

THE AUTUMN BUDGET 2024

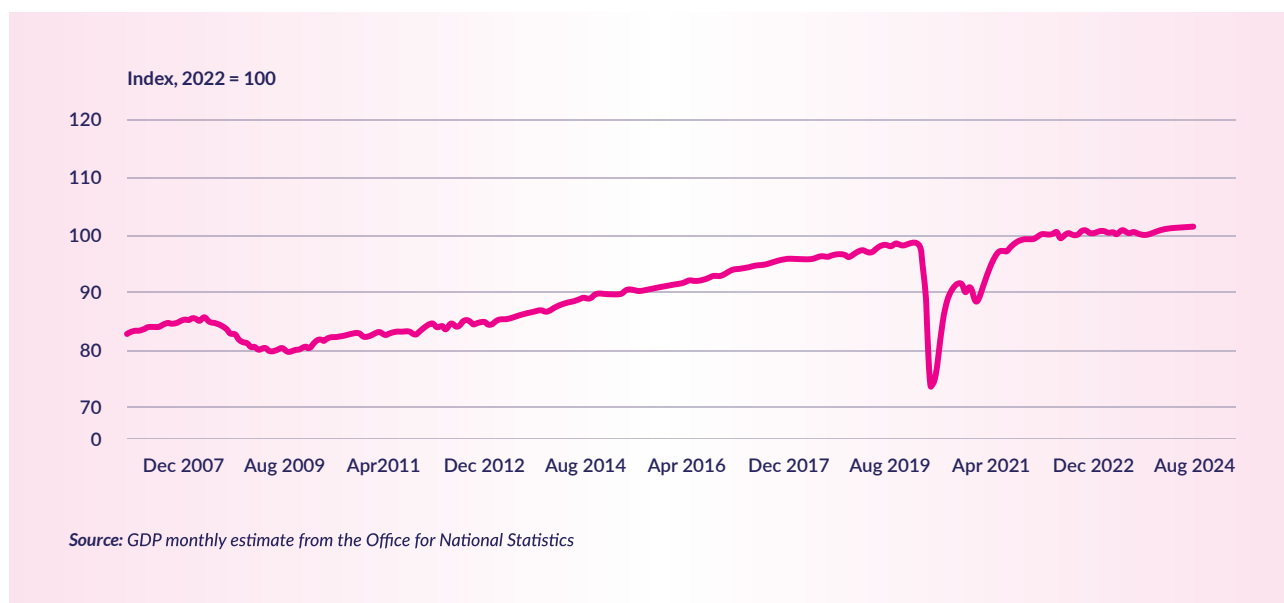
# POTENTIAL CHANGES FOR THE UK RECRUITMENT INDUSTRY



*For Recruitment Agencies*

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Recruitment industry is changing fast, and the future holds even more shifts for industry professionals, with August 2024 showing promising signs of economic recovery. The UK economy grew by **0.2%** after months of stagnation, driven by improvements in key sectors like services, production, and construction. As Chancellor Rachel Reeves prepares to boost public investment in the upcoming Autumn Budget, there's renewed optimism for continued growth.



Despite this positive momentum, the UK labour market is facing challenges. Unemployment has dropped to **4%** for the June-August period, according to the latest [Office for National Statistics \(ONS\)](#), but economic inactivity remains at **21.8%**. While efforts to encourage workforce participation are yielding results, wage growth is slowing slightly, with regular pay rising **4.9%**, down from **5.1%** in the previous quarter.

As we approach the long-awaited Autumn Budget, there is growing anticipation within the UK recruitment community. This budget is largely welcomed, yet it raises questions about its practical implications for the UK recruitment industry. What will this budget mean for recruitment agencies? Who stands to gain, and are there potential drawbacks?

**Prime Minister Sir Keir Starmer** has cautioned that the upcoming budget may bring some “painful” measures. As details are yet to be unveiled, speculation abounds regarding how UK recruitment agencies will be affected. Observers will be eager to assess how the Labour government’s recent pledges and policies, designed to enhance public sector performance, align with the initiatives announced in the budget.

With the budget set for October 30th, we will delve into its potential implications for UK recruitment agencies, exploring how these reforms may shape job markets and recruitment practices in the coming months.

# ARE SKILLS SHORTAGES THE SOLE CHALLENGE FOR UK RECRUITMENT AGENCIES, OR ARE THERE OTHER FACTORS AT PLAY?

While Labour's initiatives have brought about positive changes in various sectors, the recruitment industry now faces a complex set of challenges. These hurdles, ranging from regulatory changes to skills shortages, are reshaping the operational landscape for UK recruitment agencies. Potential rises in Employer NICs and NICs on pension contributions may squeeze profit margins, especially for firms with large payrolls and temporary placements. With inflation above 5% and rising interest rates, businesses may reduce recruitment budgets, particularly in non-critical sectors.



## SKILLS SHORTAGE



### HEALTHCARE SKILLS GAP

Persistent deficits of 11% in healthcare roles.

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### ENGINEERING SKILLS GAP

Focus on green energy and infrastructure projects is expected to increase demand, despite a 16% skills gap in critical areas like AI and cybersecurity.

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### VISA POLICY CHANGES

Potential modifications in immigration policies could further restrict access to international talent.

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### ENERGY PROFITS LEVY (EPL)

The rise to 38% may reduce recruitment demand in the energy sector.

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## TECHNOLOGY & AUTOMATION



### AI & AUTOMATION TOOLS

The rise of AI presents opportunities but also challenges, particularly for smaller agencies that may struggle to invest.

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### COMPETITIVE RISK

Smaller agencies risk inefficiency and reduced competitiveness without technological investment.



## COMPLIANCE & REGULATORY HURDLES



### UMBRELLA COMPANIES

Labour's crackdown necessitates stricter compliance protocols, increasing operational complexity for agencies.



### COST IMPLICATIONS

Adapting to new regulations will raise operational costs.



### ALIGNING CAPITAL GAINS TAX (CGT) with income tax rates may slow expansion and increase tax liabilities for recruitment business owners, affecting cash flow.

## ECONOMIC UNCERTAINTY



### FLUCTUATING ECONOMY

Ongoing economic fluctuations complicate long-term planning and client negotiations.



### TAX CHANGES

Potential changes in tax policy introduce further unpredictability.

# WHAT SHOULD RECRUITMENT AGENCIES ANTICIPATE FROM THE UPCOMING UK AUTUMN BUDGET?

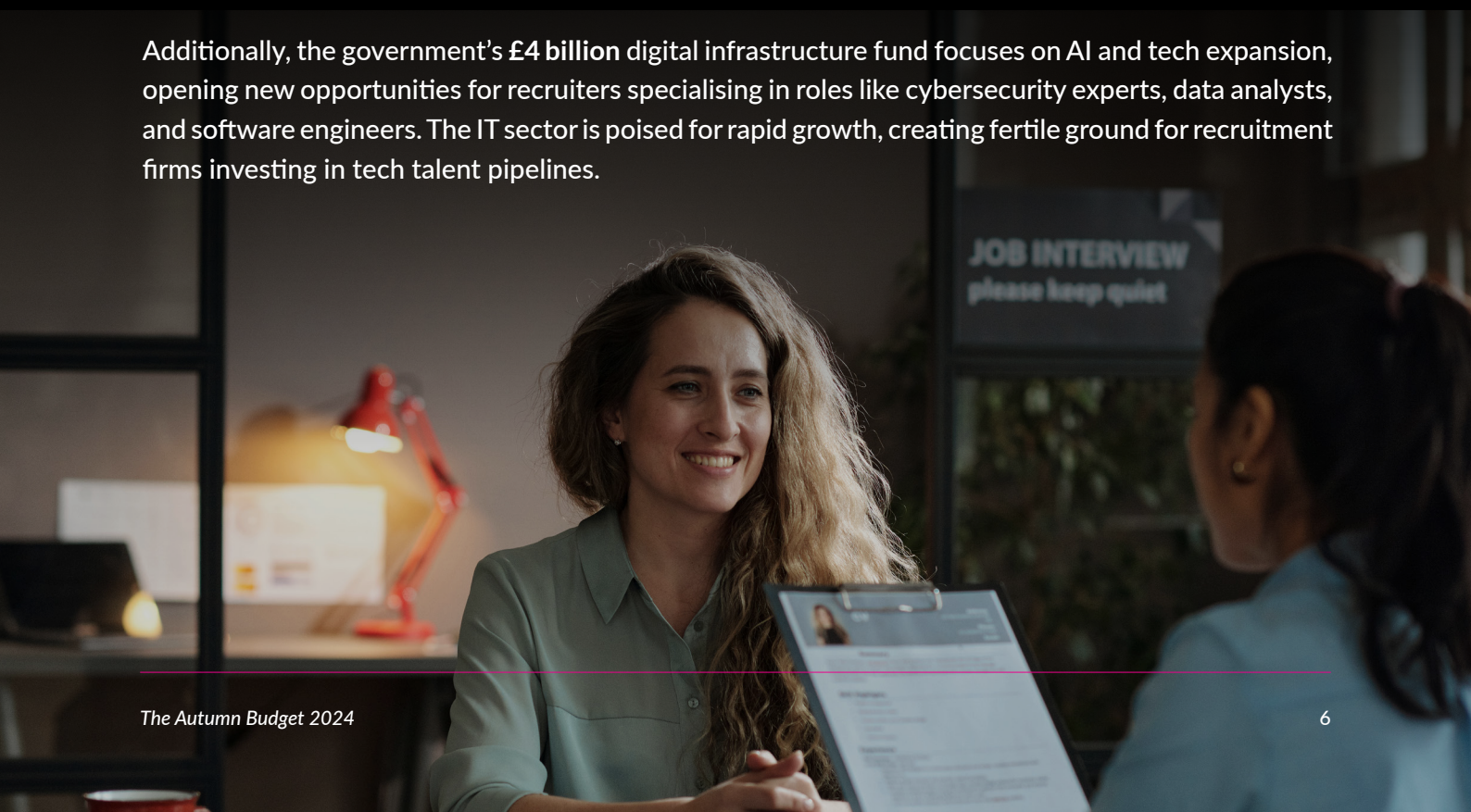
Shortly after taking office, Ms Reeves released a Treasury analysis revealing **£22 billion** in additional spending pressures for 2024–25, much of it permanent, including public sector pay. This compounds the government's challenge, as they have inherited tight spending plans with day-to-day public services set to grow by just **1%** per year, implying cuts to unprotected departments and capital budgets.

Looking ahead, the most pressing decision this autumn is determining the spending framework for the rest of the parliament. To maintain the **1%** real growth assumption left by Jeremy Hunt, cover permanent pay pressures, and fulfil Labour's spending commitments, an extra **£14 billion** in day-to-day departmental spending (RDEL) will be required by 2028–29.

In the upcoming Autumn Budget, it is expected that **£3.4 billion** will be directed towards the NHS to modernise IT systems and expand services, addressing critical staff shortages and potentially driving demand for skilled professionals in both healthcare and IT. Recruitment agencies specialising in nurses, locum doctors, tech talent, and admin support are well-positioned to meet this demand.

The **£25 billion** infrastructure investment will drive growth in sectors such as construction, transportation, and energy, where recruitment demand is already high. This will create jobs and increase the need for skilled engineers, project managers, and technical workers, offering recruitment firms an opportunity to expand their market share.

Additionally, the government's **£4 billion** digital infrastructure fund focuses on AI and tech expansion, opening new opportunities for recruiters specialising in roles like cybersecurity experts, data analysts, and software engineers. The IT sector is poised for rapid growth, creating fertile ground for recruitment firms investing in tech talent pipelines.



# SO, HOW DOES THIS IMPACT THE RECRUITMENT INDUSTRY?

The UK Autumn Budget 2024 brings both challenges and opportunities for recruitment agencies. As industry leaders navigate the shifting landscape, several key implications will directly impact recruitment practices and strategies. Here are three significant areas of focus:

## 01



### Investment in Infrastructure and Public Services

The government's commitment to **£25 billion** in infrastructure investment and **£3.4 billion** for the NHS will significantly shape recruitment demand. For agencies, this means:

- > **Increased Demand for Skills:** The infrastructure investment is expected to drive job creation in sectors like construction, transportation, and energy. This will escalate the need for skilled engineers, project managers, and technical workers, offering recruitment firms a chance to capture a larger market share.
- > **Healthcare Sector Opportunities:** The NHS funding is aimed at modernising IT systems and addressing staff shortages. Recruitment agencies focusing on healthcare professionals, particularly nurses and locum doctors, are likely to see heightened demand. As staffing needs evolve, agencies should prepare to source talent adept in IT, as this sector will increasingly require digitally skilled healthcare professionals.

## 02



### Focus on Skills Development

The proposed Growth & Skills Levy is intended to enhance workforce capabilities. This development has implications for recruitment agencies:

- > **Empowering Talent Acquisition:** Agencies that invest in understanding and aligning their recruitment strategies with this levy can develop robust training programmes. This will not only empower candidates with essential skills but also create a pipeline of qualified talent tailored to meet evolving industry demands.
- > **Proactive Talent Management:** By anticipating skills gaps and investing in training initiatives, agencies can position themselves as strategic partners in workforce development, thereby enhancing their value proposition to clients.

# 03



## Navigating Regulatory Changes

Anticipated changes in Employer National Insurance Contributions (NICs) and potential reforms to Capital Gains Tax (CGT) introduce complexity for recruitment agencies:

- **Cost Implications:** An increase in Employer NICs could squeeze profit margins, particularly for agencies with large payrolls or those heavily reliant on temporary placements. Recruitment leaders must evaluate their pricing models and operational efficiencies to mitigate these impacts.
- **Compliance Burden:** As regulatory frameworks evolve, especially around umbrella companies, recruitment firms must enhance their compliance protocols. This not only increases operational costs but also necessitates investment in technology to streamline compliance processes.

## BENEFITS FOR RECRUITMENT AGENCIES

- **Business Tax “Road Map”:** The cap on Corporation Tax at 25% for the Parliament term provides stability for recruitment firms. Additionally, the retention of full expensing for plant and machinery investments enables agencies to upgrade technologies, including AI-powered recruitment tools and enhanced candidate tracking systems.
- **Increased Capital for Business Investment:** Proposed changes to Capital Gains Tax (CGT), aligning with income tax rates, could prompt recruitment firms to rethink growth strategies. The ongoing review of Business Asset Disposal Relief (BADR) may influence exit strategies while opening avenues for mergers and acquisitions within the recruitment sector.
- **Employer NICs and Pension Contributions:** With discussions around raising Employer National Insurance Contributions (NICs) from the current 13.8% and potentially introducing NICs on employer pension contributions, recruitment firms need to adjust their budgets. Agencies with significant temporary or contract workforces should incorporate these rising employment costs into their pricing strategies.



KEY OPPORTUNITIES	DETAILS	HOW TO LEVERAGE
<b>Increased Healthcare Staffing Needs</b>	Labour's <b>£3.4 billion</b> boost to the NHS will increase demand for healthcare professionals, especially nurses and junior doctors.	Position as partners for NHS recruitment to source talent effectively.
<b>Green Energy and Engineering Roles</b>	Investment in renewable energy and infrastructure creates demand for engineering roles, particularly in green technology.	Develop talent pipelines specifically for engineering and green technology sectors.
<b>AI and Tech Sector Growth</b>	Continued investment in AI and cybersecurity leads to a rising demand for tech roles, particularly in software development and data security.	Specialise in tech recruitment for AI and automation roles to meet high demand.
<b>Teacher and STEM Talent Sourcing</b>	Increased funding for education and teacher pay raises recruitment needs in STEM subjects, addressing shortages.	Partner with schools to recruit for key subjects like mathematics and science.
<b>Apprenticeships in Engineering</b>	The government's focus on apprenticeships in engineering offers avenues for sourcing junior talent to meet industry demands.	Expand services to recruit and place apprentices, helping companies secure future skills.
<b>Regulatory Changes and Compliance</b>	Scrutiny on umbrella companies and tighter compliance regulations increase demand for administrative and compliance support.	Offer compliance and administrative talent to firms adjusting to new regulations.

# HOW CAN RECRUITMENT AGENCIES MITIGATE RISKS?

With £25 billion allocated to infrastructure, £3.4 billion set aside for the NHS, and £4 billion directed towards digital expansion, recruitment agencies must be prepared to seize opportunities in construction, healthcare, and tech. The mandate is clear: agencies need to become more agile, and technologically advanced. With inflation above 5% and rising interest rates, maintaining profit margins while delivering value will require a rethink of traditional recruitment models. Additionally, projected increases in Employer NICs and pension contributions add to the challenge.

*Here are a few ways and suggestions for firms to embrace leaner cost structures and maximize efficiency at every stage of the hiring process.*



## **Is Maintaining Profitability in Difficult Times a Call to Shift to a Leaner Cost Model?**

With changes in labour regulations, taxation, and increasing demand for flexibility, UK agencies need to streamline their workforce while minimising operational costs. This means automation and AI-driven tools are no longer just an advantage—they're critical to staying competitive. Digitising operations and reducing reliance on manual processes will not only cut overheads but also enable rapid scaling when the market demands it—especially when combined with offshoring strategies—all without ballooning staffing costs.

## **How Technology, Offshoring, and Automation Enhance Agility for UK Recruitment Industry**

Sectors like healthcare and technology are set to boom, but the ability to meet fluctuating demands is essential. By embracing automated talent sourcing and offshoring strategies, agencies can effectively manage recruitment surges and downturns without sacrificing service quality. Offshore recruitment solutions provide a flexible workforce that complements in-house teams, allowing agencies to scale efficiently in response to changing market conditions. Now is the time for UK recruitment leaders to reconsider their operational models—those who evolve quickly will secure their competitive edge.

## How Can Scalability Drive ROI in Your Recruitment Strategy?

The ability to quickly respond to shifts in hiring demand will determine which firms lead the market. Those prepared to onboard talent pipelines rapidly or scale down in slower periods will outperform the competition. Tech-driven scaling solutions will ensure recruitment businesses remain flexible and efficient in real time.

The Autumn Budget presents both challenges and opportunities, demanding agility in the recruitment industry. With changes like Employer NIC adjustments and public sector wage growth, disruptions are inevitable. Successful leaders will prioritise flexibility, adaptability, and forward-thinking in their strategies.

As the industry stands on the brink of transformation, reactive firms will struggle with tightening margins and shrinking market share. In contrast, proactive companies that embrace change, invest in technology, and adopt lean, scalable models will thrive in the coming months and years.

*The vision is clear: the recruitment industry needs to improve operations, adopt a leaner cost model, and become more agile. Companies that invest in technology and simplify their processes will lead the market.*

Now is the time for C-suite professionals to act decisively. The next three months will shape the industry's future, and those prepared to scale, adjust, and innovate will define recruitment in the UK. This is not just an opportunity; it's a turning point.

***The future of recruitment is lean, agile, and scalable. Are you ready?***

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