Consultation Response: Make Work Pay: Modernising the Agency Work Regulatory Framework

Executive Summary

A well-regulated employment and recruitment sector is at the heart of UK prosperity. In 2025, the sector contributed £40.6 billion to the UK economy, accounting for 1.6% of total Gross Value Added in the economy. But the industry's second-order effects run much deeper, into the productivity and competitiveness of the British economy. On any given day, around one million people are temporary or contract assignments, supporting essential industries across the economy.

Agency work is not just short-term labour cover or predictable peaks and troughs. It is about client firms deploying agency suppliers to perform key roles in which they have greater specialist expertise as well as meeting needs that are novel and unpredictable. Agency work provision is most akin to other professional services, and it allows agencies to manage demand across multiple clients, ensuring a more stable employment experience for workers and to ensure workers get the pattern of hours they need. In its most fundamental sense, agency work is the most pro-worker and pro-business way of managing variable demand in businesses, and, thanks to an established regulatory framework, it does so to high standards. The risk of poor agency regulation is a flight to lower protections for workers, including false self-employment and casual engagement.

In modernising the agency work regulatory framework; government need to be alive to the fact that the provisions which agency workers work under are no longer solely dictated by employment businesses. More complicated supply models mean that arrangements and supply chain practices can often be dictated by other parties such as managed service providers/vendors.

Agency and contract work are therefore good for growth and good for workers and employers alike. Through this consultation and remaining Employment Rights Act (ERA) secondary legislation the Government has a chance to demonstrate its support for this vital part of the economy. It can do so by making it easier for agencies to conduct business and by ensuring that poorly designed legislation, for example on Guaranteed Hours, doesn't act as a tipping point for the decline of the flexible labour market, which would primarily be to the detriment of workers.

This consultation should be seen by the government as a critical opportunity to get the agency work framework right, giving our labour market a competitive edge for growth, improved outcomes for workers and hirers through ensuring the sector continues to drive participation across the UK economy.

The regulatory system must support compliant agencies, not penalise them. For too long, new regulation has increased costs for responsible firms while incentivising the use

of less regulated and more opaque models, including those used by some parts of the umbrella sector. Any reform must address this imbalance.

Our proposals aim to protect the benefits of temporary work, improve transparency for workers and enable compliant firms to succeed. Any change to the existing framework must be targeted and proportionate, focused on preventing genuine harm and not disrupting parts of the market that function well.

This consultation response covers the need to improve pay transparency through clearer, worker-focused information, ensure accountability sits with those who employ and pay workers, increase transparency across supply chains and protect workers from hidden costs, while retaining key compliance safeguards. It also highlights the importance of a workable approach to guaranteed hours, clearer allocation of responsibilities, and a more streamlined, coherent regulatory framework that reflects modern labour market realities.

Proposals on Guaranteed Hours have to change to protect jobs

This consultation comes at a time of significant labour market change following the Employment Rights Act 2025. There are serious and growing concerns across industry about the cumulative impact of these reforms. Indeed, recent REC survey of employers found that 30% expect day one rights to increase costs, with 27% anticipating a major increase. In response, 12% are considering reducing headcount, while 9% are looking to reduce their use of agency staff.

The nail in the coffin of a resilient and successful labour market could ultimately be badly designed proposals to guarantee hours. As currently suggested guaranteed hours proposals risk undermining genuinely temporary and seasonal work, reducing opportunities for those who choose flexible roles and weakening participation in the labour market. Changes to agency rules as per this consultation won't protect against that. Any changes to how agencies operate must be considered within the context of wider ERA changes. Complexity and unnecessary change can and should be avoided. Not getting this right will mean fewer workers not fewer workers rights.

Umbrellas must be held accountable through well targeted, properly enforced regulation

To create a well-regulated sector the Government should move quickly to improve worker protections by introducing properly targeted regulation of umbrella companies. Lines of accountability must flow clearly back to the party that is not compliant and acting in bad faith. That means addressing the fact that the current regulatory framework, based on primary legislation from 1973 and secondary legislation from 2003, did not envisage the use of umbrella companies and other intermediaries so agencies rather than umbrellas were in the line of sight on dealing with non-compliance even when they didn't do anything wrong. It is essential that reform seizes the opportunity to move away from placing further obligations on compliant employment businesses. Instead, responsibility for pay, transparency and compliance must sit clearly with the organisation that employs and pays the worker, ensuring accountability sits in the right place across the labour supply chain introduces direct regulation of umbrella companies.

But all this won't matter unless the new Fair Work Agency (FWA) has the resources and teeth it needs to deliver effective enforcement, building on existing expertise it has and not diluting the valued specialist knowledge and experience it inherits from the Employment Agency Standards Inspectorate (EASI).

It is essential that reform seizes the opportunity to move away from placing further obligations on compliant employment businesses and instead introduces direct regulation of umbrella companies.

This consultation response covers the need to improve pay transparency through clearer, worker-focused information, ensure accountability sits with those who employ and pay workers, increase transparency across supply chains and protect workers from hidden costs, while retaining key compliance safeguards. It also highlights the importance of a workable approach to guaranteed hours, clearer allocation of responsibilities, and a more streamlined, coherent regulatory framework that reflects modern labour market realities.

Government must tackle poor umbrella practice without penalising compliant agency businesses

Key Asks

- Only genuinely self-directed companies should be permitted to opt out of the Conduct Regulations; umbrella companies must not be eligible for this exemption.
- Fix pay transparency: reform the Key Information Document (KID)
- Ensure pay transparency by finding a route to accurately advertising the gross rate of pay
- Mandate disclosure of kickbacks, rebates, fees and incentives
- Allow legitimate cost recovery while protecting workers from unfair deductions
- Preserve Preferred Supplier Lists as a key compliance safeguard

There is broad agreement that the way employment businesses set out pay information when advertising vacancies and providing details about assignments is often not accurate, particularly where there is no option for direct engagement and the umbrella model is the only route available. The umbrella rate is clearly not the rate the individual worker will receive.

This largely stems from the way the Conduct Regulations currently operate, requiring information to be provided to the "work-seeker" which, in practice, is the umbrella company. As umbrellas are brought into regulation alongside employment businesses and agencies, it follows that they will no longer be treated as the work-seeker. It is problematic for the recruitment sector to be drawn into the opaque nature of pay information for umbrella company agency workers. In our view, given the technology now available, compared to when the Conduct Regulations came into force in 2003, the umbrella market must move towards a solution that provides clearer pay information at a much earlier stage in the process.

The REC has long argued that properly regulating umbrella companies is essential to a fair and effective labour market, and we welcome Government action to address this. The legislative framework must recognise the full recruitment supply chain and explicitly cover all organisations involved, including umbrella companies that employ, contract with and pay workers. These organisations must be held clearly accountable for meeting modern employment standards.

At present, exploitation and compliance breaches remain too common in parts of the umbrella market. The growing use of umbrellas has blurred lines of responsibility, creating confusion around employment status and rights. Too often, workers are engaged on unclear terms, while regulations apply to agencies rather than the umbrellas that actually employ them, leaving significant gaps in protection. For this reason, it is vital that only truly self-directed companies can opt out of the conduct regulations and that umbrella companies are not able to.

This complexity, alongside instances of tax avoidance, underlines the urgent need for a stronger, more coherent regulatory framework that protects workers while supporting a well-functioning, flexible labour market.

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Fix pay transparency: Reform the Key Information Document (KID)

Pay transparency has decreased as umbrella use has grown. The evidence demonstrates that worker confusion in some sectors and roles is structural, not incidental, and cannot be resolved through incremental change. The Key Information Document (KID) does not advertise the gross rate of pay, which leads to uncertainty for the worker, especially for those in lower paid roles. Therefore, the REC is calling for fundamental reform of the KID regime, reform of pay rate advertising under Regulation 27, and targeted enforcement against non-transparent arrangements such as rebates and inducements.

The KID, introduced in April 2020, was intended to improve pay transparency for agency workers. However, REC members overwhelmingly report that, in practice, KIDs have become difficult to explain to workers, and frequently inconsistent with other documentation provided during the engagement process.

The current KID should be replaced with a shorter, clearer, worker focused document that genuinely delivers pay transparency. Where an umbrella company is the employer, responsibility for pay information must rest with that umbrella company, ensuring workers understand how the advertised rate translates into take home pay, including all deductions.

Ensure Pay Transparency by finding a route to accurately advertising the Gross Rate of Pay

REC members support amending Regulation 27 so that advertised pay rates reflect the actual or minimum gross pay payable to the worker. By 'gross rate' of pay we mean the rate that will be paid to the worker (and not the rate that will be paid to the umbrella company). The gross rate should be the rate from which only the statutory deductions required by law can be made – so for example a statutory deduction would be the employee's income tax and the employee's national insurance but not the employer national insurance contribution as the latter is an cost for the umbrella company and not a deductions required by law. Further changes to pay opted for by the worker (such as salary sacrifice arrangements) can be permitted after the KID, as these are personal decisions by the worker.

This change would ensure that work-seekers can understand what they will get paid at the earliest stage of the recruitment process just as someone applying for a permanent position would. We do not underestimate the complexity of making this change sustainably. We recommend the Government engages with the REC and the wider market of umbrella companies and employment businesses to establish a proportionate and effective route. REC members understand that this may require them to disclose further information to umbrellas at an earlier stage.

But there is good evidence for why this change should be made. The current practice of advertising the umbrella assignment rate is no longer sustainable. In many cases, workers only discover at a late stage that the advertised rate bears little resemblance to their gross pay once employer costs, umbrella margins and statutory deductions have been applied. This

undermines trust and creates confusion, particularly given that workers are primarily concerned with what they will actually receive in pay. Our view is that this confusion – especially amongst workers who are not highly-skilled contractors – could undermine the standing of flexible work as a uniquely pro-business and pro-worker element of our labour market over time if left untouched.

A core structural flaw in the current regime is that responsibility for issuing the KID sits with the employment business, even where that employment business does not employ the worker, does not pay the worker, and does not control or determine deductions from pay. Employment businesses are therefore required to produce documents based on assumptions about umbrella company margins to be deducted from the payslip, and employment costs and benefits that they neither control nor are able to verify. This inevitably leads to inaccuracy, confusion, and reduced confidence in the information provided.

Where workers are employed by umbrella companies, those umbrella companies should instead be responsible for providing pay transparency as they information based on real information that they determine and therefore have access to.

What a Revised Key Information Document (KID) Should Include

- If the Government proceeds with a revised Key Information Document (KID) it should: include only the information set out in paragraph 70 of the consultation document; and
- where an employment business only offers assignments via umbrella companies, all references to pay should be to the applicable gross rate, from which only statutory deductions may be made by the umbrella company.

This would ensure that pay transparency obligations sit with the entity best placed to provide accurate information, while enabling employment businesses to communicate that information clearly and consistently to work-seekers.

We recognise that there is inherent complexity in modern labour supply chains. Multiple umbrella companies may operate within Preferred Supplier Lists, margins can vary, and workers may move between PAYE, umbrella and limited company engagement models. However, these are commercial and operational decisions within the supply chain. They should not be passed through to workers in a way that obscures pay clarity. Transparency at the point of advertising must remain consistent, regardless of how the supply chain is structured behind the scenes.

Mandate Disclosure of Rebates, Fees and Incentives

There is also a need to strengthen transparency across labour supply chains through a clear and enforceable requirement to disclose any fees, kickbacks, incentives or other benefits exchanged between agencies and umbrella companies that could influence engagement or pay outcomes. This will improve trust, reduce confusion and ensure that compliant firms are not undercut by poor practice.

REC acknowledges that rebates or incentives exist in parts of the labour supply market. Such client/supplier relationships are normal across the private sector in all forms of activity, for instance between food manufacturers and major supermarkets. However, there is no justification for workers bearing the cost of such arrangements, either directly or indirectly.

They must be funded entirely within the commercial supply chain and must not impact workers' gross pay, take-home pay, or pay transparency. Enforcement activity should focus squarely on practices that cause worker detriment, particularly where the costs for such 'rebates' are passed to workers in opaque or disguised ways.

Businesses should be free to negotiate commercial terms between themselves, including rates of pay and any rebates or incentives that may apply. In some circumstances, payments or incentives intended to encourage individuals to act improperly may already be unlawful where they fall within the scope of existing legislation, such as the Bribery Act. Other arrangements, including rebates, may form part of legitimate commercial trading relationships.

However, such arrangements become problematic within agency and umbrella supply chains where payments are hidden, and most critically, where they are ultimately borne by the agency worker, whether directly or indirectly, and without transparency.

Allow Legitimate Cost Recovery While Protecting Workers from Unfair Deductions

The consultation proposes placing restrictions on employment businesses that would mirror Regulation 10 of the Conduct Regulations, effectively prohibiting employment businesses from seeking payments from umbrella companies. On its face, this may appear feasible, given that the umbrella company is providing a service to the employment business.

However, we note that there are legitimate costs and compliance related expenses that employment businesses may reasonably seek to recover from umbrella companies. For example, recent amendments to the Income Tax (Earnings and Pensions) Act 2003 have introduced a new Chapter 11 creating joint and several liability for employment businesses in relation to PAYE compliance. In practice, this has led employment businesses to place umbrella companies under significantly enhanced scrutiny, audit processes and ongoing monitoring of PAYE accountability, the cost of which may legitimately be recovered within the commercial relationship.

With umbrella companies brought into scope of the Conduct Regulations, strong protections must apply on the worker side of the arrangement. Umbrella companies should be explicitly restricted from passing on additional sums to workers and prohibited from making any deductions beyond the confirmed gross rate of pay. That gross rate must be clearly established at the outset of the engagement and confirmed to both the employment business and the worker.

Regulation 13(4) of the Conduct Regulations already requires disclosure of gifts or inducements offered to work-seekers to take up the services of an employment agency or employment business. REC proposes that this provision should be expanded so that employment agencies and employment businesses are also required to disclose any fees,

rebates, incentives or other benefits they receive, or will receive, from an umbrella company in connection with a work seeker entering into arrangements with that umbrella company.

This approach preserves legitimate commercial freedom between businesses, strengthens transparency, and—critically—ensures that workers are not exposed to hidden costs or opaque pay outcomes within increasingly complex labour supply chains.

Preserve Preferred Supplier Lists as a Key Compliance Safeguard

REC supports the principle that workers should have choice over how they engage with work. In practice, engagement models are shaped by compliance considerations, client requirements, sector norms and organisational capability, not simply agency preference. Many employment businesses do not operate in-house PAYE models and rely on umbrella companies to deliver assignments. Mandating specific engagement routes or prohibiting umbrella-only models could require significant operational change and may not be feasible in all sectors, especially for smaller employment businesses.

Preferred Supply Lists (PSLs) are an essential risk management tool and should be retained. They allow agencies to work with vetted, compliant umbrella providers and reduce exposure to non-compliant operators. Preventing agencies from controlling labour supply chains would increase compliance risk and undermine worker protections.

Preserving PSLs is even more important given HMRC policy prescribing Joint and Several Liability (JSL) which determines that employment businesses are liable for any unpaid taxes even when an Umbrella is in the supply chain.

Align Guaranteed Hours with Labour Market Reality to Protect Flexibility

Key Asks

- Reconsider the current model to avoid undermining labour market flexibility
- Use a reference period of at least six months, with 12 months preferred
- Set a low hours threshold (e.g. 8 hours) to target protections effectively
- Avoid unintended consequences such as reduced hiring, fewer hours and a shift to less secure work
- Re-engage with industry to ensure a workable and proportionate framework

Strengthening and supporting the agency sector gets more people into work, tackles inactivity, drives growth and increases tax receipts for HMT. The proposed approach to guaranteed hours would undo much of that so must be reconsidered. There is deep and growing concern across sectors that the current model risks becoming a tipping point for the labour market, stripping flexibility at precisely the wrong moment. Employers are likely to respond by reducing hiring, limiting hours or moving away from flexible roles altogether, resulting in fewer opportunities and less access to work.

Across key sectors such as hospitality, retail and fast-moving consumer goods, demand fluctuates daily and seasonally. Flexible staffing is essential to productivity, cost control and business viability. For many workers, including students, carers and those with variable availability, flexibility is what enables participation in the labour market in the first place.

This risk is not theoretical. It is already beginning to emerge. REC data shows job postings in hospitality fell by five per cent between February and March 2026. At a time of elevated youth unemployment, poorly designed policy risks making access to work harder, not easier, cutting directly against wider employment objectives.

If applied inflexibly, guaranteed hours requirements will increase costs, legal risk and administrative burden. The likely outcome is clear: fewer roles created, fewer hours offered to avoid triggering thresholds, and a shift towards less secure forms of engagement or unintended incentives towards false self-employment.

Entry level roles, often the first step into work for young people, are particularly exposed. There is a real risk that the policy could end up favouring less predictable and less secure arrangements, while penalising those employers who already provide fair and responsible flexibility.

A more workable approach would reflect how the labour market actually operates. A reference period of at least six months, with 12 months providing the most accurate reflection of genuine working patterns, would better capture regularity while accounting for seasonality and project cycles. A low hours threshold of 8 hours would ensure protections are targeted appropriately and reflect the original intent of supporting the most vulnerable.

There is also a clear need for Government to re-engage with industry on implementation. Providing certainty, clear guidance and a workable framework will be essential to ensure that businesses continue to hire with confidence and that reforms achieve their intended outcomes.

Clarify Responsibilities, Protect Workers and Apply Proportionate Regulation to Support a Healthy Agency Market

Key Asks

- Clearly distinguish between employment agencies and employment businesses
- Protect the use of transfer fees to sustain a high-quality labour market
- Ensure parity of payment protections across all engagement models
- Align suitability obligations with operational roles and avoid duplication

Clearly Distinguish Between Employment Agencies and Employment Businesses

Workers and hirers should be clear on the service they can expect and the requirements they must comply with, but the REC does not believe that Regulation 8 of the conduct regulations, either in its current form or amended, is the most effective way to achieve this.

Workers and hirers need clear, upfront answers to three simple questions: who will employ the worker, who will pay them, and how the supply chain will operate to deliver that arrangement? Regulation should prioritise this clarity. Rather than focusing on restricting particular pay models, any business involved in placing workers should have to state clearly the role it is performing, the nature of the engagement with the worker, and where responsibility sits within the supply chain.

Where certain businesses with unusual models or technological solutions fall outside the existing definitions in the Employment Agencies Act 1973, the appropriate response is to legislate to bring those businesses into scope, rather than attempting to address this through Regulation 8.

Protect the Use of Transfer Fees to Sustain a High-Quality Labour Market

Agencies incur significant costs in getting candidates to market, and a reasonable expectation of return for this work. Transfer fees support a well-functioning labour market. Without them, agency work risks becoming a free route into permanent hiring, undermining the permanent recruitment market and disincentivising investment in candidate sourcing and matching. This would reduce the quality of hiring and weaken outcomes for both workers and businesses. At a time when we need hiring to become more of a focus, due to skills and labour shortages and fast changing technological needs, changes to transfer fees would drive a “bargain basement” approach that further embeds the regrettable trend to viewing labour as a commodity in parts of our jobs market. No UK Government should tolerate this kind of rejection of the principles of the Declaration of Philadelphia – it would be a charter for poor treatment of workers.

Transfer fees (Regulation 10) should therefore be retained. They create the incentive structure for employment businesses to invest in candidates, including widening the pool of candidates who come from disadvantaged backgrounds and those making a transition back into work from sickness or unemployment. Employment businesses with a reasonable expectation of return for their efforts will persist with a less transactional approach to candidates.

There is also the legitimate case that employers should be able to negotiate the commercial terms on which they operate, including the use of transfer fees or compensation payments. Beyond potential negative impacts of removal, there is little justification for market intervention here – the temp to perm market is buoyant and no evidence of restriction of trade has arisen.

Under the current framework, agencies may charge a transfer fee where a worker is directly employed by the client within the "relevant period" (14 weeks from the start of or eight weeks from the end of an assignment). Looking ahead to the guaranteed hours provisions in the Employment Rights Act 2025, which will require clients to offer agency workers a guaranteed hours contract, it is important that agencies continue to have the ability recover these fees. It will still be possible for clients and agencies to negotiate appropriate fees – specifically 'temp to perm', with the ongoing application of regulation 10.

Ensure parity of payment protections across all engagement models

REC agrees with the principle that employment businesses cannot withhold, or threaten to withhold, payment for work done. Once umbrella companies are brought into scope, this protection should apply directly to them as the entity responsible for paying the worker. This will ensure that agency workers have the same protections regardless of whether they are engaged directly by an employment business or umbrella company.

Require Umbrella Companies to Pay Workers Regardless of Upstream Payment

To ensure that agency workers have the same protections regardless of whether they are engaged directly by an employment business or umbrella company (once the latter are regulated) umbrella companies should be subject to the same obligation under regulation 12 – to pay their workers regardless of whether they have received payment from an employment business.

Align Suitability Obligations with Operational Roles and Avoid Duplication

Suitability obligations should reflect the functions undertaken in practice. Employment businesses typically recruit, assess and match workers to roles, whereas umbrella companies generally employ workers who have already been aligned to an assignment. Reform should avoid duplication and ensure obligations follow operational reality.

We don't believe that there is any additional information beyond the provisions set out in regulation 19, 20, 21 and 22 of the Conduct Regulations that should be obtained and provided to hirers. The provisions already ensure the collection of information that the hirer requires necessary so this allows for specific provisions required by hirers to be dealt with under the contracts.

Support the agency sector by simplifying and aligning rules to reflect modern labour markets

Key Asks

- Avoid unnecessary disruption and focus on targeted reform
- Remove duplication and simplify the regulatory framework
- Ensure responsibility sits with the employer of record
- Clarify definitions, including the status of umbrella companies
- Align regulatory and tax frameworks for consistency

Pursue Targeted Reform of Agency Worker Regulations, Not Wholesale Change

Businesses are currently working within a challenging economy, and already facing a raft of employment changes brought in by the Employment Rights Act 2025. The AWRs have been in place for almost 15 years, and businesses have invested significant sums in compliance systems to be able to manage and comply with them. Our members do not want to see unnecessary disruption which would place additional burdens on them to adapt to further changes, especially when the market is tough and unpredictable.

That said REC members support targeted reform of AWR to better reflect how modern labour supply chains operate in practice. This will achieve clarity for workers and remove duplication and bureaucracy for agencies. Current rules have been developed in a fragmented way and no longer provide a coherent or effective system for workers or businesses.

A key issue is the duplication of contractual documentation. The requirement for employment businesses to issue a Written Statement of Particulars (WSoP) alongside a Regulation 14 and 15-compliant agreement adds little value in practice. Much of the same information is already provided elsewhere, and the additional document creates unnecessary administrative burden and confusion for workers. The REC therefore believes the requirement to provide a WSoP in this context should be removed.

This issue is particularly acute where employment businesses operate exclusively through umbrella companies. In these models, the employment business is not the employer yet is still required to issue contractual documentation that may imply an employment relationship. This risks misleading workers and undermines clarity about who is responsible for pay and employment terms. In such cases, responsibility should sit clearly with the employer of record, with umbrella companies under a statutory obligation to agree terms directly with the worker.

REC members also highlight the need to rationalise and simplify the current framework. At present, multiple overlapping requirements apply, including Regulation 14 and 15 agreements, Written Statements of Particulars, assignment information and Key Information.

There is also a need to clarify definitions within the Conduct Regulations. In particular, it should be made explicit that umbrella companies are not work-seekers. The current position creates confusion and contributes to misaligned regulatory expectations across the

supply chain. Clearer definitions, aligned with changes introduced through the Employment Rights Act 2025, would improve consistency and enforcement.

REC members further emphasise the importance of aligning regulatory and tax frameworks, particularly in light of recent changes to liability provisions. Without coordination, there is a risk of overlapping or conflicting obligations across different regimes. Reform should ensure that responsibilities are coherent and sit with the appropriate party.

Overall, the REC supports a modernisation agenda that focuses on simplification, clarity and practical application but we do not support wholesale reform of the AWR. We favour a targeted set of discussions, following this consultation, designed to bring forward a range of changes that adjust implementation of the retained European Agency Work Directive to reduce compliance costs but maintain protection for workers and overall compliance. As well as the issues noted above, the methodology for establishing full equal treatment on pay can be complex and costly to run, when in practice equality on overall pay is all that is required. We look forward to working with the Department on reviewing possible reforms.

Annex – Labour Supply Chains and Definitions (Expanded)

Purpose of this Annex

This Annex provides additional detail on modern labour supply chains and the distinct functions carried out by employment businesses, umbrella companies, managed service providers (MSPs) and end clients. It supports clarity on regulatory scope, allocation of responsibility and the practical application of reforms, particularly following the extension of the definition of an employment business under section 36 of the Employment Rights Act 2025.

Illustrative Labour Supply Chains

Modern labour supply chains vary by sector and commercial arrangement, but the functional roles of each party are relatively consistent. The examples below illustrate common models used in practice.

Table 1: Typical Responsibilities Across Labour Supply Chains

Supply Chain Model	Finds Client	Finds Worker	Matches Worker to Assignment	Employs and Pays Worker	Manages Payroll & Deductions
Client → Employment Business → Worker	Employment Business	Employment Business	Employment Business	Employment Business	Employment Business
Client → Employment Business → Umbrella → Worker	Employment Business	Employment Business	Employment Business	Umbrella Company	Umbrella Company
Client → MSP → Employment Business → Worker	MSP	Employment Business	Employment Business	Employment Business	Employment Business
Client → MSP → Employment Business → Umbrella → Worker	MSP	Employment Business	Employment Business	Umbrella Company	Umbrella Company

The table above demonstrates that, while multiple intermediaries may appear in a supply chain, the entity employing and paying the worker consistently exercises control over payroll calculation, statutory deductions and pay delivery. Regulatory obligations relating to pay transparency and payroll compliance should therefore align with this function.

Employment Business and Umbrella Company – Functional Distinction

An employment business is principally engaged in finding clients and/or workers and arranging for workers to be supplied to meet client needs. Recruitment, screening and

matching are the defining functions of an employment business, regardless of whether it also employs workers directly.

An employment business may engage and pay workers itself or arrange for workers to be engaged and paid via a third party, such as an umbrella company. In all cases, it retains responsibility for recruitment decisions and assignment management.

An umbrella company is not principally engaged in sourcing clients or recruiting workers. Instead, it employs workers who have already been matched to an assignment and undertakes payroll processing, application of tax and National Insurance, statutory deductions and employment administration.

Implications for Regulation, Transparency and Enforcement

As umbrella companies exercise direct control over pay calculation and payroll compliance, regulatory obligations relating to pay accuracy, transparency and deductions should sit with them where they are the employer. Enforcement action should focus on the party with operational control, and liability should not be displaced onto employment businesses for functions they do not manage.

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