



Stafforce

2018

STAFFORCE LABOUR STRATEGY

Nicholas Associates Group

August 2018

All statistics provided by the Office of National Statistics unless otherwise indicated.

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FACT

The labour market is tighter than it's been in decades

FACT

Unemployment is at a 4-decade low

FACT

In 17 years there have never been more vacancies than now

The EU referendum caused significant pressure on the labour market and a faster than expected contraction resulting in widespread labour shortages in Q4 2017. We already had a 'war for talent' but now we have a widespread 'war for people'. Furthermore, only 8-months until the Brexit divorce we can only surmise what plans the government have for immigration as we await the update of the Immigration Bill promised by March 2018 but now likely to be no earlier than September this year.

Many businesses found it extremely hard to recruit the labour they needed in Q4 2017 and these challenges have continued during 2018. For sure, the availability of labour is getting tighter and tighter. What are you doing? Well, even when the Immigration Bill is updated and our immigration policy revealed, there will be no quick fix and many businesses will again not be able to hire the labour they require during Q4 2018 and beyond.

Let's take a look at the labour market, what we have been doing and how we can help you.

UK Labour Market

The Office of National Statistics (ONS) reported that the number of those in work (Q4 2017) increased sharply and wages rose at their fastest rate in almost a year, demand for workers remains strong.

On the face of it, the latest employment statistics from the ONS which cover the three-month period up to the end of May 2018 reflect a continuation of the remarkably robust pattern of the last few years.

Employment is up yet again at a record high (75.7% - 32.40m) which has also resulted in a reduction in unemployment (by 12,000) when compared to December 2017. The overall unemployment rate has been at 4.2% for three months now, and it has not been lower since the mid-1970s. Importantly, we are also seeing a reduction in the numbers of economically inactive people, more of whom appear to be joining what is now a very tight labour market.

Further, the tightness of the labour market is evident in the fact that unfilled vacancies are also at record levels (up to 824,000 in the latest quarter), but despite this, pay growth remains very muted and below inflation. The big unanswered question is, how long will the lid remain on pay growth, given the pressures building up in the labour market as the growth in wages at 2.7% remained below inflation at 3.1%, leaving real wages lower than a year earlier and the real value of earnings continues to decline.

Summary

- 32.40 million; record level of employment, 137,000 more than December 2017 and 388,000 more than for a year earlier
- 1.41 million unemployed; record 4-decade low (524,000 aged 16-24). 12,000 fewer than December 2017 and 84,000 fewer than for a year earlier
- Number of people in employment has increased by more than 3 million in the past 7-years and has been filled by positive net migration and a reduction in unemployment
- Net migration has been the main driver of the UK's population growth since 2005
- 824,000 unfilled vacancies; further labour market expansion is being constrained by a lack of supply of skilled and unskilled staff in some sectors, with about two-thirds of employers reporting they have vacancies which are difficult to fill
- 8.64 million people aged 16 to 64 years who are economically inactive (not working and not seeking or available to work), 184,000 fewer than for a year earlier and also a 4-decade low
- There are almost a million people on Universal Credit (the government promise; you will always be better off in work) of which nearly 50% are in employment. The phased introduction of Universal Credit has been pushed back numerous times. The government expects the full digital service of Universal Credit to be rolled out to all areas of the country by the end of December 2018. The government plans to start transferring people who are still on existing benefits or tax credits onto Universal Credit from July 2019 and plan to complete this process by March 2022
- Record level of over 50's in work; now exceeding 10 million. 2022 population projections show a decline in those age <49 and increase of 2 million aged >50. The Fuller Working Lives Strategy aims to retain, retrain and recruit older people into the workplace
- The Gig Economy; over 5 million workers seeking flexible employment. Proponents of the gig economy claim that people can benefit from flexible hours, with control over how much time they

can work as they juggle other priorities in their lives. In addition, the flexible nature often offers benefits to employers, as they only pay when the work is available, and don't incur staff costs when the demand is not there

The job market 'hangs in the balance' as Brexit looms - the shortage of suitable qualified candidates for jobs contributed to employer confidence dropping to its lowest level since the EU referendum. ONS said net migration in the year to September was just 244,000 people, a similar level to early 2014 and down on record levels in the next two years. Statistics show 130,000 EU citizens left the UK in 2017 - the highest level in a decade. EU net migration is falling as more European citizens leave the UK and fewer arrive in the wake of the vote for Brexit.

We have a near full employment economy and until the Government provide an update on our Immigration Policy there is much uncertainty as to where we will get the labour we need.

Employment

The pace of job creation in 2017 was faster than economists had predicted.

The demand for labour in 2018 remains robust with official labour market data showing that the number of vacancies in the UK economy remains well above historical average levels.

Today's jobs numbers once again strongly suggest that the UK economy is on a firmer footing than many had anticipated following the EU referendum vote.

Employment confidence is highest in the construction, hospitality and the business services sub-sectors and across regions among employers in the north-west of England and the West Midlands, and lowest among those in Yorkshire and Humberside and Wales. Employment growth looks set to be more modest in healthcare, education and public administration.

Pay

Higher consumer price inflation, due to weaker sterling, has left real pay 0.5% lower than a year earlier, but rising wages are beginning to close the gap.

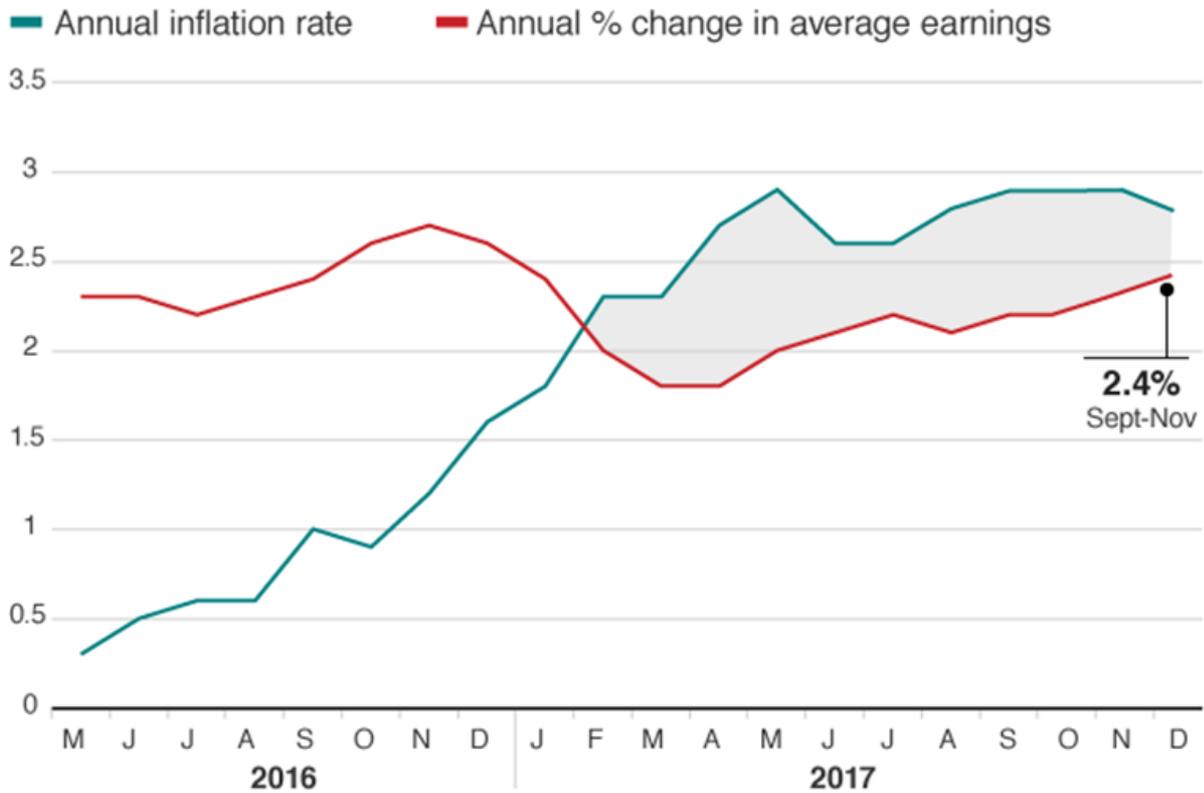
That high demand for labour should combine with a slower supply in the past year to produce a higher price of labour. Translation; higher wages. It should mean workers have greater bargaining power - and therefore greater capacity to bid up their wages. And employers who want workers the most should start to pay more to attract them.

And indeed, there was a modest uptick in average earnings - now £486 a week, up £12 a week or 2.7% from last year. But it's still less than inflation - a real-terms pay cut of 0.5%.

Better-than-expected jobs figures went "some way" to justifying the Bank of England's November interest rate rise, a tight labour market with high demand for the available workers. If this pattern of solid jobs growth and a gradual pick-up in earnings growth were to persist through this year, then this could result in a further interest rate rise later in 2018.

Average hours worked is 31.9 and for those in full time employment; 37.0.

Pay squeeze continues - How inflation compares to wage growth



Source: ONS. Earnings figures are three month averages, excluding bonuses



Skills

There remains a need for a government skills policy to boost participation in adult learning in the UK, which remains significantly below that in most other EU countries. The share of organisations that plan to increase their training investment is broadly similar to the proportion of organisations that plan to reduce it, despite the prospect of migration restrictions for non-UK nationals from the EU and a tightening labour market. One way of boosting investment in training would be to broaden the apprenticeship levy into a more flexible training levy, which would prove popular among employers and make it much more responsive to their skills requirements alongside, more significantly, more funding for adult skills via the National Productivity Investment Fund.

The importance of the EU27 and Immigration

- 44.3% of new jobs created in the UK since 2008 were filled by workers from elsewhere in the EU.
- 26% of all EU nationals employed in the UK today work in Manufacturing and Accommodation & Food Services – making these the two sectors most reliant on EU27 labour.
- In addition, EU27 workers are often more likely than UK and non-EU workers to work in industries that report an above average incidence of skill shortages — while only 20% work in “high skill” occupations.

A high proportion of organisations continue to employ EU nationals, with two-thirds of employers saying this is the case, against a backdrop of continued, albeit slower, growth in the number of EU nationals in employment in the UK. When asked why they recruit EU nationals, by far the most common response by employers is that they don't consider nationality when hiring but simply choose the best person for the job. The most popular reason given by organisations for recruiting EU nationals is that they cannot find local applicants to fill semi-skilled or unskilled roles from the domestic workforce.

The biggest nationality starting work in the year to September 2017, according to National Insurance number registration data, was Romanian, followed by Polish, Italian, Bulgarian, Spanish and Indian - who accounted for more than half of all skilled work visas granted.

The ONS said that the overall employment rate for EU nationals was 81.2 per cent, followed by Brits at 75.7 per cent and non-EU nationals on 63.2 per cent.

The UK has become a significantly less attractive place for European citizens to work since the EU referendum, so it's no surprise that more EU workers are leaving the country.

Although the Government may see this as good news, it presents a significant threat to UK businesses, already struggling to hire the skilled and unskilled workers they need to thrive.

Businesses have little choice but to recruit workers from further afield and absorb the high cost of doing so.

The number of EU-born workers in the UK has almost tripled since 1997. Around 7% of all people employed in the UK today were born in one of the other 27 EU countries, up from a share of 2.4% twenty years ago. However even though EU27 workers make up a relatively small part of the entire labour force, when we look at jobs created over the last two decades, we can clearly see the extent to which they have played an increasingly significant role.

This means that roughly one out of every three new jobs created since 1997 in the UK labour market was filled by a EU27-born worker. Over the same period UK-born workers made up 36% of all employment growth, while the contribution from workers born in a country outside the EU stood at an almost-equal 34%.

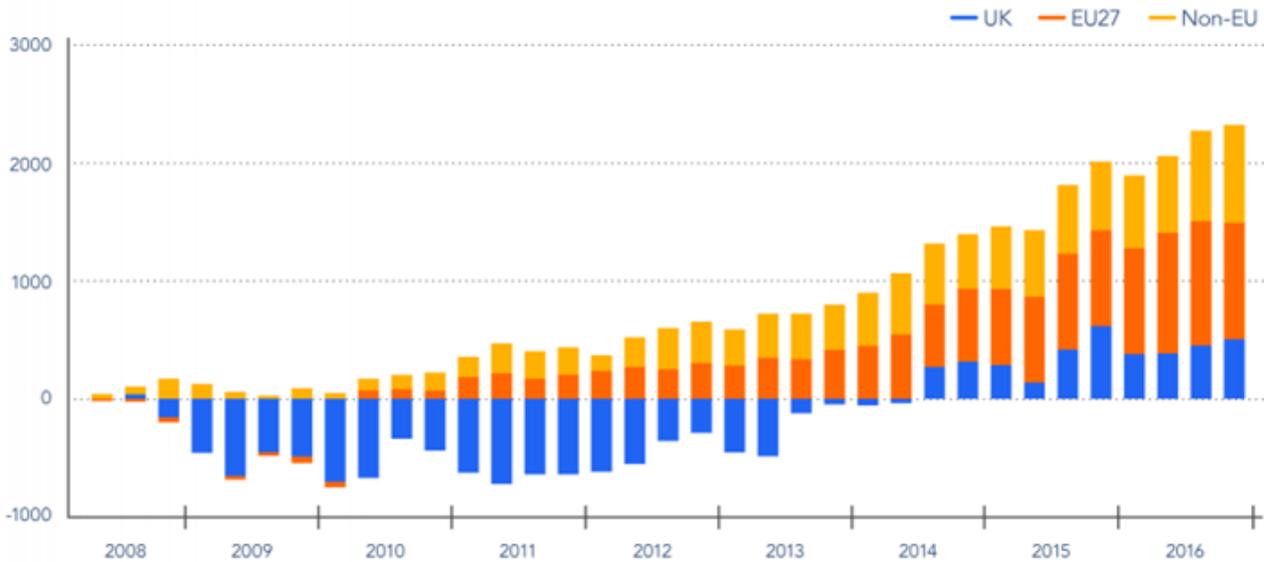
44.3% of all jobs created since the recession were filled by EU workers. If we take a closer look at employment growth since the recession hit the British economy in 2008, it becomes clear that the contribution of EU27-born workers has been even more remarkable over this period.

Of the 2.3 million new jobs created since January 2008, about 1 million (or 44.3%) were filled by workers born in one of the other 27 EU member states. Compared to the decade before the recession, the contribution of EU27-born workers to employment creation more than doubled over this period.

Meanwhile, even as the contribution of EU27-born workers to job creation surged, the employment rate of all groups (including UK-born) reached record high levels.

In fact, at the end of a decade that saw EU27 immigration hit an all-time peak, both UK and foreign-born people of working age are more likely to be in employment than at any other time since 1997.

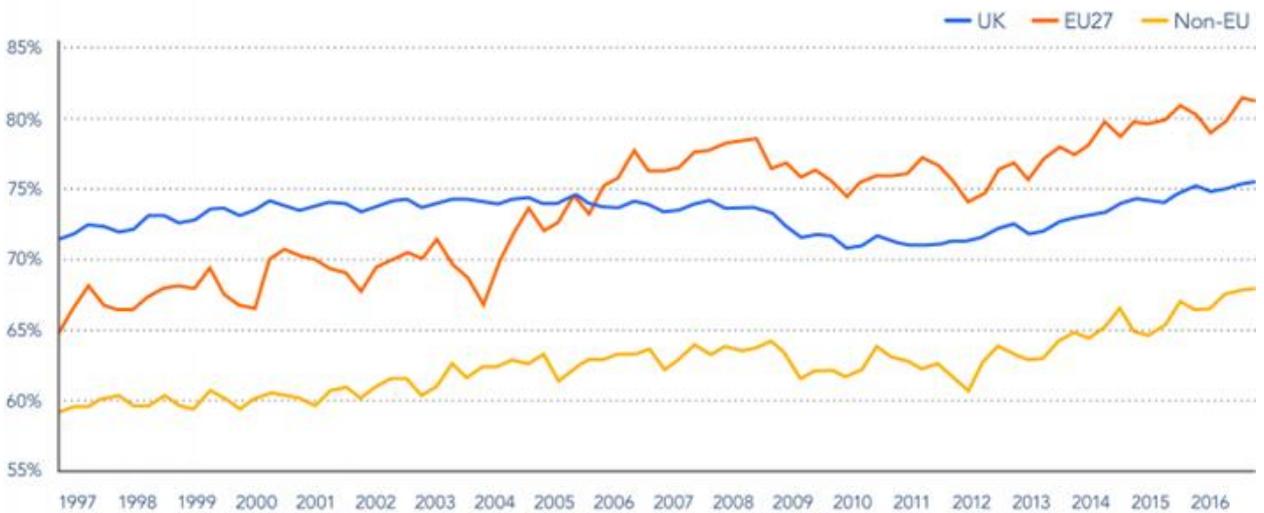
The growing contribution of foreign-born workers to UK employment –
 Change in employment by country of birth since Q1 2008 (in thousands), not seasonally adjusted



Source: ONS - Employment by country of birth time series



Peak employment rates for both UK and foreign-born people
 Employment rate by country of birth (aged 16-64) 1997-2016



Source: ONS - Employment by country of birth time series

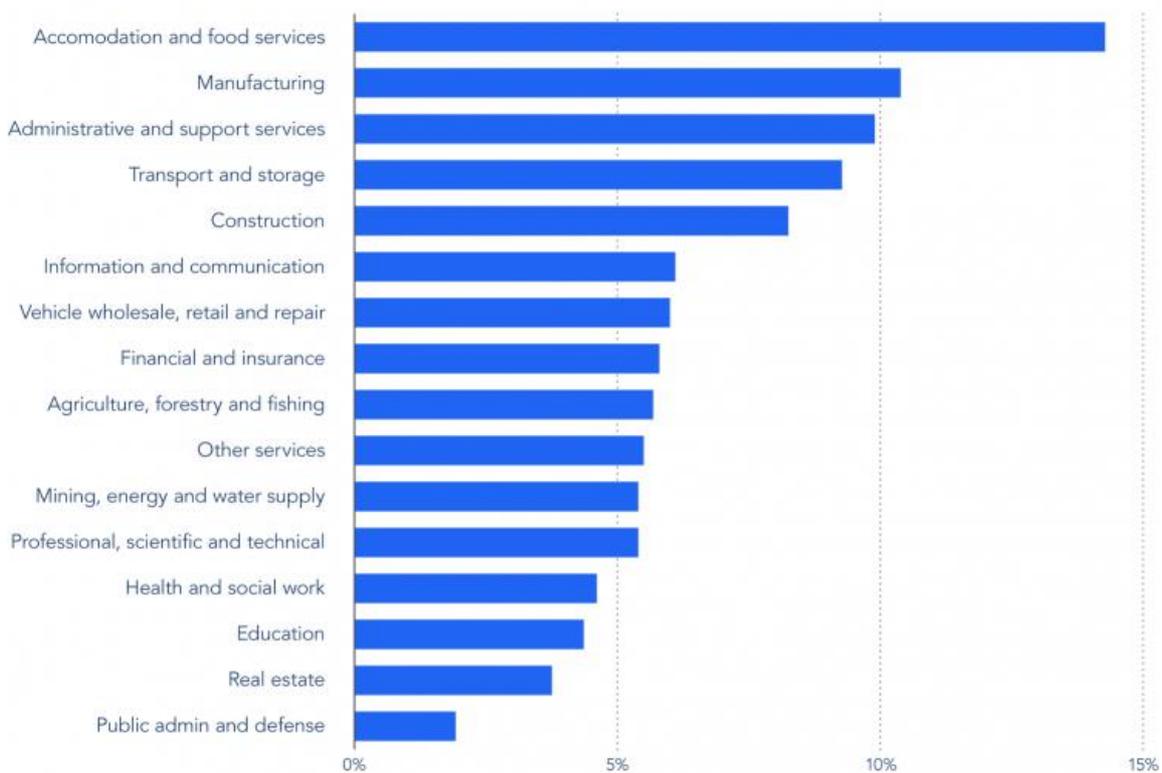


And so, regardless of whether one thinks that more or less immigration would be desirable for the UK today, it is indisputable that the contribution of foreign-born workers to employment growth in recent years has been very significant indeed.

Accommodation, Manufacturing and Admin Support are most reliant on EU workers. Having established how much EU27 and other non-EU workers contributed to the UK's recent strong record of employment growth, we wanted to better understand which industries today are most reliant on them.

Industries in the UK that are most reliant on EU27 workers

Prevalence of EU27 nationals by industry (Jul15-Jun16); each industry = 100%



Source: Annual Population Survey

*Extraterritorial organisations excluded. "Other services" category includes Arts, entertainment and recreation, Households as employers and Other service activities.



Controversies surrounding Brexit and the Immigration debate aside, it cannot be denied that the contribution of EU27 workers to the strong performance of the UK labour market in recent years has been remarkable.

Today EU27 workers make up a significant share of employment in a number of industries. They tend to work in sectors such as Manufacturing, Transport and Storage and Administrative Services, as well as occupations like Skilled Trades, more than natives or non-EU nationals do. Employers in most of these industries and occupations are also the ones who most often report difficulties in hiring due to skill shortages.

With the reduction of EU immigration, a top priority of the imminent Brexit negotiations; the impact that a substantial fallout in the number of EU27 nationals working in the UK will have on the labour market will probably be serious.

It is also likely that specific industries may be more affected than others and may find it harder to hire as the pool of candidates they have access to gets smaller and less international. For better or worse, a British labour market with a significantly smaller presence of EU27 workers will be immediately confronted with a range of complex questions that will need to be resolved quickly to prevent major disruption. The stakes are high.

The Gig Economy

Today more than 25 per cent of SME businesses warmly welcome so-called gig economy relationships and zero-hours contract, according to the Zurich SME Risk Index. This modern day worker often has more than one job, partakes in one off gigs as well as temporary and seasonal employment. They know who is hiring and when, often having a number of repeat work assignments with the same hirer.

Profitability

A clear advantage is profitability for businesses – 70 per cent of employers who use these workers reported that they were important to the company’s overall profitability and efficiency. One in ten of these decision makers (10 per cent) reported that gig economy workers made up 90 per cent of their workforce or even more, while more than two in five (41 per cent) reported that this type of worker made up at least a quarter of the company workforce.

Flexibility for workers

Almost three in five (58 per cent) stated that they believed the gig economy provided “flexibility for workers”, while more than a third (34 per cent) said that gig economy work provided “new opportunities” for workers and was “time efficient” (28 per cent).

Security

A big drawback for a gig economy system was the lack of security for workers. More than half (52 per cent) agreed that gig economy work “lacks security” while a fifth (20 per cent) were of the opinion that the arrangement could be “unfair” on workers.

Motivation

Many businesses were concerned that a gig economy would decrease productivity – 40 per cent of employers thought it make workers less dedicated, and 30 per cent said that they would create a less motivated workforce.

Flexibility for business

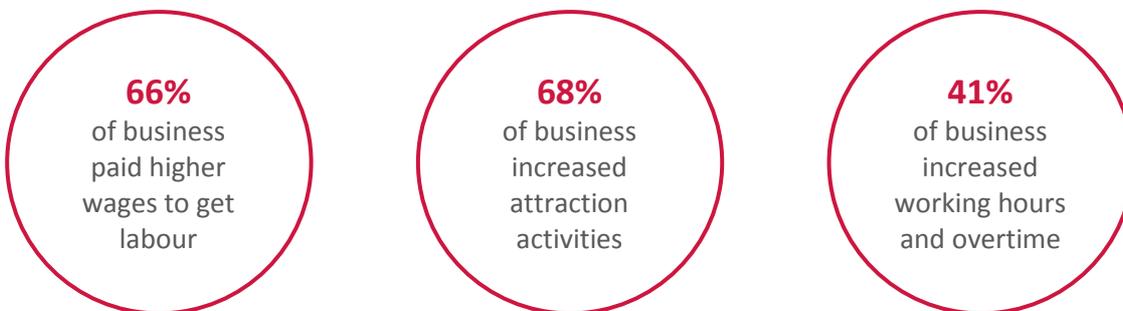
Almost three in five (57 per cent) agreed that zero-hour contract work was “flexible for businesses”, and nearly two in five (38 per cent) thought it created greater opportunity to “better manage workforce capacity and effectiveness”.

Labour shortages in Q4 2017

The faster than expected contraction of the labour market had the following impact in the food industry - 70% of labour providers were unable to meet their clients' labour demands during the Christmas peak as surveyed by the Association of Labour Providers.

For the Christmas peak in labour demand, labour providers said:

- We met all our clients' demand for workers 30%
- We short supplied our clients by 0-10% of their demand for workers 37%
- We short supplied our clients by 10-20% of their demand for workers 15%
- We short supplied our clients by 20-30% of their demand for workers 9%
- We short supplied our clients by over 30% of their demand for workers 10%



In Q4 we saw Argos deploy a strategy of increasing pay by £1.50 per hour on all pay rates to attract labour over their local competitors in marketplaces where they struggled. Debenhams engaged their December retail sales staff during October and paid them to sit at home during November so they would be available to work in December during their peak sales period. We can only assume that more and more companies will chuck money at workers during Q4 2018 to attract them ahead of their local competitors.

Our Strategic Solution – How to Compete in a near Full Employment Economy

First and foremost, every business is competing for the same labour for similar job roles across a number of differing sectors of employment. Many businesses ask me why the agency worker will not take a permanent contract when offered. Given that EU27 represents 3.5 million of the UK workforce and we have a growing and thriving gig economy in excess of 5 million workers, these modern day workers value flexibility, the ability to walk in and out of an assignment and in again when it suits them, many have overseas family and require extended leave and ultimately, they like to pick and choose what they do and who they do it for, and in the current market, they can do just that.

The UK workforce is more transient than ever before and they are never in between work for long and as such, it is not the unemployed that we target so traditional job adverts do not work. These fleet of foot workers demand a quick and agile service and the challenge we face is; how do we encourage and create stickiness competing for labour against everyone else. The UK is ranked fourth for employment flexibility in EU and OECD countries (The Organisation for Economic Co-operation and Development) according to the Employment Flexibility Index.

At Stafforce we commenced a Continuous Improvement Program back in 2016 as signs of a labour market contraction were evident. Our aim was to develop a solution to survive and thrive in a contracting labour market ensuring that our clients always have the labour they need. Below we outline this strategic approach which can be summarised into 4 headings:

- Employer Brand Reputation
- Candidate Experience
- Value Add
- Retention

Employer Brand Reputation

Brand is now more important than ever as workers have so many choices and only want to work for good businesses that treat workers well, as individuals and as the valued commodity they are. They are attracted to businesses that enable flexibility, provide good work environments and work benefits e.g.; break time facilities, personal belongings security, praise and recognition, personal development, car parking and other transportation options, work wear, consumer discounts and of course, money speaks.

It isn't just our brand that a potential candidate rates us upon but that also of our partners where the work is located. With power at their fingertips, online ratings and reviews play a bigger part in the decision making process than many people still fail to acknowledge. We are working hard to ensure that our online ratings portray us as a good destination employer to remove barriers in the attraction process. It is also more important than ever that we go to market 'joined up' and maintain a presence in the labour market.

Although we live in a technological age, we are having to employ many forgotten methods of attracting candidates as we seek to optimise candidates in every shrunken area of the labour market and are maintaining a robust 13-week attraction strategy in each location. Our work in our communities is all the more important as we move from national and international charities towards more local corporate social responsibility as we seek to give back whilst positioning and strengthening our brand.

The percentage of agency workers as part of your total workforce has to be large enough to ensure that both our brands are continually present and prominent in the local market. We need to be constantly attracting new applicants to ensure we are the dominant brand in the market but also creating new work assignments through effective pool management. Having a prominent or dominant footprint in the market is key to candidate attraction and competing in a changed labour market.

We are undergoing a program to update our high street offices to provide improved candidate waiting and training areas. Think of the car service waiting experience; leather sofas, comfortable, light and airy, refreshments, television and attentive staff. We are also introducing more technology into our windows to help branding and positioning, and as I have just mentioned, our reputation on the worldwide web has to be second to none. We are soon to launch an audacious campaign; Best in Town. We have to be different to stand out.

We have invested in developing strategic relationships with our partners more recently launching the Partnership Evolution programme as we seek to become your expert consultancy. There must be a shared agenda, strategy and responsibility to become an attractive destination employer for the modern day worker and maintaining a prominent and consistent brand presence.

Candidate Experience

When I talk about candidate experience think of McDonalds; the look and feel is the same in every franchise and the results are very consistent.

In 2016 we published our Candidate Charter which sets out 4 commitments; a fair and simple process, keeping you informed, protecting your rights and developing your skills. Workers will not tolerate a poor employer for long and want to 'feel' that their employer is looking after and investing in them.

As a compliant process driven business, it is easy to give off the feeling that we are a transactional service rather than a personable life enhancing service. In 2016 we reviewed every step of the recruitment process from attraction, response to applications, screening, the onerous; registration process, testing, training and induction, as well as our care program and worker relationship management, to identify those key interactions that should be very personable and possibly, game changing in terms of the candidates' experience or us. In 2017 we were successfully awarded the new updated ISO accreditation placing more emphasis on the candidate experience through training our teams whilst they also maintain compliance against a quality operating system. We have worked to ensure that the experience not just the quality process is the same regardless of which office you visit.

Automated registration has been declining since 2014 as those wanting work are seeking a quick and sometimes immediate entry to work. We have therefore changed both our on-line and paper based elements of the registration processes to ensure the job seeker feels a greater pace and urgency as they seek to secure work. We are soon to trial tablet technology in our office to facilitate people completing the paper based part of the process electronically in a way that is more modern, efficient and also GDPR enhancing.

We have continually invested in technology to improve our candidate experience with online cloud based registration, job application, candidate and employee portal, electronic payslips, work briefs and employee handbook as well as an innovative and endorsed CIEH training platform. In October we are releasing our new NAvigate platform to relaunch and enhance the employee portal.

We have also worked hard to ensure that our back office processes achieve a right first time result i.e. payment of wages and holiday.

A good candidate journey can be summed up as having a clear, simply and easy to use process or processes allowing for personal choice, agility and responsiveness, working with pace, right first time, great communication and treating the candidate with respect. We are working hard to ensure we are as good when handing off a candidate that is not suitable for our business. If we fail to create the right candidate experience at every step of the journey our employer brand reputation will be damaged and our attractiveness in the labour market reduced.

Value Add

We can't just rely on brand and experience and must seek to add value to a persons' employment if we are going to be seen as a destination employer of choice. We achieve this in two distinct ways; the first being employee benefits and the second being personal development.

Personal Development

Through personal development temporary employees are seeking to add value to their CV often working with a variety of employers, undertaking new jobs and training, gaining new skills and experience and the attainment of an employment reference which is still deemed to be of real CV enhancing value. In 2015 we invested in a training platform that delivers endorsed CIEH training content which is personal to the learner and provides the facility for them to complete additional training courses that may not be necessary for their chosen work assignment.

Employee Benefits

In terms of employee benefits we offer the following:

- A comprehensive health, wellbeing and financial management services
- A dedicated doctor consultation service
- An on-line medical prescription service delivered to your doorstep
- A confidential counselling service
- Pay slip portal
- Auto enrolment pension management service
- Death in service financial income protection
- A vast array of retail discounts
- A car lottery (to be launched January 2019)
- Employee of the month (we must increase praise and recognition)
- Performance and attendance incentives
- Referral scheme

Retention

After investing so much in attracting employees we need to ensure that we retain them and when we can't or lose them to another employer, we must ensure that they want to and are prompted to come back to us in the future as these transient workers regularly move for or follow assignments.

First, in order to retain the worker, we need to understand the bonding factors:

1. Work – or the right amount of work, frequency and employer /hiring business
2. Income – or what is seen as a fair remuneration package (doesn't have to be all about money). Pay by age band is unattractive in the current labour market. Providing forward visibility of work assignments and earnings opportunities is of critical importance
3. Attention – being treated as a valuable commodity, an individual, and respected
4. Prospects – personal development and enhancing their CV

Retention can be categorised into 4 key areas; effective pool management, care program, enhanced contracts and staying in touch.

Effective Pool Management

The hiring business plays a key part in retention through effective pool management providing forecasts, tailoring the plan to labour rather than other influences that should be more consistent, flattening of demand and proving each individual the opportunity to work the amount of hours they desire. The promotion of job sharing, early introduction for peak and use of holiday pay to supplement income all contribute to effective pool management. Short notice changes should be minimised as a shift cancellation at short notice is an opportunity missed for a person to acquire work elsewhere. Segregation or separate identification of agency workers does not provide for a good place to work. Agency workers must be integrated, look like and treated like your own permanent staff and have the same opportunities to develop their skills or gain experience. This has to be pushed to the top of the agenda.

Care Program

The key components of our care programme are:

- Competency development and appraisal
- Communication
- Inclusion
- Motivation
- Worker satisfaction
- Reward
- Open door and surgeries

The most effective vehicle to integrate a new employee and facilitate the care programme is via a Buddy scheme.

Enhanced Contracts

The Partnership Evolution programme has been successful at the implementation of enhanced contracts; guaranteed hours, annualised hours and fixed level of pay. These types of contracts differentiate us within a crowded marketplace but also promote the cultural and behavioural alignment of flexible workers to your business and its objectives whilst maintaining the flexibility both parties desire. Some of the benefits of these contracts are clear for all to see with increased engagement, motivation, productivity and retention. They also allow you to invest in the worker developing your talent for the future having some security that they will stick around providing a return on this investment. The contract is also a distinct step towards moving them to a contract of employment direct with you. These enhanced contracts also promote a salary rather than an hourly wage and enable the individual to budget with confidence and to secure finance such as; mortgage and loans which in turn also encourages them to commit their work services to us.

Staying in Touch

The primary way people stay in touch is through social media so we are no different. We encourage our workers to 'friend' us on our Stafforce Facebook page. Our systems enable us to text message and we use opportunities such as birthday to send a card to ensure we always stay in touch. It is perhaps this type of sentiment within the overall experience that may resonate that we are a good destination employer.

Conclusion

In our continually contracting labour market, we have to be doing something different perhaps even radical if we wish to compete with the many other employers for practically the same pool of labour. We have to stand out not just in look but also in feel. We need to be tuned in to the modern day worker and promote openness and transparency generating a great personal experience throughout the entire process and their time with us. We must be joined up in true partnership; our only objectives are your objectives and a shared strategic agenda with both actively contributing to its success with sponsorship and stakeholder engagement from both parties. We must reduce fluctuations in demand, go to market early to get the best quality and deploy effective pool and candidate management. We are never going to tick every box but we have to ensure that we tick more than our competitors for labour.