Before You Hire

Workforce Health Index

FULL REPORT SME workforce insight, Thames Valley lens

WORKFORCE HEALTH INDEX - Q3 2026

Independent workforce insight for UK SMEs before another role or salary is committed

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Executive Summary

The defining workforce issue

The UK labour market has entered the third quarter of 2026 in a more balanced position, but SME workforce decisions remain constrained by cost, confidence and the need for increasingly specific capability.

The latest Office for National Statistics data show an employment rate of **75.1%**, unemployment of **4.9%** and economic inactivity of **20.9%** in March to May 2026. UK vacancies were estimated at **712,000** in April to June, down 0.9% on the previous quarter. Regular earnings growth was **3.4%**, with private-sector regular pay growth at **2.9%**.

Those figures suggest a labour market with greater available supply and less overall vacancy pressure than businesses experienced during the post-pandemic hiring squeeze.

Early Q3 evidence also points to some stabilisation. The KPMG and REC UK Report on Jobs found that permanent staff appointments stabilised in July following a prolonged period of decline. Temporary billings increased again and temporary vacancies also strengthened. Permanent vacancies, however, continued to decline.

For SMEs, the result is not a simple choice between hiring and not hiring.

There may be more people available, but businesses continue to report difficulty finding the right skills and experience. At the same time, employment costs remain under scrutiny. The British Chambers of Commerce found that only **23% of firms expected to increase workforce size**, while **66% expected staffing levels to remain unchanged**. Among businesses attempting to recruit, **73% reported difficulties**.

The Bank of England's July Decision Maker Panel reinforces that picture. Businesses reported annual employment growth of **-0.4%** and expected employment growth of **-0.1%** over the following year. Wage growth was **4.0%**, with businesses expecting it to moderate to **3.4%** over the next 12 months.

The defining workforce issue for Q3 is therefore **selectivity**.

SMEs are operating in a market where adding permanent headcount needs a clearer commercial case, but where delaying a workforce decision can also leave an unresolved requirement sitting elsewhere in the organisation.

The question before hiring is no longer simply whether somebody can be found.

It is whether another employee is the right response to the problem the business needs to solve.

The Quarter in One View

Workforce indicator	Latest evidence	Direction
UK employment rate	75.1%	Broadly stable
UK unemployment rate	4.9%	Higher year on year
UK vacancies	712,000	Down 0.9% quarter on quarter
Regular earnings growth	3.4%	Moderating
Private-sector regular pay growth	2.9%	Moderating
Firms expecting workforce growth	23%	Restrained
Firms maintaining workforce size	66%	Dominant intention
Recruitment difficulty among firms hiring	73%	Persistently high
Permanent placements	Stabilised in July	Improving
Temporary hiring	Growing	Strengthening
DMP year-ahead employment expectation	-0.1%	Subdued

Overall signal: labour supply is improving, hiring demand remains restrained and employers continue to face a mismatch between available labour and required capability.

Workforce Health Summary

Dimension	Q3 2026 assessment
Overall Workforce Health	**Watch**
Clarity	**Watch**
Control	**Watch**
Capability	**Watch**
Hiring Decision Signal	**Mixed**
Primary Workforce Risks	Cost-constrained workforce decisions; specialist capability gaps; workload and responsibility remaining unresolved when headcount is held
Evidence Confidence	**Moderate**

The current environment does not support a general conclusion that SMEs should increase or reduce headcount.

It supports a more disciplined conclusion: **the reason for the workforce pressure needs to be understood before the response is chosen.**

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1. UK Workforce Context

Employment and unemployment

The UK employment rate was estimated at **75.1%** in March to May 2026. The unemployment rate was **4.9%**, up 0.2 percentage points over the year but down 0.1 percentage points on the previous quarter. Economic inactivity stood at **20.9%**.

Payroll employment provides a similar picture of a relatively soft market. Payrolled employee numbers were down **85,000 year on year** in May, while the early June estimate showed a reduction of **71,000** compared with June 2025. ONS advises that the June figure is provisional.

For SMEs, this means the labour market is no longer defined primarily by an overall shortage of available workers.

But greater availability does not automatically solve recruitment difficulty.

A larger pool of candidates can coexist with a shortage of the specific technical skills, experience, commercial judgement or management capability required by an individual business.

Vacancies

UK vacancies were estimated at **712,000 in April to June 2026**, a fall of 7,000 compared with January to March.

Lower vacancies reduce some of the competitive pressure businesses experienced in previous years, but vacancy numbers alone cannot tell SME leaders whether their own organisation requires additional capacity.

A vacancy is an external market signal.

A workforce requirement is an internal business decision.

The two should not be confused.

Pay

Regular earnings grew by **3.4%** in March to May, with total earnings increasing by **4.3%**. Private-sector regular earnings growth was lower at **2.9%**.

The Bank of England Decision Maker Panel provides a more forward-looking employer view. Firms reported annual wage growth of **4.0%** in the three months to July and expected wage growth of **3.4%** over the following year.

Moderating pay pressure can make workforce budgeting more predictable.

It does not remove the need to establish the value of the work before establishing the market price of the person.

For an SME considering another salary, the sequence matters:

First: what outcome is required?

Then: what capability is needed to deliver it?

Then: what is the appropriate way to access that capability?

Only then: what should it cost?

Headcount intentions

The clearest signal from employers is restraint.

The British Chambers of Commerce reported that **23% of businesses expected to increase workforce size**, **66% expected no change** and **11% expected to reduce staffing**.

The Bank of England Decision Maker Panel recorded annual employment growth of **-0.4%** in the three months to July. Businesses expected employment to decline by a further **0.1%** over the following year.

CIPD's Spring 2026 Labour Market Outlook also found that **58% of employers identified cost management as their leading organisational priority**, ahead of productivity improvement and market-share growth.

The implication for SMEs is significant.

Headcount is being scrutinised more heavily. A proposed role therefore needs to compete for investment against technology, process improvement, employee development, outsourced expertise and other commercial priorities.

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2. Business Confidence, Growth and Workforce Cost

The wider economy is growing, but that growth has not translated into broad workforce expansion.

ONS estimated that real GDP increased by **0.4% in Q2 2026**, following growth of 0.6% in Q1. Services grew by 0.5%, construction by 0.3%, while production showed no quarterly growth.

Business investment intentions remain considerably weaker.

The British Chambers of Commerce reported that only **17% of firms planned to increase investment**, the lowest proportion since the pandemic. Only **44% expected turnover to increase** during the following 12 months, down from 49% in Q1.

This combination creates an important distinction for workforce planning.

Economic growth does not automatically mean headcount growth.

Businesses can grow through:

- higher productivity
- technology
- improved processes
- greater utilisation of existing capability
- external expertise
- increased hours or workload
- additional employees

The workforce question is which of those mechanisms is sustainable for the individual organisation.

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3. What Is Happening Inside SMEs

Holding headcount does not remove the work

When an SME decides not to recruit, one of several things happens to the underlying requirement.

The work may be removed.

It may be automated.

It may be simplified.

It may be outsourced.

It may be reassigned.

Or it may simply remain with existing employees.

That final outcome deserves particular attention.

A decision not to hire can reduce cost while simultaneously increasing dependence on a founder, manager or specialist employee.

The important question is therefore not:

“Have we avoided another salary?”

It is:

“What happened to the work we thought required another person?”

If the requirement has genuinely disappeared, a hire may have been unnecessary.

If it has simply moved elsewhere, the organisation may still have a workforce problem, just without a vacancy attached to it.

Workload redistribution

Workload naturally moves as SMEs grow.

Problems begin when responsibility moves without the role, authority or priorities around it changing.

Typical warning signs include:

- senior people absorbing increasingly operational work
- important responsibilities becoming an informal addition to someone’s existing role
- several people believing they own the same outcome
- work being delayed because nobody has clear authority to decide

- specialist knowledge becoming concentrated with one individual
- managers becoming the default destination for work that has no obvious owner

These are not automatically reasons to hire.

They are reasons to understand the operating structure before deciding what intervention is needed.

Management capacity

For smaller businesses, management capacity is particularly important because senior roles often combine leadership, specialist expertise and day-to-day delivery.

As the organisation grows, those responsibilities can become difficult to sustain within the same role.

Adding another employee below an overloaded manager can sometimes help.

In other cases, it increases the manager's workload through supervision, decision-making and coordination.

Before hiring into a stretched team, SMEs should establish whether the bottleneck is **delivery capacity** or **management capacity**.

They require different solutions.

Key-person dependency

A business can appear adequately resourced while remaining highly dependent on one or two people.

The test is not simply whether those people are busy.

It is what happens when they are unavailable.

Where key knowledge, customer relationships, approvals, technical expertise or commercial decisions depend on one individual, the organisation has a capability concentration risk.

That may justify:

- knowledge transfer
- succession development
- better documentation
- delegation of authority
- external backup
- an additional specialist
- a redesigned team structure

Recruitment is one option within that response, not the diagnosis itself.

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4. Clarity, Control and Capability

Clarity

Q3 assessment: Watch

In a selective hiring market, clarity matters more because every permanent hire carries a greater investment threshold.

Before approving another role, an SME should be able to define:

- the problem being solved
- the outcome expected
- what the role will own
- what it will not own
- where decision authority sits
- how success will be measured
- why the requirement cannot be resolved within the existing structure

A vacancy that cannot answer those questions is not yet a well-defined workforce decision.

Clarity does not mean writing a longer job description.

It means understanding the business requirement before designing the role.

Control

Q3 assessment: Watch

Current evidence shows strong employer focus on cost control.

Workforce control is broader.

It requires visibility over:

- where work sits
- how responsibilities are allocated
- where capacity exists
- where it does not
- which decisions are delayed
- which individuals carry disproportionate dependency
- what workforce costs are committed

- what additional investment is intended to achieve

A business can have tight payroll control while having limited control over workload, accountability or capability.

The objective is not simply to control headcount.

It is to control how workforce capacity is deployed.

Capability

Q3 assessment: Watch

Candidate availability continued to increase during July, but recruiters still reported difficulty finding people with suitable skills and experience.

That distinction is important.

Availability is not capability.

The nature of capability is also changing.

Adzuna reported that **2.3% of all UK job adverts mentioned AI in April 2026**, almost double the proportion 15 months earlier. By June, more than **21,000 UK job adverts** mentioned AI, equivalent to 2.62% of advertisements.

For SMEs, this does not mean every role needs an AI requirement.

It means technology is changing the composition of work across functions, and some capability gaps may be better solved by changing how the work is performed rather than simply increasing the number of people performing it.

Headcount does not equal capability.

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5. Function-Level Analysis

Technology

Technology continues to experience some of the fastest changes in role requirements.

AI capability is increasingly appearing within advertised technology roles, while businesses are simultaneously evaluating where automation can remove or reshape existing work.

What SMEs should examine

Before adding technology headcount, separate:

- additional delivery volume
- specialist technical expertise
- systems ownership
- technology leadership
- implementation capacity
- support and maintenance
- temporary project demand

An organisation that needs architecture or technology ownership may not solve the problem by adding another developer.

Equally, a sustained delivery requirement may justify permanent capacity where external support would create unnecessary cost or dependency.

The role should be designed around the constraint.

Finance

Cost management remains a dominant employer priority, increasing the importance of finance capability inside smaller businesses.

But “Finance needs more support” can describe several very different requirements.

These include:

- transaction processing
- month-end capacity
- reporting
- systems improvement
- forecasting
- cash management
- margin analysis
- commercial decision support
- financial leadership

What SMEs should examine

Where senior finance capability is being consumed by transactional activity, the answer may be process redesign, automation or lower-level capacity.

Where the business has sufficient transactional support but lacks forecasting or commercial insight, another administrator will not solve the capability gap.

Define the missing finance outcome before defining the finance role.

HR and People

Workforce cost, changing employment requirements, management pressure and technology adoption are increasing the range of responsibilities that can fall under a People function.

For a smaller SME, those responsibilities may still be spread between managers, founders, finance and external advisers.

What SMEs should examine

Separate the requirement into:

- administration
- compliance
- employee relations
- manager support
- recruitment process
- organisational development
- workforce planning
- leadership capability

The existence of more People work does not automatically mean the organisation needs a permanent HR hire.

Equally, repeatedly placing workforce and management responsibility on founders or operational leaders can become inefficient.

The decision depends on whether the requirement is recurring, strategically important and best owned internally.

Operations

Operations pressure often appears first as workload.

The underlying cause can be much broader.

It may reflect:

- higher demand
- poor process
- fragmented systems
- duplicated activity
- unclear ownership
- weak planning
- management span
- insufficient specialist knowledge

Early Q3 recruitment evidence shows employers making greater use of flexible labour. Temporary vacancies increased in July, while temporary billings continued to grow.

What SMEs should examine

Where operational demand is temporary or variable, flexible support may offer a better response than permanent headcount.

Where the requirement is persistent and critical to the operating model, permanent internal capability may be more appropriate.

The distinction should be made before the role is advertised.

Sales and Commercial

A request for additional sales headcount should begin with the commercial system rather than the salesperson.

Revenue pressure can result from:

- insufficient selling capacity
- insufficient lead volume
- weak conversion
- unclear positioning
- unsuitable proposition
- limited account development
- poor sales management
- inadequate data or systems

What SMEs should examine

Identify where revenue is being constrained.

If existing salespeople have more qualified opportunities than they can manage effectively, additional capacity may be justified.

If the constraint is lead generation, positioning, pricing or conversion, increasing sales headcount may add cost without addressing the underlying problem.

Hire against the commercial bottleneck, not the revenue target alone.

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6. Technology, AI and Workforce Design

AI adoption is becoming a workforce-design issue rather than simply a technology issue.

British Chambers of Commerce research published earlier in 2026 found that **54% of surveyed firms were actively using AI**, up from 35% in 2025. Around 94% of businesses in the research were SMEs.

The same study found that **95% of SMEs using AI reported no impact on workforce size over the previous year**, while **86% said job roles had remained unchanged**.

This is an important signal.

For most SMEs, AI is currently changing how work is performed faster than it is changing how many people are employed.

That means the immediate workforce opportunity may be less about replacing roles and more about determining:

- which tasks can be removed
- which activities can be accelerated
- where employee capacity can be redirected
- which new skills are required
- whether roles need redesign before additional people are added

A hiring decision made without considering how technology is changing the work risks designing a role around yesterday's workload.

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7. Thames Valley Perspective

The Thames Valley sits within one of the UK's strongest employment regions.

The most current reliable comparator is the South East.

In March to May 2026, the South East recorded an employment rate of **78.2%**, the highest of any UK region. Unemployment was **4.0%** and economic inactivity **18.5%**, the lowest inactivity rate in the UK.

For Thames Valley SMEs, this creates a different context from the national headline.

National candidate availability is improving, but a high-employment regional economy can still create competition for experienced specialist and management capability.

The South of England also continued to record a decline in permanent placements during July, even as London and the Midlands returned to growth.

This suggests that Thames Valley businesses should avoid assuming that improved national labour supply automatically creates easy access to every skill locally.

The practical workforce question remains role-specific.

Where capability is scarce, employers may need to consider:

- developing existing employees
- widening location parameters
- changing working arrangements
- redesigning seniority
- accessing specialist external capability
- recruiting permanently where the requirement is sustained

Regional salary benchmarks should be considered alongside role scope, capability requirements and working model rather than used as the starting point for role design.

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8. Workforce Decision Framework

The Q3 Hiring Decision Signal is **Mixed**.

There is no evidence-based case for a single workforce response across UK SMEs.

The right intervention depends on the cause of the requirement.

Hire

Hiring is more likely to be appropriate where:

- workload is sustained
- the business requirement is clear
- there is a genuine capacity gap
- the capability is needed continuously
- ownership belongs inside the organisation
- responsibilities and authority are defined
- the commercial value supports permanent employment cost

Redesign

Redesign before hiring where:

- the role combines unrelated responsibilities
- expectations exceed the level or salary
- responsibility and authority do not match

- several existing roles overlap
- the proposed position has been built around a previous employee rather than the future requirement

Reassign

Reassign work where:

- the right capability already exists internally
- responsibility has drifted to the wrong role
- senior people are performing work that should sit elsewhere
- multiple people own the same outcome
- clearer accountability would resolve the pressure

Develop

Develop existing capability where:

- an employee already has the foundation required
- the gap can be closed realistically
- the need is likely to persist
- progression would improve retention or succession
- broader organisational capability would improve as a result

The BCC found that only **20% of firms increased training investment during Q2**, while 60% left it unchanged and 20% reduced it.

In a market where recruitment difficulty persists, internal development should form part of the workforce decision rather than being considered only after recruitment fails.

Supplement

External, interim, fractional or temporary capability may be appropriate where:

- demand is time-limited
- specialist knowledge is required intermittently
- the requirement needs testing
- the organisation needs immediate support
- a full-time role would create excess capacity
- the longer-term structure is still developing

The current rise in temporary hiring indicates that more UK employers are already using workforce flexibility as part of their response.

Pause

Pause the hiring decision where:

- the problem cannot yet be clearly defined
- the proposed role has conflicting objectives
- ownership is unresolved
- technology or process changes may remove part of the requirement
- the commercial case does not support the commitment
- another employee would absorb pressure without resolving its cause

Pausing should create the space to make a better decision.

It should not mean allowing the requirement to drift indefinitely.

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9. Questions to Answer Before Hiring

Before committing to another role or salary, SME leaders should be able to answer:

1. **What has changed in the business that has created this requirement?**
2. **What specific outcome are we unable to deliver today?**
3. **Is the constraint capacity, capability, ownership or process?**
4. **Where is the work currently being done?**
5. **What would stop, slow down or become exposed if we did nothing?**
6. **Does this work need permanent internal ownership?**
7. **Could it be reassigned, automated, redesigned or supported externally?**
8. **Does somebody internally have the potential to develop into the requirement?**
9. **What decisions will the role own?**
10. **How will we know within 6 to 12 months that the workforce decision was correct?**

The purpose of these questions is not to make hiring harder.

It is to make the decision clearer.

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10. Forward Look

Q3 is still in progress.

The evidence available by 13 August points to five signals worth monitoring during the remainder of the quarter.

Permanent hiring

July brought the first stabilisation in permanent placements after a prolonged period of decline.

The next question is whether this becomes a sustained improvement or whether permanent demand remains subdued.

Flexible workforce demand

Temporary billings and vacancies strengthened in July.

If this continues, it would reinforce a wider shift towards employers accessing capability without immediately increasing permanent fixed workforce cost.

Employment intentions

Bank of England survey respondents continue to expect a small reduction in employment over the next year.

A sustained improvement would provide an important signal that business confidence is beginning to translate into workforce investment.

Wage pressure

Businesses expect wage growth to moderate to 3.4% over the next year.

Actual wage outcomes and starting-salary trends will help indicate whether increased labour supply is translating into more predictable workforce costs.

AI and role redesign

AI adoption is moving deeper into mainstream business activity while most SMEs report limited headcount impact so far.

The more immediate workforce question for the remainder of 2026 is likely to be how roles change as AI becomes embedded in everyday work.

11. Recommendations for SME Leaders This Quarter

Make the workforce requirement visible

Before discussing a vacancy, document the work, outcome, current owner and reason for pressure.

A job title should come later.

Test capacity before assuming headcount

Identify whether the problem is genuinely too much work or whether existing capacity is being lost through unclear priorities, duplicated activity, manual process or poor systems.

Separate capability from capacity

If the business needs expertise it does not currently possess, adding general capacity may not help.

Define the capability gap precisely.

Review where work has drifted

Look for responsibilities that have accumulated with founders, senior managers or key specialists without an explicit decision.

Workload redistribution can hide a workforce requirement rather than resolve it.

Include development in every workforce decision

Recruitment should not be the first time the organisation considers whether somebody internally could step into greater responsibility.

Development can solve capability requirements while strengthening succession and retention.

Match commitment to duration

Permanent roles are appropriate for persistent requirements.

Temporary, fractional or external support can be more appropriate for temporary, uncertain or specialist needs.

Design the role before entering the market

Once the business understands the problem, outcome, ownership and capability requirement, the external market can help determine availability and price.

Market data should inform the workforce decision.

It should not create it.

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12. Before You Hire Perspective

The labour market is becoming more favourable to employers in some respects.

Candidate availability is higher.

Vacancy pressure has reduced.

Pay growth is moderating.

But those conditions do not make workforce decisions simpler.

They make poor workforce decisions easier to execute.

When candidate supply was exceptionally tight, a weakly designed role often struggled to reach appointment.

In a market with greater availability, that same business may be able to fill the vacancy without solving the underlying problem.

That is why the decision before recruitment matters.

A business experiencing pressure may genuinely need another employee.

It may instead need a different role.

It may need specialist capability.

It may need to develop somebody already in the organisation.

It may need to move work.

It may need external support.

Or it may need to stop and redesign the requirement.

The objective is not fewer hires.

It is **better workforce decisions**.

Before You Hire exists to help SME leaders establish the **clarity, control and capability** needed before committing to another role or salary.

We are an independent pre-hire decision adviser.

We do not provide candidates and we have no financial incentive to recommend recruitment.

Hire into clarity, not into confusion.

Sources and Methodology

Reporting period

This edition covers **Q3 2026 to date: 1 July to 13 August 2026**.

It is an in-quarter publication. Statistics describe the latest reporting periods available at the evidence cut-off and are dated accordingly.

No September outcome has been treated as observed Q3 evidence.

Office for National Statistics

Labour Market Overview, UK: July 2026

Used for employment, unemployment, economic inactivity, payroll, vacancies and earnings data.

The principal Labour Force Survey measures cover March to May 2026. Vacancy estimates cover April to June 2026. ONS advises caution when interpreting short-term Labour Force Survey movements.

Labour Market in the Regions of the UK: July 2026

Used for the South East regional labour-market comparison.

GDP First Quarterly Estimate, UK: April to June 2026

Used for the latest UK growth context.

Bank of England Decision Maker Panel

July 2026 Decision Maker Panel

Survey conducted in July 2026.

Used for employer-reported wage growth, wage expectations and employment growth expectations.

British Chambers of Commerce

Quarterly Recruitment Outlook, Q2 2026

More than 4,700 UK businesses responded, 92% of which were SMEs.

Used for headcount intentions, recruitment difficulty and training investment.

Quarterly Economic Survey, Q2 2026

Used for business confidence and investment-intention evidence.

CIPD

Labour Market Outlook, Spring 2026

Survey of more than 2,000 UK employers.

Used for employer priorities, hiring confidence and workforce-cost context.

KPMG and REC / S&P Global

UK Report on Jobs, August 2026

Data collected during July 2026 from a panel of around 400 UK recruitment and employment consultancies.

Used as a July market signal for permanent placements, temporary hiring, vacancies, candidate availability and starting-pay trends.

It is not treated as direct measurement of SME workforce behaviour.

Adzuna

Advertised job-market evidence is used selectively as a demand and capability signal.

Job adverts are not treated as unique vacancies and advertised requirements are not treated as proof of capability within the existing workforce.

Assessment Methodology

The Workforce Health Index assesses SME workforce conditions through three Before You Hire dimensions:

Clarity: whether the problem, outcome, role purpose, ownership and authority are sufficiently defined.

Control: whether workload, accountability, cost and decision-making are visible and appropriately governed.

Capability: whether the organisation has sufficient capacity, skills, management depth and resilience to deliver the required outcomes.

The Index does not assume hiring is either necessary or wrong.

Its Hiring Decision Signal considers six possible responses:

Hire | Redesign | Reassign | Develop | Supplement | Pause

Based on the Workforce Health Index methodology developed by Before You Hire, evidence is distinguished from interpretation and unsupported numerical precision is not used.

Evidence Limitations

National data does not provide a complete view of how workload, ownership and capability are distributed inside individual SMEs.

National statistics should therefore be used as context for workforce decisions rather than as a substitute for organisation-level diagnosis.

Regional evidence below South East level is also more limited within the current reporting window. The Thames Valley section therefore uses South East evidence where it provides a credible regional comparator and does not manufacture role-level salary or vacancy figures.

Advertised salary data, where used in future editions, should be treated as an advertised market signal rather than actual employee pay.

BEFORE YOU HIRE

Independent workforce clarity, control and capability before recruitment begins.

Workforce Health Index | Q3 2026 | Evidence cut-off 13 August 2026