

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

25 October 2022

Dear Chancellor,

Congratulations on your recent appointment as Chancellor of the Exchequer. On behalf of all of us at the [Recruitment & Employment Confederation](#), I want to wish you every success in your new role, particularly at such a critical time for our country's economy.

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. Placing a million people into new permanent roles every year, and a million temporary workers into workplaces every day, REC members are advisors, planners, and partners with businesses in every sector on recruitment, retention and productivity. They are at the heart of driving the performance of our economy.

When it comes to the role of the workforce in driving growth and productivity, we are at a critical moment. From the pandemic to an ageing population, the shape of our workforce is changing, and firms are facing labour and skills shortages of a type not seen for many decades. As our recent [Overcoming Shortages](#) report set out: if businesses do not prioritise addressing these issues, economic and pay growth will be stifled and it could cost the UK economy up to £39 billion every year from 2024. Businesses need to act – and to do that, government must support the investment and change needed.

That's why we're calling for government, working with industry, to develop a comprehensive **future workforce strategy** to build the skilled workforce the UK will need for the years to come, boost growth and enhance productivity. The right regulatory approach, skills support, immigration policy, and welfare-to-work reform are all crucial. Access to, and quality of public services – like transport to get people to work, and childcare provision, to help people stay in work – influence the investment decisions firms make. That's why we need unified thinking across government on these essential issues for labour market activation and support.

We would suggest that the government can act immediately on a number of pragmatic steps and would propose the prioritisation of the following in the upcoming Fiscal Statement:

- **Accept the Apprenticeship Levy isn't working.** There is an economic cost of this rigid system. Nearly £2 billion of employers' levy funds expired between May 2019 and March 2021, without supporting a single apprenticeship. Employers want to invest in their people, but for many, for example those in temporary labour market, it's simply not viable as only 2% of temporary assignments last for 12 months or more – the average duration of an apprenticeship. Opening up apprenticeship levy funding so businesses can use it for accredited, modular training courses would be a win-win for industry, workers and government, as skills rise and firms invest more themselves.
- **Conduct a wholesale review of the application of the off payroll working rules.** Diverse forms of engagement in our labour market are incredibly important and speak to the government's ambitions for further enterprise and growth. That's why we need to get taxation for contractors, freelancers and temporary workers right. Around half the working age population do not work the traditional 9 to 5, and the UK's flexible labour market is set to grow further. Abolishing changes to IR35 from 2017 and 2021 didn't solve this problem and keeping them does not do so either. A review would include:
 - **Establishing a Single Enforcement Body (SEB) and extending the appropriate regulations to the whole labour market supply chain,** including umbrella companies, to ensure greater clarity for workers, employers and drive better returns for HMRC's tax take.
 - **Committing to making further improvements to HMRC's 'Check Employment Status for Tax' (CEST) tool.** 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. In addition, the questions are often too vague. Often changing a response to a single question changes a determination from "inside IR35" to "outside IR35". The sheer number of "undetermined" outcomes show the tool isn't working as intended.
- **Introduce new and improved labour market activation schemes, learning from the past, to offer the best value for taxpayers and participants.** Activation programmes, similar to Kickstart and Restart, are an excellent way of engaging those furthest from the labour market. The REC was pleased to be a Kickstart Gateway organisation and we are also a supplier to one of the lead providers for Restart. So far, we have seen over 150 new starters placed with REC members this year. Restart is delivering when it is working with labour market experts, so the funding should continue if we are to address ongoing labour shortages across the UK.

- **Commit to reviewing the childcare system in the UK and in the short-term, increase the financial contribution to the tax-free childcare scheme so that for every £8 parents put in, government double its contribution from £2 to £4.** Rising childcare costs hamper productivity and future growth as fewer people can participate in the labour market. This is already having an impact not just on parents, but also on grandparents - with economic inactivity rising amongst the over 50s. Enhanced government support on childcare has the potential to be fiscally positive, as more people stay in work, pay more tax, and drive more growth for their employer.
- **Develop home-grown talent strategies but also recognise that immigration is part of the solution to put the UK in a strong, globally competitive position.** That's why we're calling for an 'immigration for growth' policy approach. In the short-term, extending work visas to at least five years and establishing an immigration route for entry-level skilled workers in shortage sectors will help to alleviate labour and skills shortages, boost growth, and international investment.

The REC recently published our '[Manifesto for Growth](#)', which sets out policy measures to enhance business investment, boost productivity, and promote economic growth. The REC is keen to continue our close relationship with your department, having worked previously with your predecessor to tackle labour and skills shortages and boost economic growth. We stand ready to work with you to help deliver this.

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

Yours sincerely,



Neil Carberry
Chief Executive