM Treasury *Pocket Databank*, 1st July 2008

⁸ HM Treasury *Recent Economic News*, July 2008

the base rates, there is a risk that consumers will be unable to meet their mortgage payments and face repossession.

Following a long period of unprecedented growth, house prices have begun to decline. Mortgage loan approvals have dropped from 118,000 in January 2007 to 42,000 in May 2008.⁹ The slowdown in house prices began at the same time as the Northern Rock crisis and continued as the credit crunch deepened. Some economists believe that the link between earnings and house prices has become stretched in recent years, with consumers borrowing beyond their means.

Business and Consumer Confidence

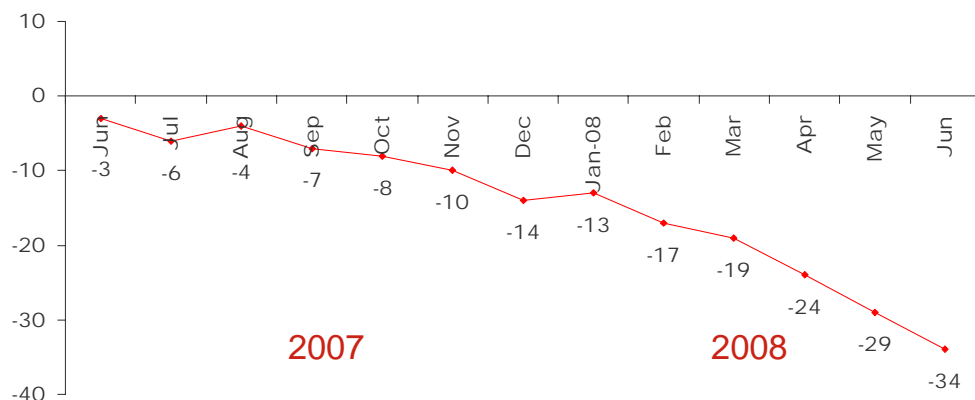
It is recognised that the level of both business and consumer confidence is an increasingly important but complex and unpredictable variable in the state of the UK economy. A sense of confidence is crucial for business decisions on investment plans and consumer decisions on major purchases. The levels of confidence from two major economic surveys are considered here, within the context of the National Business Survey findings.

⁹ HM Treasury *Pocket Databank*, 1st July 2008

Figure 1

Consumer Confidence, GfK NOP Tracker

Aggregate, long term average from 1974 is -8 points



Source: GfK NOP

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Key data from GfK NOP shows that consumer confidence began falling steadily around the time of the Northern Rock crisis and **in 2008 it has been declining steeply with the latest figure of -34 points (June 2008) which compares to a long term average of -8 points since 1974.**¹⁰ Since the credit crunch began, increasing food and energy prices and falling house prices will have also had an impact on consumer confidence.

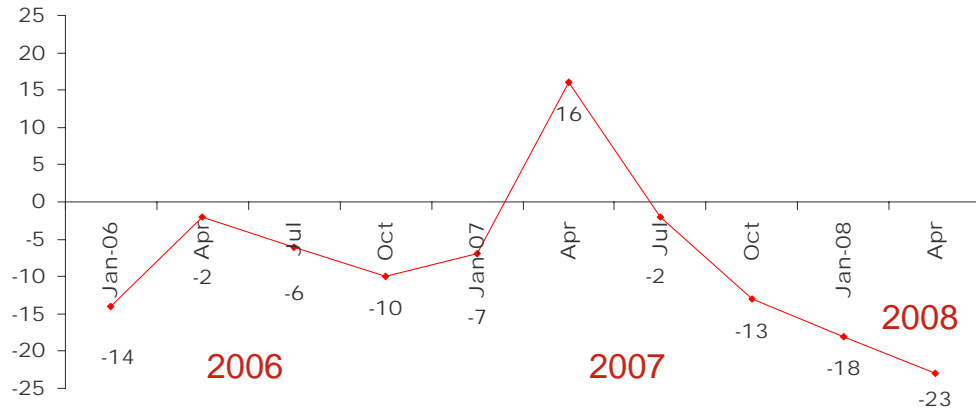
The UK's unprecedented period of economic growth has been driven by high levels of consumer spending and this has helped to prevent a sustained period of economic contraction. Latest consumer spending data indicates that consumer spending has remained resilient. However, falling consumer confidence due to concern about rising food and energy prices, falling house prices, and a credit squeeze, may yet translate into lower spending and impact on the UK economy.

¹⁰ GfK NOP Consumer Confidence Barometer (June 2008)

Figure 2

Business Confidence, CBI Quarterly Industry Trends Survey, Jan 2006 – Apr 2008

Balance is a percentage difference between negative and positive responses



Source: CBI Quarterly Industry Trends Survey

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Business confidence as reported by the CBI has **declined steeply in the last 12 months**, from +16 points in April 2007 to -23 points in April 2008.¹¹

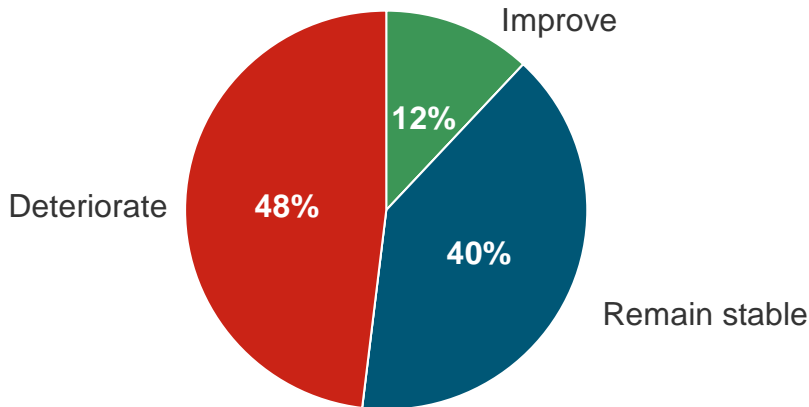
¹¹ Confederation of British Industry (CBI) Quarterly Trends Survey, April 2008

National Business Survey Findings on the Business Climate

Figure 3

Business climate

Q Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?



Base: All businesses in England answering (4,691)

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The National Business Survey provides a key measure of business confidence, which will be tracked over time with findings broken down by key variables, including sector, business size and region.

The first wave of the National Business Survey found that 48% of respondents expect the business climate to deteriorate, and only 12% expect it to improve, leaving a net score of -36. This can be contrasted with the business confidence data from the CBI industrial trends survey undertaken in April and illustrates the pessimism within UK businesses in their prospects over the next 12 months.

Within industry sectors, net optimism ranges from -19 in public and personal services to -46 in the distribution sector and -45 in the hotels and catering trade, as displayed in Figure 4.

Figure 4

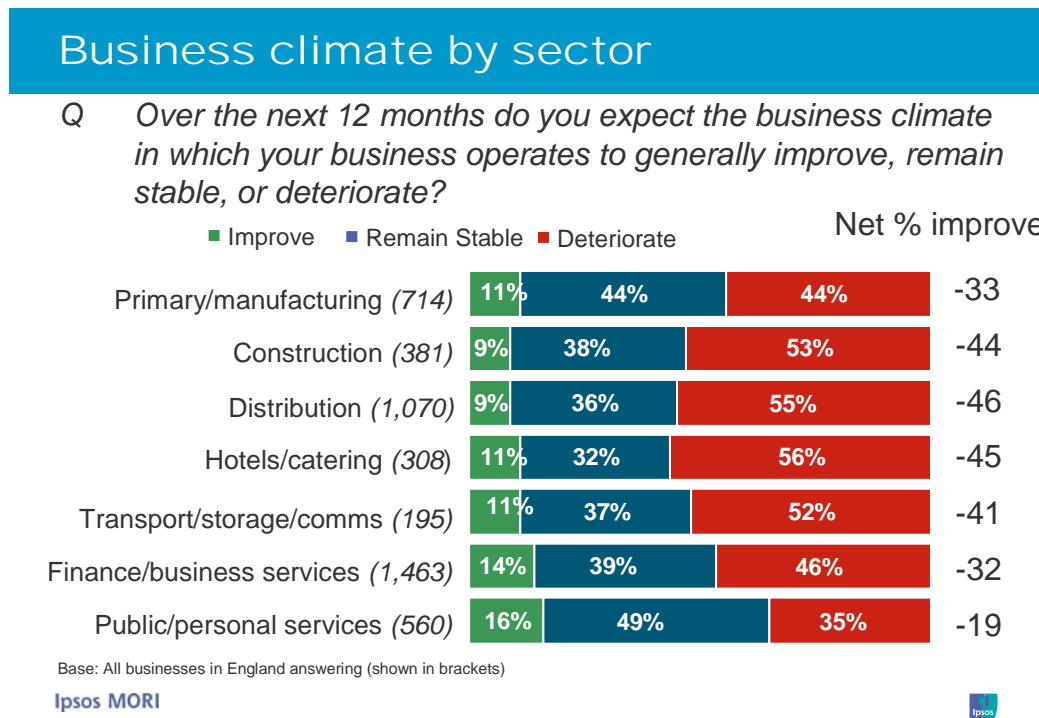
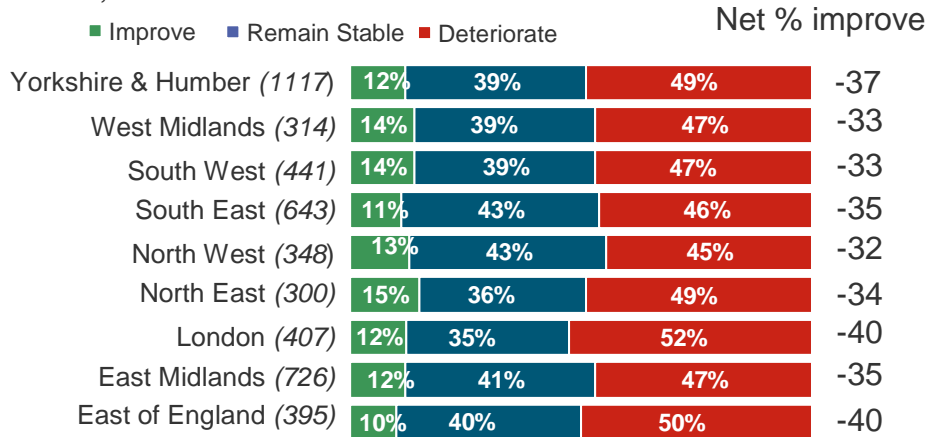


Figure 5 shows that business confidence is generally depressed across the English region. There is little regional variation in the net score, with a range from -32 in the North West to -40 in London.

Figure 5

Business climate by region

Q Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?



Base: All businesses in England answering (shown in brackets)

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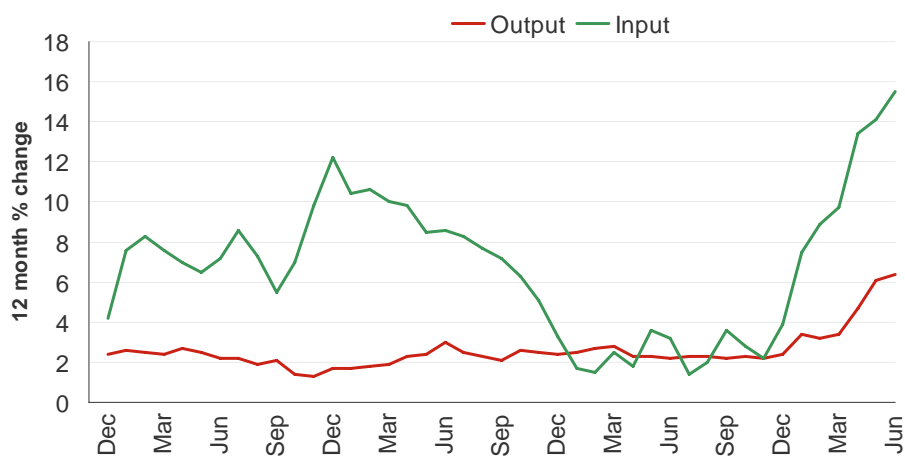
4. Prices and Inflation

The National Business Survey asked businesses about past and expected trends across a range of key economic indicators. The responses, shown in Figures 6 - 13 explain and explore the key concerns businesses across England have highlighted in terms of direct cost drivers and their impact on the prices charged for goods and services.

Before looking at the key results from the National Business Survey it also worth looking at the relationship between input and output prices using data from the Producer Price Index (Office for National Statistics) to help put the cost drivers articulated in the National Business Survey in the context of official data.

Figure 6

Manufacturing Producer Price Index



excluding food, beverages, tobacco products and petroleum products, UK, not seasonally adjusted (December 2004 – June 2008)

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Prior to 2007 Quarter 3 the relationship between input and output prices was loose. Producers effectively absorbed fluctuations in input prices and minimized the variations in output prices which drive inflation. After Quarter 3 we can see a step change in the relationship between input and output prices.

Differences in input and output costs tend to be less pronounced when the economy is growing and manufacturers can more easily pass on the rising cost of production (as in 2007) but more pronounced when the economy is growing less quickly (as the figure shows).

It is important to recognise that the economy (nationally) has experienced a similar imbalance in the relationship between input and output costs within the current economic cycle and addressed the imbalance as growth picked up.

Global commodity and oil prices clearly have a direct bearing on future prospects. The recent sustained fall in oil prices against a backdrop of greater consistency in non-food commodity prices will be important in restoring confidence.

Price Trends

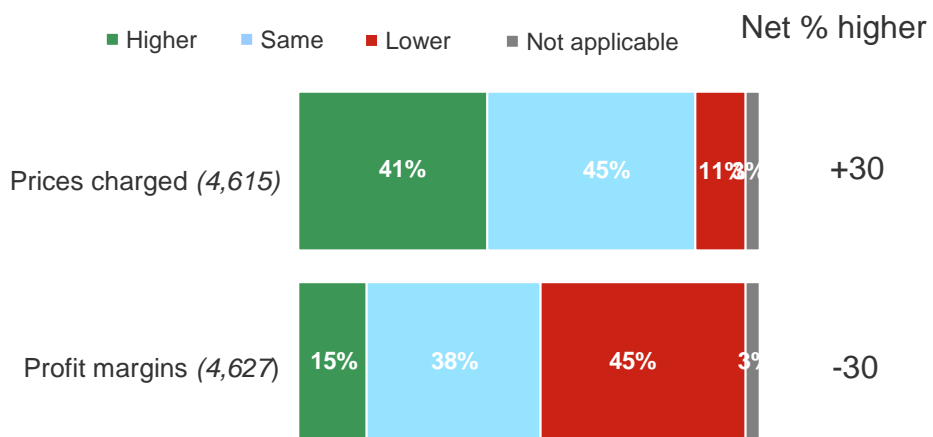
Trends in Prices and Profits for the past 12 months

It is clear that a key trend over the last 12 months has been for higher prices charged (41%, with a net score of +30 over lower prices). Profit margins are clearly under pressure and 45% of businesses stated that profit margins had been lower in the past 12 months. Indeed, only 15% of businesses actually reported higher margins, resulting in a net indicator of -30. This suggests a relationship between a rise in prices charged to counteract falling margins and an increasing cost base.

Figure 7

Trends in past 12 months: prices and profits

Q Excluding seasonal variations, what has been the trend during the past 12 months with regard to..?



Base: All businesses in England answering (shown in brackets)

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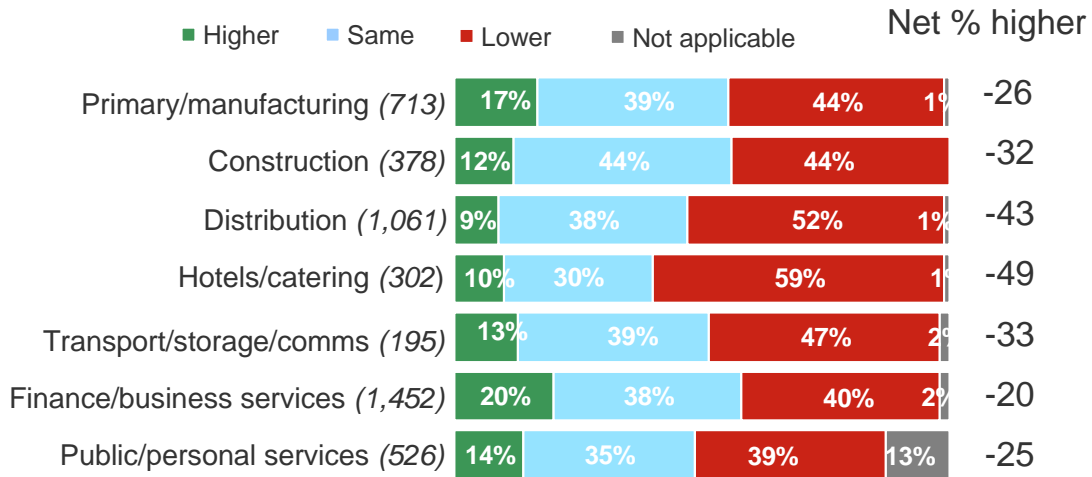
The main variations in both prices charged and profit margins are by sector, as presented in the charts below. Firms within hotels and catering are clearly feeling a squeeze in their profits; 59% of the sector say margins have been lower in the last 12 months (a net indicator of -49, the highest of any sector). Interestingly this sector were also the most likely to have increased prices over the last 12 months (55% said prices charged were higher, a net indicator of +49).

After hotels and catering, the distribution sector was most adversely affected by the squeeze on profit margins with a net score of -43 in the last 12 months. The primary / manufacturing and transport, storage and communication sectors were also more likely to report higher prices charged in the past 12 months with net scores of +39 and +37, compared to the average of +30.

Figure 8

Trends in past 12 months: profit margins by sector

Q Excluding seasonal variations, what has been the trend during the past 12 months with regard to profit margins?



Base: All businesses in England answering (shown in brackets)

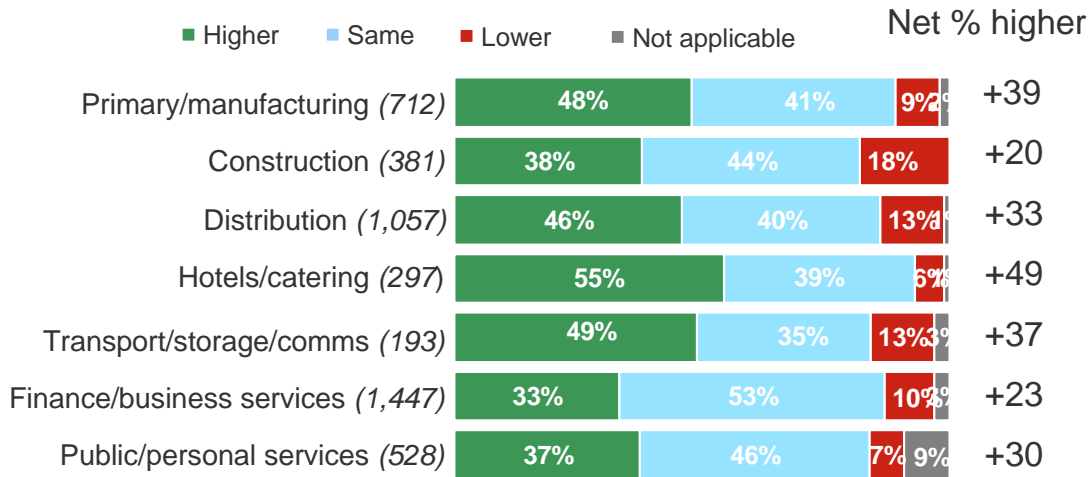
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Figure 9

Trends in past 12 months: prices charged by sector

Q *Excluding seasonal variations, what has been the trend during the past 12 months with regard to prices charged ?*



Base: All businesses in England answering (shown in brackets)

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Trends in Prices and Profits for the next 12 months

In considering prices charged over the next 12 months, the net indicator is at +31, very close to the indicator of +30 for the past 12 months.

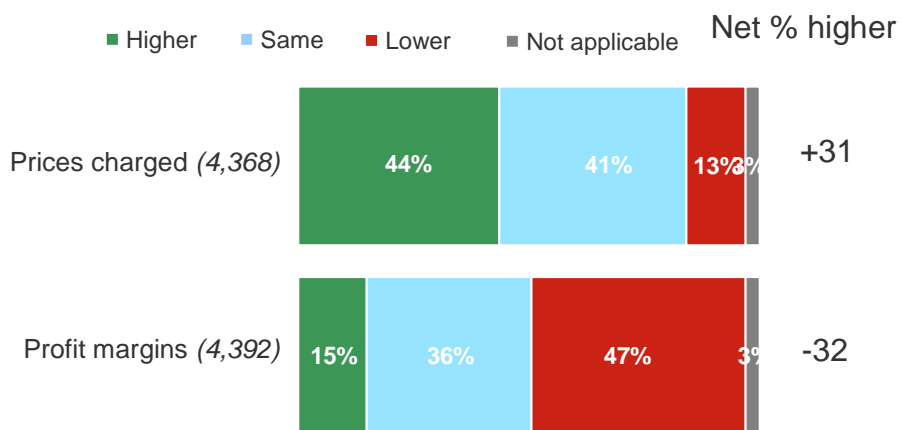
This index is highest for hotels and catering (+52), distribution (+39) and primary/manufacturing (+38). Therefore the expected price trends for the next 12 months by sector are very similar to those for the past 12 months, with the hotels and catering, primary/manufacturing, transport, storage and communication, transport and distribution sectors all expecting to show the strongest inflationary pricing strategies.

The finance/business, public and personal services sectors are generally expected to be least affected. Businesses in the North East are more likely to expect that prices charged will be higher in the next 12 months (net score of +40), compared to London (+20), but otherwise there are no major regional or sector size differences.

Figure 10

Trends for next 12 months: prices and profits

Q *Excluding seasonal variations, what are the expected trends for the next 12 months with regard to..?*



Base: All businesses in England answering (shown in brackets)

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When asked about the expected trends in profit margins over the next 12 months, the overall and sectoral results are very similar to those for the past 12 months. There is a net overall score of -32% for the next 12 months, compared to -30 for the past 12 months. Again the hotels and catering (-55), distribution (-46) and construction (-39) sectors expect to be most affected.

Business Costs

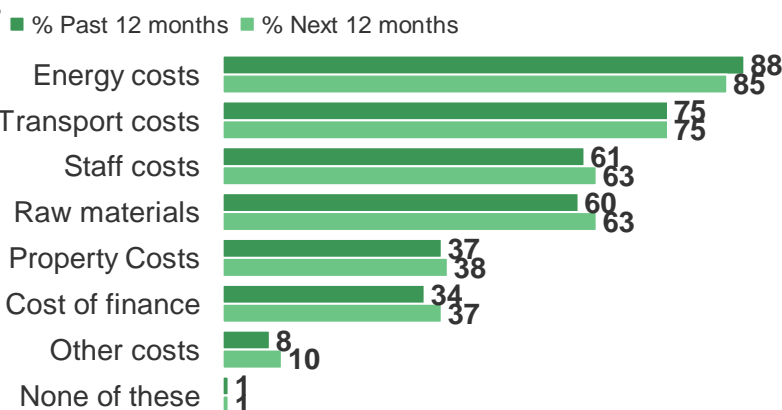
The National Business Survey has found that many businesses have increased prices as profit margins have been squeezed. Some sectors have clearly been more affected than others and now we can examine the reasons for this more closely, by understanding the trends in business costs.

Figure 11

Cost increases – past and future

Q Which of the following costs have increased for your business over the past 12 months?

Q Which of the following costs do you expect to increase over the next 12 months?



Base: All businesses in England answering (4,522 and 4,420)
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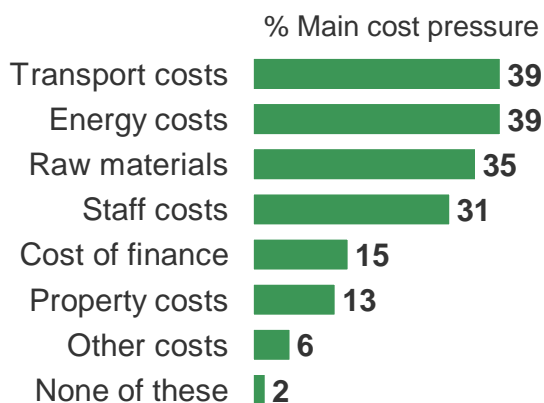
The National Business Survey asked whether key business costs have increased over the past 12 months, and what the expected trends are for the next 12 months. The vast majority of businesses (88%) reported that energy costs have increased in the last 12 months, followed by transport costs (75% of businesses), staff costs (61%) and raw materials and bought-in services (60%). An increase in energy costs was reported by a high number of businesses within the hotels and catering sector (95%), followed by distribution (93%), and primary/manufacturing (92%). These sectors were also more likely to cite increased costs for transport costs and raw materials and bought-in services.

When asked about expected increases over the next 12 months, the results were generally very similar to those for the past 12 months. Again, the largest responses were for energy costs (85%), transport costs (75%), staff costs (63%), and raw materials and bought-in services (63%).

Figure 12

Main upward cost pressure

Q Which of the following costs presents the main upward cost pressure on your business at present?



Base: All businesses in England answering (3855)

Note: although respondents were asked only to tick one box, many ticked more than one. All responses are shown.

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The National Business Survey then asked about the main upward cost pressure on your business at present. The highest responses were fairly evenly split across energy (39%), transport (39%), raw materials and bought-in services (35%), and staff costs (31%). Again the sectors most affected are hotels and catering, distribution, primary / manufacturing and also construction.

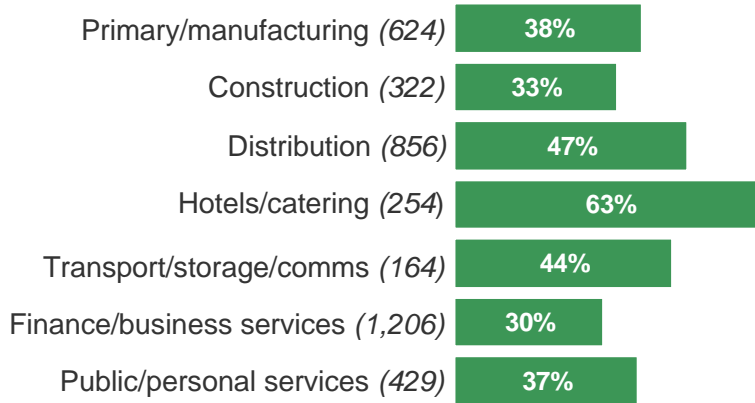
The National Business Survey findings reflect the Treasury statistics on rising producer prices (up 28% between May 2007 and 2008)¹² and there is a clear trend where the main pressures are from costs in energy, food, transport and to a lesser extent raw materials and bought-in services and staffing. Also it is evident that the hotel and catering, distribution, primary / manufacturing and construction sectors are most affected and this helps to explain the higher prices charged by these industries.

¹² HM Treasury *Pocket Databank*, 1st July 2008

Figure 13

Main Upward Cost Pressure by Sector: energy costs

Q Which of the following costs presents the main upward cost pressure on your business at present? – Energy Costs



Base: All businesses in England answering (shown in brackets)

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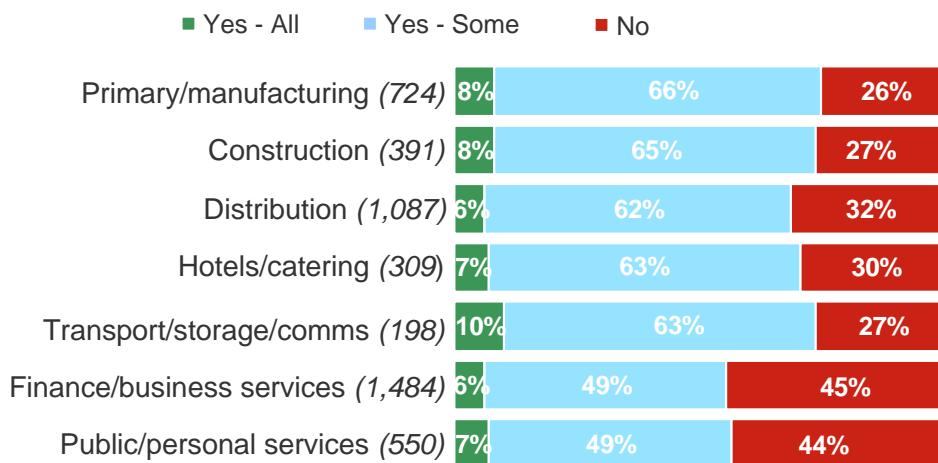


When asked whether these increased costs have been passed on to customers, just under two thirds (64%) responded that they had, with little significant difference across region and sector.

Figure 14

Increased costs by sector

Q *Have you passed on any increased costs to your customers in the past 12 months?*



Base: All businesses in England answering (shown in brackets)

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However only 7% said they had passed on all costs, with the remaining 57% responding they have only passed on some costs. Therefore, it is difficult to precisely quantify the impact of higher producer prices and business costs on how the customer is charged. Clearly the large majority of businesses affected by increased costs are attempting to absorb some of these pressures into their business. This may be easing some of the impact on consumers, but in the National Business Survey 45% of business said profit margins have been lower in the last 12 months, and only 15% said they were higher.

5. Investment Prospects

This section assesses future investment prospects for businesses, by comparing the current economic indicators and projections from HM Treasury, with the findings from the National Business Survey which relate to the crucial areas of planned future investment.

HM Treasury have collated and published the economic forecasts of over 30 leading City Institutions, which are presented in the table below. This gives an indication of the economic prospects for the key macro economic indicators in the UK economy for 2008 and 2009.¹³

Figure 15

| Consensus forecasts for the UK economy, 2008 - 2009 | | |
|--|-------------|-------------|
| | 2008 | 2009 |
| <i>GDP growth (per cent)</i> | 1.6 | 1.3 |
| <i>Inflation rate: CPI (per cent)</i> | 3.6 | 2.3 |
| <i>Inflation rate: RPIX (per cent)</i> | 4.1 | 2.6 |
| <i>Claimant unemployment (mn)</i> | 0.9 | 1.00 |
| <i>Current account (£bn)</i> | -53.4 | -46.1 |

Source: HM Treasury

The July consensus forecasts from HM Treasury and over 30 leading City institutions show that UK GDP is expected to grow by 1.6% over 2008 and by 1.3% in 2009, a significant slowdown compared to historic trends.

¹³ HM Treasury *Forecasts for the UK Economy*, July 2008

High levels of uncertainty surrounding the health of the UK economy means it is difficult to gauge the length or severity of the current slowdown; however medium-term forecasts made in April point to an improving economic climate in 2010, with unemployment predicted to rise each year until 2011. Inflation is forecast to be above the Bank of England's target over 2008 but will moderate in 2009.

National Business Survey Index of Business Confidence

Ipsos MORI have developed an Index of Business Confidence from relevant statements in the National Business Survey. The development of an index will provide a headline barometer of business confidence over time, and by region and sector.

The Development of the Index

The National Business Survey Index of Business Confidence is calculated from ten statements within the National Business Survey. Each of the six statements on trends over the next six months (Q.2b) is used, along with the four statements on future investment (Q.10). All ten statements are measured on a three point scale with a response that reflects an affirmation of confidence ("Higher" for Q2b, "More" for Q10), a response that reflects indifference and a response that reflects a lack of confidence ("Lower" for Q2b, "Less" for Q10).

A response that affirms confidence is assigned the value of 1, while an indifferent response is assigned 0.5 and a response that shows a lack of confidence is assigned a zero score. Note that in both types of question, a "not applicable" option is given. Wherever this response is given, it is noted but discarded from future calculations.

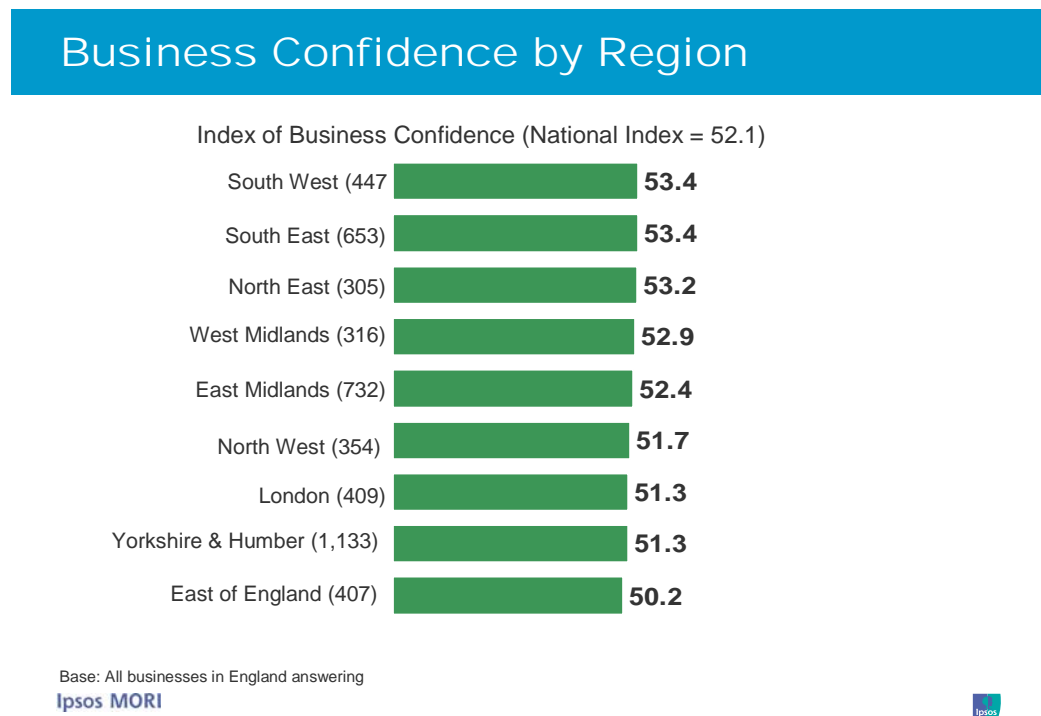
Essentially, the index is an unweighted average of these responses across all respondents, scaled up to sit within a range of zero to 100. By unweighted, we mean each question has been given equal importance in making up the index.

In conceptualising the meaning of the index it is worth bearing in mind that the 0/0.5/1 scoring system simply looks to measure whether a respondent is optimistic, neutral or pessimistic with regard to their business confidence, and does not measure the strength of the optimism/ pessimism. Therefore, we cannot claim that this is the general feeling of the region, sector or nation. What we can say however, is that it

approximates the proportion of businesses whose confidence errs on the side of optimism.

National Business Survey: Index of Business Confidence Findings

Figure 16

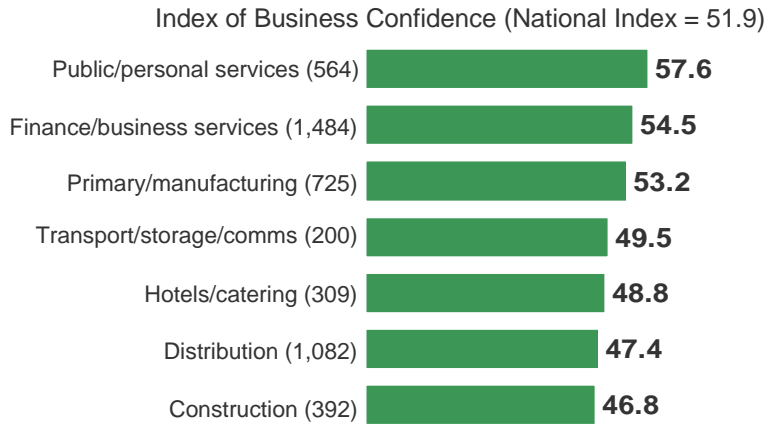


Compared to the national index figure of 52.1, there is little significant regional variation in business confidence levels.¹⁴ The highest index figures are for the South West (53.4) and the South East (53.4), followed by the North East (53.2) and the West Midlands (52.9). Confidence is relatively low for the East of England (50.2).

¹⁴ The index figures shown here are based on un-weighted data. The application of weights by region and business size to the survey data prevents the calculation of a statistically reliable index figure at the region and business size level of analysis. For the purposes of consistency all index figures are therefore presented here based on un-weighted data.

Figure 17

Business Confidence by Sector



Base: All businesses in England answering

Ipsos MORI



More variation can be observed when the index is analysed by sector. Business confidence is lowest in the construction sector (46.1), and is also well below average for the distribution (48.1) and hotels/catering sectors (49.0). For the construction and distribution sectors, the differences in confidence with the public/personal and finance/business services sectors (which have the highest confidence levels) are statistically significant. The lower confidence in the hotels and catering sector is also statistically significant when compared to public/personal services. The primary/manufacturing sector has confidence levels which are higher than both the construction and distribution sectors at the statistically significant level, and lower than the public/personal services sector at this level.

Confidence is well above average in public and personal services (58.6). These results support other data showing that businesses within the construction, distribution and hotels/catering sectors are under significant pressure from the economic downturn. The distribution and hotels/catering sector is suffering from increases in

costs, and a weak property market and falling house prices are impacting on construction businesses.

Interestingly, there is little difference in business confidence by size of businesses. Micro businesses with less than 10 employees had an index score 51.9, compared to those with 10-49 employees (52.9) and 50+ employees (52.8).

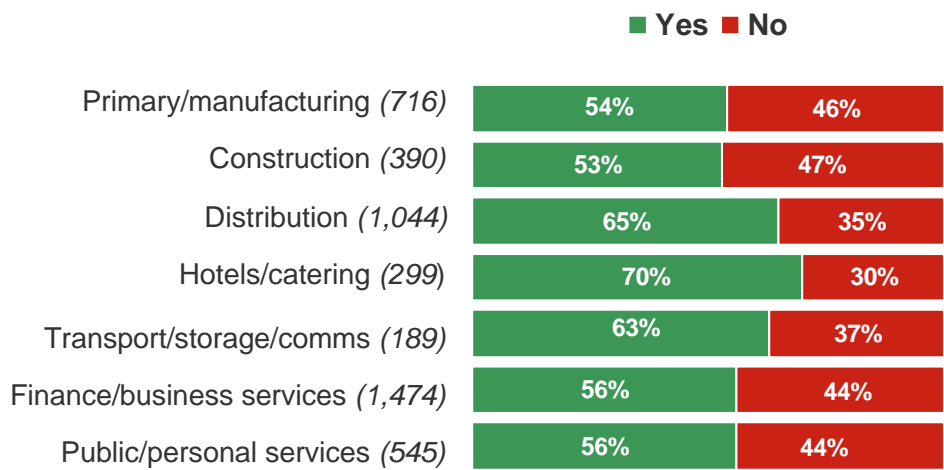
Output trends

In the National Business Survey, 30% of respondents reported that volume output had been higher in the last 12 months, and 27% reported that it had been lower, so there has been little overall change (a net score of +3 for those saying output levels have been higher over those saying lower). The main differences were found by sector, with the hotels and catering (-21) and distribution (-12) sectors most affected by falling output. It is notable though that output trends are positive for the primary and manufacturing sector (+11).

Figure 18

Level of output by sector

Q Is your present level of output below capacity?



Base: All businesses in England answering (shown in brackets)

Ipsos MORI



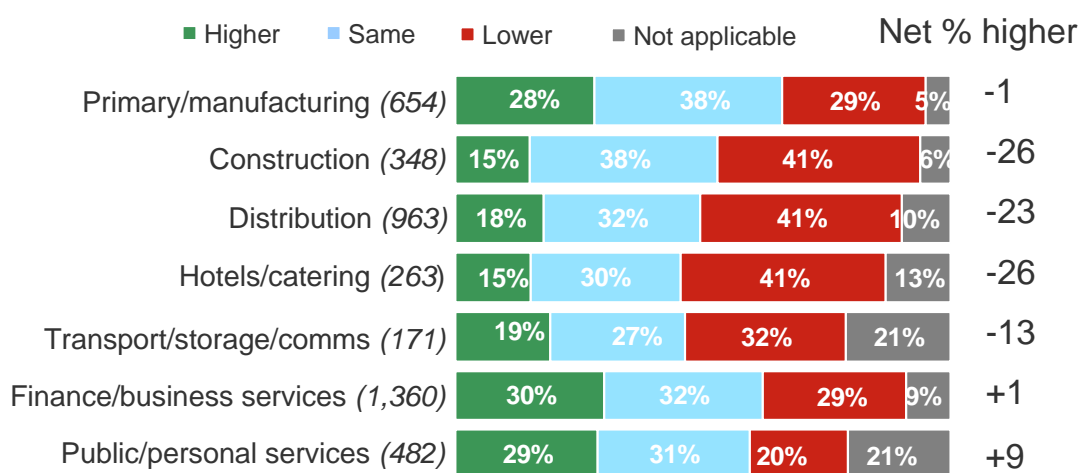
Overall, 59% of businesses reported that they are currently working at below capacity level. The hotels and catering sector is most affected with 70% of respondents working below capacity, though the other sectors are close to the national average.

In considering volumes of output over the next 12 months, businesses are clearly more pessimistic over their prospects going forward. The net overall indicator falls to -8, ranging from +9 in the public and personal services sector to -26 in both the construction and the hotels and catering sectors. Output levels are also expected to be significantly lower in the distribution (-23) and transport, storage and communication sectors (-13), though the picture is fairly mixed for primary/manufacturing (-1) and the service sectors of finance and business services (+1) and public/personal services (+9).

Figure 19

Trends in next 12 months by sector: volume of output

Q Excluding seasonal variations, what are the expected trends in the next 12 months with regard to volume of output?



Base: All businesses in England answering (shown in brackets)

Ipsos MORI



At a regional level, this indicator varies from -3 in the South West and the South East to -14 in the East of England. Confidence in the growth of output levels over the next 12 months is generally muted and in decline compared to the past 12 months, though

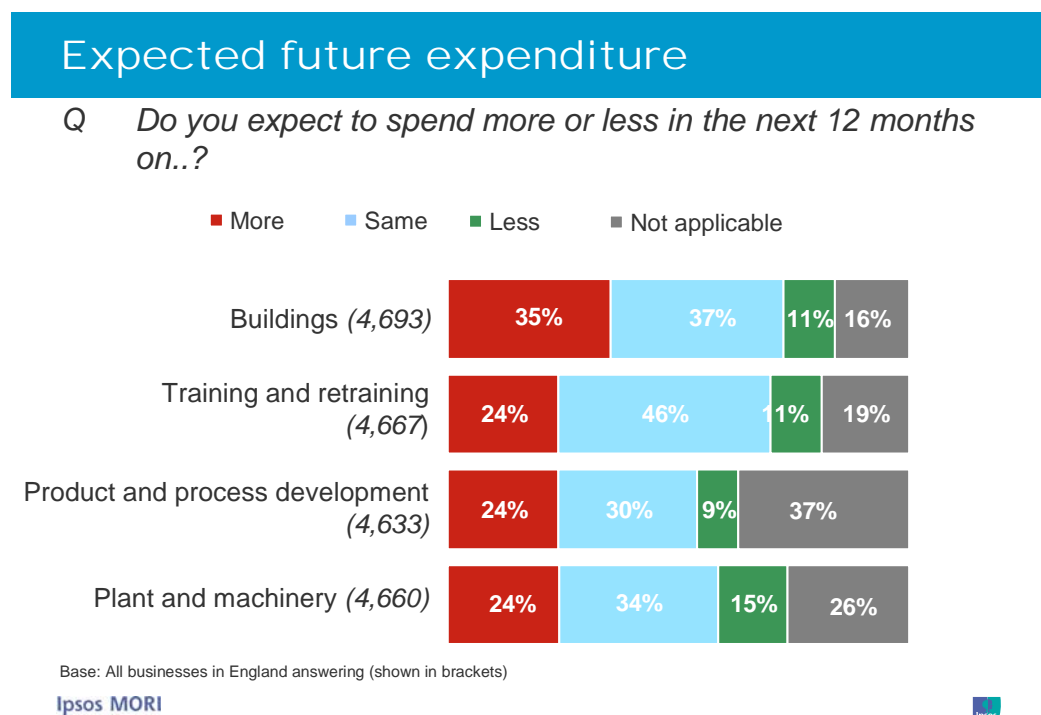
less so in the service sector and primary/manufacturing industries. This in part reflects the steady though slowing service sector output growth recorded by HM Treasury.

National Statistics: Investment Levels

HM Treasury reported that business investment levels increased by 4.5% year-on-year in Q1 2008, following growth of 6.7% over 2007.¹⁵ Investment levels in manufacturing fell by 3.2% year-on-year in Q1, which is of concern, while service sector investment increased strongly by 5.9%.¹⁶ Therefore the declining investment levels in manufacturing are dragging down overall business investment level, which is generally healthy at the aggregate level.

National Business Survey Findings: Planned Spending

Figure 20



The national statistics and National Business Survey findings on current and planned investment portray a generally positive picture. Businesses are expecting to increase

¹⁵ HM Treasury *Pocket Databank*, 1st July 2008. Based on the NPQT Index of Whole Economy Investment levels

¹⁶ HM Treasury *Pocket Databank*, 1st July 2008

spending across a range of capital investments, and in new product development and training. This supports the annual HM Treasury statistics on whole economy and business investment that show continuing growth.

When asked about planned spending on buildings in the next 12 months, a higher proportion stated they would be spending more than those who stated less, giving a net score¹⁷ of +24 with no significant variation across the regions or sectors. The scores for the other categories are: plant and machinery (+9); product and process development (+14); training and retraining (+13). It is notable in particular that there is a positive net score of +14 for expected spending on plants and machinery by the primary and manufacturing sector. Also, the service sectors of public and personal services and finance and business services are planning to spend more on training and retraining with net scores of +26 and +20 respectively.

Planned Investment: Business Location

Nationally, 57% of businesses agreed that *this location is a good place for business to invest* (21% strongly agree / 37% tend to agree). Generally, there are only slight differences by region, ranging from 54% in the North West to 63% in the South West. There is a greater degree of variation by sector, ranging from 47% agreement in the construction sector to 67% in hotels and catering, as presented in Figure 21. Businesses with 50 or more employees are more likely to agree (73% agree) than businesses with less than ten employees (56% agree).

¹⁷ Net scores are based on the percentage of respondents answering more minus the percentage answering less

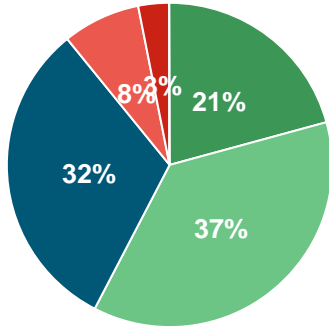
Figure 21

Attitudes to the area

Q To what extent do you agree or disagree with the following statements?

- Strongly disagree
- Tend to disagree
- Neither / nor
- Tend to agree
- Strongly agree
- Don't know

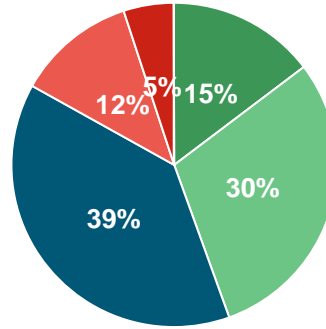
This location is a good place for business to invest



Base: All businesses in England answering (4,684)

Ipsos MORI

I expect the area to become more attractive to investors in future



Base: All businesses in England answering (4,638)

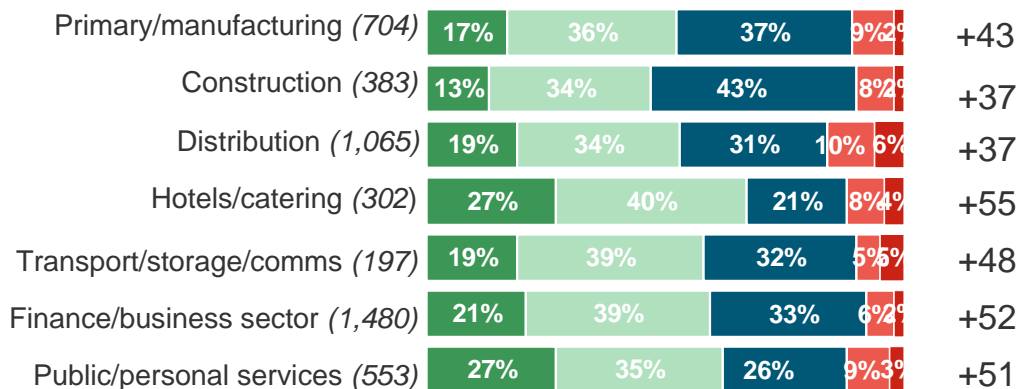
Ipsos

Figure 22

Attitudes to the area by sector: This location is a good place for business to invest

Q To what extent do you agree or disagree with the following statements? - This location is a good place for business to invest

- Strongly disagree
 - Tend to disagree
 - Neither / nor
 - Tend to agree
 - Strongly agree
- Net Agree



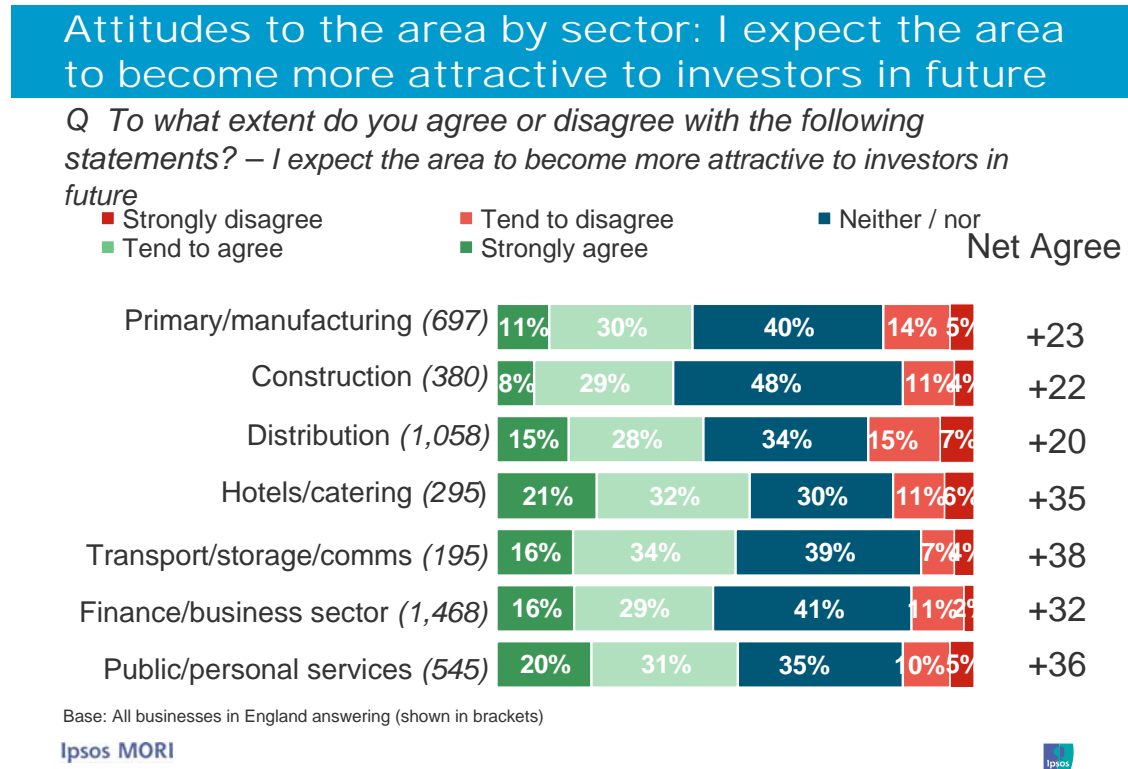
Base: All businesses in England answering (shown in brackets)

Ipsos MORI

Ipsos

Just under a half (45%) of respondents agrees that: *I expect the area in which this business is located to become more attractive to investors in the future.* Again the hotels and catering sector is the most positive (53% agree) and the construction industry is the least (37% agree).

Figure 23



Overall it is notable that there are no significant regional differences. The hotels and catering sector has the most positive attitude to the link between future investment and the location, which is despite the pressures of reduced profit margins and output levels that affect this sector. This report examines attitudes to business location in more detail in Section Seven, with findings on the importance of business location factors to competitiveness and satisfaction with these factors.

6. Labour Market

Unemployment Levels

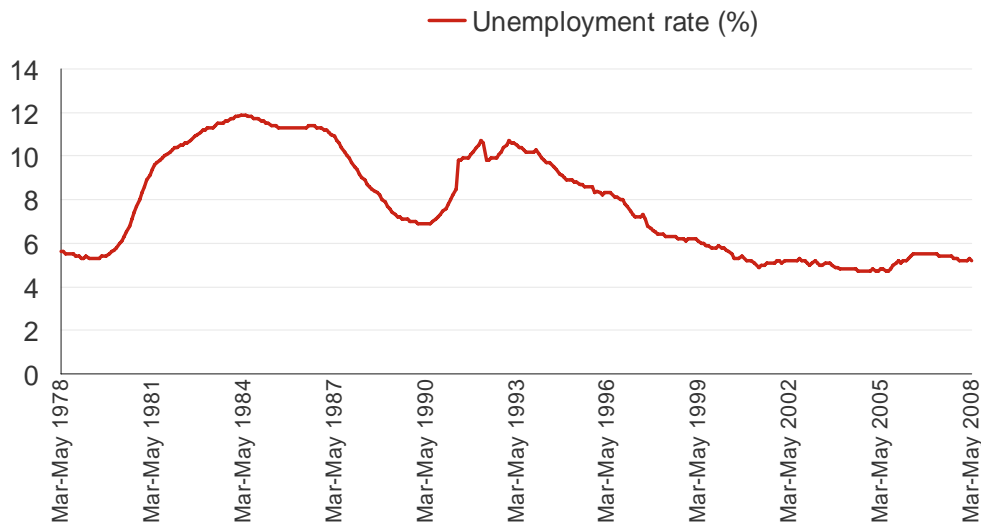
The recessions of the early 1980's and early 1990's were characterised by unemployment levels rising to over three million, and over 10% of all economically active people of working age. Latest UK unemployment is 1,595,000 (5.3%) for March to May 2008, compared with a recent high of 5.7% in late 2006 and a recent low of 4.8% in late 2004 (all seasonally adjusted), as can be seen in Figure 24.:

The current claimant count rate is still at a relatively low level (historically) compared to its peak in the 80's and 90's, a fact well demonstrated in the chart below. The employment data from the National Business Survey (for the past 12 months) and the employment expectations of England's businesses (shown in the survey) indicate an underlying robustness to employment intentions, whilst recognising slowing employment growth at the national level.

It is very important to put the employment data from the National Business Survey in context – namely that a significant (and larger) proportion of businesses (around three quarters of respondents) will maintain current staffing levels over the next 12 months or increase them. Strategically and in policy terms these results indicate that business employment intentions are not collapsing across England. The following sections explore these issues in further detail.

Figure 24

UK unemployment rate as a proportion of all economic activity



ONS Labour Force Survey, Table 2.01 www.statistics.gov.uk/elmr/08_08/2.asp, seasonally adjusted, all working age

Ipsos Loyalty



Figure 25

| Numbers employed for the next 12 months by sector | | | |
|--|-----------------|----------------|----------------------|
| Sector | Higher % | Lower % | Net Improve % |
| Primary (622) | 15 | 15 | 0 |
| Construction (350) | 7 | 28 | -21 |
| Distribution (987) | 8 | 22 | -14 |
| Hotels (273) | 6 | 28 | -22 |
| Transport (178) | 8 | 17 | -9 |
| Finance/business (1374) | 19 | 17 | +2 |
| Public/personal services | 19 | 14 | +5 |
| Overall | 14 | 19 | -5 |

Source: Ipsos MORI

All businesses in England answering (shown in brackets) Source: NBS, 2008

Businesses were asked about past and expected trends in numbers employed and the net indicator has dropped from +1 for the past 12 months to -5 for the next 12 months.¹⁸ When examining trends by industry sector, there is a wide variation in expectations on the numbers employed. 28% of businesses in the construction and the hotel and catering sectors expect numbers employed to be lower in the next 12 months (net indicator of -21 and -22 respectively). However, sentiment in the financial/intermediation and public sector is stronger at +2 and +4 respectively for the next 12 months.

These sectoral variations on the prospects for employment growth do not extend to employers' views around the stability of staffing and workforce levels with some 55% of employers across England confident that employment levels would remain unchanged in the next 12 months (sectorally there is greater consensus around the core question of stability in staffing levels over the next 12 months).

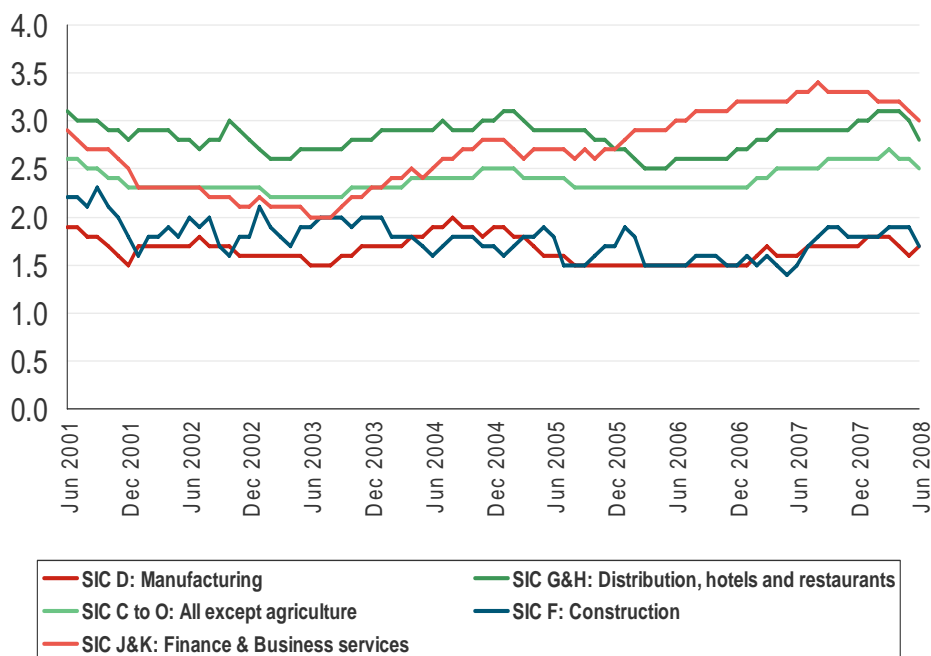
Trends in Staff Vacancies

UK vacancies are currently at 655,000, or 2.5% of all jobs. The chart below shows that vacancies have been rising over the last year or two, but have dipped slightly in recent months. Also, vacancy rates are close to 3% for Distribution, Hotels & Restaurants, and for Finance and Business Services; but under 2% for Construction and for Manufacturing.

¹⁸ Businesses were asked whether the numbers employed was higher or lower in the past 12 months and what the trend was for the next 12 months.

Figure 26

UK vacancies by industry (ratio per 100 employee jobs)



ONS Labour Force Survey, Table 2.01 www.statistics.gov.uk/elmr/08_08/2.asp, seasonally adjusted, all working age

Ipsos Loyalty



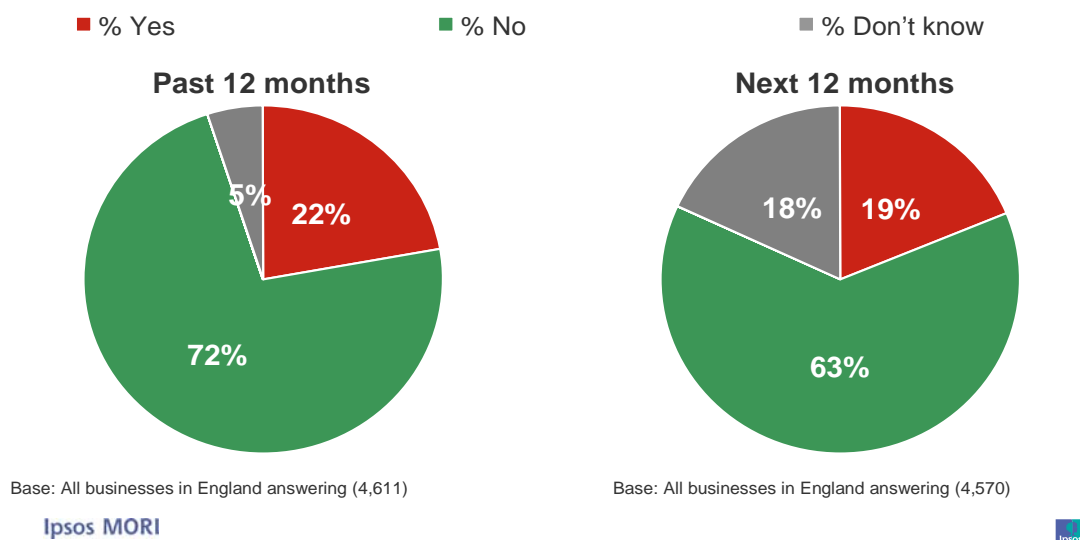
The official ONS data series in respect of sectoral vacancies confirm the clear picture emerging from the National Business Survey that the finance and business services sector along with hotels and catering sector have had the greatest challenges in terms of recruitment and that this pattern is set to continue (based on survey responses). Whilst it is difficult to draw firm conclusions for the caterers and hoteliers (due to seasonality of employment) it is clearly important to remember that key sectors such as Finance and Business Services have recruitment needs, challenges and opportunities going forward (despite slowing activity levels more generally).

The National Business Survey asked about the level of staff vacancies during the past 12 months, and the expected trends in the next 12 months. The overall results are presented in the chart below.

Figure 27

Staff vacancies

Q Did you have any staff vacancies that you found hard to fill, or could not fill, during the past 12 months, and do you expect to have any in the next 12 months?



There are no significant regional variations to the 22% level for the past 12 months, with all areas at between 20% and 25%. By sector, the hotels and catering industry reported the highest level of vacancies which are hard to fill or could not be filled (28%), followed by public and personal services (25%) and finance and business services (24%).

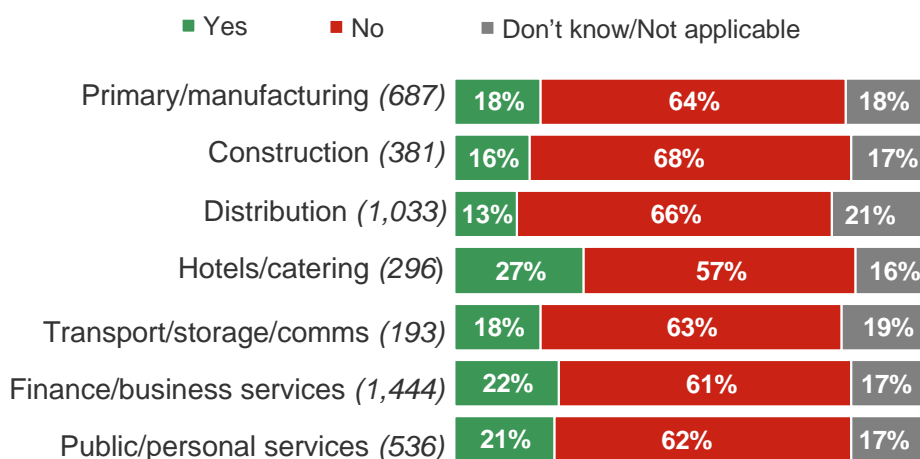
When businesses were asked if they expected to have any staff vacancies that were hard to fill or could not be filled in the *next 12 months*, then the national figure falls to 19%, though the precise trends cannot be discerned due to the higher level of don't knows for the later period.

For the next 12 months, there are no major regional variations, though some variation exists by sector, ranging from 13% in distribution to 27% in hotels and catering, as presented in Figure 28. Overall, it can be seen that the hotels and catering sector experiences the largest levels of vacancies, though firm conclusions cannot be drawn here as the sector is characterised by high levels of temporary and seasonal working.

Figure 28

Staff vacancies by sector

Q Do you expect to have any hard to fill vacancies in the next 12 months?



Base: All businesses in England answering (shown in brackets)

Ipsos MORI



Addressing Skills Gaps in the Labour Market

In 2006, the government published a major report on the state of labour force skills in the UK (The Leitch Review of Skills).¹⁹ The report concluded that the economy has a serious legacy of low skills, is deficient at intermediate and technical levels and is also likely to fall behind at degree level. It was estimated that by 2020 nearly 20 million additional people will need higher skill levels than at present.

The report concluded that a major plank of government reforms needs to be focused on improving the skills of the existing workforce. Addressing these skills gaps is therefore a key priority for maintaining the competitiveness of the UK economy in the global marketplace. This section contrasts the National Business Survey findings on the labour market, with the longitudinal National Employers and Skills Survey (NESS) conducted by the Learning and Skills Council, which was set up to tackle these skills deficits.

¹⁹ Leitch Review of Skills, *Prosperity for all in the global economy - world class skills*, December 2006

The table below shows how skill gaps have changed at a regional level between the NESS results of 2005 and 2007. These results are ranked by the level of skills gaps, showing that the North East is most affected, followed by London and the South West, which are also the only two regions to experience an increase between 2005 and 2007. There has been a substantial rise from 13% to 17% in London, which is of concern given the skills required in preparing for the 2012 Olympics.

Figure 29

| The Incidence and Number of Skills Gaps by Region (NESS, 2005 - 2007) | | | |
|--|--|-----------|---|
| | % of establishments with any skills gaps | | Number of employees not fully proficient (i.e. number of skills gaps) |
| | 2005 | 2007 | |
| Overall | 16 | 15 | 1,361,100 |
| North East | 21 | 19 | 61,900 |
| London | 13 | 17 | 287,300 |
| South West | 15 | 16 | 137,600 |
| South East | 18 | 15 | 211,000 |
| East Midlands | 15 | 15 | 114,700 |
| Eastern | 15 | 15 | 145,500 |
| Yorkshire and the Humber | 23 | 14 | 110,800 |
| North West | 16 | 14 | 166,500 |
| West Midlands | 16 | 14 | 125,800 |

Source: National and Employer Skills Survey (Learning and Skills Council, 2007)

The picture has improved in most regions, particularly in Yorkshire and the Humber where there has been a very significant fall in the percentage of establishments reporting any skills gaps (from 23% to 14%).

National Business Survey Findings: Training Levels and skills gaps

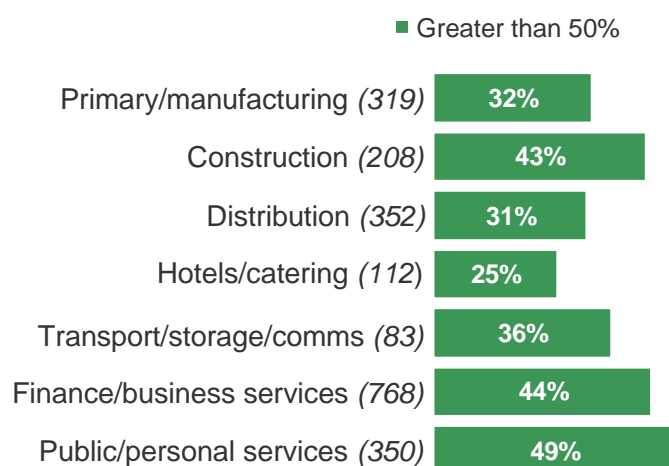
In order to tackle the skills deficit which exist in the economy it is important to gather information on the incidences and level of training provision.

In this context, the National Business Survey found that around half of businesses (49%) have provided formal external training to their employees in the last 12 months, with no significant differences across the regions. However organisations in the public and personal services sector were much more likely to provide this (65%), compared to distribution (34%) and hotels and catering (41%). Of those businesses providing external training, four in ten responded that more than half of their staff undertook such training

Figure 30

Proportion of businesses with more than half of staff undertaking external training by sector

Q *Approximately what proportion of staff undertook external training*



Base: All businesses in England answering (shown in brackets)

Ipsos MORI



The proportion of businesses where more than half of their staff undertakes external training (i.e. greater than 50% in the chart legend key) is a useful indicator of the extent of training activity by sector. This varies from 25% of businesses in the hotels and catering sector to 49% of businesses in the public and personal services sector. Generally, training provision is higher in the overall service sector, including Finance and Business services.

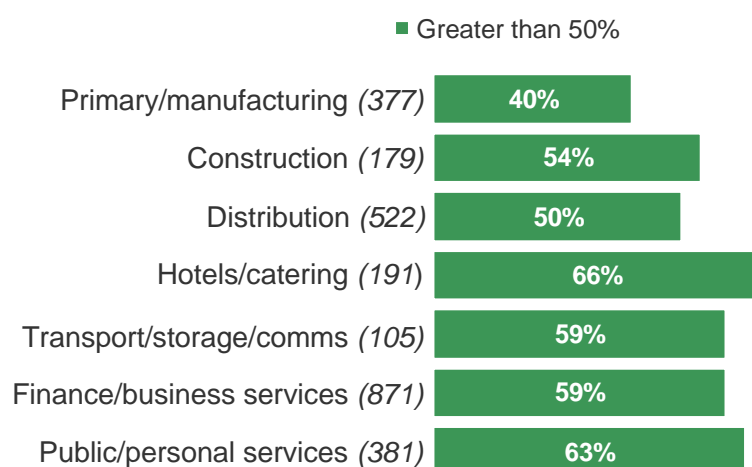
The National Business Survey found that 63% of all businesses surveyed provide internal training. Of those businesses providing internal training, 56% responded that

more than half of their staff undertook such training. Figure 31 provides figures for the extent of internal training activity within each sector. There is less variation by sector, compared to the provision of external training, with all sectors between 54% and 66%, apart from primary/manufacturing which is well below average at 40%.

Figure 31

Proportion of businesses with more than half of staff undertaking internal training by sector

Q *Approximately what proportion of staff undertook internal training*



Base: All businesses in England answering (shown in brackets)

Ipsos MORI

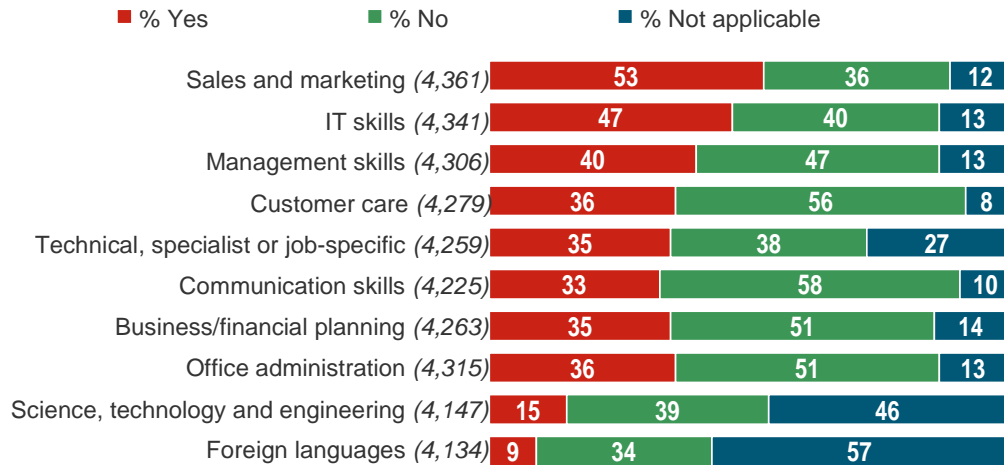


In the National Business Survey, the highest response for *skills in need of improvement* was for sales and marketing (53%), followed by IT skills (47%) and management skills (40%). Though no significant differences occur across the business sectors, these skill deficits will tend to have more of an impact on the professional and service sectors.

Figure 32

Skills in need of improvement

Q Do the following skills need improving in the next 12 months to meet your business needs?



Base: All businesses in England answering (shown in brackets)

Ipsos MORI



7. Location Drivers

This section addresses the key business metrics that are crucial for assessing the health of an economy and the prospects for growth and investment. The National Business Survey asked businesses to provide their views on the importance of a series of business location factors.

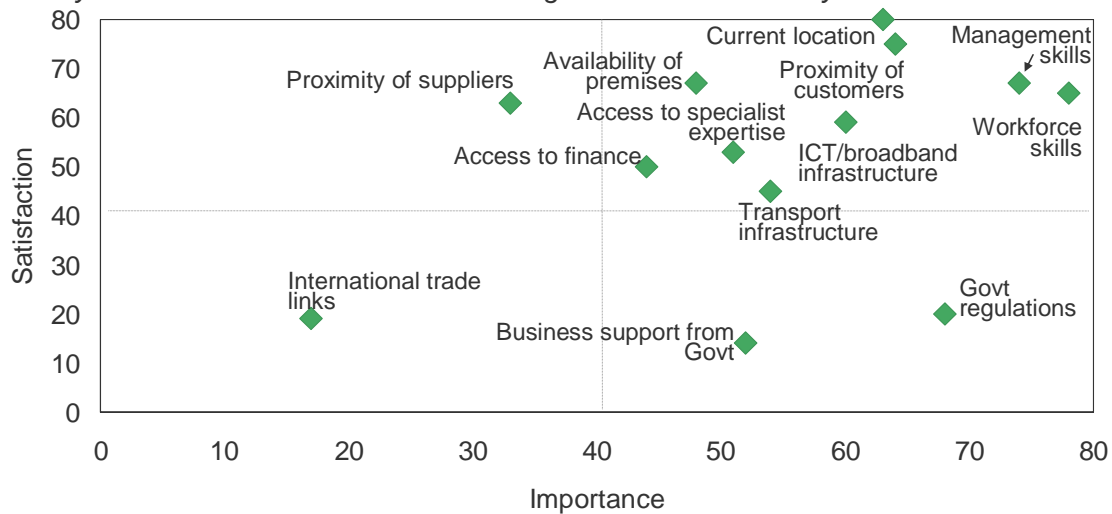
The findings on importance have been compared with the satisfaction levels for these factors as presented in the chart below. The results of this analysis are then placed alongside a profile of sales and purchases at a regional, national and international level.

Figure 33

Business location: Importance vs. Satisfaction

Q Are the following factors important or not important to your organisation's competitiveness?

Q Are you satisfied with each of the following in the area in which your business is located?



Base: All answering

Ipsos MORI



In the National Business Survey, businesses were asked which factors were important for their organisation's competitiveness. The largest response was for workforce skills which was mentioned by over three quarters of respondents (78%), followed by

management skills (74%), government regulations (68%), proximity of customers (64%), current location (63%) and ICT and broadband infrastructure (60%).

When asked about satisfaction with a list of key factors the highest score was for the current location, mentioned by four out of five respondents (80%). Three quarters of businesses are satisfied with the proximity of customers, and two thirds are satisfied with management skills (67%), and workforce skills (65%), and altogether these responses make up the top five of satisfaction scores. The lowest satisfaction scores are for business support from government (14%), international trade links (19%) and government regulations (20%).

Such contrasts are illustrated in the chart above, plotting importance against satisfaction. The top right quadrant contains factors which are important and which businesses express satisfaction with, such as workforce skills, management skills and proximity to customers. The bottom right quadrant, on the other hand, contains factors which are considered to be important but which businesses are also dissatisfied with.

This analysis reveals a particularly significant gap in terms of the expectations of the government's role and the reality. Businesses see the public sector as having a key part to play in making an area attractive to investors, and it would appear that these expectations are not currently being met. Two other areas where importance outstrips satisfaction, albeit not to the same extent, are transport and ICT/broadband infrastructure, which is a concern given their importance for business investment. This gap is consistent across the nine English regions.

At a sector level satisfaction with ICT and broadband infrastructure is lowest for the hotels and catering sector (35% compared to the average of 59%). The lowest levels of satisfaction with transport infrastructure are also in the hotels and catering sector (37% compared to the 45% average). There are no significant regional or sectoral variations to the low levels of satisfaction with government regulations and business support from government.

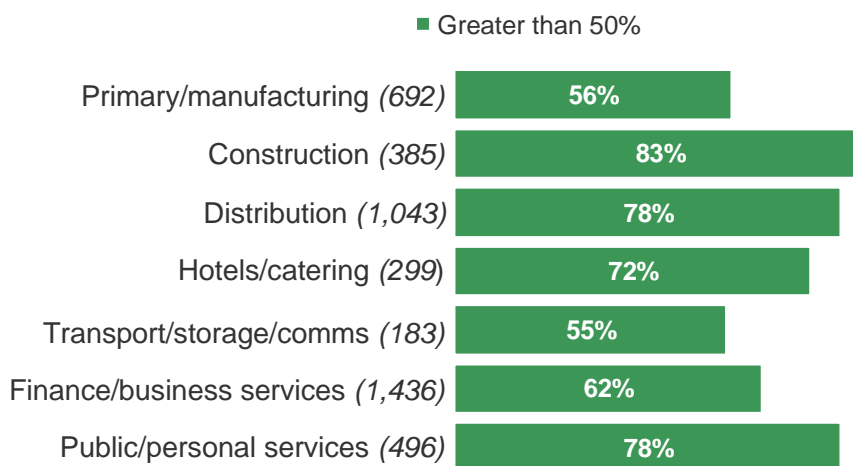
Sales and Purchases by Region

Two thirds of businesses (68%) conduct more than half of their sales at a regional level. The sector breakdown is presented in the chart below showing that around four in five construction (83%), public and personal services (78%) and distribution sector businesses (78%) conduct more than half of their sales within their region. These findings are a useful indicator of how a range of business sectors are dependent on regional markets, though increasingly businesses are exposed to international market trends as exemplified by the impact of the US sub prime mortgage crisis.

Figure 34

Proportion of sales within region: by sector

Q Please estimate the proportion of your sales within your region



Base: All businesses in England answering (shown in brackets)

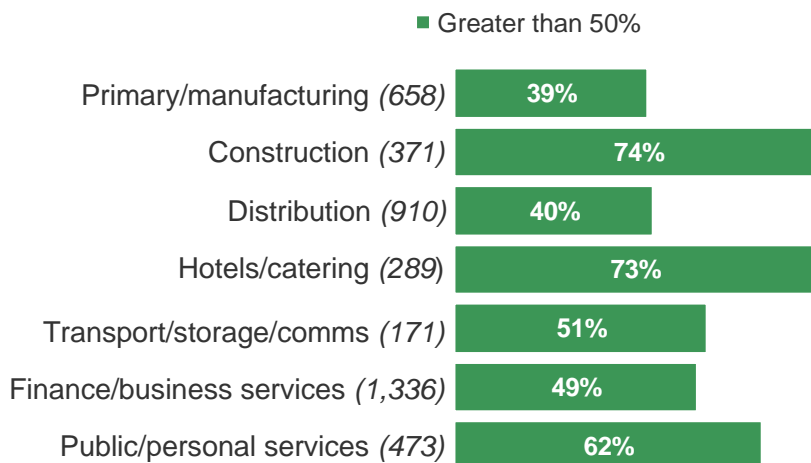
Ipsos MORI



Figure 35

Proportion of purchases within region: by sector

Q Please estimate the proportion of your purchases within your region



Base: All businesses in England answering (shown in brackets)

Ipsos MORI



Around half of businesses conduct over half of purchases within the region, compared to two thirds of their sales. This rises to around three quarters of businesses in the construction and hotels and catering sector, compared to just four in ten for the primary/manufacturing and distribution sectors. The regional market is therefore of less overall importance for purchases compared to sales.

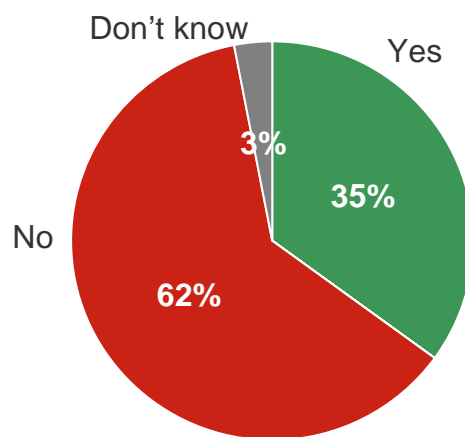
8. Strategic Business Planning

This section considers the National Business Survey findings that relate to strategic business planning and assesses the level of co operation with universities and specialist industrial networks. The use of these resources can be a crucial support for planning business development and future investment. To shed further light on this, the National Business Survey asked businesses if they have a formal business growth plan, with the findings displayed in Figure 36 below.

Figure 36

Formal business growth plans

Q Does your company have a formal business growth plan?



Base: All businesses in England answering (4,704)

Ipsos MORI



Just over a third of businesses have a formal business growth plan, with no significant variation by region. Two thirds of businesses with over 50 employees have a growth plan, and there is also a higher tendency amongst businesses within the service sectors (finance and business services: 43%; public and personal services: 37%). It is notable that only around one in five construction businesses (22%) have a formal business growth plan.

Figure 37

| Does your company have a formal business growth plan? – By sector | |
|--|-----------|
| Sector | % |
| Primary/manufacturing (720) | 36 |
| Construction (382) | 22 |
| Distribution (1085) | 28 |
| Hotels/catering (306) | 31 |
| Transport/storage/comms. (196) | 35 |
| Finance and business (1479) | 43 |
| Public/personal services (556) | 37 |
| Overall (4,704) | 35 |
| <i>Source: Ipsos MORI</i> | |

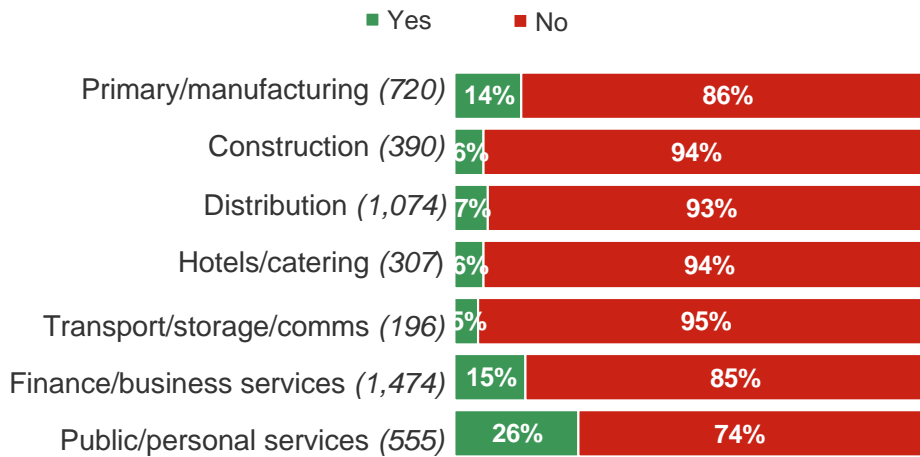
All businesses in England answering (shown in brackets).

Only 13% of businesses co-operate with universities, ranging from 10% in the East of England to 15% in Yorkshire and the Humber. There is more variation within sector, with co-operation at less than 10% for the transport, storage and communications, construction, distribution and hotels and catering sectors.

Figure 38

Co-operation with universities by sector

Q Does your business co-operate with universities for research and development activities?



Base: All businesses in England answering (shown in brackets)

Ipsos MORI

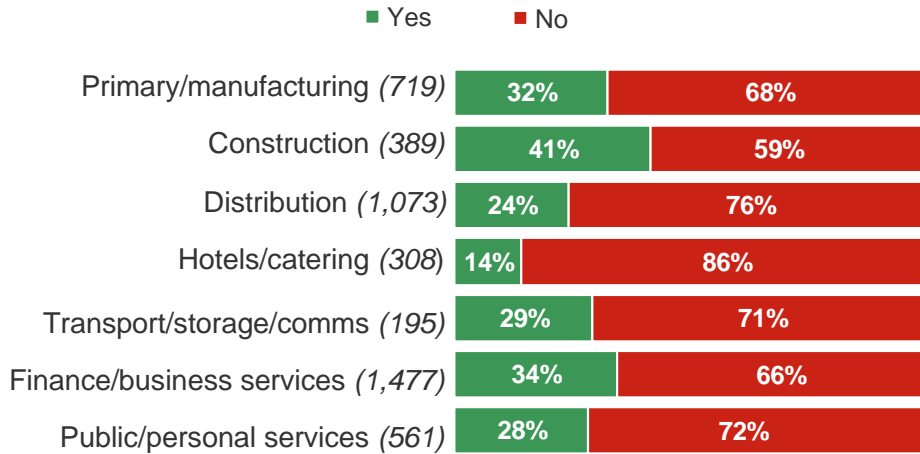


Three in ten businesses belong to specialist industrial networks, with no significant regional variations. Again there are more variations by sector, ranging from 14% for the hotels and catering sector to 41% for construction. Close to half (44%) of businesses with 50 staff or more are involved in these networks.

Figure 39

Specialist industrial networks by sector

Q Do you belong to any specialist industrial networks designed to help you to keep up-to-date with emerging technologies?



Base: All businesses in England answering (shown in brackets)

Ipsos MORI



9. Environmental Performance

The level of environmental emissions was the key issue at the recent G8 summit which was held in Hokkaido, Japan. Businesses have a major role to play in reducing emissions, and this can be achieved by the implementation of a wide range of initiatives. The National Business Survey asked businesses about whether they have undertaken some of the most well-known actions aimed at improving their environmental performance, such as adopting a recycling scheme or an energy saving scheme.

Monitoring environmental performance was a key part of the Kyoto agreement on climate change and an important part of the G8 discussions at Hokkaido. This section briefly summarises the progress made on key environmental targets over the Kyoto agreement period, and places this in the context of National Business Survey findings on how businesses are quantifying and reducing their CO₂ emissions.

Environmental Performance at a National Level

Greenhouse Gas Emissions, 1990 – 2005

Emissions of the 'basket' of six greenhouse gases in 2006 were provisionally estimated to have been about 15% below the base year (the base year is 1990 for carbon dioxide, methane and nitrous oxide, and 1995 for fluorinated compounds).²⁰

Emissions of carbon dioxide, the main greenhouse gas, were provisionally estimated at some 561 million tonnes (CO₂ equivalent), which is just over 5% lower than in 1990. Emissions increased by about 1.2% between 2005 and 2006, due to an increased use of coal in electricity generation.

²⁰ All data is from The Sustainable Development Commission (Communities and Local Government) National Indicators unless otherwise stated.

Emissions by Industry Sector

In 2005 carbon dioxide emissions in the transport sector were 14% higher than in 1990, whilst emissions in the domestic and industrial sectors were 5% and 19% lower respectively.

Manufacturing accounts for roughly 14% of UK Gross Value Added (monetary output), employs about 10% of UK workers and is responsible for 24% of UK carbon dioxide (CO₂) emissions.

Manufacturing Gross Value Added rose by 5% between 1990 and 2005. However reductions in emissions of CO₂ by 16%, nitrogen oxides (NO_x) by 33%, particulates (PM10) by 44% and sulphur dioxide (SO₂) by 62%, were made over the same period.

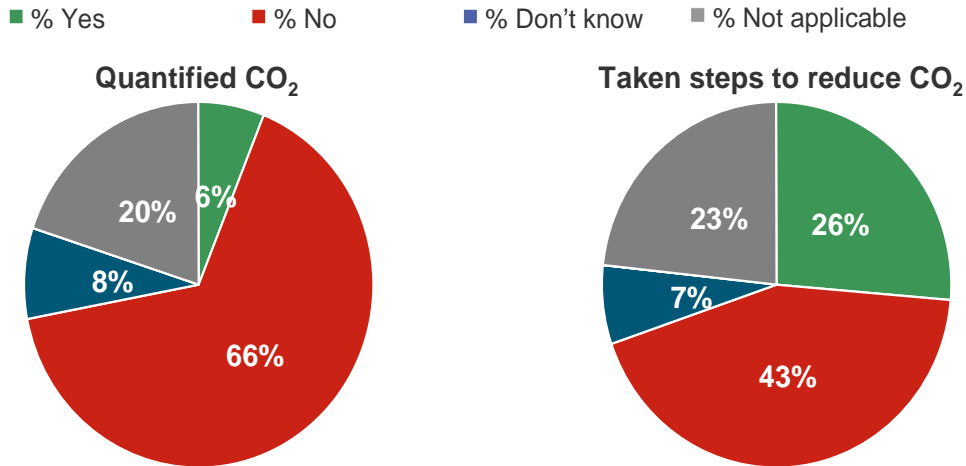
The service sector is the largest and fastest growing UK sector. It employs about half of the workforce and generates just under half of Gross Value Added (monetary output). Service sector Gross Value Added increased rapidly in the 1990s and in 2005 was 91% higher than in 1990. Carbon dioxide (CO₂) emissions from the sector's energy showed little or no change between 1990 and 2005. Emissions of nitrogen oxides (NO_x) reduced steadily over the period and by 2005 were 47% less than in 1990.

Figure 40

Monitoring and reducing CO₂ emissions

Q Have you quantified the CO₂ emissions from your activities?

Q Have you taken any steps to reduce the CO₂ emissions of your business?



Base: All businesses in England answering (4,682)

Base: All businesses in England answering (4,694)

Ipsos MORI

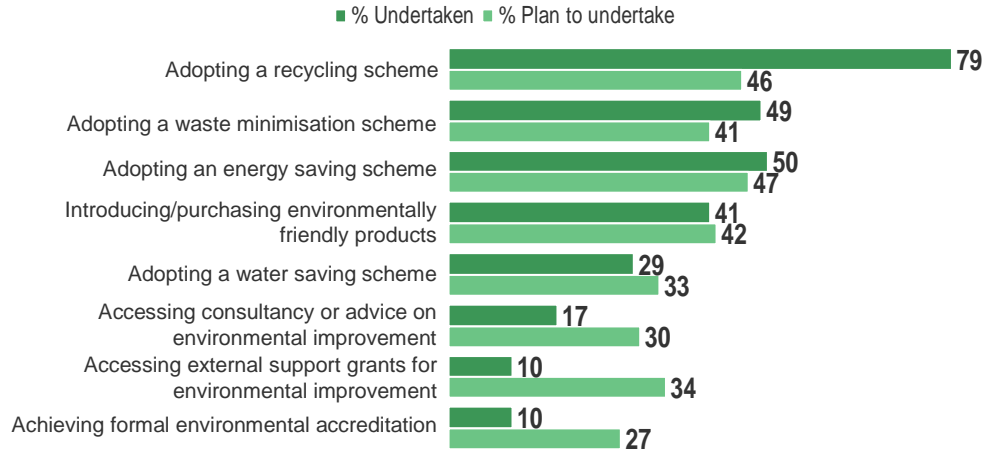


The national statistics demonstrate that environmental performance has been monitored over time and by sector. However the chart shows that only 6% of businesses have quantified CO₂ emissions, though a quarter have taken steps to reduce them. It is notable that 16% of businesses in the transport, storage and communications sector have quantified emissions, and almost four in ten have taken steps to reduce them. The National Business Survey asked what types of actions businesses are taking to improve environmental performance and the results are presented in Figure 41 below.

Figure 41

Improving environmental performance

Q Have you undertaken or do you plan to undertake any of the following actions to improve your environmental performance?



Base: All businesses in England answering (2,865 and 2,010)

Ipsos MORI



Eight in ten businesses have already adopted a recycling scheme, which is by far the most prevalent form of action taken to improve environmental performance. Less than one in five businesses access consultancy or advice on environmental improvement but one in three plan to undertake this in future. Only one in ten businesses access external support grants for environmental improvement and the same proportion have undertaken environmental accreditation and or achieved environmental accreditation. However in both these cases around three in ten businesses plan to undertake these activities, so, along with consultancy, they appear to **represent a growth area which can complement the more practical initiatives** that are already undertaken by a significant proportion of businesses (for example, waste minimisation and waste recycling schemes).

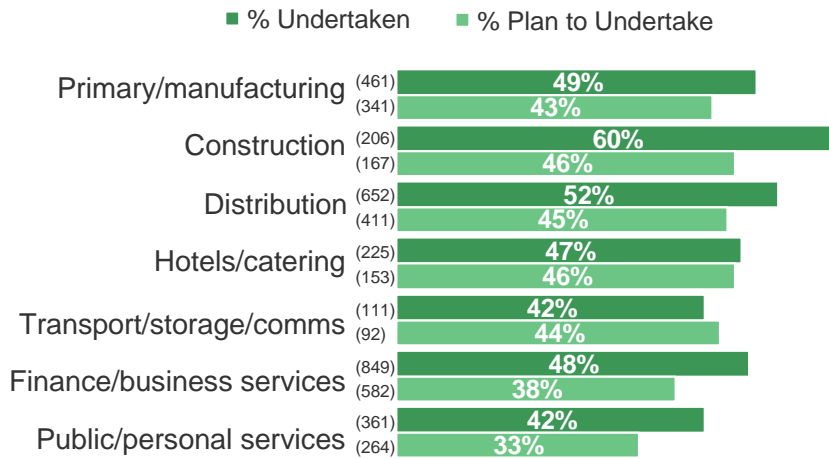
The charts below show the breakdown of actions undertaken by sector for recycling, waste minimising and energy saving schemes (the three most prevalent actions undertaken at a national level).

Environmental actions undertaken by sector

Figure 42

Environmental Performance by Sector: Waste Minimising Schemes

Q Have you undertaken or do you plan to undertake any of the following actions to improve your environmental performance? – Adopting a waste minimising scheme



Base: All businesses in England answering (shown in brackets)

Ipsos MORI

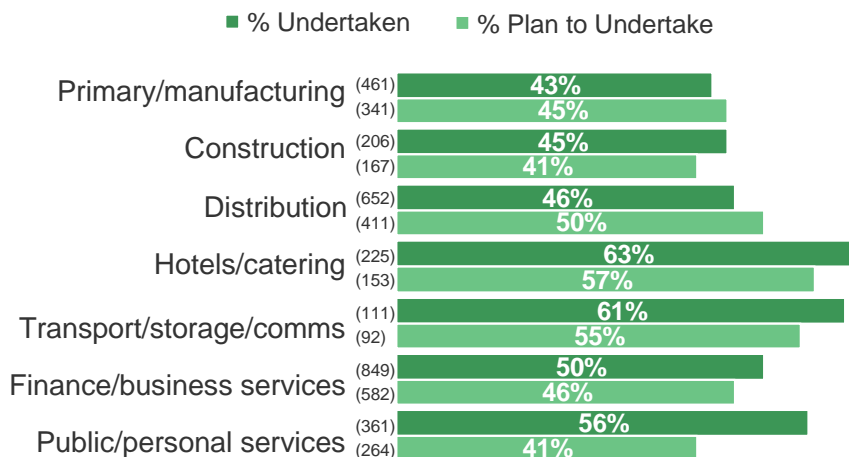


Performance in the construction and distribution sectors is above average (49% for actions undertaken); otherwise there are no major variations by sector.

Figure 43

Environmental Performance by Sector: Energy Saving Schemes

Q *Have you undertaken or do you plan to undertake any of the following actions to improve your environmental performance? – Adopting an energy saving scheme*



Base: All businesses in England answering (shown in brackets)

Ipsos MORI

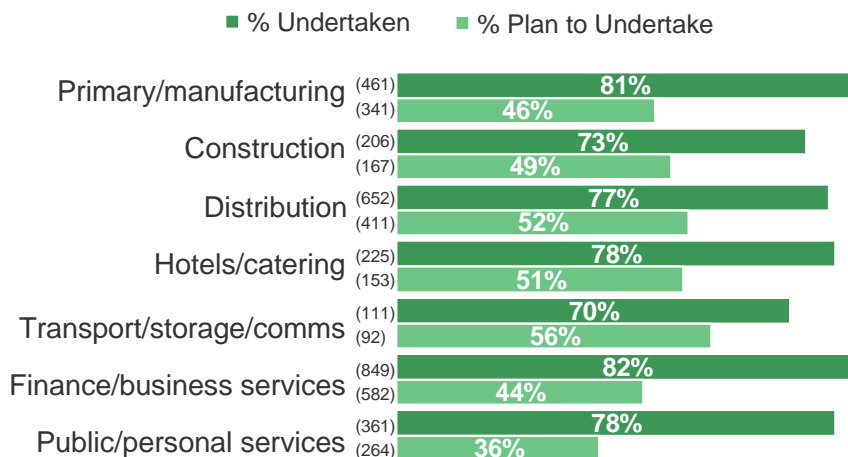


Performance in the hotels/catering and transport/storage/communications sectors is above average (50% for actions undertaken); otherwise there are no major variations by sector.

Figure 44

Environmental Performance by Sector: Recycling schemes

Q *Have you undertaken or do you plan to undertake any of the following actions to improve your environmental performance? – Adopting a recycling scheme*



Base: All businesses in England answering (shown in brackets)

Ipsos MORI



There is very little variation across sectors, with around 75-80% of businesses in each having adopting a recycling scheme in the last 12 months.

Appendices

Appendix A: Topline Data

- Questionnaires were sent by post to business in England in April 2008. Reminders were sent to non-respondents in May 2008, along with a “booster” sample. An online survey was also available to postal respondents, and email invitations were sent where addresses were available.
- Fieldwork closed on 13 June 2008. 4,797 questionnaires were received.
- Where figures do not add up to 100, this is due to multiple coding or computer rounding.
- Results based on “all answering” in each case, excluding those not stating a response.
- Data have been weighted by region and business units by employee size bands to reflect the national profile. Within Yorkshire, the data are also weighted by local authority to reflect the regional profile.
- An asterisk (*) represents a value of less than one half of one percent, but not zero.

Q1. **Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?**
(Base: 4,691)

| | % |
|---------------|----|
| Improve | 12 |
| Remain stable | 40 |
| Deteriorate | 48 |

Q2. Excluding seasonal variations, what has been the trend during the past 12 months, and what are the expected trends for the next 12 months, with regard to...

| | Past 12 months | | | | | Next 12 months | | | | |
|------------------|----------------|----------|--------|---------|-------|----------------|----------|--------|---------|-------|
| | Base | Higher % | Same % | Lower % | N/A % | Base | Higher % | Same % | Lower % | N/A % |
| Domestic orders | 4,494 | 24 | 30 | 28 | 18 | 4,256 | 18 | 31 | 34 | 18 |
| Export orders | 4,207 | 7 | 10 | 6 | 78 | 3,953 | 7 | 10 | 7 | 76 |
| Numbers employed | 4,574 | 17 | 54 | 17 | 12 | 4,317 | 14 | 55 | 19 | 12 |
| Volume of output | 4,480 | 30 | 32 | 27 | 11 | 4,241 | 24 | 33 | 32 | 10 |
| Prices charged | 4,615 | 41 | 45 | 11 | 3 | 4,368 | 44 | 41 | 13 | 3 |
| Profit margins | 4,627 | 15 | 38 | 45 | 3 | 4,392 | 15 | 36 | 47 | 3 |

Q3. Which of the following costs...

(A) have increased for your business over the past 12 months? (Base: 4,522)

(B) do you expect to increase over the next 12 months? (Base: 4,420)

(C) presents the main upward cost pressure on your business at present? (Base: 3,855)

| | (A) Past 12 months % | (B) Next 12 months % | (C) Main upward cost pressure at present % |
|--|-------------------------------|-------------------------------|--|
| Energy costs | 88 | 85 | 39 |
| Transport costs | 75 | 75 | 39 |
| Staff costs | 61 | 63 | 31 |
| Raw materials and bought-in services (other than energy) | 60 | 63 | 35 |
| Property costs | 37 | 38 | 13 |
| Cost of finance | 34 | 37 | 15 |
| Other costs | 8 | 10 | 6 |
| None of these | 1 | 1 | 2 |
| All selecting more than one response | | | 35 |

Q4. **Have you passed on any increased costs to your customers in the past 12 months?**
(Base: 4,743)

| | % |
|---------------------------|----|
| Yes – all these increases | 7 |
| Yes – some increases | 57 |
| No | 36 |

Q5. **Is your present level of output below capacity (i.e. are you working below a full rate of operation)?**
(Base: 4,657)

| | % |
|-----|----|
| Yes | 59 |
| No | 41 |

Q6. **Did you have any staff vacancies that you found hard to fill, or could not fill, during the past 12 months, and do you expect to have any in the next 12 months?**

| | Past 12 months | Next 12 months |
|------------|----------------|----------------|
| Base: | 4,611 | 4,570 |
| | % | % |
| Yes | 22 | 19 |
| No | 72 | 63 |
| Don't know | 5 | 18 |

Q7.a **Did you provide any formal external or internal training for your staff during the last 12 months?**
- By external we mean training provided by an external training provider
- By internal we mean training provided by someone employed within your business

| | External | Internal |
|------------|----------|----------|
| Base: | 4,414 | 4,509 |
| | % | % |
| Yes | 49 | 63 |
| No | 51 | 37 |
| Don't know | - | - |

Q7.b If yes, approximately what proportion of staff undertook such training?

| | External | Internal |
|--|-----------------|-----------------|
| <i>Base (all answering who provided training during last 12 months):</i> | 2,192 | 2,626 |
| | % | % |
| 1-10% | 18 | 13 |
| 11-25% | 21 | 12 |
| 26-50% | 20 | 19 |
| 51-75% | 15 | 15 |
| 76-100% | 24 | 41 |

Q8. Do the following skills need improving during the next twelve months to meet your business needs?

| | | Yes | No | N/A |
|-------------|--|------------|-----------|------------|
| | | % | % | % |
| <i>Base</i> | | | | |
| 4,361 | Sales and marketing | 53 | 36 | 12 |
| 4,341 | IT skills | 47 | 40 | 13 |
| 4,306 | Management skills | 40 | 47 | 13 |
| 4,315 | Office administration | 36 | 51 | 13 |
| 4,279 | Customer care | 36 | 56 | 8 |
| 4,263 | Business/Financial planning | 35 | 51 | 14 |
| 4,259 | Technical, specialist or job-specific skills | 35 | 38 | 27 |
| 4,225 | Communication skills | 33 | 58 | 10 |
| 4,147 | Science, Technology and Engineering skills | 15 | 39 | 46 |
| 4,134 | Foreign languages | 9 | 34 | 57 |

Q9.a Are the following factors important or not important to your organisation's competitiveness?

Q9.b Are you satisfied or dissatisfied with each of the following in the area in which your business is located?

| | Q9a – Importance | | | | Q9b – Satisfaction | | | |
|----------------------------------|------------------|-----------|---------------|-------|--------------------|-----------|--------------|-------|
| | Base | Important | Not important | DK/NA | Base | Satisfied | Dissatisfied | DK/NA |
| | | % | % | % | | % | % | % |
| Availability of premises | 4,537 | 48 | 33 | 19 | 4,191 | 67 | 14 | 20 |
| Access to finance | 4,515 | 44 | 39 | 17 | 4,125 | 50 | 18 | 32 |
| Transport infrastructure | 4,493 | 54 | 31 | 15 | 4,144 | 45 | 33 | 22 |
| Workforce skills | 4,518 | 78 | 12 | 9 | 4,171 | 65 | 21 | 14 |
| Management skills | 4,484 | 74 | 15 | 11 | 4,120 | 67 | 15 | 18 |
| Access to specialist expertise | 4,440 | 51 | 31 | 18 | 4,083 | 53 | 14 | 32 |
| Current location | 4,479 | 63 | 28 | 9 | 4,165 | 80 | 10 | 10 |
| ICT and broadband infrastructure | 4,468 | 60 | 24 | 16 | 4,126 | 59 | 17 | 24 |
| Government regulations | 4,482 | 68 | 20 | 12 | 4,178 | 20 | 59 | 21 |
| Business support from government | 4,450 | 52 | 30 | 18 | 4,145 | 14 | 56 | 30 |
| Proximity of suppliers | 4,454 | 33 | 53 | 14 | 4,103 | 63 | 7 | 30 |
| Proximity of customers | 4,507 | 64 | 30 | 6 | 4,141 | 75 | 8 | 17 |
| International trade links, | 4,435 | 17 | 34 | 49 | 4,041 | 19 | 6 | 76 |

Q10. Do you expect to spend more or less in the next twelve months than you spent in the last twelve months on...?

| Base | | More | Same | Less | N/A |
|-------|---------------------------------|------|------|------|-----|
| | | % | % | % | % |
| 4,693 | Buildings | 35 | 37 | 11 | 16 |
| 4,660 | Plant and machinery | 24 | 34 | 15 | 26 |
| 4,633 | Product and process development | 24 | 30 | 9 | 37 |
| 4,667 | Training and retraining | 24 | 46 | 11 | 19 |

Q11. To what extent do you agree or disagree with the following statements?

| Base | | Strongly agree | Tend to agree | Neither agree nor disagree | Tend to disagree | Strongly disagree |
|-------|--|----------------|---------------|----------------------------|------------------|-------------------|
| | | % | % | % | % | % |
| 4,684 | This location is a good place for business to invest | 21 | 37 | 32 | 8 | 3 |
| 4,638 | I expect the area in which this business is located to become more attractive to investors in the future | 15 | 30 | 39 | 12 | 5 |

Q12. Please estimate the proportion of your sales in the following areas:

| | | 0 | 1-10 | 11-25 | 26-50 | 51-75 | 76-99 | 100 |
|-------|---------------|----|------|-------|-------|-------|-------|-----|
| Base | | % | % | % | % | % | % | % |
| 4,534 | Within region | 3 | 11 | 8 | 9 | 13 | 22 | 33 |
| 3,984 | Rest of UK | 26 | 22 | 16 | 13 | 9 | 11 | 2 |
| 3,580 | Overseas | 66 | 20 | 7 | 3 | 2 | 2 | * |

Q13. Please estimate the proportion of purchases (e.g. raw materials and bought-in services) in the following areas:

| | | 0 | 1-10 | 11-25 | 26-50 | 51-75 | 76-99 | 100 |
|-------|---------------|----|------|-------|-------|-------|-------|-----|
| Base | | % | % | % | % | % | % | % |
| 4,208 | Within region | 9 | 16 | 11 | 13 | 14 | 15 | 22 |
| 3,906 | Rest of UK | 19 | 16 | 17 | 19 | 11 | 12 | 6 |
| 3,289 | Overseas | 59 | 16 | 8 | 6 | 5 | 6 | 2 |

Q14. Does your business co-operate with universities for research and development activities?
(Base: 4,716)

| | Yes | No | % |
|--|-----|----|----|
| | | | 13 |
| | | | 87 |

Q15. Do you belong to any specialist industrial networks designed to help you to keep up-to-date with emerging technologies?
(Base: 4,722)

| | Yes | No | % |
|--|-----|----|----|
| | | | 30 |
| | | | 70 |

Q16. **Does your company have a formal business growth plan?**
(Base: 4,704)

| | % |
|------------|----|
| Yes | 35 |
| No | 62 |
| Don't know | 3 |

Q17. **Have you undertaken or do you plan to undertake any of the following actions to improve your environmental performance?**

| | Undertaken in last 12 months | Plan to in next 12 months |
|--|---------------------------------|------------------------------|
| Base: | 2,865 | 2,010 |
| | % | % |
| Adopting a recycling scheme | 79 | 46 |
| Adopting an energy saving scheme | 50 | 47 |
| Adopting a waste minimisation scheme | 49 | 41 |
| Introducing/purchasing environmentally friendly products | 41 | 42 |
| Adopting a water saving scheme | 29 | 33 |
| Accessing consultancy or advice on environmental improvement | 17 | 30 |
| Accessing external support grants for environmental improvement | 10 | 34 |
| Achieving formal environmental accreditation | 10 | 27 |

Q18. **Have you quantified the CO2 emissions from your activities?**
(Base: 4,682)

| | % |
|----------------|----|
| Yes | 6 |
| No | 66 |
| Don't know | 8 |
| Not applicable | 20 |

Q19. **Have you taken any steps to reduce the CO2 emissions of your business?**
(Base: 4,694)

| | % |
|----------------|----|
| Yes | 26 |
| No | 43 |
| Don't know | 7 |
| Not applicable | 23 |

Q21. **In July 2007, over double the average rainfall for England and Wales was recorded with consequent extensive flooding in many areas. Has this had an impact either directly or indirectly on your business?**

(Yorkshire)

(Base: All business answering in Yorkshire and the Humber: 1,136)

| | % |
|----------------------------|----|
| Yes – a significant impact | 16 |
| Yes – a slight impact | 36 |
| No impact | 48 |

Q20. **Has your business introduced a new product or process innovation in the past three years?**

(Rest of England)

(Base: All business answering in all other England regions: 3,541)

| | % |
|------------|----|
| Yes | 32 |
| No | 62 |
| Don't know | 6 |

Q22. **How many employees are there at this workplace?**

(Base: 4,103)

| | % |
|--------------------------------------|-----------|
| 1-9 | 71 |
| 10-49 | 23 |
| 50+ | 7 |
| Proportion giving an estimate | 12 |

Q23. **Approximately how long has your business been in operation?**

(Base: 4,748)

| | % |
|-----------------------------------|----|
| Less than 1 year | 3 |
| At least 1 year but less than 2 | 3 |
| At least 2 years but less than 3 | 4 |
| At least 3 years but less than 5 | 9 |
| At least 5 years but less than 10 | 17 |
| 10 years or more | 64 |
| Don't know | * |

Q24. What is your annual turnover at this site?
(Base: 4,626)

| | % |
|--------------------|----|
| 0 - 1.9 million | 81 |
| £2 – 4.9 million | 7 |
| £5 – 9.9 million | 3 |
| £10 – 24.9 million | 2 |
| £25 – 49.9 million | 1 |
| £50+ million | 1 |
| Don't know | 2 |
| Not applicable | 4 |

Q25. Please indicate which type of business you are:
(Base: 4,633)

| | % |
|-------------------------------|----|
| Independent | 72 |
| Limited Liability Partnership | 14 |
| Subsidiary of UK parent | 4 |
| Subsidiary of foreign parent | 2 |
| Ultimate holding company | 2 |
| Don't know/not applicable | 6 |

Q26. Is this site your headquarters?
(Base: 4,716)

| | % |
|----------------|----|
| Yes | 87 |
| No | 9 |
| Not applicable | 4 |

Appendix B: Guide to Statistical Reliability

The variation between the sample results and the “true” values can be predicted from knowledge of the size of the samples on which the results are based and the number of times that a particular answer is given. The confidence with which this prediction can be made is usually chosen to be 95% - that is, the chances are 95 in 100 that the “true” value will fall within a specified range, based on a random “pure” sample of the population.

The table below illustrates the predicted ranges for different sample sizes and percentage results at the 95% confidence interval.

| Sample size | Approximate sampling tolerances applicable to percentages at or near these levels | | |
|-------------|---|------------|-----|
| | 10% or 90% | 30% or 70% | 50% |
| | ± | ± | ± |
| 1,000 | 2 | 3 | 3 |
| 800 | 2 | 3 | 4 |
| 500 | 3 | 4 | 4 |
| 400 | 3 | 5 | 5 |
| 300 | 3 | 5 | 6 |
| 200 | 4 | 6 | 7 |
| 100 | 6 | 9 | 10 |

Therefore, with a total sample size of 1,000 completed interviews, where 50% give a particular answer, the chances are 19 in 20 that the “true” value (which would have been obtained if the whole population had been interviewed) will fall within the range of ± 3 percentage points from the sample result; in fact the actual result is proportionately more likely to be closer to the centre (50%) than the extremes of the range (47% or 53%).

When the results are compared between separate sub-groups within a sample, different results may be obtained. The difference may be “real,” or it may occur by chance (because not everyone in the population has been interviewed). To test if the difference is a real one - i.e. if it is “statistically significant” - it is again necessary to know the total population, the size of the samples, the percentage giving a certain answer, and the degree of confidence chosen. Assuming the “95% confidence interval”, the differences between the two sub-sample results must be greater than the values given in the table below:

| Sample size | Differences required for significance at or near these percentage levels | | |
|--------------------------------------|--|------------|-----|
| | 10% or 90% | 30% or 70% | 50% |
| | ± | ± | ± |
| 890 and 500 (Total vs sub-group) | 5 | 6 | 6 |
| 890 and 200 (Total vs sub-group) | 6 | 8 | 9 |
| 500 and 300 (Sub-group vs sub-group) | 3 | 4 | 4 |
| 500 and 100 (Sub-group vs sub-group) | 6 | 9 | 9 |
| 300 and 200 (Sub-group vs sub-group) | 7 | 9 | 9 |
| 300 and 100 (Sub-group vs sub-group) | 9 | 11 | 12 |
| 100 and 100 (Sub-group vs sub-group) | 10 | 14 | 14 |

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