

15 October 2021

Rt Hon Simon Clarke MP
Chief Secretary
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chief Secretary,

Congratulations on your recent appointment. On behalf of [the Recruitment & Employment Confederation](#) (REC), I wish you every success in your new role. We look forward to working with you and your department.

Ahead of this year's Spending Review and the upcoming Budget, I wanted to write to you about the role the recruitment industry can play in supporting the economy over the next 12 months and beyond, and to share a little of the feedback we are gathering from employers across the country about their businesses. Together with the right interventions by government, if businesses can invest, grow and get the most of out of the labour market, dealing with some of the current challenges around worker shortages is perfectly possible.

We will always welcome better working conditions and fair wages. But increasing salaries are only affordable if they rise sustainably in conjunction with improving productivity. Given that the UK's productivity performance has disappointed for a decade now, a turnaround is needed to afford increased salaries. Otherwise, current trends will only result in higher costs for businesses, which will inevitably be passed onto consumers, either negating the impact of rising wages or leading to the substitution of imported goods at lower prices, damaging the domestic economy.

The only workable answer to this lies in increasing business investment across the board. From digital technology, to skills, to management practices, to more effective automation - businesses need to get their cash working to boost the competitiveness of their firm and the wider UK economy. But with taxes on business rising, material costs rising and labour costs rising this is increasingly difficult for businesses to do - especially in the current environment, where many have taken on additional debt to ride out the pandemic. And all of these issues feel more acute in the medium-sized, privately-held businesses that we know are at the heart of economic and jobs growth - as well as levelling up. In making decisions on the upcoming spending envelope, therefore, I would urge you to consider how you will enable businesses to drive prosperity in the years to come.

Investment in the workforce is key

Our [Report on Jobs data](#) over the few past months has shown demand for workers has continued to grow rapidly, while staff availability has fallen at record pace. Although wages are rising, labour shortages continue to have an impact on our everyday lives. The

scale of the shortages cannot be explained by one factor alone. They are a major challenge to businesses' ability to drive the prosperity in the long- and short-term, however. Increasingly, the issues we face are about how the workforce is deployed, and how we support those farthest from the labour market to play a full role rather than dealing with the cyclical effects of the pandemic.

While the current crises will pass, rising input costs and further tax rises would only mean higher prices and lower investment in the medium-term. It is therefore essential that government works in partnership with business to deliver sustainable growth and rising wages, rather than a crisis-driven sugar rush. This means working on policies that encourage skills development, especially at levels one and two where shortages are most acute – this will also help unemployed young people get into work.

To achieve this, government should consider broadening its training platforms, so that the level of qualification that is funded is less rigidly controlled by the state. As it stands, training opportunities in the UK are overwhelmingly aimed at level three qualifications or higher. Whilst these schemes have significant benefits, they do little to allay the current shortages.

Instead of a level or course-based set of criteria, there needs to be a much greater focus on "local". Engaging with local leadership and training providers, who understand what skills and specialisms are needed in a particular area, brings huge benefits and helps to build productive co-operation between providers and businesses, including local skills plans which can harness national qualification standards and funding frameworks. Bolstering the adult skills budget, which is locally held in England, would help enormously as some of the most innovative and effective work is being driven by the metro mayors.

Alongside this, we also need to address long-standing business concerns about the effectiveness of the apprenticeship levy as a system for improving the skills base. A levy is only a funding mechanism - and businesses would happily pay for a system that is effective. While the apprenticeships themselves are high quality the challenge lies in the design of the levy, which has led to falling starts over the course of the period since its introduction. There have been particular challenges at the younger and entry-level-skill end, where apprenticeships are usually most effective. It is long past time for government and business to work together to redesign the scheme, and each year of delay simply puts the brakes on our ability to boost productivity and support rising wages.

Efficient and effective unemployment support is still necessary

Government should continue to fund and provide activation programmes, like the Kickstart and Restart schemes, as they can be effective in helping those farthest from the labour market to engage. The REC is happy to be a Kickstart Gateway organisation, and even though it took some time to finalise paperwork and start making placements via our Gateway, the young people on Kickstart are demonstrating added value to our employers and in return, are telling us they are gaining employability skills that will last them a lifetime. This demonstrates the value of these schemes, however, for them to be

truly effective and for businesses and individuals to best use them, the administration must be improved.

As a Gateway organisation, we have experienced significant delays in obtaining approval for new employers to offer vacancies under our gateway, despite them meeting the spotlight criteria. We've also seen delays in approved vacancies being uploaded onto the JCP system, and delays in payments and associated remittance have also made it difficult for us to allocate payments.

Although we were pleased to hear that the Kickstart scheme would be extended, it will still expire in early 2022. So far, it has only helped a limited number of people - from our perspective, it could do so much more, but administrative challenges are holding it back. For example, our analysis shows that the fill rate in our sector, recruitment, is only around 15%. Government must think beyond early 2022 in the current environment, and work in collaboration with industry experts in a joint forum to improve the efficiency of these programmes for the taxpayer as well as their effectiveness for participants.

We are ready to help. While we believe there is a key role for government in helping to upskill our workforce, and in helping the country to build back better, we recognise that businesses must also play their part. Some can do this by taking advantage of government schemes, like Help to Grow, or via the British Business Bank, but businesses must also think outside the box when it comes to attracting and retaining staff - for example, recognising the importance of diversity and inclusion in the UK workforce.

Ensuring regulation supports productivity growth and levelling up

REC members are at the heart of our jobs market. Recruitment businesses contribute to around £1 in every £20 of the UK's economic activity, as our recent *Recruitment for Recovery* report showed. Practically, this amounts to placing a million people in new permanent jobs every year, and a million temporary workers into workplaces every single day - on a whole range of contracts. Because of this, we can see the value of the flexible labour market to our prosperity - from nurses with family commitments who were on the front line of the fight against Covid to highly skilled IT workers running their own company and helping many firms to digitise.

This perspective means that recruitment firms can see where challenges exist and which are coming down the pipeline. Too often, legitimate Government action fails to deliver a level playing field for all firms. For instance, the recent IR35 reforms require effective regulation of umbrella companies if we are to avoid damaging the compliant by failing to address the less compliant. We would urge you to take swift action on this and to work with us to ensure a high standard of good treatment for all flexible workers alongside a vibrant temporary work sector. We will be delighted to be your partners on this. Two key steps you could take in the Budget and Spending Review would be to protect the funding for enforcement bodies doing good work in support of fair treatment in vital industries - like the Employment Agencies Standards Inspectorate - and to commit to reviewing the impact of IR35 changes now, so that course corrections can be made where necessary and economic impacts managed.

In a similar vein, service sector exports are a jewel in the UK's crown. Mobility for service sector staff, and a global outlook are vital. We were delighted by the recent launch of the export advice service, but more must be done by all of us together to support growth. For instance, the cutting of support for firms attending trade shows to boost exports was a short-sighted decision. And we must make sure that the new immigration system delivers on its promise of meeting economic need where it arises - moving us away from the damaging rhetoric of the past.

A recovery for the whole workforce

Inclusion and diversity must be at the heart of the agenda we pursue as a nation. As the leading industry body for recruiters, REC has worked with others in the sector on what we can do to address this - not only for employers, but across our own sector. We must lead by example. Strong government engagement on this issue is also vital - from making progress on rules around ethnic minority pay gap reporting to co-working with the REC on improving the diversity of central Government hiring, as happened in 2020. In this regard, protecting the work of the Government Equalities Office in the Spending Review should be a priority.

The pandemic has brought widespread disruption to labour markets around the world. Compared with previous recessions, the pace and depth of the Covid-19 crisis has been unprecedented, with no country spared from the sharp deterioration in labour market conditions. Additionally, employment losses have been higher for groups that already faced labour market disadvantages before the pandemic (women and young people). Such losses have been particularly severe in sectors such as tourism and hospitality that were directly affected by the public health restrictions put in place to curb the spread of the virus.

If we are to fully recover from the pandemic, compete on a global scale, boost productivity, and make the UK a great place to live and work, then we have to invest in our workforce, both in the short- and longer-term. The REC is passionate about putting more people on the path to a good job, and ensuring that our economy works for everyone, in every part of the UK.

We represent 3,300 businesses who are ready to help. Given the industry's scale, economic contribution and expertise in the labour market, the recruitment sector can play a vital role in the government's levelling up agenda, as we seek to deliver sustainable increases in living standards and UK competitiveness. Feel free to call on us to discuss any of the thoughts raised in this letter, or to advise on any issue related to the labour market.

Yours Sincerely,



Neil Carberry
Chief Executive