

Public Accounts Committee call for evidence - "Developing workforce skills for a strong economy"

A response from the Recruitment & Employment Confederation (REC)

October 2022

About the REC

The Recruitment & Employment Confederation (REC) is the professional body for the UK recruitment industry. We represent over 3,000 businesses who help more than a million people find a new permanent job each year, and on any given day place nearly 1 million onto a temporary, contract or freelance assignment. We drive standards and empower recruitment businesses to build better futures for jobseekers and businesses, and we do this by providing legal advice, business support, training and labour market intelligence.

The REC is committed to working with the government to find workable solutions to boost economic growth and tackle the current skills challenges. Our members give us valuable insight into what's happening in the labour market and economy, as well as an understanding of the impact of policy changes.

Summary

Over the past two years, labour and skills shortages, as well as the status of the British economy, have dominated headlines and been felt by businesses and educators across the country.

A recent report by the Recruitment & Employment Confederation (REC), [Overcoming Shortages: How to create a sustainable labour market](#), has evidenced the correlation between a skilled workforce and a resilient economy. The report found that with a 10% uplift demand in the economy, the UK economy could lose up to £39 billion every year from 2024 if labour and skills shortages are left unaddressed. Further, we found shortages could also lead to a negative impact on earnings, inflation, productivity, imports and public sector receipts.

Based on this report and supported by further labour market data across the REC membership, we suggest a number of policy recommendations. The central message is that the UK economy needs a skills system and funding arrangements that catalyse private sector investment. The skills system will work better when funds follow market demand on skills. The REC's key asks for governments are:

- Commission a **Future Workforce Strategy** - a long-term, cohesive plan for how the UK will put people planning and skills funding at the heart of its growth strategy.
- Create an environment in sectors and local areas where investment in training is incentivised and expected. This could be facilitated through a **Tax Credit Scheme**, especially for green jobs and skills.
- **Get local labour markets working** - through further devolution of skills policies and expansion of Local Skills Improvement Plans that engage businesses and labour market experts. And implement policies such as mandatory ethnicity and disability pay gaps and better access to childcare facilities and family benefits.
- Provide an '**Immigration for growth**' approach - the system must be able to flex to meet the UK economy's skills needs and facilitate growth, innovation and investment.
- **Labour market activation**, especially targeting those over 55 and leaving workplaces. Businesses need to provide tailored support for this group. And there's a big role for governments to play in encouraging and mandating that.
- **Redesign the apprenticeship levy** - we need to broaden the levy, making it flexible enough to meet the diverse nature of the UK labour market and train temporary workers and workers at all skills level. And all adults, not just young people, should be encouraged to participate.
- **Expand the Skills Bootcamps** and ensure more entry level skilled people are benefiting from the scheme.
- **Create the next iteration of the Kickstart Scheme**. But we must learn from the past mistakes and have a simplified and smooth administrative process in place early on.

As well as the recommendations from the REC, this submission includes the following information:

- Outline of the current labour market status
- Review of the causes of the shortages
- Review of the current skills agenda

Solving skills shortages and the participation problem is essential for economic recovery and growth. We know that workers and their skills are the most important asset for business - they

help drive success which grows our economy. To create a sustainable labour market and stoke economic growth, we need to put people first. There are a range of practical steps that businesses need to take. And for governments, it's about making sure public money catalyses private sector investment.

Context and Background

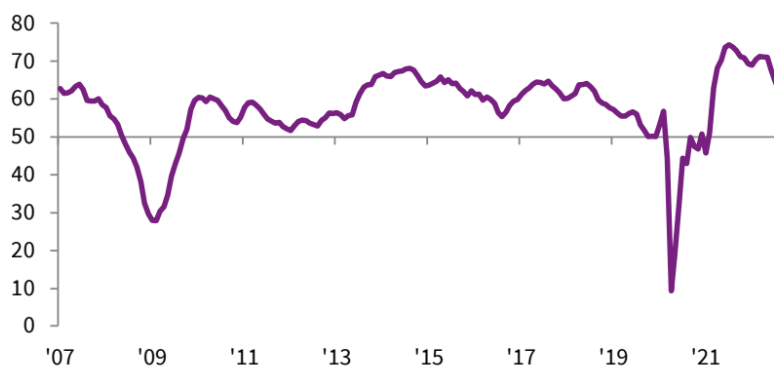
REC data demonstrates the scale of the challenge

The REC first flagged a return to strength for the labour market in spring 2021 - based on the day-to-day insights our recruiter members were seeing. Today, although the post-pandemic hiring spree has abated to a degree, labour and skills shortages remain one of the biggest concerns for recruiters and their client businesses.

In 2021, we saw record-breaking job market figures. The level of vacancies peaked and reached an all-time high in the 25-year history of our monthly Report on Jobs. This continued throughout 2022, although the trend has started to slow down in the recent months. This does not mean that demand for staff and skills has decreased. The demand remains solid but growing at a softer rate. For example, according [to the REC's latest Report on Jobs](#) published in October 2022, recruiters recorded slower increases for both temporary and permanent staff, although rising markedly overall.

Total Vacancies Index

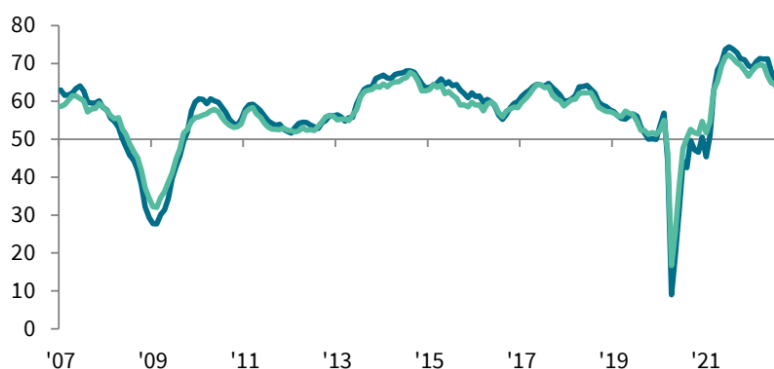
sa, >50 = growth since previous month



Permanent Vacancies Index

Temporary Vacancies Index

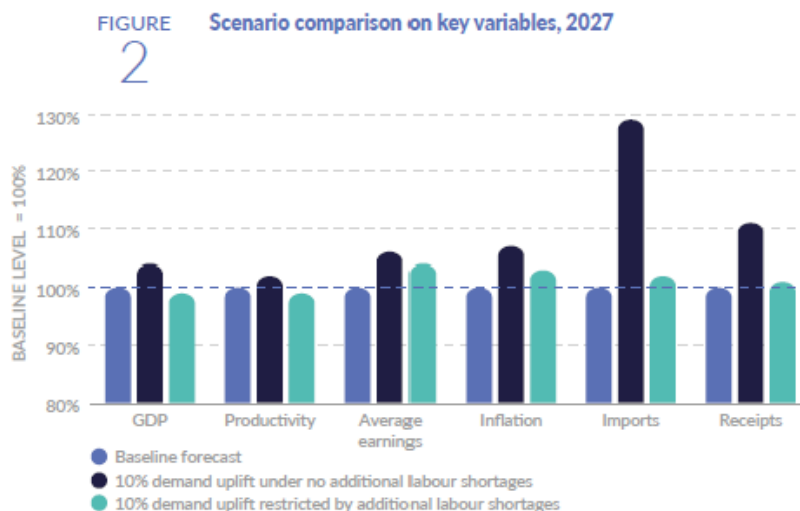
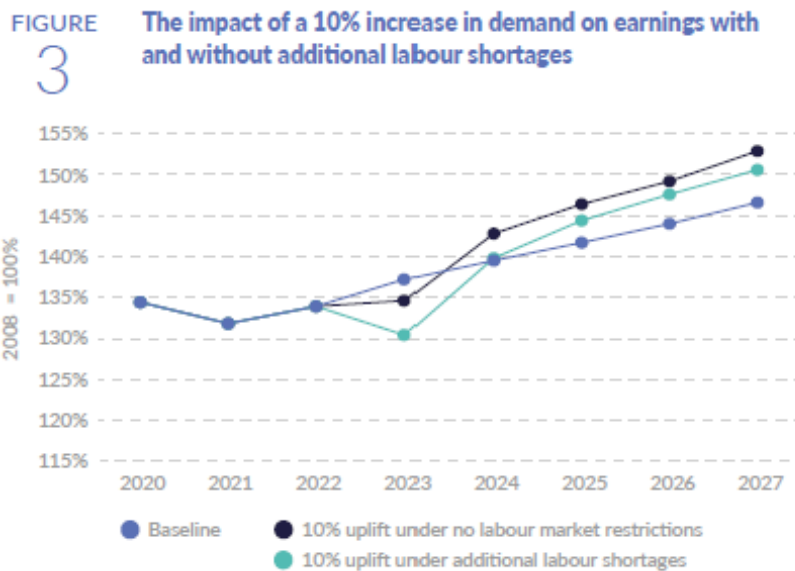
sa, >50 = growth since previous month



Source: KPMG and REC, UK Report on Jobs, published 7 October 2022

The UK economy could lose up to £39bn a year from 2024 if shortages are left unaddressed. And skills shortages lead to a negative impact on our economy, productivity, investment and growth.

As the Committee has pointed out in the call for evidence, skills shortages have a negative impact on our economy. Many firms are still struggling with these shortages, and that will constrain economic growth over the longer term. In July 2022, the REC published [Overcoming Shortages - How to create a sustainable labour market](#), which examined the economic impact of labour and skills shortages and explored policy solutions. We conducted some robust economic modelling and found that with a 10% surge in demand for staff across the economy (a hypothetical but conceivable uplift given business' ongoing requirements for staff), and the labour market restricted by shortages, we could expect to see a 1.2% fall in GDP and productivity by 2027 – costing the economy anywhere between £30 billion and £39 billion every year from 2024. This figure is just short of the entire current defence budget, or the cost of two whole Elizabeth Lines. Further, our data shows that labour and skills shortage also lead to lower productivity, earnings and imports.



Source: Overcoming Shortages: How to create a sustainable labour market, published 17 July 2022

Causes of labour and skills shortages

So far, we've outlined the scale and the urgency of the skills challenges, demonstrating the correlation between workforce skills and a strong economy. Many people will wonder what has caused these shortages and what we can do as a response.

1. Lack of basic skills and barriers to retraining and upskilling for adults

According to a report from Learning & Work Institute, nine million adults (aged 17+) in England have low literary and/or numeracy skills. At the same time, adults are less likely to be involved in learning or be aware of training opportunities. The same report found that participation in English, maths, and ESOL learning has fallen 60 % over the last decade. And when adults were asked whether they were aware of free courses for English and maths, half of the respondents said 'no'.

The following groups are among the least likely to be aware of free courses for England and maths.

- Adults who left full-time education earlier
- Adults with lower-level qualifications
- Adults who have not engaged in learning recently

So, we need to tackle the lack of basic skills, especially among adults. We need to establish a scheme or environment where adults are encouraged to upskill or retrain. There is much work to do to raise the awareness of free courses available, while ensuring the layout of the courses provides much-needed flexibility. **When it comes to training adults, flexibility is key.** Many people have existing family or work commitments that have to be prioritised over a training course.

2. Loss of foreign workers

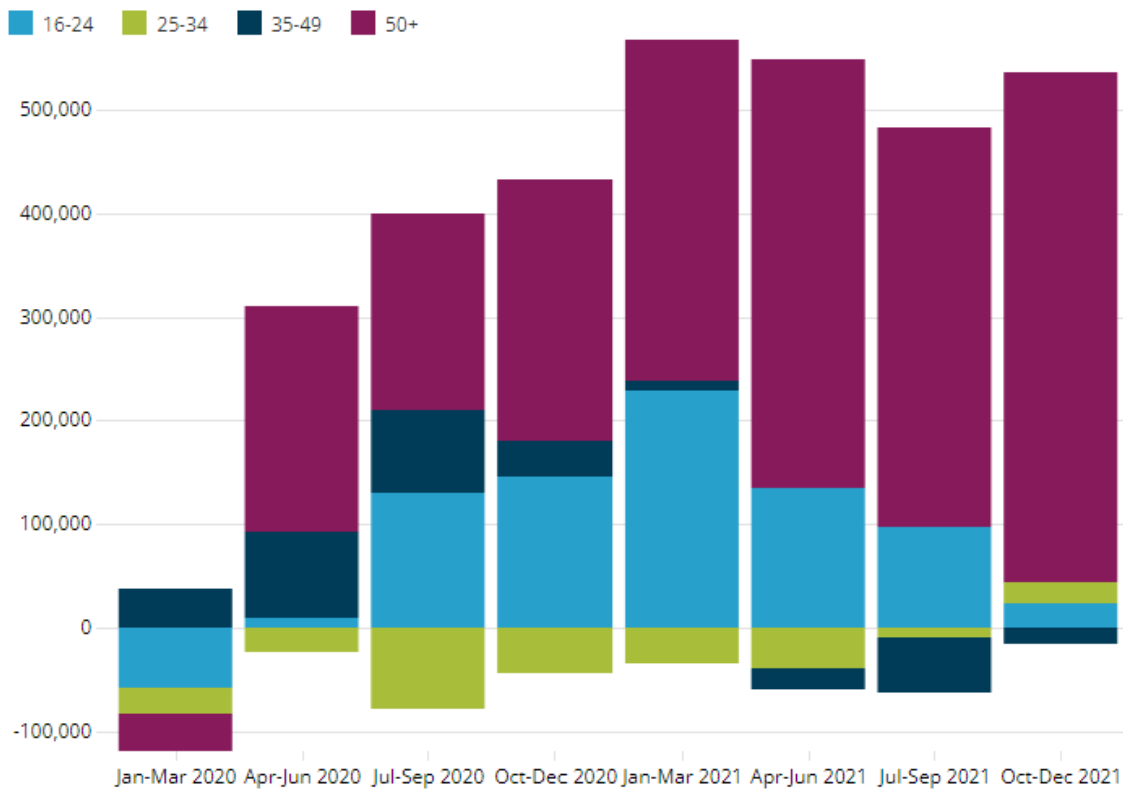
Labour shortages are not new, but the pandemic and Brexit exacerbated the problem, and the UK lost a large number of workers to other leading economies. According to 2021 ONS figures, net migration fell by 88% in 2020 compared to the previous year. Only an estimated 268,000 people moved to the UK in 2020. This is a considerable decline compared to almost 600,000 in 2019. Emigration (people leaving the UK to live abroad) fell as well, but to a lesser extent. Notably, net migration in 2020 for EU nationals was negative with 94,000 more EU nationals estimated to have left the UK than to have arrived. This creates a gap to plug in our labour market.

We need to attract more people from abroad, into the UK labour market. Too many people have left and not many people are coming to the UK. Some are choosing other major economies. But many are also barred by the existing visa paths even though they are willing to come to the UK. **We need to take an 'immigration for growth' approach with a system that can flex to facilitate growth, innovation and encourage increased productivity.** While a route for entry level skilled workers needs to be established, there are many tweaks that we can make to the current system. **Extending certain visas (graduate visa, high potential individual visa and youth mobility scheme) will give workers visibility and certainty they need, in order to stay within the UK workforce.**

In addition, the Shortages Occupation List must be updated regularly and more frequently, to promptly respond to the latest demands from the labour market and businesses. We also need to embrace our refugee communities into workplaces, by reducing their waiting time to be eligible to work in the UK from 12 months to six months.

3. Loss of older workers

There is plenty of evidence on growing levels of economic inactivity of those aged 50 years and over. This is a trend that our member recruiters first started to pick up in early 2021. ONS data published in March 2022 states that this group saw the largest increase of economic inactivity among all age groups since the start of the pandemic, following a historic downward trend since records began in 1971. Overall, economic inactivity increased by 522,000 people from October to December 2021 compared with the year before.



There are a number of reasons for leaving but the pandemic brought a shift in people’s thinking. REC members said that many people have reassessed their work and life and revalued the priorities, leading them to retire early due to caring responsibilities, burnout, physical & mental health issues. The current NHS waitlist and the growing number of people out of work due to health reasons add to this pressure.

We need a modernised view to retirement, workforce and work-life-balance with an aim to retain workers. Many workers have told REC members, that they’d like to work flexibly – not just the location but with the hours and approach as well. Employers need to provide tailored support for each worker and invest in this support – from offering part-time work, job-share, flexi-hours to menopause & childcare support. **There is much to do from the industry, but this must be accompanied by the government’s efforts to encourage, incentivise, and even mandate this.**

4. Levelling up

There are, still, people who wish to work but can't physically get to work or do roles that enable working from home. This is especially true for certain demographics such as those living in rural areas, people with caring responsibilities, and people with mental and physical disabilities. There is a huge potential and willingness across these groups but there are currently too many barriers. As an example, it is evident we need to invest more into public transport. Buses and trains in rural areas are too few, so **we need much more investment into redesigning the infrastructure. But this must be delivered together with local employers, recruiters and educators** who understand what the area needs to catalyse growth and productivity.

Childcare is another huge barrier for many. **From improving access to childcare, reviewing childcare benefits, to statutory grandparents leave, we need to strengthen our support for families. Mandatory ethnicity and disability pay gap reports will also help reach people who are further away from the labour market.** This will highlight the gaps in our labour market and reveal the demographics still further away. Once we know the issue, the firms should be encouraged to learn from their reports and take initiatives to create an inclusive workplace with targeted support. A prayer room or personalised workspace are a few of the examples.

'Locally-led delivery' is key in turning these points into a reality. Recruiters, employers, educators and local policymakers in an area need to be enabled to work more closely together to assess and respond to the demands of their local communities.

CASE STUDY

An REC member recruiting in the South of England recently tried to recruit 7 young people on a school leaver programme for his business. Of the 7 candidates selected by the local Jobcentre Plus, only one showed up for interview - because he cycled to the office. Local transport to the area is poor and none of the candidates had access to a car. We've heard similar stories across our membership.

Another member recruiting in life sciences said that it is difficult to recruit people outside of the three major life sciences 'hubs' in the UK (London, Oxford and Cambridge). For example, Wrexham is a growing hub for pharmaceutical companies, but firms struggle to find suitable workers from the local labour pools while people from elsewhere don't want to relocate. Part of this relates to the difficulty of actually getting to the site.

Review of the current skills agenda

Apprenticeship Levy

The Apprenticeship Levy was introduced in 2017 with a view to help business invest in training. Under the scheme, all firms whose annual pay bill is more than £3m are required to pay 0.5% of that towards apprenticeship via HM Revenue & Customs. The annual pay bills include the wages of agency workers that recruitment firms pay. But these agency workers are severely restricted from benefitting from the same scheme.

This is largely because the fund doesn't work well for temporary workers, project-based workers or freelancers. Among 3,000 REC members based in England (in 2019), more than one in five (22%) currently pay into the levy. More than 90% of these levy-payers are SMEs, with 72% directly employing fewer than 50 people. The Department for Education estimates that around 19,000 employers paid the levy in 2017/18; that is 1.3% of all employers. This means that of all the employers that pay into the levy, 1 in 25 are REC members, making the recruitment industry a significant contributor to the apprenticeship levy.

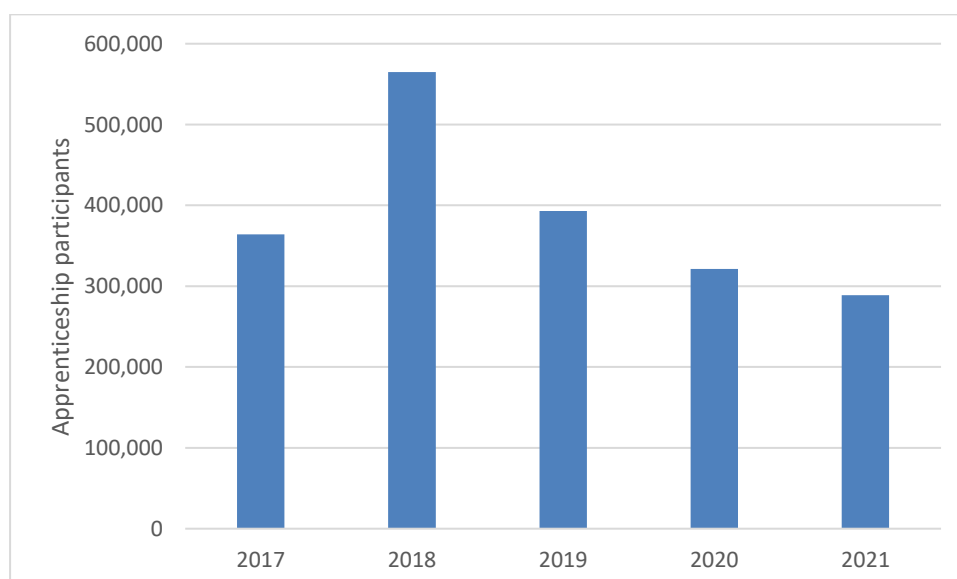
However, when it comes to levy funds used, almost half (47%) of survey respondents have been unable to use any of the funds paid into their account. Only one in ten (10%) respondents have been able to use more than half of the funds in their accounts.

Almost all respondents (95%) have been unable to use funds on apprenticeship programmes for agency workers because of current restrictions. Levy funds can only be used to pay for apprenticeships, which have a very particular structure and require a minimum of 12 months with one employer to complete. This means that temporary workers, only 2% of whom are on any given assignment for a period of over 12 months, are excluded from accessing these schemes.

Addressing this lack of flexibility in the levy is an immediate priority so temporary workers and their agencies can participate. Currently, the scheme fails to meet the diverse nature of the UK labour market. And it is also a missed opportunity considering how much money goes into the pot but remains unused.

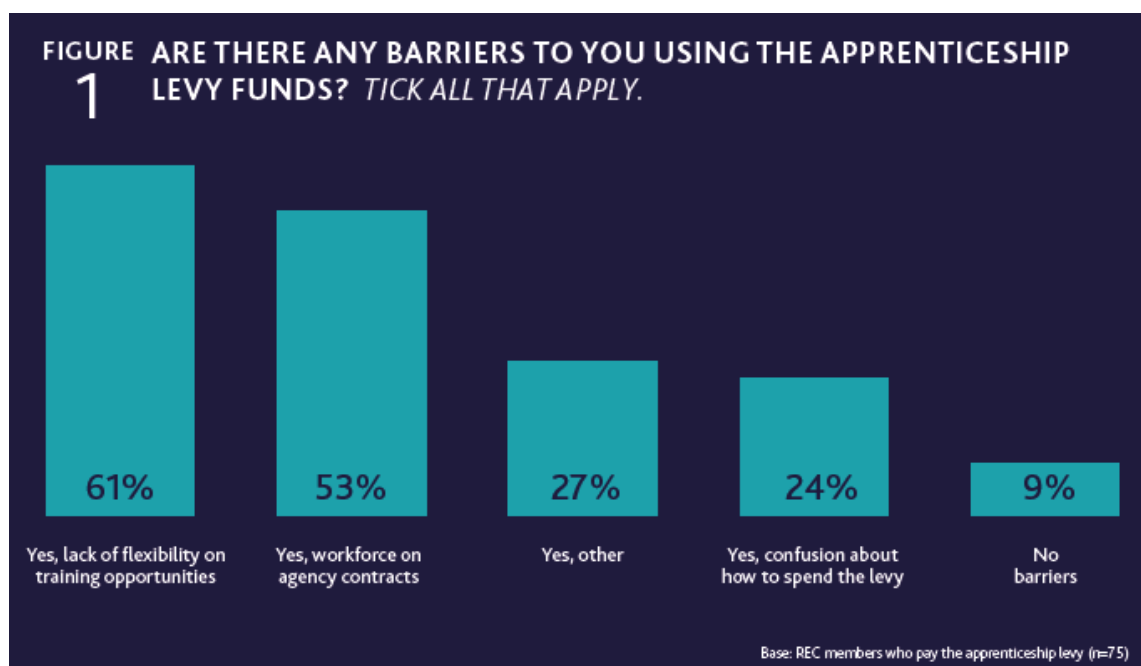
The types of courses funded through the levy also matter. We need to support learners at all levels and those with entry level skills should be the ones that benefit most from the funds. In 2016/17, the year the levy was introduced, 53% of apprenticeships started were at intermediate level. By 2018/19 (the last full pre-pandemic year), the number of intermediate apprenticeships being started was down to only 36%. High level apprenticeships have seen an increase from 7% to 19% of starts in the same period

The decrease in the number of people starting an apprenticeship is a sign that the levy needs a review and a reset. Apart from the initial jump in the second year of the scheme, the take-up for apprenticeships has been decreasing.



CASE STUDY

A small recruitment business with 20 directly employed staff has a pay bill exceeding £3m because it supplies on average 400 agency workers per week to a number of clients in the industrial sector. As a result, it pays the apprenticeship levy. The recruitment business identifies skills shortages in this sector and wants agency workers to go on shorter training courses to help them upskill and progress. However, it is unable to use any of the levy funds on its temporary workers because of current funding regulations. This is the case for the majority of REC members who pay into the levy.



Skills Bootcamps

The REC and our members have gotten behind the concept of Skills Bootcamps and worked with the Department for Education last summer to train HGV drivers and help them then get work through our members. However, the current skills bootcamp offering is too heavily focussed on level 3 skills and above. **More needs to be done to better meet the needs of employers and offer a wider range of training opportunities including entry level skills such as level 1 and level 2.**

This is particularly important because there is a shortage of workers with these skills in sectors experiencing more acute skills shortages such as construction or logistics. For temporary workers in these sectors who wish to progress there are very limited training opportunities and little or no funding to provide training to the candidates, meaning any training they do choose to do is usually paid out of pocket. By expanding skills bootcamps to entry levels of training in addition to level 3 and higher, it will mean more employers can

make use of the high-quality candidates being generated by the bootcamps. **So, an expansion of bootcamps for entry level skills training would be welcome.**

Where bootcamps are being delivered, ensuring the training is delivered flexibly is key in improving accessibility to all adults, including the self-employed. People need to have the ability to fit their training in around other commitments and many people are unable to commit large chunks of time to training full time. Modular training that can be completed in a pattern that suits an individual trainee will allow more people to access these bootcamps.

Local Skills Improvement Plans (LSIPs)

Local Skills Improvement Plans (LSIPs) were introduced in the Skills for Jobs White Paper in January 2021 with a view to provide employer-led skills scheme for adults. With LSIPs, local employers, especially SMEs, are given a much stronger voice in local skills planning. The plans will help ensure provision is more responsive to emerging and changing skills needs and being locally driven, can be tailored to the challenges and opportunities most relevant to the area. Designed to address skills shortages, the employer-led scheme aims to work with local employers and businesses to meet the skills need for each area. **The REC would like to see this scheme expanded across England and adopted appropriately in devolved nations, to offer more short and modular courses and level up across the UK.**

While we support LSIPs and are keen to see more of them, the scheme must be executed effectively and evolving, learning from mistakes. LSIPs are designed to be delivered locally, working with local people but this definition of 'local' shouldn't be too rigid and become a 'postcode lottery.'

Kickstart Scheme

The Kickstart Scheme has been a great way to support young people into in-work training. In fact, the REC worked closely with the Department for Work and Pensions (DWP) to play a key role as a Gateway organisation, delivering 210 work placements across our membership. We saw that governments and businesses working together can go a long way in providing targeted support.

But there are lessons to learn. First, **there should've been greater drive from DWP to engage young people who qualify for the scheme.** A robust marketing campaign and communication plan with their target audience should have in place from the start. Also, there should have been **a proper audit process, to ensure the process evolves and is as seamless as possible.** Instead, there were too many administrative hoops that businesses had to jump through, with participant employers being let down at times.

Closing

The pandemic and its aftermath showed us what it takes to survive and thrive – businesses need the right people in the right jobs. Even before the pandemic, the REC has been talking about the issues the UK's labour market and skills system face for many years. And as we have seen over the recent months and throughout our research, they have the potential to significantly damage the UK economy, our ability to invest and grow in the future.

There are many actions that businesses need to consider in order to get the skills system, workforce and economy right. Firms need to raise workforce and skills planning up the agenda, participating in local and sector planning and hiring people with a long-term view.

But no business or industry can do this alone. Governments, local areas and colleges need to collaborate extensively. For governments, a proper labour market strategy is vital. Skills is part of that, but not the only part – immigration, devolution and labour market activation all matter. From buses and childcare infrastructure to apprenticeships – the entire business environment influences the investment decisions that firms make. It's vital some unity of thinking is brought to this across the government.

For more information on this submission, please contact:
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