

Recruitment & Employment Confederation (REC) – Written evidence (PBS0022)

Overview

The Recruitment & Employment Confederation (REC) is the professional body for the recruitment industry, we represent over 3,200 recruitment businesses – 80% of the UK's £38.9 billion industry by turnover, and 11,500 individual recruiters. REC members supply workers to all sectors and regions of the UK economy. The UK recruitment sector places over a million people into permanent jobs each year and ensures that a further million are working flexibly through temporary assignments on any given day. Through our code of practice and complaints procedures we promote industry standards and compliance.

The UK's recruitment industry is world leading - both in its size and maturity. Only Japan and the US can argue they have a larger sector. Before Covid-19, the UK's recruitment industry was growing and much of this was due to international trade. With higher margins and less saturated markets, UK recruiters, especially those operating at the high-end of the labour market, make a large proportion of their profit working overseas.

For the UK recruitment industry to bounce back after coronavirus, a good deal with the EU and trade deals further afield are essential. While much of the trade done in recruitment services is with the US and EU, we are seeing more trade with emerging markets, especially in Asia. Ultimately, given the recruitment industry's world leading position, as many trade barriers that can be lifted the better.

REC believes that a comprehensive trade deal with the EU is essential to both the recruitment industry and the overall economy. Those two are closely interlinked and the ultimate desire for the recruitment industry is to reach a trade agreement with the EU that prioritises economic growth.

Prior to Covid-19, REC members had for a long time consistently reported difficulties in finding the candidates for roles. This was the case in different occupations at different skill levels across the UK. With the country's labour market in such flux and a higher unemployment rate, this candidate shortage may well be reduced.

However, we remained concerned about the UK's future immigration system. The ending of freedom of movement is a large and fundamental change. Skill shortages are likely to persist in certain roles leading to weak productivity. By having no immigration for roles deemed as low-skilled and requiring employer sponsorship for the vast majority of migrants, the REC does not believe we will have an immigration system that meets the needs of our labour market or economy.

Some of these need to be mitigated by our future relationship with the EU through a youth mobility scheme, similar to the ones the UK currently have with Australia, New Zealand and other countries.

On top of these general concerns, the REC believes the government should prioritise four areas in negotiations with the EU over the future relationship:

1. Minimising market access restrictions, including on establishment rules.
2. Ensuring mutual recognition of qualification continues.
3. Ensuring data flows between the UK and EU through an adequacy agreement.
4. Ensuring UK professionals can still easily travel and conduct business within the EU.

About the UK Recruitment Industry

According to the [REC's Recruitment Industry Trends report](#) for the 2018/19 financial year, the industry has a turnover of £38.9 billion. This comes from £33.4 billion generated through temporary/contract placement activity and £5.5 billion through permanent placements activity. This report also found that there were 31,140 recruitment and employment businesses in the UK in early 2019. The total amount of staff employed directly by those businesses was 118,639.

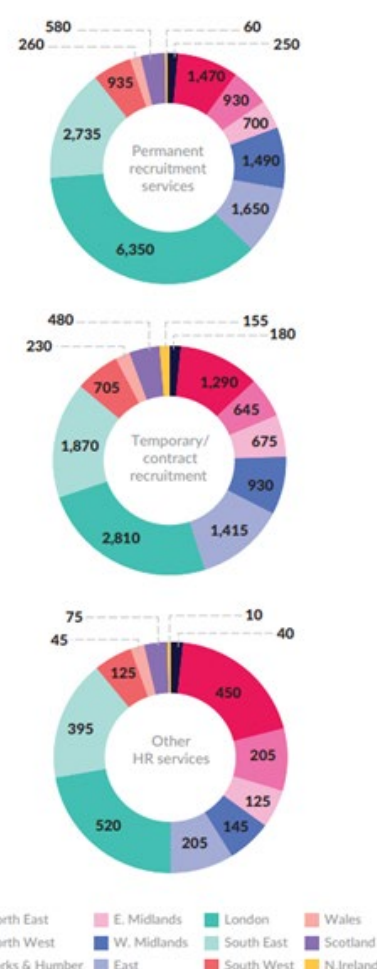
The vast majority of recruitment businesses are SMEs. As of March 2019, for recruitment businesses who operated in permanent employment:

- 15,125 or 87% employed less than 10 people
- 1,730 or 10% employed between 10 and 49 people
- 475 or 3% employed between 50 and 249 people
- 85 or less than 1% employed more than 250 people.

As of March 2019, for recruitment businesses in temporary/contract employment:

- 7,875 or 69% employed less than 10 people
- 2,040 or 18% employed between 10 and 49 people
- 1,100 or 10% employed between 50 and 249 people
- 375 or 3% employed more than 250 people

Regional location of the registered address of businesses by orientation, 2018/19



Additionally, recruitment businesses operate across the UK. This can be seen in the pie charts, showing where recruitment and employment businesses operate in the UK. While there is a significant proportion who operate in London, the majority operate outside London. The REC's membership is equally diverse and we represent mainly SMEs who operate throughout the country.

Importance of international trade to UK recruitment

The ONS estimates that the UK exported £2.614 billion worth of recruitment services internationally in 2018. This represents a growth of £1.256 billion from 2014 to 2018, almost a 100% increase in the value of UK exports of recruitment services in a four-year period.

The balance for trade in 2018 for UK recruitment services is £1.235 billion. In the same year, recruitment services exports equate to 1.41% of total services exported in 2018.

Table: [ONS data on International Trade in Recruitment Services, 31 January 2020](#)

	2014	2015	2016	2017	2018
Exports (£m)	1358.944	1365.038	1613	2241	2614
Imports (£m)	427.827	518.6345	760	993	1379
Net balance (£m)	931.1166	846.4037	854	1248	1235

The fast growth of the UK recruitment industry abroad is reflected in [The Sunday Times HSBC International Track 200](#). This ranking list found that 19 of the top 200 private companies with the fastest-growing international sales are recruitment consultancies.

As well as strong markets in Europe and the US, recruitment consultancies have been opening offices in developing markets, especially in Asia, frequently setting up offices in Hong Kong and Singapore, to access the burgeoning recruitment market in the far-east.

It is estimated that the UK has the third largest staffing industry in the world, behind the US and Japan.

Table: [Market share of global staffing industry based on annual revenue](#)

Country	Market share based on annual revenue
United States	31%
Japan	14%
United Kingdom	9%
Germany	6%
France	6%
Netherlands	5%
Australia	3%
Italy	3%
China	3%
Switzerland	2%
Other	18%

The UK is a global leader in recruitment. It was worth £38 billion last year, growing despite difficulties in the UK market due to Brexit uncertainty and

legislative changes. While the UK recruitment industry is a saturated market, driving down margins, the margins in EU are a lot higher. For instance, with high-end placements, the margin in Germany is 22%, compared to in the UK where it is roughly 15%.

Our members indicate that the reason for this strong growth abroad is due to the strong reputation of the UK recruitment industry, including within the EU. Several members say that they have received regular feedback from candidates as well as clients that they prefer working with a UK based recruiter rather than one based in a different country.

The overwhelming majority of recruitment businesses are SMEs. Some of these companies will have business abroad but most have been conducting business within the EU without establishing an office. It costs a lot to set up a branch in another country, with one of our members estimating it cost €50,000 to set up a business in Germany, this would be even harder and riskier post-Brexit.

In several instances, the recruitment companies operating within the EU might only do a few placements a year. There is a risk that this business with the EU would just stop rather than going through the difficulties of trying to continue conducting business in EU countries if barriers are introduced.

There are other REC members who say that UK-based recruitment agencies are frequently hired due to their ability to hire in countries across the EU. There is concern that if the UK's access to the single market is very limited, these contracts will end or these companies will base this business in a EU country. It should also be noted that in these instances, transactions will frequently be carried out within the UK. For instance, when a UK recruiter is hired by a large company's EMEA office to hire for positions across the EU. In this example, the trade done will not be tallied in the ONS data on trade. We therefore think the ONS data might be an underestimate of the value of trade UK recruiters do with EU.

Key priorities for the future UK-EU relationship

The REC believes it would be beneficial to the UK recruitment industry, businesses in general, and the UK to reach a comprehensive trade agreement with the EU before the end of the transition period.

Trade with the EU is fundamental to the recruitment industry and the overall economy. The EU is the UK's largest trading partner. [In 2019](#), UK exports to the EU were £300 billion (43% of all UK exports). UK imports from the EU were £372 billion (51% of all UK imports). For services in 2019, the UK had a trade surplus of £23 billion and 40% of services exports were to the EU. For recruitment services, which are classified under 'Other Business Services,' trade with the EU makes up 28.9% of trade in 2018.

There will be a direct impact on the trade recruitment businesses conduct with the EU. Additionally, if the end of the transition period leads to a weaker economy, recruitment businesses often suffer from the knock-on effect with a subsequent decrease in hiring activity. If there is a no-deal Brexit at the end of

the year or a deal that severely limits the UK's ability to trade in services with the EU, we are concerned that this will be deeply damaging economically and therefore indirectly impact the UK recruitment industry.

The top priorities specific for the UK recruitment industry in the future trading relationship negotiations are the following:

1. **Minimal market access restrictions, including on establishment requirements.** These are expressed through services reservations and future reservations. In both [CETA](#) and the trade deal between the EU and Japan, the EU has future reservations in place on placement services. These relate to supplying services and nationality requirements which could effectively bar UK firms from the European market.

While these are future reservations, the REC would still be concerned if a similar approach was adopted in the trade deal between the UK and EU. It is a risk of the EU countries enacting these restrictions, which is a possibility given the large trade surplus of the UK recruitment industry. Additionally, even the potential for this would make UK recruitment businesses think twice before trading or establishing an office overseas.

It is already very expensive to set up an office overseas. One member recently estimated that it cost their company €50,000 to establish an office in Germany. With extra costs, administration and risk possible after the transition period, it seems likely that more recruitment businesses thinking about growing overseas will instead play it safe. A more cautious outlook will lead to less growth in the industry.

2. **Mutual recognition of professional qualifications.** It is welcome that the UK Government has maintained their ambition to reach an agreement on mutual recognition of qualifications.

Losing the mutual recognition of professional qualifications with the EU would have a negative impact on recruitment agencies. Recruiters themselves do not require professional qualifications to operate. However, many recruit for sectors where professionals need to have minimum training conditions such as teachers, medical staff, vets, architects, and drivers. For instance, one REC member told us: *"It is also essential that we continue to recognise agreed qualifications, which allows drivers to drive our trucks having taken their test within the EU."*

The UK Government previously said that they would be unilaterally extending mutual recognition in the event of a no-deal Brexit. It would be beneficial for the UK to maintain this approach.

One potential positive in the long term is that the UK will now be able to negotiate mutual recognition of professional qualifications in future trade deals with more countries. This would be welcomed by our members.

3. **A mobility framework to ensure that UK professionals can easily travel to the EU member states for short term**

professional/business travel. The UK Government should be seeking to negotiate as ambitious provisions as possible with regards to short term business visitors, including a wide scope of covered activities.

For our members who have clients or developing business in the EU as well as those who provide staff to other EU countries the impact of a no-deal would be keenly felt in limited ability to travel for business. The time delay in applying for a visa to the EU would limit our members' ability to travel throughout the EU at short notice. This will have a large impact on many of our members.

This will mean that our members will lose potential business opportunities to European competitors. For those that already provide services within the EU, it means they could not deliver for EU customers due to restrictions on mobility, the recruitment business will be replaced as customers seek out more reliable, easier and less expensive providers. In worst case scenarios, it could mean that UK recruiters are in breach of contract as they are unable to deliver a service they have been hired to deliver.

Ideally, the REC would like to see visa-free travel, a broad definition of business visitors and for there to be minimal administrative burden.

- 4. An adequacy agreement to ensure seamless transfer of data between the UK and EU.** Data management has always been a fundamental element of recruitment. Over recent years there has been an increase in the amount of recruitment businesses using new technology that relies on big data and software that operates on the cloud. For our members who operate in several countries being able to share personal data across borders seamlessly is very important. We are concerned that there is limited knowledge among businesses about the impact no-deal will have on data flows.

As well as transferring data across borders, there could be potential difficulty for recruiters who store data on the cloud. Nearly all recruitment agencies have a cloud-based CRM, this could create some potential complications if the servers for the cloud-based CRM are based in the EU.

We urge the government to prioritise an adequacy agreement on data with the EU as soon as possible.

Preparations for the end of the transition period

While we have not done any recent polling of REC members on this matter, we would be surprised if many had made significant preparation. The Covid-19 crisis has left our members with very little bandwidth for other matters, many have simply had to focus all their efforts on staying in business. If there are further waves in the autumn, we believe this would further detriment our members ability to prepare.

The other reason we doubt our members are fully prepared is the lack of clarity of what to prepare for. Without that certainty, recruitment businesses are unlikely to make preparations for lots of different potential scenarios. A no-deal outcome is the default at the end of the year but our members have been asked to prepare for this before. We are wary that if we or the government ask them to prepare again, our calls are less likely to be taken seriously, particularly within the economic fallout from COVID19. The government message that Brexit has been done also means that many businesses will be unaware of the need to prepare at the end of 2020.

The REC helped our members prepare for a possible no-deal last year. This included a 10-point checklist, which was sent out to nearly every recruitment consultancy in the UK. Despite this, our polling of members throughout 2019 indicated that they remained ill-prepared for no-deal outcome. When REC members were asked how prepared they were for no-deal, we received the following answers.

	31 January 2019 (422 respondents)	26 June 2019 (69 respondents)	14 August 2019 (58 respondents)
Extremely well prepared	10%	13%	8%
Some preparations underway but plenty to do	43%	47%	48%
Not prepared at all	47%	40%	43%

In August 2019, when the prospect of no-deal was high, the REC also asked whether businesses are aware of the possible consequences of this in several areas.

	61 respondents
Worsening economic climate	46%
Reduced access to EU labour	20%
Difficulties in sharing data from EU to UK	5%
Difficulties in being able to work temporarily within the EU	3%
Complications with right to work for EU citizens	26%

The above data indicates that some REC members were aware of the general impact on the economy and it being more difficult to hire workers from the EU. However, for specific issues such as data sharing and mobility there was very limited knowledge.

In conclusion, the lack of preparation for the end of the transition period is concerning. Ideally there would be a period of several months between the UK's future trading agreement being ratified and when it is enacted to help businesses understand and prepare. Without certainty of what to prepare for, and the current climate we believe it is unlikely even with clarity that businesses will be able to start any preparation until the autumn at the earliest.

26 June 2020