Spring Budget 2024

A submission from the Recruitment & Employment Confederation

January 2024

London, 24th January 2024

Dear Chancellor,

The Spring Budget represents a final opportunity before the General Election for the government. Our economy rests on the skills and abilities of the British people. Like you, the REC believes that prosperity comes through the growth of our private sector. That means we need to set out a really clear plan for the UK labour market - to make the best of our most important resource. Addressing ongoing skills and labour shortages in various sectors, economic inactivity and productivity will ensure we prosper, and the tax burden can fall - while maintaining the quality of our public services. The government's vision must be built on collaboration with businesses, to make sure policies are practical and impactful, not just politically attractive. The REC is always ready to work with government on this vital issue.

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. We reach far into the heart of the UK economy. We place a million people into new permanent roles every year, 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.

The government can use the Spring Budget to build on the progress of last year's Autumn Statement and set out a long-term growth strategy for the UK, built on the hard work and ingenuity of the British people. Given the current economic climate, we appreciate the need to strike a balance when it comes to investment, but as we set out in our submission to the Autumn Statement last year: the right investment, in the right places, could boost productivity and ensure greater revenue returns to Treasury.

The first part of our submission looks at some of the policy interventions government can make to help with this. We have divided these into four broad themes:

1. Building a better understanding of the modern labour market and the challenges that come with it, working with business through formal channels to address these, and creating a labour market that is in sync with how people want to work now. Too often, political suggestions - from both sides of the House - seem to be dealing with a different labour market from the one our members experience every day.
2. Supporting the labour market's transition to the future by embracing flexible ways of working, investing in new industries and technologies such as green skills and AI which will boost productivity in the long run. We know big changes are coming - and we can't predict much of what will be needed - but preparing our skills, education and regulatory systems will boost our progress.
3. Ideas to boost workforce productivity and reduce labour market inactivity in the short-term by reforming access to training, increasing childcare accessibility and reviewing public sector procurement models. Too often, things which have knock-on effects to labour market activity are ignored.
4. Regulating for a sustainable and dynamic labour market by building on the government's existing work to reform employment law, taxation to better support temporary work. Our legal base needs to adapt to the fact that the UK has a wide range of models for people to work, which underpins our great record on employment. Making sure regulation acknowledges this - and that the law is enforced so the compliant don't miss out, is vital.

Under each of these items, this submission sets out practical ideas for your team. We believe that each of them strikes the correct balance between cost and return on investment at a time when public spending settlements are tight. Many do not require initial capital investment, but those that do will generate greater returns in the medium and long term.

The second part of our submission gives an overview of the latest in the UK labour market, using the data on which we have based our recommendations. Treasury and Bank of England officials already cite our data, as it is a robust and longstanding lead indicator on the labour market's performance and the pace of change. The jobs market has been resilient, and remains so, but growth is needed in 2024 to maintain this. If you or your team would like to discuss any of our submission in more detail, Ellie in my office (ellie.goddard@rec.uk.com) can arrange a meeting.

Yours Sincerely,

Neil Carberry,
Chief Executive

Part one: Driving growth through a people-based approach to productivity, business led intervention and a modernised labour market.

Ahead of a likely General Election this year, the government needs to use the Spring Budget as one of its last chances to set out both a long-term vision for the economy, and actions to take in the short-term. This submission aims to strike that careful balance, with the recommendations drawn from our new manifesto – Dynamic Labour Markets for Growth. A long-term vision can't be successful without short-term action acting as the foundation for building the bigger picture. Likewise, solely focusing on short-term action will leave the economy and the labour market unable to reach their full potential. We need to look at short-term policies like reviewing the skills and training offering available right now in the UK, to ensure that long-term goals like our Net Zero targets can be met. Similarly, conducting a new Workplace Employment Relations Study will provide the evidence to help shape the long-term Workforce plan and Industrial strategy the country needs to maximise the productivity of our labour market. These are just two examples of how the short-term and long-term thinking go hand in hand, and the other policy recommendations set out in the four subsections of this submission further demonstrate the need for this approach.

Understanding the labour market and today's workers to build a clear and effective Industrial Strategy, creating a long-term plan for the labour market and tackle labour shortages

Introduce a new people-led, long-term Industrial Strategy

The Spring Budget offers the government a great opportunity to set out a clear long-term vision for the UK by implementing a new Industrial Strategy. A well-developed Industrial Strategy clarifies the goals, expectations and path for the UK, as well as identifying key risks and ways to mitigate these. An Industrial Strategy would provide government, business and workers with a clear vision of how to build and develop the UK economy, looking ahead to 2030 and beyond. Understanding the current labour market is crucial to developing a long-term Industrial Strategy of the size and scope that is needed. The government should commit to working with businesses and employee representative bodies to shape an Industrial Strategy that contains more than just the usual skills policies. It must also contain plans to improve productivity and job design. Without infrastructure improvements on transport, childcare, and a flexible and responsive immigration system, we will not mobilise the labour market to deliver the levels of growth we all want and that will tackle the huge issue of labour and skills shortages. Our research shows that with only a 10% surge in demand for staff across the economy, we could see a 1.2% fall in expected GDP and productivity by 2027 - costing the economy anywhere between £30 and £39 billion every year.

1. *Recommendation: Conduct a Workplace Employment Relations Study to provide the foundation for an evidence based robust workforce strategy.*
2. *Recommendation: Work with businesses and employee representative bodies to develop and implement a Workforce Plan for the UK that can be used to underpin the Industrial Strategy.*

Support the labour market's ability to transition and meet future jobs needs by embracing new technologies and meeting demand for jobs related to Net Zero ambitions and other emerging industries

Promote the safe and ethical use of AI and other technology

The emergence of AI in recent years is well documented, and this technology is becoming increasingly common place in both work and everyday life. There is an unprecedented opportunity to boost the UK's productivity by embracing the use of AI in multiple sectors. In the recruitment industry, for example, AI tools can be used to source candidates right through to helping inform decision making during the interview process. This streamlines the process and makes decision making more efficient. However, as AI becomes more common so do issues with its use, particularly with concerns around the ethical and moral implications of AI use. As we know unconscious bias or unfair algorithms can impact the effectiveness of these technologies. In order to fully embrace the potential of AI, businesses would benefit from an effective assurance framework to make sure this technology is used appropriately and encourage businesses to use it to increase their productivity and growth. Introducing a framework of this nature will allow AI to be used more widely and safely in the UK and help position the UK as a world-leader in these technologies.

3. *Recommendation: Government should work with business groups to understand use cases and to develop an AI assurance framework which positions the UK as a world leader in the safe use of AI. This should aim to simplify use of AI across borders where compliance and regulation requirements vary.*

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

As new industries and technologies continue to emerge it is crucial that the right skills are being developed in our workforce to reflect these changes. The development of green industries to help the UK meet Net Zero targets is critical, and we need to ensure the right skills are put in place to support this transition to a greener economy. Whilst the government did commit to creating thousands of new jobs in its Ten Point Plan for a Green Industrial Revolution, this has not been built on subsequently. The UK needs to learn from the investment the USA made with its Inflation Reduction Act, which offers funding, programs, and incentives to accelerate the transition to a clean energy economy, and follow suit like Canada and the EU have already done. The UK has an opportunity to position itself as the economy for green investment and growth, it just needs to provide a strategic link between our net zero goals, support for green investment and innovation and training in green skills.

A 2022 report by PWC already highlighted the green skills deficit in the UK, and little action has been taken to address this since. Current trends show that of the 270,000 workers currently in the oil and gas sector who could transfer their skills to delivering net zero, 20% are expected to retire by 2030. This would leave only 216,000 workers with appropriate skill sets to fill an anticipated 400,000 jobs that would be needed to deliver the UK's green energy targets in nuclear, hydrogen and renewables. Our *Overcoming Shortages report* made clear the link between labour shortages, higher inflation and lower investment, which needs to be addressed in this sector before it is too late. The government needs to incentivise business investment in this space to address these shortages and ensure we can achieve our net zero aims.

One key challenge to meeting our net zero aim is the fact there is no set definition of what constitutes a 'green job' or 'green skills'. Without clearly defined terms, it is almost impossible to set measurable and achievable targets. To address this, a new occupational standard should be introduced for green jobs, and this should be built into the Gatsby Benchmarks. This will allow us to create a clear pathway into careers in this and other emerging sectors. Young people, more than any other generation, are influenced by the environmental work employers do when considering where to work, and making this information clear and accessible to those seeking to enter the workforce is key.

The government should examine how schemes, like Kickstart or Restart, could also be used to promote skills training and jobs that will help to meet our net zero targets. These includes roles like retrofitting and the electric vehicle sector. In the past, only 1% of roles within Kickstart have been in green industries. The REC has been working with Maximus, experts in employability services, on Restart since the scheme was introduced in 2021, and in this time have placed thousands of workers. With a more integrated approach to greening the economy this level of placement could have had a real impact on meetings job roles that help meet net zero aims.

4. *Recommendation: Create a fair and accessible '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: Work with labour market and business organisations to agree and introduce a clear definition of a green job. This will help track the number, type, and location of green jobs and will improve policy development to drive green growth.*
6. *Recommendation: Commit to labour market activation schemes to boost participation in green jobs, ensuring green jobs and skills are embedded in the programmes from the outset.*
7. *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.*

Create an immigration system to more effectively meet the needs of UK employers struggling with labour supply

Where skills shortages persist, and unemployment remains relatively low we need to better pathways to bring in high-quality workers from overseas where there isn't enough domestic talent to meet demand in the short to medium term. Current routes for the recruitment of high-quality overseas workers are too costly, complicated, and time-consuming. Businesses are unable to respond to changes in demand quickly and flexibly, particularly for roles where the pool of domestic candidates is limited. Small changes can be easily implemented with little to no investment, which can have huge net positives for the economy. For example, cutting waiting times for visa applications and lowering the cost of a sponsored visa applications would both greatly increase the efficiency of our immigration system. Currently it can cost up to £5000 for a business to sponsor a visa for its maximum duration. Removing or lowering this cost will free up this money for businesses to invest in ways to boost productivity, training staff or buy new equipment.

8. *Recommendation: Work with businesses to review and refresh the immigration system, allowing high quality overseas candidates to effectively and efficiently be recruited to key occupations in the UK labour marker.*
9. *Recommendation: Reduce the high costs of sponsoring a work visa and extend them from two years to at least five to allow employers to see a return on their investment.*

Boost workforce productivity and reduce labour market inactivity in the short-term by expanding access to training, increasing childcare accessibility and reviewing public sector procurement models.

Reform and expand the Apprenticeship Levy so that it can help more workers including temporary staff

Apprenticeships are in many cases a useful form of training, but they can only be delivered to workers who have the same employer for at least a year. This means that the majority of temporary workers working via a recruitment agency are unable to benefit from the Apprenticeship Levy, despite their wages being levied to fund this. Of the one million temporary workers on assignment in the UK on any given day, around 960,000 are ineligible for Apprenticeship Levy funding. Just 2% of temporary assignments last for 12 months or more, ruling out an apprenticeship for most temps. This is a massive failing especially in a labour market with so many vacancies and not enough skilled people to fill them.

According to an FOI made to the Department for Education last year, £853 million of Levy funding was used on apprenticeships at Levels 4-7. This is more than double the amount spent on Level 2 apprenticeships (£410 million). If we want to boost productivity and economic growth, and genuinely make sure that it pays to be in work, then we need people at every skill level. That will create a more sustainable talent pipeline, moving some people into work, and enabling others to upskill.

The inability to use Levy funding is a significant issue in sectors with acute shortages and high demand for temporary workers, including health and social care, hospitality, logistics and manufacturing. Businesses want to invest in their people, but they don't have additional resources for training because of the burden of the Levy. This limits training opportunities and exacerbates skills shortages further.

Entry-level apprenticeships have a significant role to play in helping people starting off in their careers, transition into other sectors, and in improving social mobility. Shortages of entry-level candidates in sectors like driving & logistics, manufacturing, and construction undermine their ability to grow and further contribute to the economy, and will mean that they continue to have problems with shortages in the future as the cycle continues. The government's own statistics highlight the shortage of skills training at this level in apprenticeships. Of the of the 349,200 apprenticeship starts in 2021/22, just 26.2% (91,000) were Intermediate (level 2). According to our members, work-readiness has been an issue for many younger workers, especially post-pandemic. Protecting funding for entry-level training would prepare those at the beginning of their careers or even those older workers transitioning to a new sector.

The core issue in access to training remains the length of apprenticeships. For the 98% of temporary workers that are not eligible for an apprenticeship, there is no on-the-job training available as an alternative. DWP understands the importance of in-work progression, and progression is easier once someone is in work. In-work progression allows people to increase their earnings and move off Universal Credit as their entitlement tapers. However, the key is to get people into work in the first place. Allowing the Levy to fund shorter courses in sectors with severe shortages is an easy way to engage those not currently in work and introduce them into the labour market. This type of training should include high-quality, modular forms of training (e.g., forklift licence acquisition, teaching assistant training, certificates in healthcare support services etc).

10. *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, modular courses and gain high-quality training.*
11. *Recommendation: To ensure that apprenticeships remain focused on skills and training for young people, learners who are already qualified at or above Level 6 (equivalent to a full undergraduate degree) should no longer be eligible to start a levy-funded apprenticeship. Consideration should also*

be given to preventing employers from accessing further levy funding if they have trained more apprentices aged 25+ than those aged 16-24.

Build on the Spring Statement's Childcare announcements

We welcomed last years' Spring Budget announcements on increased childcare support , but these have not been built on quickly enough since. More is needed to help the childcare industry address the acute labour and skills shortages that affect the sector. Last year the government announced a large-scale rollout of childcare provision to take place through 2024 and 2025. That won't be possible without increased staffing levels The government needs to work with childcare providers and local authorities to set funding for providers at an adequate level. Working with local authorities and providers, and using their expertise, will help to ensure funding is allocated effectively and makes the best use of taxpayer money.

Currently applying for childcare is a lengthy and complicated process which can be streamlined. For example, allowing access to childcare providers as soon as parents receive an eligibility code, and reducing the frequency with which parents have to confirm their eligibility for both the 30-hours entitlement and the Tax-Free Childcare scheme to once a year from the current 3-month period are two easy solutions to increase uptake. Additionally, the government should expand the eligibility for the 30-hours childcare entitlement to parents or carers in training or education. This will help to remove a barrier to those individuals looking to return to the workforce after a period of absence and drive down inactivity levels.

With a view to cost efficiency Local Authorities should be encouraged to work with local providers to identify unused property or other spaces in their area that could be turned into childcare facilities. This will help providers to expand their offering at a lower cost with savings potentially being passed on to service users.

Following the announcements in last years' Spring Budget, the government will soon be funding up to 80% of all childcare places in England. To build on this an exemption from paying business rates for all early-years providers would allow more money to be channelled back into the sector, allowing businesses more freedom to recruit and retain quality staff, increase affordability for parents and carers or expand the number of places available.

12. *Recommendation: Publish a childcare workforce strategy, developed in partnership with childcare providers to maximise the efficiency of funding in the sector.*
13. *Recommendation: Make it easier to access childcare provision by removing bureaucracy and expand access to childcare support to those in training and education to remove barriers to employment.*
14. *Recommendation: Grant a business rates exemption to all early years providers to boost the availability of childcare - a number of businesses are under threat of closure because of increased overheads as well as staff shortages*

Improve the existing Access to Work scheme to help more people with disabilities

The Access to Work scheme offers a valuable service to open up the labour market to people with disabilities but needs to be put to better use. Not enough job seekers or even employers know about it. More needs to be done to raise awareness of the scheme. According to ONS data from June 2023, there are currently 9.58 million adults between the ages of 16 and 64 in the UK who class themselves as having a disability. Whilst not all of these adults will need or want to make use of the Access to Work scheme, only 49,820 people were approved for Access to Work provision in the 2022/23 financial year. Additionally, between 2007/08 (the earliest year for which records are reported) and the end of 2022/23 only a total of 466,770 people in total had provision under the scheme approved.

The disparity between these figures highlights the need for greater promotion and awareness of this scheme.

Simplifying the scheme would also encourage use. As currently structured, it puts too much onus on the individual to apply and claim for the support as the support and funding can only be accessed by the candidate. Bringing employers into the process earlier would help them to make proactive changes to the workplace, allowing businesses to create more inclusive working environments/processes that benefit everyone, rather than only reactively responding to a particular individual's needs on a case-by-case basis.

15. *Recommendation: Government should launch an awareness campaign for the Access to Work scheme to promote it to a wider audience, and work with businesses to proactively make the changes to workplaces and processes that make it easier for people with disabilities to work.*

Build on the success of Restart with a new successor scheme

Since its introduction in 2021 the Restart scheme has played a key role in helping people on universal credit into meaningful work. Since becoming a Restart gateway, the REC, in partnership with Maximus, has helped almost 1800 people who had been out of work for 9 months or more back into work. This shows the value of the scheme in helping people who would otherwise be inactive back into the labour market. Following the Autumn Statement, the government announced the extension of the Restart scheme to June 2026 from its original expiration date in November 2025. This was a good start, to keep a scheme that has added so much value to the UK labour market open, but the government still needs to consider the long-term future of Restart or a successor scheme to carry on this excellent work beyond 2026. Government needs to open a dialogue with employers to understand what aspects of Restart have worked and what could be improved to develop a future scheme to help the long-term unemployed return to work.

16. *Recommendation: Government to begin developing a successor scheme to restart, working with employers and providers to develop the most effective scheme to help people back into work.*

Address economic inactivity by tackling NHS waiting lists and addressing staffing challenges

Long-term sickness is one of the major factors in over 50s leaving the workforce. Lengthy waiting lists for NHS treatments have exacerbated this issue, leaving people unable to return to work as quickly as they or their employers might like. The NHS workforce is struggling, with many workers exhausted, overworked and choosing to leave the profession entirely, whilst industrial relations in the sector continue to be at an all time low. The NHS workforce plan that was published last year has done little to demonstrate how the chronic staffing shortfalls in the NHS will be corrected quickly. Where the plan did contain meaningful actions, the majority of these were not going to be fully implemented until 2031. This leaves the NHS in its current critical state in both the immediate term and the best part of 7 more years. Instead, the plan focused on tired rhetoric about cutting agency staffing without considering what would happen to patient care if agency workers were stripped away as often advocated for by Ministers.

Procurement reform keeps being ignored as the important key to unlocking better staffing plans and cost savings. The current system treats workforce procurement in the same way as they do suppliers of physical materials. In England procurement rules and price caps for temporary staffing were introduced in 2016. The caps have not been reviewed or updated since, so haven't taken account of any new statutory costs that have been introduced in the intervening 8 years, or other general rises in wages and costs of doing business.

The price caps and terms of the NHS framework are designed for a market that existed 8 years ago and which doesn't take into account the current levels of supply and demand we see in the sector. This is part of a concerted effort by the NHS to attempt to cut costs by reducing spend on agency workers. The result of this is that the NHS and agency workers are forced to consider more expensive and less regulated models for procuring staff, like off-framework provision or the NHS staffing banks. These models are more expensive that agency staffing, and the drive to reduce agency spend has in fact led to an overall increase in staffing costs for the NHS. Rather than completely trying to cut agency supply out of the NHS staffing model, a proper partnership between the NHS and agencies could save money and deliver a more sustainable approach to staffing.

Introducing new robust, realistic framework models that prioritise compliance to ensure patient safety and provide good value for money will do this. Designing new frameworks in partnership with NHS Trusts and the agency workers and agencies who have frontline experience working in the NHS will allow the system to properly reflect current demand levels. Proper frameworks will reduce off-framework spend and save the NHS money in the long run.

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

<u>Develop genuine partnerships with employment experts to design public sector procurement frameworks that provide value for money and deliver efficiency</u>

Agency workers play a crucial role in service provision across the public sector, in health and social care and education. Given the skills and labour shortages that currently impact these sectors it is unlikely that we will see a substantial move away from this any time soon. However, the vital role that agency workers play in keeping schools and hospitals open is often ignored or disrespected. Agencies are wrongfully blamed for high-prices that are a result of demands from workers who can demand higher rates as they are being lured by multiple Trusts competing for staff. This is further exacerbated by low on-framework rates meaning workers hold out until last minute, "break glass" conditions are met and they can work through a higher paying off-framework agency, in turn prompting more agencies to operate in this manner. Moving forward we need to move away from this politically driven blame game and into a long-term partnership between the public sector and agencies to reform the current system so it works better for both parties and delivers better value for the NHS, with an open two-way dialogue between industry and relevant government bodies.

One of the failures of the system is the unfulfilled 2015 promise of giving a third of public procurement contracts to SMEs. SMEs have had a poor experience and have ended up having little or no choice about which framework to supply through – leading to many SMEs stepping back from the market. There is well-evidenced risk of certain Managed Service Providers (MSPs) 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 was the case in Contingent Labour ONE (a previous framework agreement that came to an end in 2018). This should be factored into the upcoming Workforce Solutions Framework. It is in all our interests to see a framework system that is sustainable, effective, and good value for the taxpayer.

18. *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.*

Regulating for a sustainable and dynamic labour market that supports temporary work by committing to reviewing, and reforming employment laws and taxation

<u>Facilitation of sound and ethical business practices</u>

Introduce umbrella company regulation

The consultation on umbrella company regulation that was issued last year by the Department for Business and Trade (DBT) was a welcome step. We would encourage a quick response and a move to introduce this much needed regulation. Umbrella companies are in a position to facilitate tax avoidance and evasion schemes, at a direct cost to returns to the Treasury.

Umbrella regulation needs to be structured to ensure that the businesses responsible for non-compliance are the ones subsequently held accountable for it. These means umbrella companies should be liable for non-payments of tax, and the other organisations in the supply chain such as employment businesses should not be expected to pay for an umbrella company's failings.

Making the Employment Agency Standards Inspectorate (EAS) responsible for Umbrella company compliance makes sense given their expertise in the recruitment and staffing sector. However, it is crucial that EAS is properly resourced and given further tools to take on this additional work. Ensuring standards and compliance are maintained in this way will safeguard workers and businesses and boost exchequer receipts.

18. *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. Also introduce a formal definition of umbrella company in line with the definition of temporary work agency already set out in the Agency Worker Regulations 2010.*

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 supplied to a client. In this set up, the umbrella and the agency are both 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.

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 adhered to by r the recruitment industry, because Umbrella companies aren't regulated. This means 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 until umbrellas are brought within scope of new or 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 both liable for a single VAT payment, which reduces the overall tax liability. The government needs to take care not to unintentionally encourage the proliferation of this arrangement by closing this tax loophole.

19. *Recommendation: The government should provide guidance to the 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

The government should revive its proposals for the creation of a well-resourced Single Enforcement Body (SEB), as first proposed in the Taylore Review in 2017. A correctly implemented SEB would combine the existing remits of the Employment Agency Standards Inspectorate, the Gangmaster's Labour Abuse Authority and HMRC's National Minimum Wage team into a one-stop shop for labour market enforcement. The SEB would need to retain the funding, skills and expertise of the existing enforcement bodies to not dilute their power. If introduced correctly, a SEB could boost productivity by protecting compliant businesses in a way that the existing enforcement bodies are unable to do because of their split remits.

20. *Recommendation: Government should create a Single Enforcement Body to enhance worker rights, compliance and standards. This would benefit compliant businesses, taxpayers and the Exchequer.*

More people want to work flexibly and do temporary work. Our laws need to facilitate this choice effectively.

Workers are increasingly choosing to work temporarily and so Agency work is becoming more common. The UK's employment laws should therefore accommodate agency workers in a fairer and less complex way. Although some legislation does account for agency workers, the majority of legislation has been drafted with more traditional permanent models of employment in mind. Legislation often refers to employees or self-employed people, neither of which applies to agency workers who are usually engaged via a contract for services.

There has been some welcome change recently with changes to the Working Time Regulations 1998 (WTR) that came into effect on January 1st. This changed the rules and clarified important questions around the holiday pay entitlement for agency workers and others on non-traditional working contracts. But there are still other key regulations such as the Health and Safety at Work Act 1974 (and its derived regulations), Social Security (Categorisation of Earners) Regulations and the Social Security Contributions and Benefits Act 1992 (which covers statutory sick pay), and the Transfer of Undertakings (Protection of Employment) Regulations 2006 which do not make reference to agency workers. This leaves agencies and agency workers subject to legal ambiguities in the application of these laws, for example who is responsible for managing their health and safety obligations when they are engaged by one agency but on-site at a third party. In this case it would be difficult for a worker to enforce their rights, should they suffer an injury at work.

Creating a new suite of modern agency worker appropriate laws will reduce non-compliance, improve awareness of worker rights and reduce the complex and confusing admin that exists around some of these rights in their current format.

21. *Recommendation: Government should review outdated legislation and introduce new laws that accurately account for modern working practices. Changes to legislation need to be made in consultation with industry experts who can offer advice and guidance on the nuances on the sectors and industries that will be affected.*

Overhaul IR35 legislation and provide clarity on employment status for tax

Nearly half of the UK working population works in a non-permanent, flexible way. We should have a tax system that reflects the shifts in working patterns and business requirements that we have seen in the labour market. A tax system that is competitive, fair and consistent will create confidence and boost business investment. Diverse forms of engagement within the labour market are crucial for growth, so getting taxation right for contractors must be a key HMRC priority.

The current status of the off-payroll rules (IR35) is complex. Many individuals, contractors, businesses (including recruiters) and their clients find IR35 one of the trickiest pieces of legislation to navigate. The rules around IR35 and its application have been reviewed and amended several times, but the rules remain overly complicated and do not place sufficient impetus on the end-client to provide their assessment and take responsibility for it. Trying to understand the application and implications of the rules to other parties in the supply chain can be difficult, particularly when clients provide limited information and umbrellas act without regulation. Wrangling with these issues puts a large burden on fee payers before paying their contractors. The vast majority of businesses want to be compliant with the IR35 rules, but ambiguity over employment status for tax purposes increases the risk of falling foul of the rules and being fined. Not getting IR35 right also results in lost revenue to the Exchequer.

22. *Recommendation: IR35 is still not working so we need a full overhaul of the legislation. Businesses and individual taxpayers need a system that supports the use of flexible labour and works fairly for everyone involved.*

Completely overhaul HMRC's CEST tool so that it is effective and relevant for contractors

Despite the launch of CEST 2.0 in October last year, it remains unfit for purpose. Whilst CEST 2.0 has changed improved usability in some aspects, the key issue remains that the questions posed to users remain too vague. The examples in the CEST guidance such as painting and decorating or market research, are generally irrelevant in the sectors where consultancy arrangements are most common. Some sectors where contractor are more likely to be deployed are professional services, health and care, IT solutions, or media advice. A full overhaul of the questions being asked is needed.

Where individuals do get a determination from the CEST tool, there are still concerns over whether they are accurate. Often changing a response to a single question changes a determination from determining whether someone is "inside IR35" to "outside IR35". Case law on employment status for tax is clear that a single factor is unlikely to determine a change in status, and that all relevant factors should be considered. The tool is still not helping those hiring to meet their obligation to use "reasonable care" when determining a status. This failure is indicated by there not being a reduction in the number of "undetermined" outcomes the system has produced.

Additionally, as stated in our previous submissions, the REC still remains concerned over HMRC’s view that mutuality of obligation should not form part of the questions in the CEST tool. This is not an accurate reflection of the reality of how contractors work and has already been demonstrated in the Professional Game Match Officials Ltd (PGMOL) case. HMRC needs to address this urgently.

23. *Recommendation: Fully overhaul 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*

Ensure the tax system supports the shift to hybrid, remote and flexible ways of working

The UK’s employment benefits system is primarily designed to support workers who commute daily to an office, but with the rise in hybrid, flexible, and remote working set to stay, and almost one million job vacancies in the UK, employers need to look at how they attract and retain staff. Of course, pay is important, but it is not the only thing job seekers consider. Today's workers weigh their pay against the whole package, which includes access to flexible working, training, annual leave – and even whether the corporate culture aligns to their personal values. This is why our *Overcoming Shortages report* stressed to employers the importance of working conditions and getting the employee offer right.

Tax efficient benefits can help businesses to attract the best candidates. Importantly, the tax system needs to support all types of working arrangements more equally. Not all work is full time and permanent. For example, the Cycle to Work scheme (C2W) currently requires users to use their bikes "most of the time" to commute to work. However, with the rise of hybrid working post pandemic, this is no longer a practical requirement for people to commute as much. Easing this requirement to be "some of the time" would allow users to work in a modern hybrid manner whilst still benefitting from the tax relief offered by the C2W scheme. Easing the access requirements to this benefit will also have a positive impact on the government's green targets and employee health.

Expanding non-taxable health support for all eligible workers will also have benefits. Making all Employee Assistance Programs (EAP) a fully tax-free benefit is a quick win for the government and will reduce mental health issues in the labour market which ONS statistics indicate is a growing cause of inactivity. Making EAPs tax-exempt will increase the take up of these schemes and will help to mitigate the adverse effects of poor mental health keeping more people in work.

24. *Recommendation: Work with labour market and business organisations to identify where employees get real value from the employment benefits system. Reform the cycle-to-work scheme and employee assistance programs, therefore providing more support to help employers access a sustainable talent pipeline.*

Part two: Latest research from the REC

Part two: Latest research from the REC

Towards the end of last year, we have seen business confidence in the UK economy settle. During this time, confidence in make hiring decisions rose slightly both in the short and medium term, this demonstrates a more positive view that continues into the early parts of 2024.

Despite overall hiring activity continuing to drop towards the end of 2023, the rate at which both permanent and temporary billing fell did soften. The rate of starting salary inflation has picked up, but it remains at a lower rate than we have seen historically.

There is a clear need to continue to drive growth in our economy. Growth is the only way to deliver prosperity for workers and properly fund public services. A strong industrial strategy - one that delivers across skills, immigration, welfare, infrastructure and taxation - is needed to make sure that we can maximise the potential of the UK's workforce.

The latest data from the REC's Report on Jobs and Jobs Outlook is set out below.

Report on Jobs – January 2024

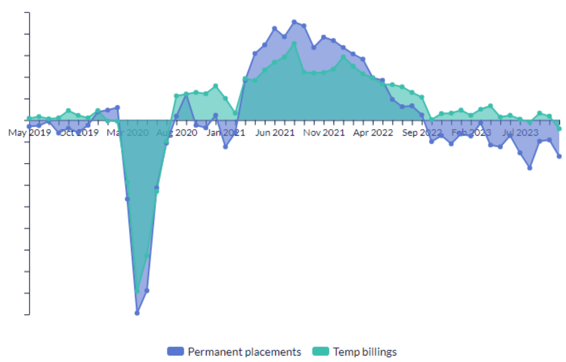
Recruitment intentions remained subdued as 2023 drew to a close, according to the latest **KPMG and REC, UK Report on Jobs** survey, compiled by S&P Global. Permanent placements and temp billings declined again in December, albeit at softer rates than in November, as employers maintained a cautious stance regarding hiring amid the weaker economic climate. At the same time, overall vacancies fell slightly for the third time in the past four months.

The supply of candidates meanwhile continued to rise sharply, despite the rate of expansion easing from November's near three-year record. Recruiters often mentioned that redundancies and lower levels of hiring activity had increased the pool of available candidates for both permanent and temporary roles. Nevertheless, competition for suitably-skilled workers remained a key factor pushing up rates of starting pay again in December.

The report is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 UK recruitment and employment consultancies.

Downturn in hiring activity eases in December

Although recruitment consultancies reported a further decline in hiring activity at the end of 2023, both permanent placements and temp billings fell at softer rates than seen in November. Panel members often mentioned that muted demand for staff and recruitment freezes amid the weak economic climate had weighed on hiring decisions. Permanent staff appointments continued to decline at a notably faster pace than that seen for temp billings.



Slightly stronger increase in starting pay

Latest survey data indicated that the rate of starting salary inflation picked up from November and was sharp overall. That said, the increase was the second-slowest recorded since March 2021 and below the historical trend. Temp pay growth likewise quickened, climbing to a four-month high, but remained below the long-run average. Recruiters commented that while competition for suitably qualified staff had contributed to further increases in pay, there were indications that employers' budgets were under greater pressure.

Availability of workers continues to rise markedly

Candidate availability continued to rise at the end of the year, with panel members frequently mentioning that redundancies and a slowdown in hiring had pushed up labour supply. Although easing from the near three-year records seen in November, rates of expansion for both permanent and temporary candidate numbers remained rapid overall.

Demand for workers remains subdued

Total vacancies fell for the third time in the past four months during December. That said, the rate of decline was little-changed from November and only marginal. This reflected a slight reduction in permanent staff demand for the fourth successive month, while growth in temp vacancies eased to a 37-month low.

Regional and Sector Variations

All four monitored English regions noted a decline in permanent staff appointments at the end of the year, with the Midlands recording the sharpest pace of contraction.

Trends for temp billings continued to diverge on a regional basis. While the North of England and London recorded higher billings, declines were seen in the South of England and the Midlands.

Demand for permanent staff increased in the public sector during December, but fell further in the private sector. Notably, this marked the first rise in public sector permanent vacancies for four months. In contrast, demand for temporary workers continued to increase across the private sector at the end of 2023, albeit at a softer pace. Short-term vacancies meanwhile continued to contract slightly in the public sector.

Four of the ten monitored employment categories registered greater demand for permanent workers during December, led by Nursing/Medical/Care. The fastest falls in permanent vacancies were meanwhile seen in the Construction and IT & Computing sectors.
Hotel & Catering saw by far the steepest increase in short-term vacancies of the six categories to see improvements in demand at the end of the year. The Construction and Retail categories meanwhile recorded the sharpest declines in demand for temporary workers.

Neil Carberry, REC Chief Executive, said:

“The slowdown in our labour market seems to be easing a bit. Given that December is a time when employers generally postpone activity into the new year, this is a positive sign that the labour market is weathering the current economic storm.

“Recruiters went into 2024 with hope that an upturn is coming, based on feedback from clients. Driving this economic growth would be a huge benefit for us all, leading to more successful firms, higher pay, and the ability to cut taxes and fund public services. But the growth must come first. The Chancellor has already set a

date for the Budget – he should use it to set out steps that set firms free to grow the economy, from skills reform to regulatory change, including a more balanced debate on immigration for work and its impact on growth.

"Rising demand for healthcare staff emphasises again the importance of supporting NHS performance. Recruiters can see the impact on long NHS waiting lists in the supply of candidates looking for work – addressing this will be a key way to tackle inactivity. But the plan for NHS staffing needs to deal with 21st Century labour market realities. Medical staff have choices in and power over their careers – working with unions, agencies and other stakeholders on a plan will get the NHS farther than diktat from Whitehall."

Justine Andrew, Partner and Head of Education, Skills and Productivity at KPMG UK, said:

"It's a muted end to the year for the labour market, which despite some loosening during 2023, continues to be tight. While the data for December shows hiring activity for both permanent and temporary roles fell at a softer rate than the previous month, businesses are still making redundancies and pausing hiring due to a lacklustre economic outlook. This has driven a further decline in permanent job opportunities, while we continue to see a rising number of people looking for new work.

"For those lucky enough to start a new role there was another sharp increase in starting salaries due to competition for skilled workers. But the rise wasn't as high as those seen in recent months as businesses face ongoing pressure on their budgets. Recruiters tell us this pressure is now impacting temporary contracts, with fewer people employed on a short-term basis.

"Businesses which successfully planned and managed their workforce through the intense Christmas period will be breathing a sigh of relief and hoping 2024 brings some much needed certainty to boost the UK economy and overall productivity."

JobsOutlook – November 2023

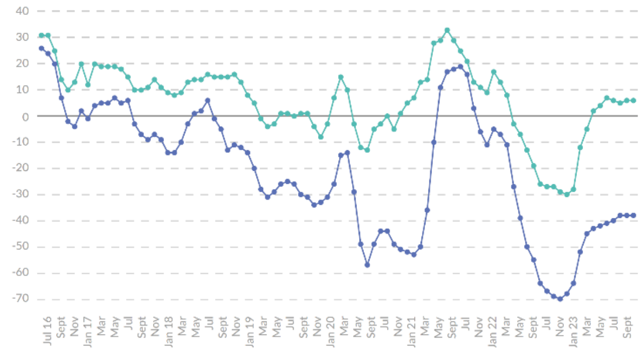
The REC's January JobsOutlook will be published later this month. However, in the interest of providing our submission in good time we will provide this to Treasury at a later date. Below is some of the key data from the previous edition of JobsOutlook, published in November of last year.

Employer sentiment towards both permanent and agency staffing remains strong

Confidence

Across August-October 2023, business confidence in the UK economy plateaued and remained at net: -38. There was a notably large drop in sentiment in September and October (both net: -42) compared to August (net: -31).

The net balance of employers' confidence in making investment and hiring decisions improved by one point over the period (to net: +6) and was relatively stable across the three underpinning months.



Permanent Recruitment

The UK-wide balance of employers' sentiment towards short-term permanent hiring remained buoyant (net: +19) and relatively stable across the three months (August-October 2023), with little by way of monthly variation. By region, the balance of sentiment was strongest in the North (net: +25) and outside England (net: +23). In contrast, it was just net: +12 in London (where a notable 16% suggested that they would be reducing headcount). Large (250+ employee) enterprises continued to be significantly more optimistic (net: +27) than either small (0-49 employee) organisations (net: +15) or medium-sized (50-249 employee) enterprises (net: +17). And there was a higher level of optimism in the public (net: +24) than the private sector (net: +18).

The balance of employers' medium-term permanent hiring intentions rose by six points this quarter (to net: +23), with sentiment marginally stronger (net: +24) in September and October than in August (net: +20). Regionally, sentiment in London continued to cool, dropping to net: +18 from net: +27 in June-August 2023, rendering it the lowest of all regions. In contrast, sentiment improved significantly in the North rising from net: +21 to net: +30. By size of organisation, optimism continued to improve in the UK's largest (250+ employee) enterprises rising from net: +25 to net: +32. In contrast, it was just net: +15 amongst medium-sized (50-249 employee) organisations (a marginal improvement on net: +14).

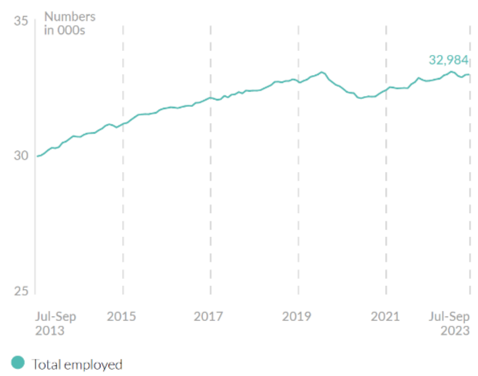
Temporary Staffing

Whilst short-term agency hiring sentiment remained relatively steady across the period August-October 2023, the underpinning monthly variations were notable. Having dropped to net: -1 in August, sentiment rebounded to net: +31 in September before settling back at net: +10 in October. Forecast demand continued to be strongest amongst the UK's smallest (0-49 employee) enterprises (net: +22, down from net: +25 across June-August). In contrast, sentiment amongst medium-sized (40-249) employee enterprises was restored to positive territory this quarter (net: +9 from net: -3) as it also was for large (250+ employee) organisations (net: +1 from net: -7).

The medium-term planned demand for agency worker hiring further surged by 11 points this quarter, following an 8-point rise in June-August. As with short-term demand, the balance of sentiment varied notably by month, however, with September's high level of optimism (net: +26) tempered by net: +11 in October. The smallest (0-49 employee) enterprises were the drivers behind the increased optimism this quarter, with the balance of sentiment rising from net: +6 in June-August to net: +25. In contrast, it was just net: +1 amongst mid-sized (50-249 employee) enterprises and net: +4 amongst large (250+ employee) organisations.

Total Employment – Permanent, Temporary & Self-Employment

At 32.98 million in July-September 2023, the UK workforce was 0.1% (27,000) larger than in May-July (The calculation methodology for unemployment changed in August 2023, so comparisons prior to that are not comparable). Overall demand continued to wane, with the official vacancy count registering its seventeenth consecutive rolling-quarterly fall in August-October. Whilst down 21.2% (257,000) year-on-year – with numbers down in all major sub-industries – at 957,000, they remained 19.5% (156,000) higher than pre-pandemic (Q1 2020) levels.



For further information on this submission please contact: Patrick Milnes, Senior Campaigns Advisor, patrick.milnes@rec.uk.com or Shazia Ejaz, Campaigns and Insights Director, shazia.ejaz@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