REC Recruitment & Employment Confederation

29th October 2021

Mr Darren Jones MP
Chair, Business, Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

Dear Chair,

Thank you for inviting me to give evidence at last week's Committee session on supply chain disruption. I promised to follow up in writing to a couple of points. Mr Richard Fuller MP requested I provide some specific suggestions regarding capital investment and youth employment in particular.

Firstly, I wanted to highlight how the recruitment industry can play a role in supporting the economy over the next 12 months and beyond. At one point in the session, in a question to another member of our panel, it was implied that temporary or agency work was an issue to be addressed. Nothing could be further from the truth. Temporary work – which places a million people into workplaces every day in this country – is a big part of the answer to some of the challenges we face: it helps with transitions, offers flexibility, and supports families in uncertain times. It helps businesses to weather uncertainty and try new things. People and companies choose temporary for many different reasons – this is a strength. The real question is how we help all workers to progress, irrespective of their contractual status, and on this there are some key changes we can make which I will come onto later in this note.

Productivity and business investment are key to a higher pay economy

At the REC, we want better working conditions and wages across the UK labour market. But, as I mentioned to the committee, increasing salaries are affordable where they rise in conjunction with improved productivity. Given that the UK's productivity performance has disappointed for at least a decade now, a turnaround is needed to afford sustained increases salaries. Otherwise, current trends will only result in higher costs for businesses (as we're already seeing), which will eventually be passed onto consumers, either negating the impact of rising wages or leading to the substitution of imported goods at lower prices and damaging the domestic economy.

The only workable answer to this lies in increasing productivity. That means 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. Our agenda on business investment is based on these principles:

- Ensuring business tax rates are not so high as to deter investment. Recent changes to National Insurance are challenging in this regard, though the Budget this week offered some businesses a level of relief through initiatives like changes to the Business Rates regime. Nevertheless, rising input prices, rising tax and debt taken on during the pandemic – much of which is now becoming due – is squeezing investment intentions in some firms.
- Expanding incentive schemes for businesses who choose to do the right thing by investing here in the UK. Schemes like the super deduction announced in the Spring Budget and the Annual Investment Allowance extension announced last week are important in this regard. Ensuring more small businesses are aware of what routes to claiming capital allowances are open to them matters – especially being clear around software and other items of plant that are used by every firm, and which are clear investment priorities at this point.
- Supporting adoption of key technologies. Work by the CBI, Be the Business and others has shown that UK dissemination of key technology is slower than in competitor economies, causing a long tail of lower productivity firms in every sector. A productivity revolution requires dissemination to be as important as research and development in our thinking. We need business and government to work together on this.

All of these issues feel more acute in the small and medium-sized, privately-held businesses that we know are at the heart of economic and jobs growth. Without the ability to substantially increase investment levels across-the-cycle, the UK will not be able to properly recover and prosper in the years to come, and we won't achieve our ambitions on levelling up.

We help young people best through a revolution in our approach to skills

Our Report on Jobs data over the past few months has shown demand for workers has continued to grow rapidly, while staff availability has fallen at record pace. The scale of the shortages cannot be explained by one factor alone, but it is a major challenge to businesses' ability to drive prosperity in the long and short-term. Increasingly, the issues we face are about how the workforce is deployed, and how we support those furthest from the labour market to play a full role, rather than dealing with the cyclical effects of the pandemic.

As I mentioned at the evidence session, it is essential that government works in partnership with business to deliver sustainable growth and rising wages, rather than a crisis-driven sugar rush response. Our first call to action would be to work in partnership with businesses to set out a clear plan for skills and other workforce issues that makes a difference on the shop floor. Until now, priorities have tended to be set from Whitehall, and based on participation rather than impact. While Government must make sure that the standard of any publicly-funded training is good, it should also be concerned that the impact on trainees is good and that this investment boosts productivity. That means working with business and listening to them on practical suggestions for improvement. Some key areas of interest to the committee's current work would be:

- Ensuring provision is effective below level 3 – many of the hardest-to-fill vacancies we see are for roles requiring level one and level two skills, often overlooked in current provision. Yet these roles are ideal entry-level roles for young people or sector-changing workers.
- Making the system in England more locally relevant. Effective partnerships between recruiters, employers, colleges and other skills providers and sources of careers advice are already being formed by some of the metro mayors. This should be encouraged as a way of clearing local labour markets efficiently, to the benefit of firms and workers. Better matchmaking is key – and Jobcentres obviously have a big role to play here, too – last week, we signed an updated partnership agreement between the REC and the DWP as our part of this work.
- Reforming the Apprenticeship Levy. As I set out at the Committee session, business concerns about the levy are often mis-represented or mis-understood. The challenge is neither the levy – the principle that business pays – nor apprenticeships, which firms like. Concerns lie in the sole focus of the levy on apprenticeships and the structure of apprenticeship costs, which make higher-level apprenticeships for existing staff the most attractive option for firms. This means that younger people and those workers who cannot do an apprenticeship – like temps, as they are not employed for a year - lose out. Often lower-paid workers are having a levy placed on their wages they cannot benefit from, and that money is funding graduate apprenticeships for much higher paying roles. Taken together with falling numbers of young people doing an apprenticeship (those under 19), without reform the apprenticeship system will fail to be any sort of tool for tackling youth unemployment.

Efficient and effective unemployment support is still necessary to help young people

Alongside changes to the skills framework in England, Government should continue to fund and provide activation programmes, like the Kickstart and Restart schemes across the UK. These can be effective in helping those furthest from the labour market to engage. The REC was delighted to be a Kickstart Gateway organisation for a programme delivering employability skills that will last young people a lifetime.

These schemes can provide genuine value but to be truly effective, the public administration must be improved. As a Gateway organisation, we and our approved employers have experienced significant delays. Although we were pleased to hear that the Kickstart scheme will be extended, it will still expire in early 2022 and 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 is only around 15% - but we have the skills and experience within the recruitment industry to improve on that dramatically. 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. This harks back to the need to plan for the long term needs of our workforce, not just the effects of the pandemic. We stand ready to help.

Yours Aye,

Neil Carberry
Chief Executive