Recruitment & Employment Confederation

Spring Budget 2023

A submission from the Recruitment & Employment Confederation (REC)

February 2023

REC Recruitment & Employment Confederation

The Rt. Hon. Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

1st February 2023

Dear Chancellor,

We are facing one of the most economically challenging times for households and businesses right across the UK. We know that 2023 will require some difficult decisions, particularly as many of these challenges play out against a backdrop of ongoing labour and skills shortages. Working in collaboration with government to tackle issues like economic inactivity, is critical for recovery and growth. And we are ready to play our part in this.

The recruitment and staffing sector - the members of the REC - represent a professional services sector that is bigger in scale than either law or accountancy. And we reach far into the heart of the UK economy. Placing a million people into new permanent roles every year in normal times, and a million temporary workers into workplaces every day, REC members are advisers, planners and partners with businesses in every sector on recruitment, retention and productivity.

At this moment, it is essential to set out a longer-term strategy for growth that underpins business confidence and business investment. The fiscal position is tight, and prudence is advisable – but some spending and some clear signals to businesses about future policy could catalyse returns to the Treasury in future years, as firms grow, pay tax and raise wages. We look to your statement to build on your speech in late January in this regard. There are also short-term measures which could be implemented quickly to get things moving. The Spring Budget is the opportunity to provide stability, clarity and much needed support so that businesses can thrive.

The first part of our submission looks at some of the policy interventions government can make to help with this. On behalf of our members, we are asking you to:

1. Reform the skills system to catalyse business investment and enhance participation.
2. Work with labour market experts to better understand and address the causes of economic inactivity. Address key issues like childcare as part of this.
3. Work with employment experts to design procurement frameworks that provide value for money and deliver efficiency.
4. Provide regulatory stability by taking a pragmatic approach to EU law, using deregulation as a targeted tool to drive growth.
5. Address the challenges inherent in the tax system for temporary and contract workers, including the need for umbrella company regulation, the effects of IR35 changes and clarity on employment status for tax.

We believe that each of the recommendations set out below are either cost-neutral or require short-term investment. Where investment is needed, the return will be far greater over the medium and long-term, helping to save money and boost growth.

The second part of our submission gives an oversight of the UK labour market using the data we have based our recommendations on. We are pleased that Treasury officials already cite our data as useful. It is processed at a faster rate than other similar research, making it the most timely insight on the labour market there is.

If you or your team would like to arrange a meeting to discuss any of our policy asks in more detail, Ellie in my office (ellie.goddard@rec.uk.com) can put time in the diary.

Yours aye,

Neil Carberry
Chief Executive

REC Recruitment & Employment Confederation

Part one: Creating an environment for growth by enabling business investment, tackling economic inactivity and enhancing worker rights

The cost-of-living crisis is one of the biggest concerns for households and businesses up and down the country, so it's no great surprise that employers are making business decisions more cautiously. Employers' confidence in their ability to hire and invest steadily declined to net: -27 in July to September 2022. Business confidence in the UK economy has also fallen to a record low of net: -67.[1] With further increases in both inflation and interest rates likely to come, confidence is likely to fall further.

Businesses are already doing what they can to manage rising costs and financial challenges, against a backdrop of ongoing skills and labour shortages, and although we're pleased that government is continuing to provide support for energy costs through the Energy Bills Discount Scheme (EBDS), that support is significantly less than what has been provided to date. Of course it's important to strike a balance between supporting businesses and limiting taxpayers' exposure to volatile energy markets, but many small and medium sized businesses will lose out on the support entirely. That's why it's important that government remains pragmatic in its approach to business support as the energy crisis unfolds over the coming months. This might mean extending cashflow support for small businesses or building on the very welcome business rates relief, announced in the Autumn Statement.

Investment in green technology is critical if we are to meet our Net Zero ambitions and become a self-sufficient energy producing nation. The volatility in wholesale power prices as a result of global gas prices has demonstrated this clearly. We need to diversify and decarbonise the UK's domestic energy system. The government's *British energy security strategy* and *Energy Bill* will help with this, but more can be done with the business community to encourage investment in green technologies, which will reduce bills and save public money in the longer-term.

1. *Recommendation: Government must focus on building resilience in the energy system including by incentivising business investment in energy efficient measures.*

Reform the skills system to catalyse business investment and enhance participation

Reform and expand the Apprenticeship Levy so that it can be used for high quality, licence-to-practice style training

There is no question that apprenticeships are a great thing. The REC has been a long-term supporter of them, but we have also been calling for a reform to the levy system, so that the scheme can work for everyone in the labour market. Of the one million temporary workers working in the UK on any given day, around 960,000 are ineligible for Apprenticeship Levy funding. This explains the trend towards older, higher-level and previously employed Apprentices by comparison with younger new starters. The market has also responded to this with fewer apprenticeship opportunities.

The current system deters many businesses from investing in additional training for their people, particularly at times of economic challenge, and this is doing nothing to address current skills shortages. For example, the costs of each additional Apprentice that are not refundable (wages, equipment costs) mean that it usually costs more to take on an additional Apprentice than can be recovered from the Levy pot. Again, this explains why higher-cost, higher-level Apprenticeships have been more successful than lower-level ones, which likely have a bigger role to play on the progression ladder and levelling up.

According to the government's own stats, of the 349,200 apprenticeship starts in the 2021/22, just 26.2% (91,000) were Intermediate (level 2)[2]. This is a level where many of our members report skills shortages and where the immigration system can't help - so it's even more important to recognise broadening the apprenticeship levy as a policy to tackle shortages at entry skills levels. Utilising unspent levy money would help address skills and labour shortages without requiring additional investment from

---

[1] Recruitment & Employment Confederation, *Jobs Outlook*, 25 January 2023

[2] Gov.uk, *Apprenticeships and traineeships*, 27 January 2022

business or government. Upskilling more people allowing them to increase earnings will also help the levelling up agenda and add to tax receipts.

2. *Recommendation: Government should expand the courses where costs can be drawn from the levy pot, making it more flexible so that more people can access shorter and modular courses and high-quality licence-to-practise style training such as acquiring a forklift truck driving licence.*

Make Local Skills Improvement Plans (LSIPs) a core part of levelling up

While the skills systems of the four nations differ, all four need to improve their responsiveness to local needs. Governments' role should be to ensure that skills supply is good quality and matches local business needs. As highlighted in our *Overcoming Shortages report*, local businesses, local authorities and local people are the experts when it comes to their areas. But there is a mismatch between the jobs that are available locally and the skills, education, training opportunities and infrastructure available to local people.[3]

Better co-operation, drawing on the innovative and effective levy-sharing pilot in the West Midlands, and harnessing the power of the DfE's LSIPs to build local supply structures, has huge potential. In particular, it will help engage SMEs with provision they can access more easily. In each area, local leadership in business should be working with the public sector to develop a plan to meet emerging and longer-term skills needs. This planning should be done in partnership with local labour market experts - recruiters - who understand market trends, can see future opportunities, forecast skills gaps and understand the drivers of economic inactivity and some of the steps to address it.

Government should always keep control of funding levels and standards, but as far as possible, the supply structure for skills should be held in regions and sectors, based on enhanced co-operation. The most innovative and effective approaches in the English skills system are happening where Mayors have been able to drive collaboration.

3. *Recommendation: Make LSIPs a core part of the Government's agenda on levelling up and tackling skills shortages by expanding LSIPs across England and in ways that are appropriate for the devolved nations. Mayors, working alongside local business leaders, the public sector and labour market experts, should develop plans to meet emerging needs and get ahead of demand for future skills to unlock innovation.*

Incentivise business to invest in green skills to help the UK meet its Net Zero targets

The world of work is changing. With the rise of automation, new technologies, and entirely new jobs in developing sectors, like green, having the right people with the right skills is critical both for economic growth but also for achieving our Net Zero ambitions. The government already committed to creating thousands of new jobs in its Ten Point Plan for a Green Industrial Revolution, but we're at serious risk of falling short unless future workforce planning happens now. We're already seeing widespread labour and skills shortages, a trend that will continue in sectors like green with huge growth potential, unless action is taking to incentivise businesses to invest in green skills.

Last year, PwC published a report which shows the already growing green skills deficit. There are currently around 270,000 workers in the oil and gas sector who can transfer their skills towards delivering net zero. However, around 20% are expected to retire by 2030, leaving only 216,000 transferable workers to help plug the 400,000 jobs needed to build the new energy workforce across areas such as nuclear, hydrogen and renewables.[4] Part of the challenge is there's no set definition of what a 'green job' is, and in fact, even within the industry, there's debate about whether the terms 'green jobs' or 'green skills' should be used. We know that many younger people want to work in jobs that help to tackle climate change, but this lack of joined up thinking, and variations in the quality of careers advice offered leaves many unsure where to start or for those already in work, how to transition.

---

[3] Recruitment & Employment Confederation, *Overcoming Shortages: How to create a sustainable labour market,* July 2022

[4] PwC, *The Energy Transition and Jobs*, August 2022

In addition, businesses have a role to play. They are the key actors in delivering growth. It is their leadership on investment, inclusion and productivity that should be the target of any government intervention. with each pound of public money designed to catalyse private sector investment. At times of economic challenge, additional business investment is easy to talk about but difficult to make happen, particularly against a backdrop of already high labour and skills shortages. As set out in our *Overcoming Shortages* report, in addition to inflation, another macroeconomic impact from labour and skills shortages is lower investment.[5] At this difficult time for business, government needs to incentivise business investments, to ensure we have the skills we need for the future to enable us to achieve our Net Zero target.

4. *Recommendation: Create a 'green tax credit' for businesses that invest in green skills which help towards achieving Net Zero and secure our future labour and skills supply.*
5. *Recommendation: Build on the Gatsby Benchmarks to ensure every young person gets effective careers advice with a clear understanding of career pathways, particularly in green sectors.*

Expand the number of Skills Bootcamps and introduce some flexibility in their delivery

Skills bootcamps are a great initiative for finding new talent, reskilling existing employees, introducing people to potentially new sectors, and helping businesses invest in their people. Many REC members have been successful in tenders to deliver various bootcamps, including members operating in the HGV space. However, some aspects of the Bootcamps can be inflexible and minimise potential reach. For example, for HGV driving bootcamps, the training provider gets a certain amount of money when learners reach certain points, e.g., passing a theory test. The final payment is made to the provider if, and only if the learner secures employment after two job interviews. However, if the learner secures a job after just one interview, the provider doesn't receive the final payment. This quirk penalises providers for doing good work and needs to be changed. In a period of high vacancies, it makes sense that people will be snapped up quickly - so the second interview doesn't happen.

In addition, individual jobseekers can no longer access the DWP's Flexible Support Fund for licence acquisition, instead they're required to use a bootcamp, but the licence acquisition pathway is by far the most popular, meaning it is heavily oversubscribed. While this is positive, particularly in light of shortages in the HGV driving sector, providers can't use any leftover funding from less popular Bootcamps to meet demand for more in demand ones. This just causes delays in getting more people to get licences and into work.

6. *Recommendation: Final payments to training providers should be made if a learner secures a job at any time within the 16-week period of the Bootcamp. Whether they secure work after one or two interviews shouldn't negate payment to the provider.*
7. *Recommendation: Allow training providers to transfer any leftover pathway funds to other, more popular pathways so that demand and supply can be met.*

Work with recruiters who are labour market experts, to better understand and address the causes of economic inactivity

Improve childcare support and provision to enable more parents to work and grandparents (older workers) to stay in work

Parents now pay an average of over £7,000 per year for a part-time nursery place. This cost rules out too many from labour market participation and means a number of parents reduce their hours to offset this expense. As the cost-of-living bites, parents are juggling whether to go back to work or step back from the workplace to mitigate childcare costs. High childcare costs hamper productivity and future growth as fewer people participate in the labour market. Enhanced government support on childcare will generate greater tax revenue and drive growth. We need to stop people trading down on their career prospects for flexibility and recognise that as more people enter work and increase their hours, their annual tax contribution will also increase. Modelling by the IPPR has shown that if households can

[5] Recruitment & Employment Confederation, *Overcoming Shortages: How to create a sustainable labour market,* July 2022

access affordable childcare, it could slash nearly £2.8bn from government social security spending as more families could move into work or increase their hours.[6]

Practical policies to help working parents return to and stay in work include schemes like tax-free childcare. But more must be done to promote them, and increase take up. This scheme is currently used by just over 500,000 families in the UK, compared to almost 800,000 that use childcare vouchers.

Taking action on childcare support doesn't just help working parents, it's also vital for the over 50s staying in work. There's a role for employers to incentivise older workers to stay on through work design and flexibility, but without action on childcare and social care, many over 50s who have caring responsibilities for grandchildren and elderly parents, are going to continue leaving the workforce.

8. *Recommendation: Government should increase the financial contribution to the tax-free childcare scheme so that for every £8 parents put in, government double their current contribution from £2 to £4.*
9. *Recommendation: Introduce statutory two-week leave for grandparents and require businesses to conduct a review with all staff over the age of 55 on flexible working arrangements.*

It isn't just parents and carers that need help with nursery funding. Nurseries and other childcare providers also need support from government to ensure they can operate in parts of the country where childcare is limited. According to a 2018 Freedom of Information request by the Early Years Alliance[7], the government predicted that by 2020, it would cost £2bn to fully fund the sector and that doing so would result in a three and four-year-old funding rate to local authorities of £7.49 per hour. But in reality, just £300mn of funding was provided meaning the funding rate to local authorities in 2020 was £4.89 per hour on average. Inflation and the cost-of-living crisis have likely increased the level of funding needed further.

10. *Recommendation: Government should increase funding for nurseries and childcare providers so that no-one in the UK is left without provision. This recommendation, combined with the above, will help more people return to work, pay more in tax, and slash social security spending for government.*

Address economic inactivity with reinvigorated welfare to work schemes

Activation programmes, similar to Kickstart and Restart, are an excellent way of engaging those furthest from the labour market. As a Gateway organisation, we were advocates for Kickstart and alongside many of our members, were passionate about making it work. Our learning is that the same emphasis on engaging business in Kickstart needed to be directed at young people to get them to participate in Kickstart.

If government are to sponsor similar follow up schemes, they need to put in place the right processes and resources to deliver a labour market activation programme. There is much that can be learnt from private practice - this is something that recruiters do day in and day out. Last year, through the REC's Restart partnership with employment services provider Maximus, 255 people, previously long-term unemployed, were placed into new jobs.

Restart is still fairly new, but the success of the scheme shows that when delivered in the right way, with the right partners and the right comms, they can be extremely successful at getting people into good work.

As for schemes to help older people back into work, simply employing more work coaches won't work. From talking to our members and industry colleagues, we know that most over 50s do not want to go into job centres. that's not where they find jobs - especially if they have worked previously. And all too often, it's not finding a job that's the problem, it's the design of the job.

As set out above, the biggest reason for leaving work in that age group is the lack of flexibility in work or long-term illness. It's great to see government supporting various Private Members Bills which seek to improve flexible working, but more can and should be done to encourage employers to have open

[6] IPPR, *Delivering a childcare guarantee*, 06 December 2022
[7] Early Years Alliance, *Freedom of Information Investigation findings*, 2021

conversations with their staff about work design. The key for government is to work with recruiters and even fund them to work with older workers to help transition them into roles with more flexibility rather than hiring more work coaches in JCP to do this. To push more onto already overburdened work coaches would be a mistake and would duplicate effort with staffing firms. Recruiters and staffing agencies are where to access older worker foot fall.

Recruitment isn't just about putting people into jobs, it's about working in partnership with clients - employers - to help them understand labour market trends, candidate expectations, and to help them make changes, where necessary, to get the right people with the right skills. Recruiters are labour market experts; they understand the drivers behind economic inactivity and know what steps businesses can take to address them. That's why, funding recruiters to coach the older workforce, could really support economic growth. Although it would require some investment, the return and value to the Exchequer would be greater, with more people moving out of inactivity and back into the workplace.

11. *Recommendation: Government should continue to invest in the Restart scheme, and introduce new and improved labour market activation schemes, learning from the past, to offer the best value for the Exchequer, taxpayers, and participants.*
12. *Recommendation: Fund recruiters to do work coaching for the over 50s. Recruiters have the skills to help transition people and access to older workers who are more likely to have used a recruiter to find work than a Job Centre Plus in the last decade.*

Address economic inactivity by tackling NHS waiting lists and providing support for those with long-term health conditions

Long term sickness is another huge factor in over 50s leaving the workforce. Lengthy waiting lists are only exacerbating this, preventing people getting the help they need quickly, in order to return to work. NHS workers are exhausted, with some leaving the profession entirely and industrial relations at an all-time low. A largely overlooked key to tackling this is reform of the way NHS workers are procured. The current system treats workforce procurement in the same way as they do suppliers of physical materials. In England, recruitment agencies adhere to the rules and price caps set out within the procurement frameworks introduced in 2016. But the price caps and terms have not been reviewed or updated since then. This fails to reflect the changing demand within the workforce and the industry. More importantly, it fails to provide the best value for taxpayers' money.

Currently, price caps and the terms of NHS frameworks are unrealistic and do not flexibly respond to the supply and demand or last-minute needs for staff to keep wards open. As a result, NHS Trusts and agency workers consider more expensive and less regulated off-framework options which don't guarantee the same level of compliance, standards, or pay rates as on-framework agency suppliers.

We need to have a robust, realistic framework that prioritises patient safety and provides value for money. The frameworks should be designed in partnership with NHS Trusts, using the frontline experience of agencies across multiple trusts. Without their insights, no framework will properly reflect realistic market demands. Getting the NHS workforce right, and taking pressure of existing staff, is crucial if we are genuinely going to tackle waiting lists and help more people get back on their feet and back to work.

Employers can help those with long-term illness get back to work by phasing returns to work, flexible working patterns or even part-time working. The Covid-19 pandemic shed a light on new and different ways of working, - for example, things like the Flexible Furlough Scheme enabled employers to bring furloughed staff back on a part-time basis, helping to fill gaps and use their skills, while maintaining flexibility. This sort of approach is what is needed from more employers, but government intervention will encourage more to think in that way.

13. *Recommendation: Government should review and reform NHS procurement, committing to review framework price caps every three years. Such pricing arrangements should be standardised across all staffing delivery methods. This would tackle off framework staffing and reduce costs overall.*

Work with employment experts to design procurement frameworks that provide value for money and deliver efficiency

Work with recruiters to save money rather than pursuing public contracts that cost more

The government is an employer, but too often its approach to public sector procurement is inefficient, risky, and doesn't provide best value for money. Chasing lowest cost provision has reduced the range and quality of provision government can achieve - this costs more in the long run. As set out above, the way the NHS procures staff is a good example of this, but we're seeing the issue elsewhere too, including via the Public Sector Resourcing framework. The cost-to-bid on a framework of this size is likely to leave the Government with relatively few bidders, and more limited competition. This feedback reflects the considered opinion of a number of large market players having been through the process of pre-market engagement and prior information in 2022. At a time when the labour market is so tight, having greater access to specialist supply is vital. This can only be achieved if frameworks are open to smaller lots.

In addition, giving a third of public procurement contracts to SMEs was a commitment made back in 2015 when the Public Contract Regulations were introduced. SMEs have had a poor experience dealing with single providers where there is no choice for them on which framework to supply – leading to many SMEs stepping back from the market. There is well-evidenced risk of the Managed Service Provider (MSP) not acting as a neutral vendor and trying to attract candidates and roles directly for themselves. If an MSP or neutral vendor is appointed, there must be a cap on roles they or their connected businesses can supply, as is the case in Contingent Labour One. It is in all our interests to see a framework system that is sustainable, effective, and good value for the taxpayer.

14. *Recommendation: Government should work with staffing experts to design public sector frameworks that provide the best value for money, encourage more SMEs to bid and stay on framework, and ultimately work more efficiently for all involved.*

Provide regulatory stability by taking a pragmatic approach to EU law, using deregulation as a targeted tool to drive growth

Work with industry to get the most out of future regulation

The government's Retained EU Law (Revocation and Reform) Bill, which says that at the end of 2023 all retained EU law in the UK expires, is creating huge and unnecessary uncertainty for UK firms. In our sector alone, there are two key pieces of EU derived legislation that form much of the framework for how the recruitment industry operates - the Agency Work Regulations (AWR) 2010 and the Working Time Regulations (WTR) 1998.

Removing these regulations from UK law would have a huge impact on the stability and efficiency of the UK recruitment industry and potentially undermine the rights of those working in temporary, contract or freelance roles. Whilst some areas of these regulations are inefficient and in need of reform, completely deregulating the market will lead to confusion and chaos as businesses have to completely rewrite their processes. That's why working jointly with business and industry, and taking the necessary time to review, retain, reform, or where appropriate, repeal EU law is so important. The Bill provides an opportunity for growth, but only if government approaches it in the right way.

15. *Recommendation: Work with industry and business to review relevant EU law, identifying opportunities for growth, and maintaining stability where appropriate. The 2023 deadline is creating huge uncertainty and should be extended until at least 2026, to enable this joint and considered approach.*

Address the challenges inherent in the tax system for temporary and contract workers, including the need for umbrella company regulation, the effects of IR35 changes and clarity on employment status for tax

In December 2019, the government announced its intention to publish an Employment Bill to protect and enhance workers' rights. This Bill was meant to address several issues from umbrella company regulation to the creation of a combined single enforcement body (SEB) – all with the aim of modernising compliance and enforcement frameworks. Unfortunately, the long-awaited Bill never materialised. Now is the time to get that Bill on the statute book. Regulation is the only effective way to clamp down on tax avoidance and protect workers and compliant businesses, all of which will result in more National Insurance Contributions.

Introduce umbrella company regulation

Umbrella companies are not regulated and claim to be outside the scope of the Employment Agency Standards Inspectorate (EAS) and are currently treated as such by EAS. Without proper regulation, employers and especially workers risk being exploited by unscrupulous umbrellas offering tax avoidance solutions to people on their payrolls, a problem that increased after the introduction and extension of IR35. Another issue is Mini Umbrella Companies' (MUCs) which are set up as limited companies incorporated in the UK with British directors and a small number of temporary workers. The directors are typically replaced after a short period by an overseas director with minimal responsibilities.

Non-compliant umbrella companies and MUCs engage in fraudulent activity by abusing two UK government incentives (VAT flat rate scheme and the Employment Allowance). This enables them to escape their responsibilities of paying PAYE, National Insurance Contributions and other taxes. As a result, temporary workers don't receive all they are entitled to. Non-compliant umbrellas make their money from a combination of either charging workers a fee, abusing 'tax solutions' to reduce the amount of tax paid (NI/VAT) or using measures to deduct sums from the worker, for example, using a NMW basic rate with a 'flexible bonus.' Once the MUC has grown and no longer qualifies for tax relief, the payroll duties are shifted to the next MUC, and the pattern continues.

Lack of regulation allows for the constant evolution of tax dodging schemes, leaving workers vulnerable and costing the Exchequer millions in lost revenue.

16. *Recommendation: Reciprocal obligations should be placed on umbrella companies so that they have a similar legal obligation to provide all the information that employment businesses need to provide and to update the information provided if it changes.*

Joint Employment Model

Joint employment models have recently emerged as a method of engaging temporary workers where an umbrella company and an agency jointly employ a worker, who is then supplied to a client. In this set up, the umbrella and the agency are jointly responsible for the worker's employment rights and agree to split the management of these rights between them. This differs from the traditional umbrella model, where the umbrella is legally the sole employer of the worker, and there is no contractual relationship between agency and worker.

This model has several issues that the government needs to be aware of. Having two employers can be confusing for the worker. The joint employment model is relatively new, but already there are cases that highlight this risk. For example, if a worker has been paid less than National Minimum Wage or has not received their full holiday pay entitlement, then it is unclear which employer should be responsible, which makes it harder for the workers to seek redress.

The joint employment model also operates partially outside of the existing regulation for the recruitment industry, due to the lack of regulation for Umbrella companies set out above. Without this regulation, there is a chance that the umbrella side of any joint employment model is not operating to the same standards as the agency side. This opens the door for further non-compliance, as there is no way to police this unless umbrellas are brought within scope of the existing regulations.

The joint employment model also can be used to avoid tax. In the traditional model, VAT would be paid on the money paid from the agency to the umbrella, and then again on any payment the umbrella made to the worker. In joint employment, the agency and umbrella are jointly liable for a single VAT payment, which reduces the overall tax liability. Despite the confusion this model can present, it has been allowed to operate in the education sector through the CCS framework. The government needs to take care not to unintentionally encourage the proliferation of this arrangement without having the necessary regulation in place to protect workers.

17. *Recommendation: As above, government should introduce umbrella company regulation as this would also capture the umbrella side of the Joint Employment Model and prevent tax avoidance.*
18. *Recommendation: The government should provide guidance to Crown Commercial Service (CCS) or other framework providers not to allow the proliferation of this model by making it acceptable as part of government frameworks.*

Create a Single Enforcement Body

As first proposed in the Taylor Review, we need to see the creation of a Single Enforcement Body (SEB), that is well resourced. A SEB would act as a one-stop shop for labour market enforcement, combining the existing remits of the Employment Agency Standards Inspectorate, the Gangmaster's Labour Abuse Authority and HMRC's National Minimum Wage team.

19. *Recommendation: Government should re-commit to introducing an Employment Bill which would strengthen workers' rights and protections, create a SEB and introduce umbrella company regulation – benefitting the Exchequer, workers, and taxpayers alike.*

Review IR35 and provide clarity on employment status for tax

Diverse forms of engagement in our labour market are critical for growth. Ensuring policy does not penalise those who work flexibly should be a vital part of the Government's growth agenda. Getting taxation right for contractors must be part of this.

Understanding and complying with the off payroll working (IR35) rules is challenging. Many businesses, including our members and their clients find off-payroll working legislation the most difficult tax legislation to understand. Although the legislation has been reviewed and amended several times since its inception, it is still overly complex and does not place sufficient impetus on the end-client to provide their assessment and take responsibility for it. Trying to ascertain if and how it applies to recruitment agencies, in the context of limited client engagement and a lack of regulation on payroll companies adds to the bureaucracy and financial burdens on fee payers.

At a time when businesses are struggling because of severe labour market shortages, the impact of IR35 is made worse. As the competition to recruit from a limited pool rumbles on, businesses need contingent labour, to continue to operate effectively and fulfil demand. Businesses want to be compliant with IR35 but ambiguity over employment status for tax purposes increases the risk of falling foul of the rules and being fined.

20. *Recommendation: IR35 is still not working so we need a full overhaul of the legislation. Businesses need a system that supports the use of flexible labour and works fairly for everyone involved.*
21. *Recommendation: Government should reduce ambiguity over employment status for tax for businesses, to improve compliance and lower tax risks*.

Further improvements must be made to HMRC's CEST tool

Although some minor improvements have been made to HMRC's CEST tool, there is broad consensus that it is still not fit for purpose. HMRC's view that mutuality of obligation should not form part of the questions in the CEST tool does not reflect the reality of how contractors work. This was demonstrated in the Professional Game Match Officials Ltd (PGMOL) case, which concluded that the referees were not employees of PGMOL. Despite this, the CEST tool assumes that a contract exists or is being considered. HMRC says it does not anticipate the tool being used outside of these circumstances but as outlined above, that is not the case for many contractors.

In addition, the questions are often too vague. The examples in the CEST guidance such as painting and decorating, or market research are generally irrelevant in sectors where consultancy arrangements are most common. For example, where contractors deliver professional services, health and care, IT solutions, or media advice.

There also concerns about the accuracy of the CEST tool. Often changing a response to a single question changes a determination from "inside IR35" to "outside IR35". Case law on employment status for tax is clear that one factor is unlikely to determine a change in status, and that all relevant factors should be considered. As a result, the CEST tool is not sophisticated enough for hirers to rely on it and meet their obligation to use "reasonable care" when reaching a conclusion. The sheer number of "undetermined" outcomes shows us the tool isn't working as it's meant to.

22. *Recommendation: Improve HMRC's CEST tool so that all factors relating to a particular period of work are taken into consideration, and unrealistic assumptions are not built into the tool.*

Part two: REC research reports - the current state of the labour market.

Report on Jobs

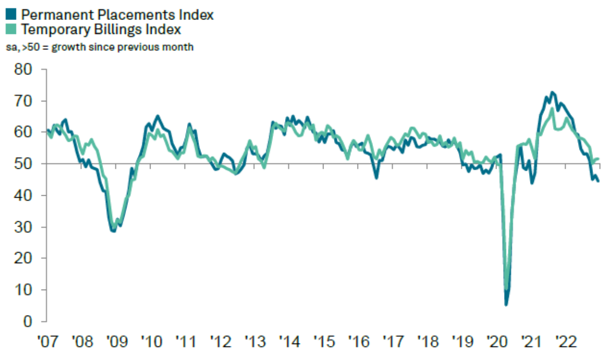
The latest UK *Report on Jobs* data shows employers have become more cautious in hiring due to economic uncertainty, but demand remains at historically high levels.

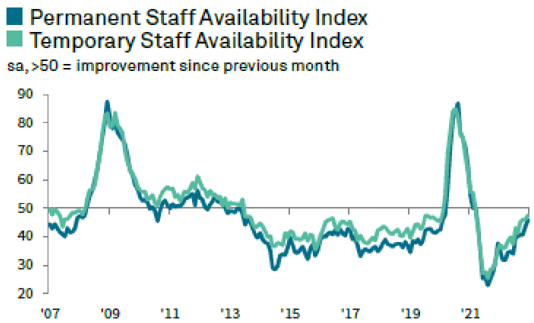
Permanent placements fell for the third month running at the end of 2022, as increased economic uncertainty and pressure on budgets weighed on recruitment plans. The rate of reduction was the quickest seen since January 2021, when the third national lockdown dampened hiring. All four monitored English regions noted lower permanent staff appointments at the end of 2022. The South of England saw the sharpest decline, while the softest was seen in London.

Temp billings increased for the twenty ninth month in a row during December but remained mild overall. Recruiters that noted higher billings generally linked this to strong demand for temp workers and efforts to fill vacancies. The South of England saw by far the steepest increase in temp billings of all four monitored English regions, while relatively mild upturns were seen elsewhere.

Staff demand

- Permanent staff demand increased at the softest pace in 22 months, albeit solid. The steepest upturn was seen for Nursing/Medical/Care, followed by Hotel & Catering.
- Temp staff demand picked up slightly to a three-month high and remained sharp. Retail, Hotel & Catering and Nursing/Medical/Care saw the steepest rises in demand.
- Candidate supply saw the weakest decline recorded since March 2021, though solid and at a faster rate than that seen for temporary workers.
- Permanent labour supply deteriorated at the slowest rate seen in 21 months, though solid.
- Temporary candidate availability fell for the twenty-second month running in December. While a renewed drop in temp candidate availability was seen in the North of England, softer falls were registered elsewhere.
- Starting salaries for permanent staff and temps pay both increased even though the rate of inflation retreated further from March 2022's record, remaining at high rates due to greater competition for scarce staff.

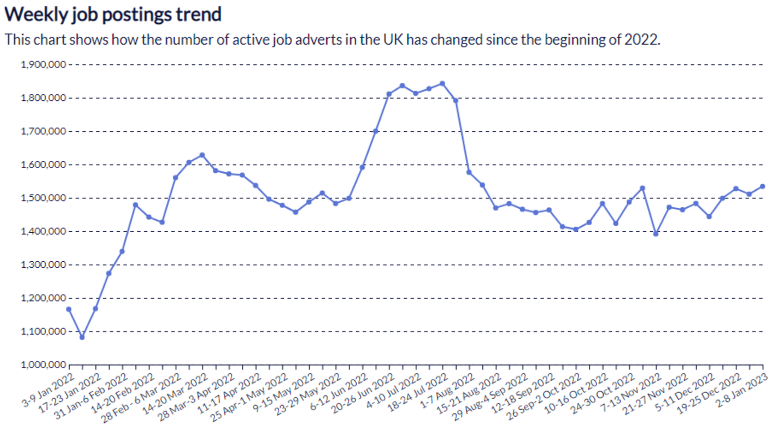




Labour Market Tracker

- The number of active job postings across the UK has remained robust since mid-August 2022. Active job adverts went above 1.5 million in mid-December 2022 and remained there in the first week of January.

- There were 184,335 new job adverts in the first week of January 2023, a 24.5% year-on-year increase compared to the same period in 2022 (148,032).



JobsOutlook

The REC's latest *JobsOutlook* showed that employers' confidence in both the UK economy and their ability to make hiring and investment decisions both declined in Q4 2022. Business confidence in the UK fell from net: -67 in July-September to net: -68 in October-December 2022, and employers' confidence in making hiring and investment decisions dropped from net: -27 in Q3 to net: -30 in Q4 2022. Both continue to surpass the previous pandemic-related record lows of -57 and -13, respectively in June 2020.

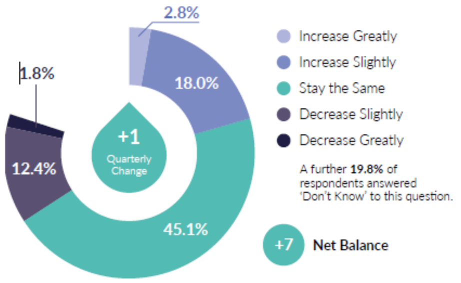
With inflation and economic uncertainty, employers' hiring outlook for permanent workers in the short-term and medium-term both declined in Q4, though anticipated demand from medium-sized (50-249 employee) and large-sized (250+ employee) enterprises stays firmly in positive territory. On the other hand, short-term and medium-term hiring outlook for temporary agency workers both rose quarter-on-quarter, especially in the devolved nations. Employers are likely turning to temporary workers to fill the skills gap in a tight labour market.

Temporary Recruitment

Short-term outlook

Do you think the number of agency workers in your organisation will increase or decrease in the next three months?

Short-term hiring intentions for agency workers rose by 1% quarter-on quarter to net: +7. While the UK-wide anticipated short-term demand for temporary agency workers stayed steady, sentiment turned negative in London (net: -9). But sentiment rose by 41%, quarter-on-quarter, in the devolved nations from net: -12 to net: +29. There was a contrast in forecast demand across the organisational size bands, notably between mid-sized (50-249 employee) enterprises, at net: -7, and large-sized (250+ employee) organisations, at net: +18.

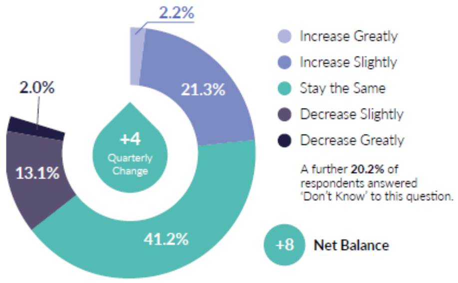


All who recruit temporary agency workers in any job function (n=127)

Medium-term outlook

Do you think the number of agency workers in your organisation will increase or decrease in the next four to twelve months?

Medium-term anticipated use of agency workers improved by 4%, quarter-on-quarter, to net: +8. Sentiment turned negative in two regions (the North at net: -3, and London at net: -2), but remained notably high in the devolved nations (net: +32). While more medium-sized (50-249 employee) enterprises planned to reduce headcount (at net: -5), the reverse was notably true amongst large-sized (250+ employee) organisations (net: +18).



All who recruit temporary agency workers in any job function (n=124)

For further information on this submission please contact: Samantha Beggs, REC Campaigns and Government Relations Manager, sam.beggs@rec.uk.com

The REC is the voice of the recruitment industry, speaking up for great recruiters. We drive standards and empower recruitment businesses to build better futures for their candidates and themselves. We are champions of an industry which is fundamental to the strength of the UK economy. Find out more at www.rec.uk.com