



The Business Services Association
130 Fleet Street,
London.
EC4A 2BH

BSA Economic Tracker

Annual Report 2022

February 2023

Background and Overview

The BSA - Business Services Association - brings together all those who are interested in delivering efficient, flexible, and cost-effective service and infrastructure projects across the private and public sectors. 70 per cent of business services are provided business-to-business and 30 per cent for the public sector. The sector employs c.3.3 million people across the UK, accounting for around 1 in 10 jobs. BSA members include businesses of all sizes, charities, and social enterprises¹. A full list of members is included as an Annex.

The BSA Economic Tracker was launched in January 2022 to provide a regular economic overview of the areas impacting the business services sector. The Tracker is refreshed and circulated with BSA members on a monthly basis. Each month, the questions were reviewed and, if necessary, updated to reflect both members' feedback and the wider economic landscape.

The Tracker both reflects the importance of BSA members and the business services sector to the UK economy and provides an insight into the key areas affecting the sector. Anonymised monthly reports are passed on to BEIS and other key stakeholders, who have fed back how useful they have found members' responses. Our anonymised summaries have also been shared with the Minister for Industry's office and the Permanent Secretary.

The 2022 Tracker was divided into four sections: an organisation overview, external pressures, labour supply, and inbound goods and services. This report reflects responses gathered through the first twelve editions of the Tracker running January to December 2022.

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¹ Oxford Economics, 2015. The use of business services by UK industries and the impact on economic performance. <https://www.bsa-org.com/wp-content/uploads/2017/10/OE-report-for-BSA-Productivity-report-Sept2015.pdf>



Section One: Executive Summary

The BSA Economic Tracker was launched in January 2022 and has been available for all BSA members to complete as it has been refreshed each month. A full list of members is included as an annex.

The Economic Tracker captures the trajectory of the UK economy over 2022 as experienced by BSA members. This includes the easing of Covid-19 regulations, Russia's invasion of Ukraine, and a significant period of market and global instability in Q3. BSA members have also provided insights into their experiences of new trading, funding, investment, recruitment, and regulatory arrangements following our departure from the European Union. Members reported the impacts of these and other factors on their operations, confidence, and decisions.

Members were asked to consider the extent to which the challenges they faced were reflected in contract terms. As widespread inflation placed pressure on organisations across the sector, they reported challenges with indexation and inflexibility in some government contracts and increased associated risks and costs. Organisations also highlighted inconsistencies in bid validity and commercial expertise across the private and public sectors.

In 2022, the most widely reported issue by organisations of all sizes and industry related to labour supply. Labour and skills shortages were reported across industries crucial to both key national infrastructure and the wider economy, including (but not limited to) digital, finance, frontline services, engineering, and hospitality. Shortages not only affected respondents' own organisations but also the organisations in their supply chains, and reported consequences included reduced capacity, disruption to service delivery, and restrictions on potential growth. While recruitment and retention remained difficult throughout the year, the proportion of members reporting above-average vacancies began to slow by Q3/Q4. From discussions with members this may be attributed either to organisations adapting their operations in light of labour shortages or a change in recruitment policy in the context of wider economic uncertainty.

The changing and, often inflationary, cost of goods and services were a challenge for the majority of respondents in 2022, who reported both experiencing and expecting price increases from base materials (particularly timber, steel and copper) to specific products such as IT hardware and insurance. These trends are expected to continue, with all respondents indicating that expected increases would continue to impact their business operations, confidence, and growth over 2023. Members also highlighted the impacts of increased costs on employee wellbeing. The Tracker collected insights as the first signs, consequences, and support measures relating to energy price rises unfolded throughout 2022.

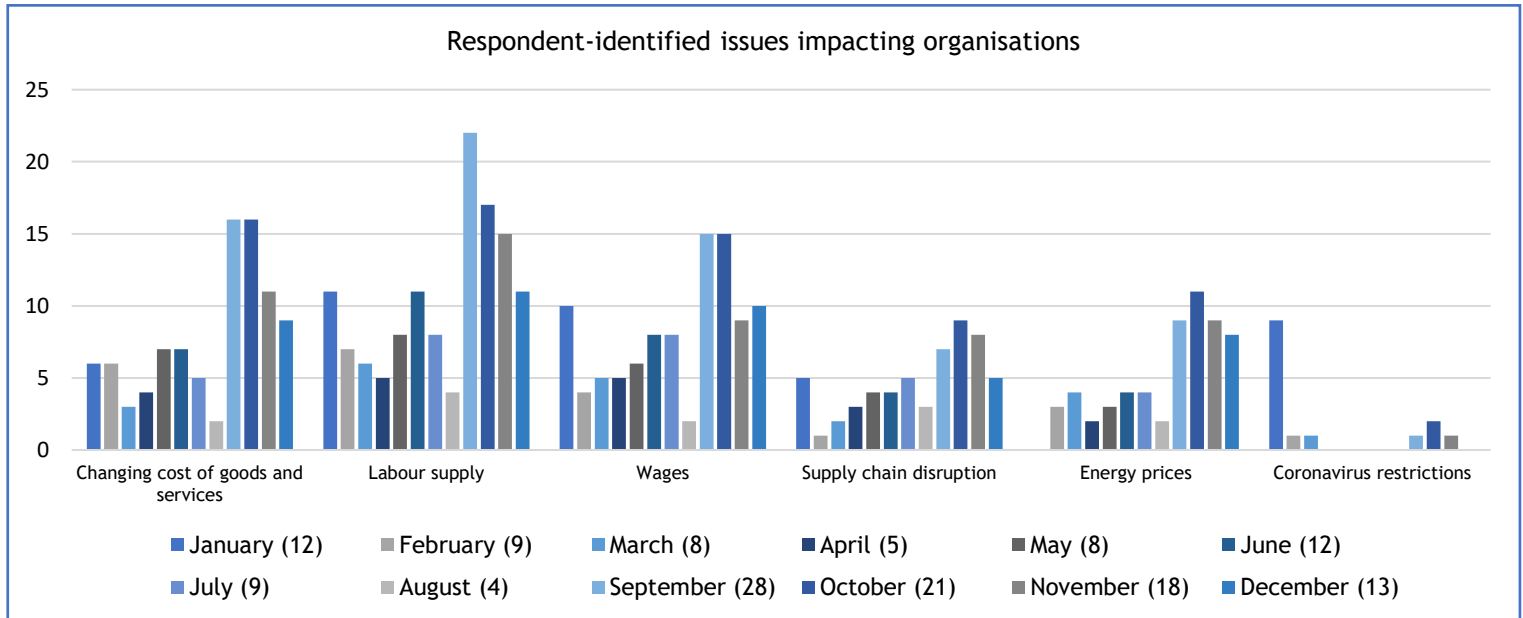
As the implications of the war in Ukraine continued to unfold, members reported cybersecurity concerns and supply chain disruption, with extended lead times and reduced availability of some products. In all, the BSA's Economic Tracker is a useful and indicative guide to the issues affecting the business services sector, across industry and firm size.

Key points

- Labour supply was the most widely reported issue impacting member organisations.
- Labour shortages in engineering, hospitality, and digital industries were identified most commonly in 2022.
- Vacancies have remained above or significantly above normal levels for a majority of respondents. All respondents' business operations have been impacted by vacancies, although this is falling.
- The majority of respondents report experiencing and expecting increases in costs.
- External inflationary pressures affected respondents throughout 2022 and are expected to do so well into 2023.



Respondent-identified issues



(Figure 1: Bar chart showing respondent-identified issues)

	0-24% respondents affected			25-49% respondents affected			50-74% respondents affected			75-100% respondents affected		
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Changing cost of goods and services	5/12	5/9	2/8	2/5	3/8	7/12	5/9	2/4	16/28	16/18	11/18	9/13
Labour supply	11/12	7/9	6/8	5/5	8/8	11/12	8/9	4/4	22/28	17/21	15/18	11/13
Wages	10/12	4/9	5/8	5/5	6/8	8/12	8/9	2/4	15/28	15/21	9/18	10/13
Supply chain disruption	5/12	1/9	2/8	3/5	4/8	4/12	5/9	3/4	7/28	9/21	11/18	5/13
Energy prices	1/12	3/9	4/8	2/5	3/8	4/12	4/9	2/4	9/28	11/21	9/18	8/13
Coronavirus restrictions	9/12	1/9	1/8	0/5	0/8	0/12	0/9	0/4	1/28	2/21	1/18	0/13

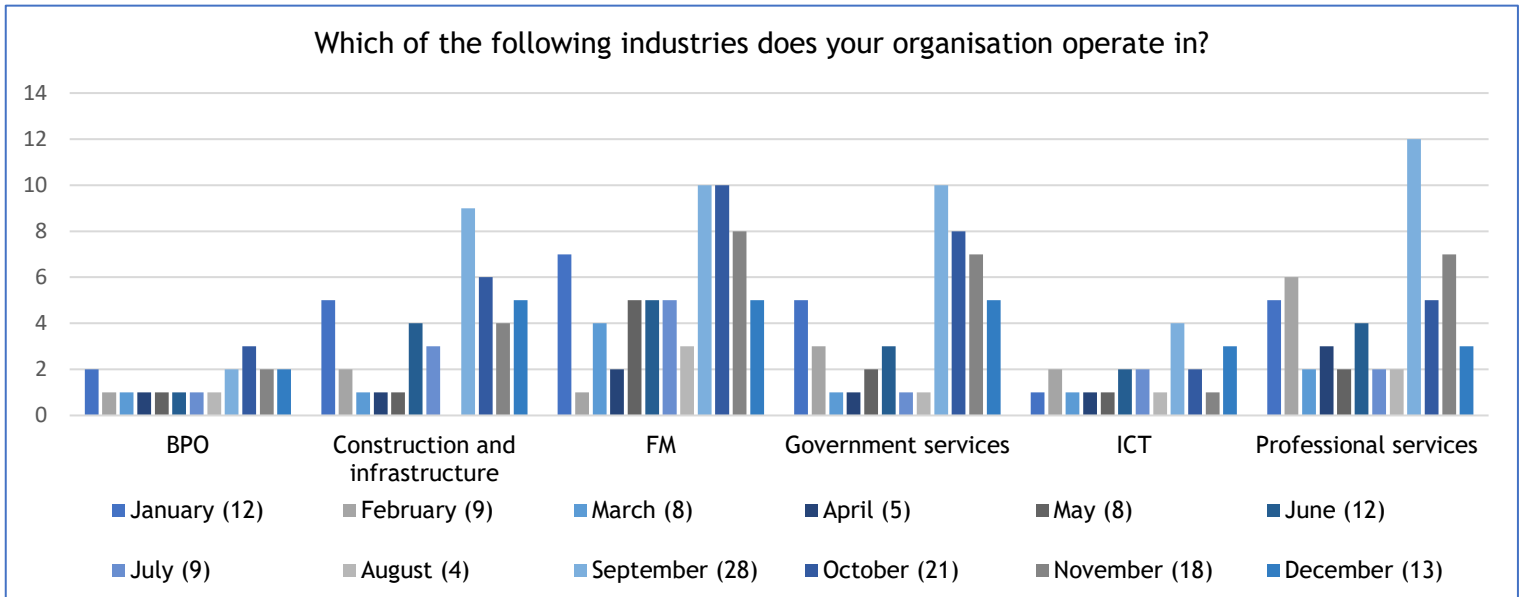
(Figure 2: Table showing a breakdown of the issues identified)



Section Two: Respondent Overview

Key Points

- The five strands which make up the business services sector - ICT and digital services, business process outsourcing (BPO), facilities management (FM), construction and infrastructure services, and managed public services - have been represented in every month except one.
- The majority of respondents operate across professional services, government services, and construction and infrastructure services. The majority also operate across multiple industries.
- Typically, larger organisations were more likely to respond.



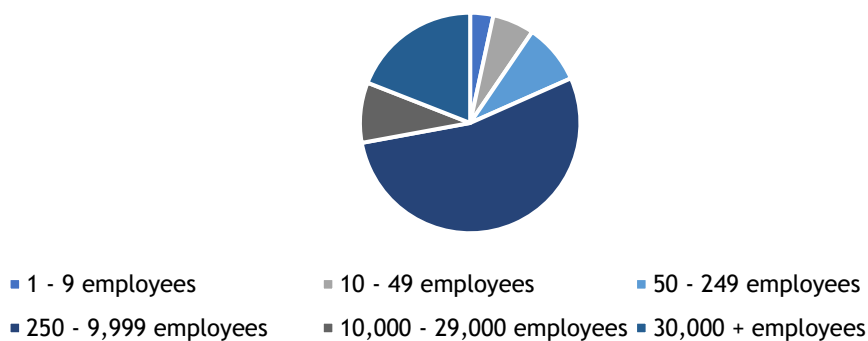
(Figure 3: Bar chart showing which industries Tracker respondents operate in)

Organisation

size

The majority of respondents each month employ 250-9,999 employees. 1-7 organisations employing at least 10,000 people have been represented each month.

Jan-Dec organisation sizes (average % respondents)



(Figure 4: Pie chart showing the average sizes of Tracker respondent firms)



Section Three: Labour supply

Key Points

- Labour supply was identified as an issue by a significant majority of respondents every month in 2022 (88% on average).
- Labour and skills shortages were most commonly reported across the digital, finance, and hospitality industries.
- All respondents' supply chains were impacted by labour shortages in the last three quarters of 2022.
- Once introduced as a selectable option in April, the cost of living was consistently identified as a challenge, with nearly all organisations raising it as an issue.
- Almost all respondents' workforces raised the cost of living to at least a small extent.
- Respondents consistently found it difficult to recruit, and the proportion of respondents finding it difficult to retain employees increased throughout 2022.
- The proportion of vacancies reporting as above average fell over the course of 2022, as did the severity of the associated impact.

Breakdown as a total of respondents

	0-24% respondents affected			25-49% respondents affected			50-74% respondents affected			75-100% respondents affected		
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Labour supply	11/12	7/9	6/8	5/5	8/8	11/12	8/9	4/4	22/28	17/21	15/18	11/13
Wages	10/12	4/9	5/8	5/5	6/8	8/12	8/9	2/4	15/28	15/21	9/18	10/13
Pensions	0/12	1/9	1/8	0/5	0/8	0/12	1/9	0/4	1/28	1/21	0/18	0/13
NI contributions	NA	1/9	1/8	0/5	0/8	1/12	0/9	0/4	0/28	1/21	0/18	0/13
Cost of living	NA	NA	NA	NA	1/8	1/12	1/9	2/4	2/28	3/21	1/18	1/13

(Figure 5: Table showing a breakdown of the issues identified relating to labour supply)

Cost of living

- The impact of the cost of living on employees was added in June, and between one and three respondents have reported it as an issue affecting their organisations each month since.
- All respondents except one have seen the increased cost of living raised by their workforce to at least a small extent.
- The proportion of respondents' workforces raising the issue to a large extent has risen since June, while the proportion raising the issue to a small extent has fallen.
- Large and medium-sized respondents have reported that the cost of living is impacting staff wellbeing.



Labour shortages by job-type

The following shortages were identified over **six or more months in 2022**:

- Digital and cyber (10/12 months)
- Engineering, particularly environmental engineering (every month from April - December)
- Finance professionals (every month except March)
- Hospitality and catering, particularly skilled chefs (every month except March)
- IT (9/12 months)
- PFI general managers (every month except January)
- Project management (8/12 months)
- Specialist FM (7/12 months)

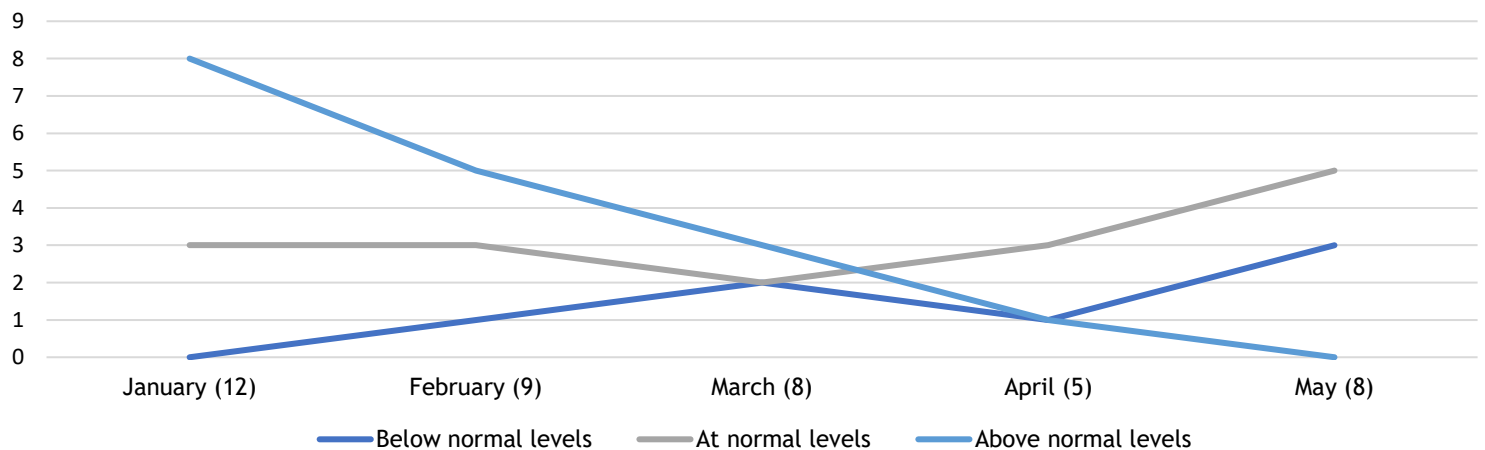
Impact of labour shortages on respondents' supply chains

- We asked respondents how labour shortages impacted the organisations in their supply chains; the majority of respondents each month impacts to a small or some extent.
- No respondents reported labour shortages having no impact on their supply chain since March.
- The proportion of respondents reporting a large impact on their supply chain rose from one or two from January to August, to an average of four in the last quarter of 2022.

Sickness absences

- From January to May 2022, members reported sickness absences in the context of the coronavirus pandemic and associated isolation restrictions. These restrictions eased and this question was removed in June 2022.
- The majority of respondents in January and February reported absences above normal levels, whereas the majority of respondents in April and May reported absences at normal levels.
- Respondents reporting sickness absences below or at normal levels increased from January to May.
- The impact of staff absences also reduced, with a majority of respondents identifying 'some' or 'large' impact in January and February, but a majority of respondents identifying 'small' impacts in April and May.

Compared with previous years, how would you describe the number of absences across your organisation in the last three months?



(Figure 6: Graph showing the number of absences across respondent organisations in the last three months)



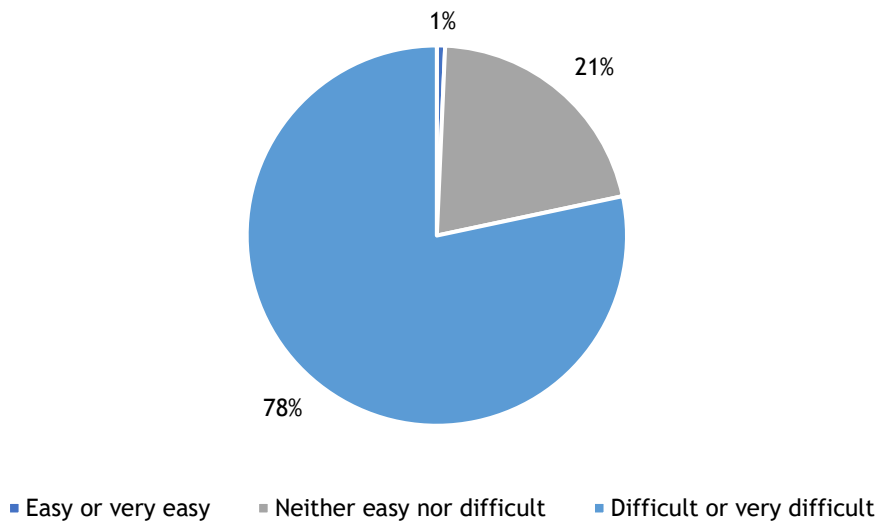
Retention

- The proportion of respondents finding it difficult to retain employees doubled in Q3 and Q4.
- Large organisations described retention and high turnover as ‘new challenges’.

Recruitment

- More than half of respondents every month reported finding it difficult or very difficult to recruit new employees.
- No respondent has ever reported finding it very easy to recruit, and only 1 has reported finding it easy (1/5 in April).
- Respondents described difficulties hiring people ‘fast enough to meet demand’, and large organisations raised concerns about recruitment challenges limiting their ability to maximise market opportunities.

Jan-Dec recruitment experiences (average % respondents)

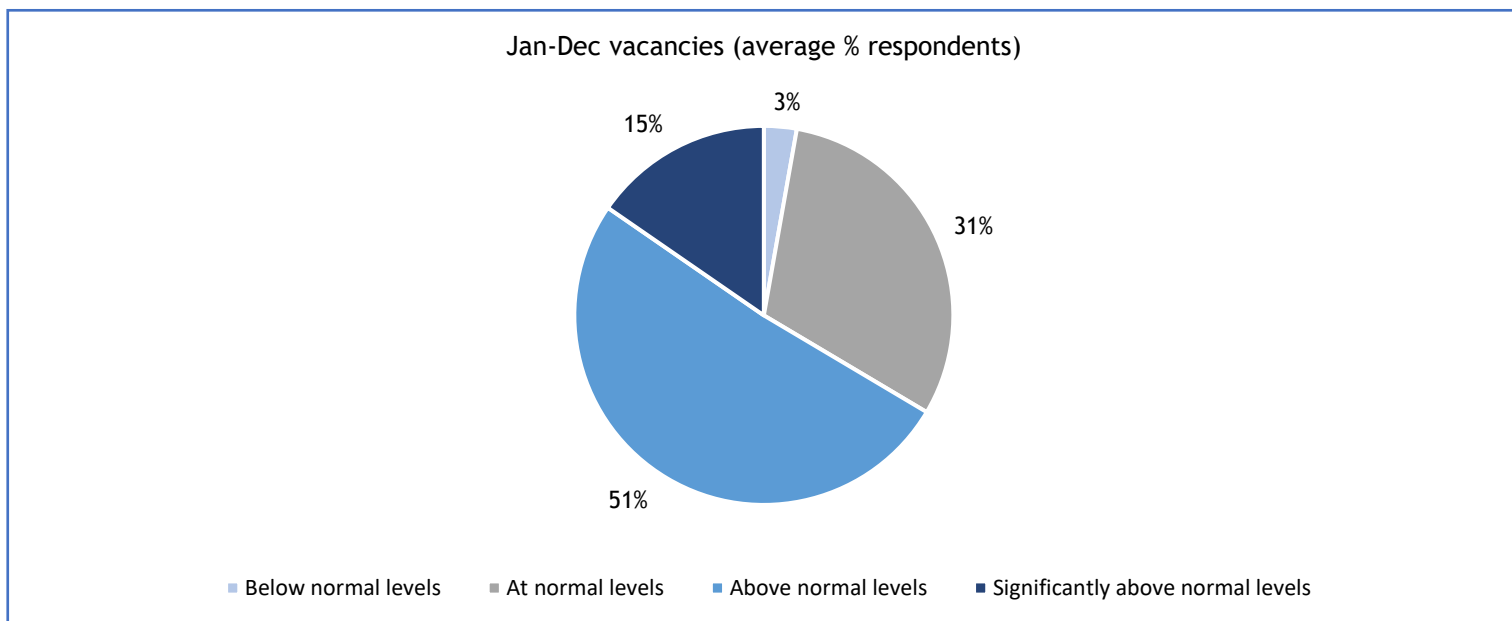


(Figure 7: Pie chart showing an average description of respondents' recruitment experiences)



Vacancies

- Throughout 2022, the majority of respondents reported vacancies above normal levels. This changed over time: around 75% of respondents reported above-average vacancies between January and August, but this fell to just over half of respondents from September to December.
- Vacancies impacted the business operations of all respondents until September 2022. Since then, 2-3 respondents each month report no impact from vacancies. The proportion of respondents reporting large impacts from vacancies has fallen from 25% of respondents January to May, to an average of 11% since.
- From discussions with members this may be attributed either to organisations adapting their operations in light of labour shortages or a change in recruitment policy in the context of wider economic uncertainty.
- SME respondents described impacts on existing staff navigating increased demands, and on contract delivery. Larger organisations also noted that SMEs in their supply chains were particularly affected by high vacancy rates and the challenges associated with this.



(Figure 8: Pie chart showing an average description of respondents' vacancy levels)



Section Four: Changing cost of goods and services

Key points

- The changing cost of goods and services was identified every month as a top issue affecting respondents' organisations, particularly inflation.
- The majority of respondents every month reported both experiencing increases in the costs of goods and services as well as anticipating further increases in the subsequent months.
- Business operations of the majority of respondents were impacted by changing costs.
- Cost changes have been most often reported for base and building materials, IT hardware, and insurance.
- All respondents reported increases in energy prices in the last three quarters of 2022. However, the *impacts* of energy prices on operations fell throughout the year, perhaps reflecting government-led initiatives and business resilience operations.

Respondent-identified issues impacting organisations

	0-24% respondents affected			25-49% respondents affected			50-74% respondents affected			75-100% respondents affected		
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Changing cost of goods and services	5/12	5/9	2/8	2/5	3/8	7/12	5/9	2/4	16/28	16/18	11/18	9/13
Business rates	0/12	1/9	0/8	0/5	0/8	0/12	0/9	0/4	2/28	1/21	0/18	0/13
Taxation	0/12	1/9	0/8	0/5	0/8	0/12	0/0	0/4	0/28	1/18	0/18	0/13
Energy prices	1/12	3/9	4/8	2/5	3/8	4/12	4/9	2/4	9/28	11/21	9/18	8/13
Inflation	1/12	1/9	2/8	2/5	4/8	7/12	7/9	3/4	12/28	11/21	7/18	8/13

(Figure 9: Table showing a breakdown of the issues identified relating to changing cost of goods and services)

Particular goods and services

The following products were identified as particularly changing in cost **over three or more months**:

- Building materials (5/12 months)
- Food products (4/12 months)
- Insurance (5/12 months)
- IT hardware (5/12 months)
- Steel (5/12 months)

Energy

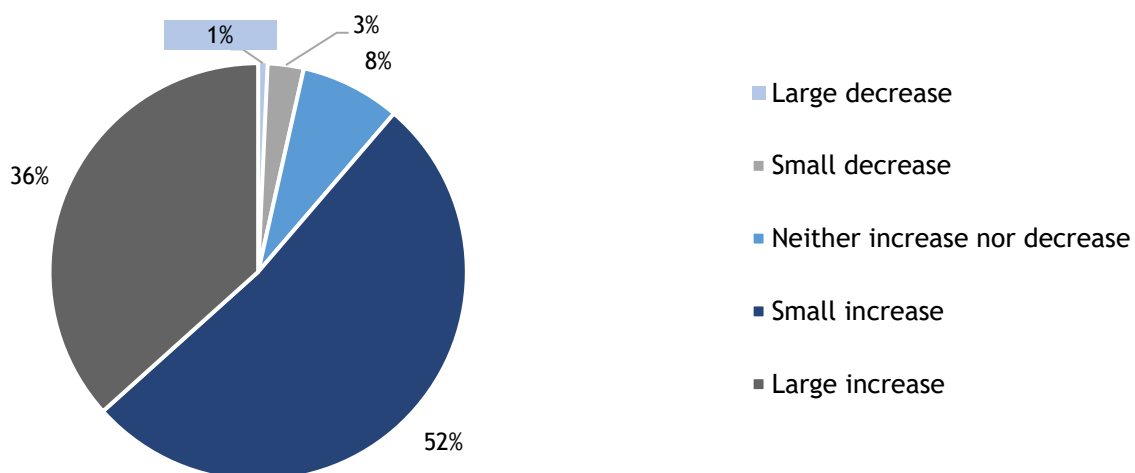
- Energy prices were added to the Tracker in February 2022 as an issue for members to identify. The extent of increases in energy and fuel were introduced as questions in April.
- 100% of respondents reported increases in energy prices to at least a small extent from April to December.
- From April to July, 100% of respondents reported operations being affected to at least a small extent by energy prices. Since September, however, an average three respondents each month report no impact. The proportion of respondents impacted to a large extent fell from around a quarter from April to July, to less than a fifth from September to December.
- When asked to identify policy interventions that have mitigated the impacts of energy prices, SMEs identified the energy price cap in September, and large organisations identified the Energy Bills Relief Scheme.



Changing costs of goods and services

- The great majority of respondents (87% on average) identified increases in the cost of goods and services in the previous three months, including 100% of respondents in March, June, July and August.
- The number of respondents seeing a large increase in the cost of goods and services remained proportionate across 2022. Only five respondents identified decreases in the cost of goods and services, all in the last two quarters of the year. A small number of respondents (between one and three) reported seeing neither increases nor decreases in costs each month.
- On average, 90% of respondents each month expected costs to increase to at least a small extent in the coming three months, including 100% of respondents each month between March and September. The majority of respondents in December (10/13) expect costs to increase in the first three months of 2023.
- No respondent reported expecting costs to decrease at all over the coming three months until October, where four respondents did so. This fell to one respondent in November, and none in December.
- In eight out of 12 months, 100% of respondents were impacted to at least a small extent.
- 100% of respondents across size and industry expected changing costs to impact business operations to at least a small extent in 2023. The proportion of respondents expecting to be impacted to a small extent has fallen, while the proportion expecting to be impacted to some extent has risen. The proportion expecting to be impacted to a large extent remained consistent.
- Respondents often identified this impact 'across the board' or 'across every area' of their business. Impacts of changing costs have been described by firms of all sizes across all sectors in terms of reduced business confidence, squeezed tariffs, and constrained client budgets.
- In September and October, respondents across sizes and sectors expressed concerns about interest rates, pensions, mortgage and debt markets, Sterling devaluation, and property prices.

To what extent have you seen the cost of goods and services change over the previous three months (average % respondents)?



(Figure 10: Pie chart showing an average description of respondents' recruitment experiences)



Section Five: Supply chain disruption

Key points:

- Supply chain disruption has been raised by a consistent proportion of respondents.
- Sourcing goods and services was reported as neither easy nor difficult by the majority of respondents each month.
- The situation in Ukraine, Russia and other affected countries affected respondents' supply chains. The most commonly reported related product issues included IT equipment, wheat, oil, and building materials.
- Cybersecurity has been raised by a consistent proportion of respondents each month.
- The majority of respondents report issues reflected in contract terms to some extent.

Respondent-identified issues impacting organisations

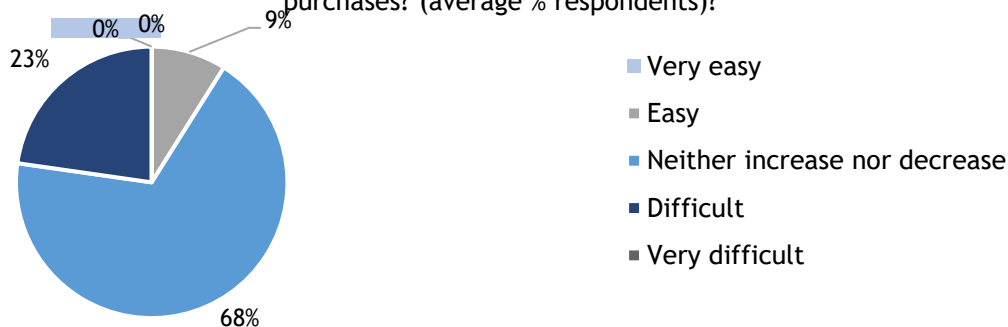
	0-24% respondents affected			25-49% respondents affected			50-74% respondents affected			75-100% respondents affected		
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Supply chain disruption	5/12	1/9	2/8	3/5	4/8	4/12	5/9	3/4	7/28	9/21	11/18	5/13
The situation in Ukraine, Russia or other affected countries	NA	NA	2/8	3/5	4/8	5/12	3/9	0/4	5/28	5/21	6/18	3/13

(Figure 11: Table showing a breakdown of the issues identified relating to changing cost of goods and services)

Sourcing goods and services:

- The large majority of respondents reported sourcing of goods and services being neither easy nor difficult each month in 2022.
- However, the proportion of respondents describing sourcing goods and services as difficult increased from approximately 20% of respondents between January and July to around 33% between August and December.
- No respondents ever reported finding sourcing goods and services either very easy or very difficult. The number of respondents finding sourcing easy has stayed around 0-3 each month. Respondents described challenges with extended lead times and availability of materials and equipment. To mitigate the impact, some organisations reported supply agreements and the forward-buying and/or stockpiling of components.

To what extent are you finding it difficult to source the goods and services the business purchases? (average % respondents?)



(Figure 12: Pie chart showing average description of respondents' supply chain experiences)



Impact of the war in Ukraine:

- The war in Ukraine was added to the Tracker in March.
- The proportion of respondents having to alter their supply chains to at least a small extent in order to mitigate issues related to the situation in Ukraine grew from 45% on average between March and April, to 70% between April and December.
- The most commonly reported product issues related to the situation in Ukraine included reduced availability and/or quality of IT equipment and components, fish, wheat, rapeseed and sunflower oil, and building materials including steel and timber.

Regulatory challenges and EU exit

- Regulatory issues were reported by 1-4 respondents in the first and last quarters of 2022 but were unreported between May and August.
- Three respondents raised challenges relating to EU Exit in 2022. This included references to 'red-tape', potential implications for foreign investment, and the prospect of funding 'cliff-edges' as EU programmes draw to a close.
- This area has since been added to the January 2023 edition of the Tracker and we will continue to monitor impacts as they develop.

Cybersecurity

- Cybersecurity was added as an issue for organisations to select in March after being raised independently by a medium-sized organisation in January and February.
- Cybersecurity has been raised by between 2-6 respondents every month since March.

Public Sector Industrial action

- Industrial action in the context of the public sector was added as an issue for organisations to select in August
- It was reported as an issue affecting organisations by 1-2 respondents from August to October. This rose in November (3/18) and again in December (5/13).
- The impacts on BSA members are varied. SMEs in the construction and infrastructure sectors reported reduced abilities to directly support regional project sites, while professional services SMEs relayed reduced business confidence and reduced downstream efficiency of clients. Organisations of varying sizes and sectors pointed to supply chain delays and limitations on business travel to in-person events and meetings. The most widely reported impact across all sectors and sizes was reduced office presenteeism; this was most concerning to members operating in the facilities management sector.

Contract terms

- The majority of respondents reported that the issues affecting them have been reflected to at least some extent in typical contract terms.
- Respondents of all sizes and sectors often discussed inflationary pressures relating to contracts without indexation clauses, and perceived a lack of flexibility.
- Issues reflected in typical contract terms have been mitigated by medium-sized firms through fixed-price and/or future contracts not subject to cost inflation.
- Large and medium-sized organisations across government services, and construction and infrastructure services, reported challenges with accessing clear pipelines of investment in capital projects and foresight of public sector spending. They often attributed this perceived lack of forward-planning and visibility to delays in commissioning, procurement, and service delivery.



Annex 1: List of BSA Members, February 2023

3C3 Ltd
AECOM
Alvarez and Marsal
Amey Plc
Aramark
Atkins
Atlas FM
Atos
AutogenAI
Baachu
Balfour Beatty Plc
Barclays Corporate
Bellrock
Bevan Brittan LLP
Bouygues E&S UK
Browne Jacobson LLP
BT Group Plc
Business 2 Business
Capita Plc
Catch 22
CGI
CH & Co Group
City FM
Clyde & Co LLP
CMS Cameron McKenna Nabarro Olswang LLP
Compass Group Plc
Connections Consulting
Corndel Ltd
Costain
Deloitte
DWF LLP
DXC Technology
Elior UK Ltd
Eric Wright FM
Fujitsu UK
G3 Systems Ltd
G4S Plc
Glaston Consulting
GoodPeople
Grant Thornton
Hinduja Global Solutions
HP
IBM
Ingeus
ISS UK Ltd
Jobs22
Kier Group Plc
KPMG
Lumby CMS
Mace
Maple Strategy
Maximus UK Ltd
Mazars
Medallia
Mitie
MTC
NatWest
NCG
Netcompany UK Ltd
OCS Group UK Ltd
P3
Pinsent Masons LLP
Reed in Partnership
Robertson FM
Salisbury Group
Seetec Group Ltd
Serco Group Plc
Sharpe Pritchard LLP
Sodexo Ltd
Sopra Steria Ltd
Space Solutions
Spend Network
Strictly Education
The Grichan Whitestone
Partnership
The Growth Company
The Network Group
The Palladium Group
The Shaw Trust
The Sustainability Group
Turley
Twin UK
Veolia
Vercity
VINCI Facilities
VPS Group
Wand Consulting
Wates Group
Willmott Dixon
WSP