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Some businesses are raising wages and increasing workloads at an unsustainable rate because of diminishing labour supply and lack of people with the skills they need.

The REC's *Overcoming Shortages* report suggests that a 10% surge in demand for staff across the economy combined with labour market shortages could cause a 1.2% fall in expected GDP and productivity by 2027. This could cost the economy between £30bn and £39bn each year.

Employers and recruiters must work together like never before to fill roles and get the economy growing, the report says.

The recruitment industry remains strong, with about 29,600 recruitment enterprises in 2023 (a figure that has remained constant since 2018), according to the REC's recent annual *Recruitment Industry Status Report (RISR)*.

But for those employers still unaware of the added value they could gain from partnering with recruiters, the REC has published a new guide.

Aim Hire is intended for use with clients who do not fully appreciate the range

of recruitment services. It is available online and in print and enables recruiters to show existing and potential clients exactly how to get the best from them. It also includes advice on where and how to find the right recruiters for their needs.

"In an uncertain economy, we know that firms are tightening their belts wherever they can and carefully considering spending decisions," said Maxine Bligh, the REC's Chief Membership and Innovation Officer.

"Yet at a time when all costs are under pressure, we are seeing more firms deprioritise their recruitment partnerships. This short-term thinking will sadly harm their ability to get the right people into the right roles, and to retain them. *Aim Hire* will help recruiters to get the message to under-pressure employers that they are their

indispensable friend in this testing job market," she said.

The key message for employers is that the more they engage in the partnership, the more benefits they will reap. The guide advises them to work continuously with a recruiter during the process and offers advice on the support recruiters can offer to create a long-term workforce strategy to meet their business plans.

"Behind each interview is a full process of desk research, sifting, interviewing, candidate-preparation and matching – often days of work by multiple researchers. Then there is the time and investment put into contacts, building a knowledge base, and understanding the market and compliance," Bligh added.

Look out for the guide, which will help you to explain the value you add to your client's business.

the view...



Our manifesto and our strategy put us in a position to lead and influence in the future, says **Neil Carberry**, REC Chief Executive

The REC started the year with a blast of political engagement. This is no surprise, considering that the general election, and a possible change of government, suddenly feels much more real when you get into an election year. Our manifesto, prepared with members across the country, sets out a plan for a flexible and effective labour market that will underpin growth and opportunity for us all. You can read about it on page 4.

I was very pleased to see that the Chancellor has acknowledged the publication of the REC Manifesto. "The recruitment sector and agency work play a crucial role in the flexibility of the modern UK labour market," he said.

At the REC, we work hard to make sure policy-makers understand the difference you make every day. But it is equally important to talk to clients directly – from NHS employers to private sector 'margin squeezers' – about the value of recruiters as a professional service. Our new *Aim Hire* guide is designed to help you do this and to act as a backbone to all our work in the media, with other sector organisations and in the many client presentations we do to make the case for REC members.

All this is at the heart of the new strategy the REC Board adopted at the beginning of the year. The strategy has three core themes: to be a proud voice for the industry to governments and clients; to provide strong business advice (such as our recent work on equality, diversity and inclusion, and on technology); and to have a relentless focus on professionalism and standards. You'll hear a lot more from us on each of these topics in 2024.

These themes interact to underpin the success of REC members. An industry that is seen as professional and able to offer insight is one clients and governments will listen to. An industry that is seen to lead the debate will have greater scope to grow and to invest in quality services.

This might all feel long-term in a tough market, but things will turn. The work we do now on market position for recruitment and staffing will matter hugely to our success when it does.

If you want to keep up to speed with all things recruitment then follow me on Twitter @RECNeil



CAMPAIGNS

Define green jobs to reach 'net zero'

Shazia Ejaz, Director of Campaigns at the REC

If the UK government wants to get better at filling green jobs and be an international role model for achieving a thriving 'net zero' economy, definition is what it needs. In the coming weeks we will be promoting our latest thinking on green jobs and what is needed to ensure the UK has a labour force with the skills to achieve net zero by 2050. Getting policies right on this issue is critical for the health of our economy and for the planet.

It is far from doom and gloom on green jobs – we are seeing demand in all areas from traditional green roles, such as heat-pump engineers, to transitional roles in construction and transport, and indirect roles such as environmental analysts and management consultants.

The problem is that without a better consensus on the definition of green jobs, different stakeholders are using ones that fail to recognise the full scope of skills. This lack of clarity makes data collection challenging, which makes it harder to plan workforce needs. This is bad news when our *Overcoming Shortages* report suggests that long-term labour and skills shortages could cost the UK £39bn every year in lost GDP.

REC's voice really matters for the UK economy because we are labour market experts. Our report suggests a green jobs definition that we hope more stakeholders can use. It focuses on the proportion of a role that involves green tasks and it encompasses direct and indirect green work. Our definition also includes transitional roles and these are likely to increase along with demand for renewable materials (for example, within construction and transport, and in brown sectors, such as oil and gas).

Once our report is published, we will begin to test it with the Green Jobs Delivery Group, where government, industry, the skills and education sector, local government and other key stakeholders talk about green jobs. We hope we can influence the government before it publishes the Net Zero and Nature Workforce Action Plan later this year. This will outline the headline actions and solutions the group is progressing to deliver the skills needed within the UK workforce to deliver 'net zero'.

the intelligence...



Where are the candidates?

Despite some loosening in certain sectors, small firms are struggling with labour shortages, which is a major concern as they represent 99% of all UK businesses

Mukul Tiwari, REC Research Manager

Just over a year ago we launched our *Overcoming Shortages* report in Parliament. In it, we warned that a 10% surge in demand for staff across the economy, together with a restricted supply of labour, could cause a 1.2% fall in expected GDP and productivity by 2027 – costing the economy up to £39bn each year. This is only slightly less than of the cost of two new Elizabeth Tube Lines.

The problem is not new, but was exacerbated by factors such as Brexit, the pandemic and changing demographics. Although the REC and many business leaders talk about the difficulties posed by shortages, not enough is being done to tackle them.

The REC recently surveyed employers about ongoing candidate shortages and found that more than seven in 10 are experiencing a shortage of applicants for roles (77.8%). The shortages are most acute in the devolved nations (90.9%), according to our survey of 167 employers of different sizes and in varied locations and sectors.

In the public sector, 87.5% of employers said they were suffering from candidate shortages – significantly more than in the private sector. When analysed by organisation size, smaller enterprises are the most likely to be affected by the problem (81.5%).

The latest Office for National Statistics (ONS) data tells us that changing demographics are a big



£39 billion

A 10% surge in demand for staff across the economy, together with a restricted supply of labour, could cause a 1.2% fall in expected GDP and productivity by 2027 – costing the economy up to £39bn each year

factor in this. In 2020, almost 19% of the UK population was older than 65. This increased to 22% by 2023. Meanwhile, the birth rate has decreased by 3.1% in England and Wales in 2022, compared with 2021. This has implications for the labour force as older workers retire and fewer young workers enter the jobs market.

The decision to leave the EU has led to fewer workers from the continent working in the UK than was forecast before the Brexit referendum. Many industries, particularly agriculture, healthcare and hospitality, relied heavily on EU nationals for their workforce. In addition, stricter immigration policies have reduced the pool of available workers in some sectors, creating a skills mismatch.

To combat some of the causes of continued shortages, we are campaigning for a re-evaluation of immigration policies. For example, we want more flexible visa schemes, especially for sectors facing acute shortages. Investment in skills development is also crucial to address the long-term labour shortage. Apprenticeship programmes, vocational training, and partnerships with educational institutions can all help to bridge the skills gap.

Even with these in place, agency workers will continue to be a vital part of the solution. They will enable employers to navigate the current economic uncertainties and find agile, cost-effective ways to deal with fluctuating workloads and project-based needs.

big talking point

Put people first

“If we put the people stuff first, prosperity will follow.” So says the REC Manifesto: *Dynamic Labour Markets for Growth*, which aims to put the next government in the picture on workforce changes so it supports the transition needed to ensure we have the labour market we need for a prosperous future

This is probably an election year in the UK (few believe it will be left till January 2025). So the political parties are busy publicising the plans that they hope will convince voters with promises of growth, prosperity and economic success. But where do workers and the labour market fit in?

The REC believes that any new government should underpin economic growth by supporting the labour market, utilising the UK's talent more efficiently and tackling barriers to employment. To this end it has produced its own Manifesto, subtitled 'Dynamic Labour Markets for Growth'.

Economic growth – promised by all the main parties – is important, but, writes Neil Carberry, CEO of the REC (*pictured opposite*), in his introduction: “Success in that mission – the prosperity of the UK – rests primarily on the talent of our people.” The manifesto says: “No attempt to drive growth will succeed without a proper appreciation of workforce issues.” It argues that failure to address this could cost the UK economy £39bn a year in lost wages and profits.

So what are the key issues that a new government must address?

The manifesto divides these into four themes: ‘Understanding today’s people and labour market challenges’; ‘Supporting our labour market transition by preparing for the future’; ‘Boosting workforce productivity and driving down inactivity’; and ‘Regulating for a sustainable and dynamic labour market’. Each theme is underpinned by practical recommendations.

“It’s important for us to be on top of these issues, so that we can ensure whoever is in government has a full overview of our workplace, our people and our employment practices,” says Michelle Mellor, Chair of the REC and director of Cummins Mellor (*pictured opposite*). “We must interpret changes in the workplace and employment landscape for ministers in charge of policy. Every one of the REC’s member businesses makes a difference to UK prosperity, because we are the industry finding the workforce needed to keep businesses growing.”

1. Labour market challenges

For a start, any incoming government needs an Industrial Strategy. Every business appreciates the value of a

strategy to clarify goals, identify risks and give investors and employees a clear direction, so it’s vital that the government also has one.

The REC also believes that the government should work with businesses and employee representative bodies to develop a Workforce Plan for the UK, and conduct a workplace employment relations study immediately after the election. It should acknowledge all the different ways of working that contribute to economic and social development – permanent, temporary and interim. Flexibility is key to training, retaining and attracting people back into the workforce, it argues.

2. Transitioning the labour market

A future government should work with labour market experts to better understand work design and shifting working patterns. We need policies that support newer forms of working and flexible working patterns – and ensure they are adequately regulated.

“Recruiters are experts in this – agency work is well-regulated and we should apply the same standards to emerging forms of flexibility to



protect standards and opportunity,” the manifesto says. “Embracing that, along with the opportunities that technology and artificial intelligence (AI) present is crucial for growth.”

Knowledge of local employment markets is also crucial, so the REC is calling for more participation of labour market experts in Local Skills Improvement Plans (LSIPs) and for local leaders to determine regional skills priorities and share regional data.

“This is vital, because local workforces have a real impact on local communities,” Mellor explains. “For example, the hospitality sector is crucial to the success of the whole UK. Often it’s a young person’s entry into the world of work where they learn invaluable transferable skills. It also provides places where local communities relax, socialise and celebrate. What are we doing to help it come through the most difficult times and position it for the future?”

Immigration policy is also important. The REC wants the government to reduce the costs of sponsoring a work visa and extend them from two years to at least five, so employers see a return on the investment. The manifesto urges ministers to rethink the increased salary threshold for the Skilled Worker Visa. “Successful modern economies are international, but higher thresholds send the wrong signal around the world, split up families, and rob the UK of key people at a time of real shortage,” it says.

Furthermore, it calls on the government to conduct an impact assessment on the effect of reducing the number of dependents accompanying those on Health and Social Care Visas and whether this will exacerbate labour shortages. Shortage occupation and salary list reviews should happen at least every two years, it says – and they should involve business and industry.

The manifesto addresses sustainability, ethics and AI explicitly, saying the workforce of the future will need education in ‘net zero’ and changing technology (including green technology). An AI assurance framework would form the basis of further work with employers to ensure ethical and safe AI use in the UK and across borders.

3. Boosting productivity

Understanding the barriers to work is vital to boosting productivity and reducing inactivity. The REC is calling for reform of the Apprenticeship Levy, 30 hours of free childcare for carers in education or training and better public transport links. The manifesto also calls for consultation on plans to extend the childcare workforce, and reform of public procurement processes. It urges government to mandate pay gap reporting for ethnicity and disability.

“The mindset of how we think about work is transforming and I don’t think the government has caught up,” Mellor says. “There is great talent out there and we are not making the most of this across the whole country.”

Mellor highlights childcare and transport as two priorities for a future government. “Our workforce is ageing and the pool is shrinking. We need to encourage people to want to be in work and make it easier and less stressful for them to get to work,” she says.

“We need policies that help people into work, rather than hindering them. We should be asking how do we keep skills in the workforce longer, how do we use talent, and how do we encourage people to work when they are older, or for more hours, even if they don’t need the money? Supporting working parents with affordable, high quality, accessible childcare and an available, efficient transport network is crucial to this.”



4. Regulations

The manifesto recommends revising employment law to reflect flexible working norms, overhauling and simplifying the IR35 off-payroll laws, regulating the whole labour supply chain (including umbrella companies) and introducing a well-resourced Single Enforcement Body.

We may not know who will be in government next year, but we do know what they need to address to create the growth and prosperity everyone wants.

“We need to stop the short-termism and engage with longer-term plans that build on the labour market we have, an understanding of what workers want, and honesty about some of the political trade-offs,” said Carberry.

“Our manifesto provides creative and robust policies to solve deep-rooted problems in the labour market caused by a smaller labour force, a skills system that isn’t meeting employer needs and businesses that are still too hesitant to invest. The manifesto takes a people-first approach, because when we enable our workforce to make a difference, we know they get the job done!”

The Spring Budget takes place later this month and will provide an opportunity for the current government to demonstrate that it understands these arguments and the value of employment policies to fuel national growth. We will watch for announcements with interest.

legal update

Increased fines for businesses engaging illegal workers

By **Melissa Mhondoro**, REC Solicitor and Head of Legal Advice

The maximum penalty for employing illegal workers tripled from £20,000 to £60,000 per worker on 13 February 2024. The penalty for an employer's first breach increased to £45,000 per worker from £15,000, and the maximum for repeat breaches increased to £60,000 per worker from £20,000. This drastic increase could create financial uncertainty even for businesses that consider themselves financially stable.

Employers will be liable for a fine if they have not verified a worker's right to work in the UK in accordance with the Statutory Code on Preventing Illegal Working and the Home Office's Employer Guide to Right to Work Checks. Broadly speaking, the code requires employers to carry out a manual check by seeing, verifying validity and keeping a copy of all original right-to-work documents. Employers should also record the fact that a right-to-work check was conducted and when it was done.

Employers can engage an identity service provider (IDSP) for a digital check for British and Irish nationals using original and in-date passports. A Home Office online check must be conducted for nationals of all other

countries, including EU citizens. If a worker has a time-limited right to work, employers should do follow up checks.

Employers who establish that they carried out the correct checks before a worker started, can in most cases obtain a legal excuse if a worker is found to have been working illegally despite a valid right-to-work check having been carried out before they began working. This may be useful in situations where a worker loses their right to work after they have started working and they fail to notify their employer.

Employment agencies introducing permanent employees to their clients do not typically have to conduct right-to-work checks unless expressly requested to do so by their client in their terms of business, or if they are being introduced to work in a role involving vulnerable people. Where this is the case, the verifications must be carried out in accordance with the statutory guidance because, while the employment agency is not the employer in this scenario, it is still possible for a client to pass on liability and/or oblige an agency to reimburse them for a Home Office penalty under their terms of business.

Employment businesses who supply temporary workers will need to verify their workers' right to work to comply with their responsibilities under the Conduct Regulations. A failure to do so is therefore also likely to breach the Conduct Regulations.

Regulation 19 prohibits the supply of a worker unless an employment business has obtained confirmation that they have the legal authorisations required for them to work in the role. Regulation 20 prohibits the supply of a worker in circumstances in which it would be detrimental either to the interests of the worker or the interests of the hirer.

A worker who works illegally commits a criminal offence and can be punished with six months' imprisonment and/or a fine. Supplying a worker without the right to work would also be detrimental to the worker, as they would commit an offence by working illegally.

AI will revolutionise recruiting

By **Lia Taniguchi**, Senior Research Manager, Bullhorn



Everyone is talking about AI, but most companies are still in the exploratory stages, experimenting in limited ways and investigating how they might use it more in the future. In the process, recruiters are creating a wish list of AI applications that they believe could revolutionise the industry.

In the next two-to-three years recruiters are hoping that AI will start to do things from formatting candidate shortlists to reworking job descriptions, allowing them to focus their time on building stronger relationships with their clients and candidates.

What is the impact? When asked about the benefits of generative AI, recruiters responded consistently. They believe it will speed up the way they identify and communicate with high-quality candidates, and improve accuracy. It will also

build on existing automation tools to take more repetitive tasks off their hands and so improve their productivity.

Potential pitfalls

There are some caveats when it comes to relying on AI. Right now, recruiters want human eyes to view any AI-generated communications. This is not only to ensure accuracy, but to make sure that communications are not too generic. The most successful recruitment firms are differentiated by their specialist expertise, which should be reflected in any public-facing materials.

Recruiters are equally clear that AI should never replace human beings, but should free recruiters to focus on the personal relationships that are at the heart of the recruitment industry.



Culture, confidence and personality

What I know



Pete Taylor is Managing Director of Gi Group, UK and Ireland

Culture is all-important.

Culture is the heart of our business because people aren't a commodity. We sell a service and people are our culture. I became MD at Gi Group when it acquired Encore in 2022. Some colleagues have been with Gi for 30 years and have witnessed much change. More will follow now with the acquisition of Kelly Services, so we need to understand our culture, integrate and align it across our businesses. We are 'corporate' in size, but must maintain a local touch.

A leader is not a boss.

I don't like the word 'boss'. Leadership is about working collaboratively to achieve goals. You need to be emotionally and commercially agile and consultative, which

is why we set up a colleague forum with representatives from all parts of Gi Group.

Focus on productivity.

2024 will be challenging for all businesses. We need to understand the pressures on our clients, work more efficiently to eliminate wasted time and continue to add value. We can't change payment terms, but can find ways to become more agile and do more.

Hire people with agile minds.

I want people with a thirst for knowledge, 'life changers' who enjoy their jobs and want to improve the lives of our clients and candidates. This job can be challenging, so you can't let it become transactional. We deal with all kinds of clients and candidates. There's always something to find inspiring.

Q&A



Danielle Cassidy is Director of MC Personnel

How is your business changing?

We started out 25 years ago providing people for farms and industrial employers in Kent and supplying buses to bring people to remote sites. We then expanded into commercial recruitment and events management. During the Covid crisis we had an influx of candidates and then we lost workers when the UK left the EU. Now we're seeing a surge as client confidence rises. We adapt, but we keep our ethos of service and putting clients and candidates first.

How is automation affecting your role?

Automation should never replace personal interaction. We're implementing a new CRM system, but we still speak to our candidates every day, asking how they are and telling them about their

next assignment. It's essential.

What is the key to success?

Resilience and a sense of humour. Industrial recruitment is not glamorous. There can be late nights and stress! You have to deal with difficult people and you must be able to move on after a bad day.

You were an apprentice. What makes a good trainee?

Personality. I can teach people interviewing skills, but I can't teach them to be a people person. They must be able to multitask and do 10 things at the same time! We recently had two strong candidates for an apprenticeship. After half a day's trial, it was clear who showed confidence and was happy picking up the phone and talking to people.

Resolution Foundation charts UK employment shifts

Both the REC and the Resolution Foundation think-tank share a common concern about the negative impacts of economic inactivity on the labour market and the economy. There is also commonality on solutions, such as reforms to childcare, closing the employment rate ‘gap’ between those with and without disabilities, and the obvious link between workforce health and its relationship with employment.

The Foundation’s recent *Outlook* report adds weight to the REC’s call for the Chancellor to reform access to training with a more flexible Apprenticeship Levy, create a childcare workforce strategy, build on the success of Restart with a successor scheme, tackle NHS waiting lists, and address wider staffing challenges. The UK will prosper if we address ongoing skills and labour shortages in various sectors, economic inactivity and poor productivity. Success will enable us to reduce the tax burden while maintaining quality public services,

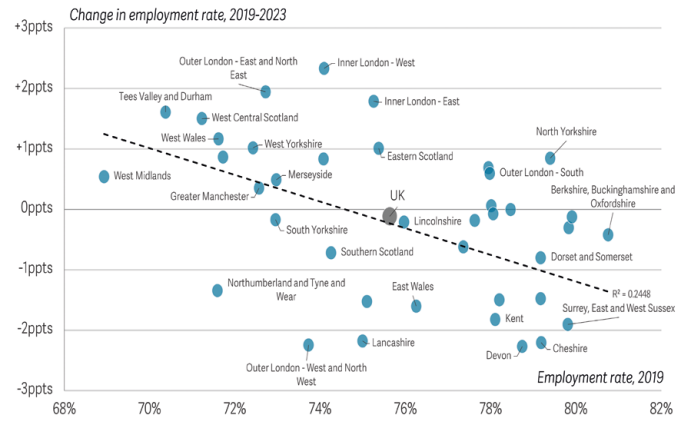
The think-tank’s report, published in late January, compared employment and sickness-related inactivity today with the situation before the pandemic. The research is interesting to REC members because it looks at high and low employment geographic areas and economic performance across different parts of the UK.

It finds that places with lower employment rates before the pandemic have seen faster employment growth since then – with the reverse true for higher-employment areas. The report compares the employment rate in 2019 with the change in employment rate between 2019 and 2023. It shows a positive change in the employment rate between 2019-23 in Outer London East and North East, Inner London West, Inner London East, Tees Valley and Durham, West Central Scotland (including Glasgow), Eastern Scotland, West Wales and West Yorkshire. In contrast, areas with higher employment pre-pandemic have witnessed the largest falls since, such as Cheshire, Devon, Surrey East, and West Sussex and Kent.

The research also looked at the post-pandemic rise in inactivity (those out of work and not looking for work). The areas with the greatest change in the proportion of working-age population who are economically inactive because of ill-health since 2020 are West Wales, Tees Valley and Durham and Merseyside and South Yorkshire. The least change was in Inner London West and Inner London East.

Places that have seen a large increase in inactivity because of ill-health share some characteristics. Those with high numbers

Employment rate in 2019 compared to the change in employment rate between 2019 and 2023, NUTS2 regions



Source: RF analysis of ONS, Annual Population Survey. Notes: 2019 refers to the 12 months ending March 2020, 2023 refers to the 12 months ending September 2023. © Resolution Foundation resolutionfound

of working-age people who classify as disabled have had the biggest increase in inactivity because of ill-health, and places with many pre-existing health problems have seen the steepest decline in the health of working-age people.

Areas with more graduates tend to have the smallest increases in working-age people who are economically inactive because of long-term sickness. Lincolnshire and Lancashire, for example, have fewer graduates and their population of 16-64-year-olds who are not working because of sickness has increased by 2.5 percentage points since the pandemic.

But the think-tank also reports that some parts of the country have seen an increase in inactivity because of ill-health and a fall in employment.

When the report compares inactivity in the UK with other advanced economies, it finds that, by mid-2023, the UK was the only country in the G7 whose working-age employment rate remained lower than before the pandemic. The pattern of G7 average working-age employment shows level employment rates from 2019-20, a sharp and deep dip at the onset of the pandemic and sharp then steady rise in employment from mid-2020 to mid-2023. In contrast, the UK’s dip in employment rate in early 2020 was far less dramatic than the G7 average, but the UK employment rate has hardly risen since then. The average rise in employment rate is far more pronounced in the G7 than in the UK since mid-2021.

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