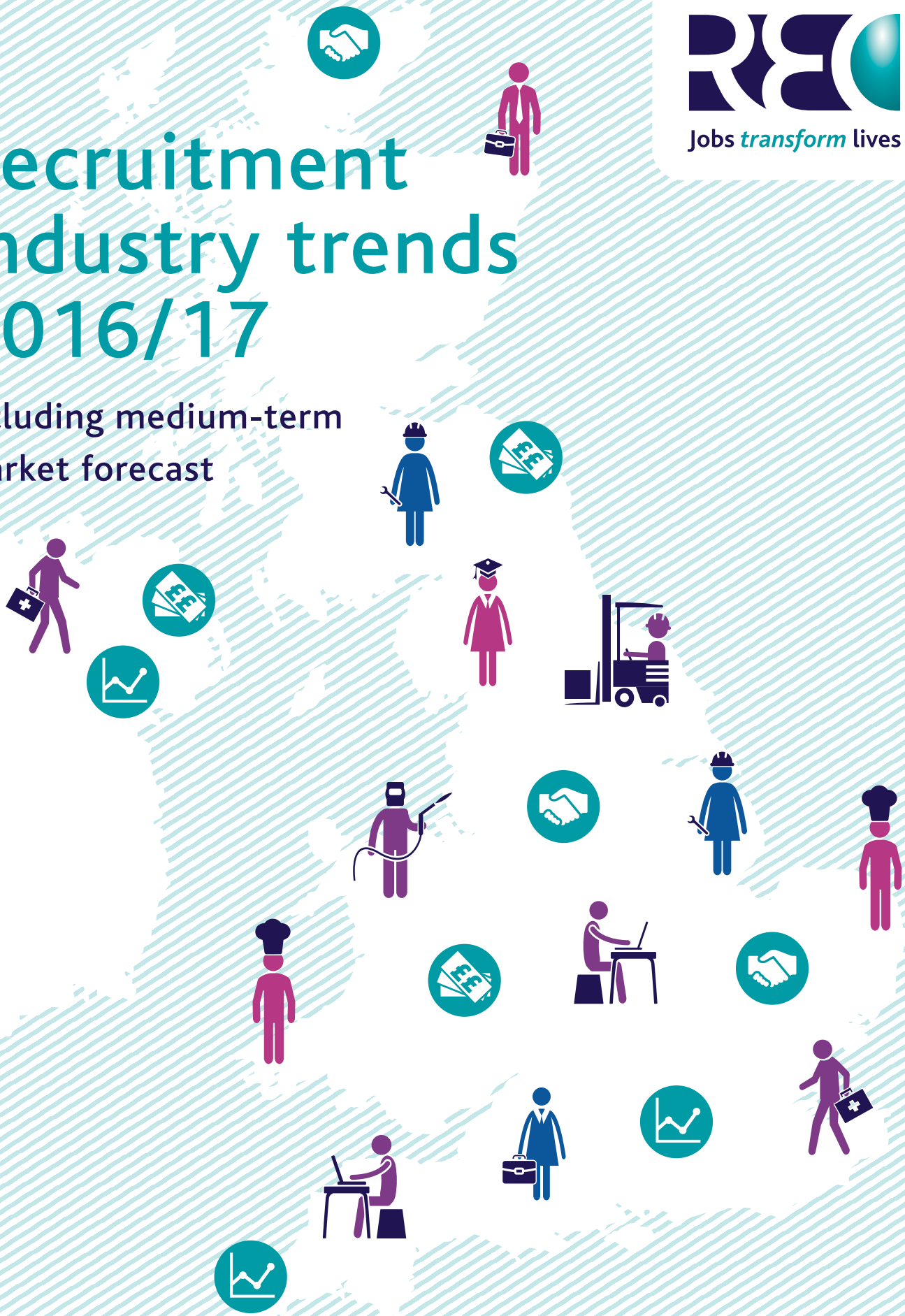
Jobs *transform* lives

Recruitment industry trends 2016/17

Including medium-term market forecast



In association with:

HSBC

Recruitment & Employment Confederation

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INTRODUCTION

CEO introduction

Welcome to this year's *Recruitment industry trends* report which again highlights the hugely important role that the recruitment industry plays in the UK economy. I hope you find this report a useful guide to the state of the UK recruitment industry and your company's place within it.

Our industry's total turnover in 2016/17 has grown to £32.2 billion. This was made up of over £28 billion of revenue from temporary/contract placements and nearly £4 billion from permanent placements. In this year's report we don't only show revenue and placements achieved by employment agencies/businesses, but include that generated by RPOs and MSPs. This provides a more rounded picture of the industry. We've partnered with ComRes and strengthened our methodology to ensure we bring you the most reliable data possible.

We know jobs transform lives and that getting the right job can change someone's life for the better. We want our members to use this data to champion the success for our industry in helping millions of people every year to find work. In 2016/17, recruiters placed nearly a million people into a new permanent job and on any given day there are 1.3 million temporary workers active in the labour market. The majority of temporary assignments are over 12 weeks long but only a tiny number exceed twelve months, meaning our flexible labour market remains healthy, offering convenience to workers who want flexible work and short-term labour to employers who require it.

All of this is made possible by the 100,000 dedicated recruitment professionals that make up the UK's recruitment industry. None of what we've achieved this year would have been possible without the ingenuity and hard work of consultants, resourcers and back office staff that, day in and day out, do amazing work to support their candidates and clients.

The recruitment industry will have some challenges in 2018, particularly the uncertainty caused by lack of clarity on how the UK will leave the EU. The UK jobs market is tightening and we have labour, skill and talent shortages. This presents opportunities for recruiters in the short term and we believe the industry will continue to outpace overall economic growth for the next three years.

We've been working hard all year to persuade the government to ensure our exit from the EU doesn't damage our industry and the overall business environment in which our members operate and we'll continue this work in 2018.

Whatever the next few years holds for the UK, the resilience and tenacity of the recruiters I've met up and down the country whilst chief executive of the REC means I'm confident our industry will continue to thrive. I honestly think our best years are ahead of us and I hope this report helps you make the most of the opportunities available.

Kevin Green
Chief Executive, Recruitment & Employment Confederation

Foreword

HSBC is once again pleased to sponsor the REC's *Recruitment industry trends* for the fourth successive year. This report is an important resource for REC members and all those who support the businesses who operate in this sector.

The recruitment industry continues to be extremely valuable to the UK economy, with £32 billion of annual revenue and employing over 100,000 people. Recruiters provide a vital service, not only to clients making use of a recruiter's expertise in matching candidates to roles, but also to jobseekers, for whom their choice of job and employer can be one of life's biggest decisions.

This means the people expertise that recruiters provide is critical, and not just for permanent roles. Temporary work alone continues to provide essential flexibility to people and employers – on any given day there are 1.3 million people on the payroll as agency workers.

Recruiters will seek to understand an individual client's needs, and match solutions to these. This can only be done by building lasting relationships between recruiter, their clients, and prospective candidates. As a bank, HSBC also works with our clients at the heart of our relationship, and through this close working partnership, we look to develop a deeper knowledge of their business and its goals.

For recruiters, we often see two main requirements – first, the need for working capital to support ongoing growth, and second, the need for experienced support to take advantage of international opportunities when they arise.

HSBC is ideally placed to support both of these needs. As the largest provider of receivables finance funding in the UK, we have over 50 years' experience in supporting UK businesses with invoice finance solutions. With our unrivalled international network we are also able to help clients reach overseas markets, as we already do for a large number of the recruitment businesses we work with today.

Recruitment, like banking, is evolving fast to meet the changing demands of its clients, and it is essential to understand and make use of the technology that can enhance client experience. Banking, like recruitment, is also about people, and HSBC understands how mutual success depends upon working closely with businesses and the individuals who drive them.

We wish REC members every success in 2018, and look forward to working with more of you in future, whether your business is large or small, and doing business domestically or internationally.

Lee Baty
Head of Corporate and Business Banking, Global Trade and Receivables Finance UK, HSBC Bank Plc

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EXECUTIVE SUMMARY

2.1 Key findings

- Total industry turnover, including the activities of those providing other HR services, as well as permanent and temporary/recruitment, was £32.2 billion in 2016/17.
- £28.2 billion (87.6 per cent industry turnover) was achieved through temporary/contract placement activity, while approximately £4.0 billion (12.4 per cent) was generated through permanent placements.
- The recruitment and HR service industry, including organisations providing managed service programmes (MSPs), recruitment process outsourcing (RPO) services and additional supply chain partners, made almost 1 million permanent placements in 2016/17.
- The average number of temporary/contract workers on the industry's payroll on any one given day in 2016/17 was 1.3 million. The proportion on assignment on any one given day was 1.1 million (86 per cent).
- Six in ten (61 per cent) temporary assignments were for 12+ weeks, while one in five (20 per cent) were for 6+ months. Just 1 per cent of placements were for 52 weeks or more. The mean assignment length was 17 weeks.
- Eight in ten (80 per cent) contract placements were for 12+ weeks, with over two in five (44 per cent) being for a duration of 6+ months. One in six (16 per cent) assignments were for 52+ weeks. The mean contract length was 23 weeks and one day.
- The average turnover per permanent placement was £3,984.
- The average annualised turnover per temporary/contract worker was £21,953.
- The total number of staff employed in the recruitment industry exceeded 100,000.
- In line with the general consensus, the REC forecast for the next three years remains positive. We forecast that the turnover of the industry will grow by between 1.8 per cent and 5.8 per cent in 2017/18, between 1.6 per cent and 5.6 per cent in 2018/19 and between 0.7 per cent and 4.7 per cent in 2019/20.

2.2 Industry health – turnover

This report covers the 12 months ending in March 2017 – a year of continuing volatility for the recruitment industry. For the most part, this stemmed from UK plc's reaction to the electorate's decision, in a referendum in June 2016, that the UK should leave the EU. This resulted in unpredictable demand and volatile decision-making. What also ensued was the reconsideration by many non-UK nationals in the workforce about the viability and desirability of staying on UK shores to live and work, causing fluctuations in availability. Sectors that rely more on EU nationals such as health, agriculture and hospitality were particularly affected.

Beyond the external factors outside the providers' control, the industry has continued to respond admirably to employers' ever-changing needs. This has included evolving to meet the requirements of those who determine that they would prefer their permanent and/or contingent workforce requirements to be externally managed for them. Accordingly, this year's *Recruitment industry trends* report captures the activity of a broader representation of providers than in previous years, including organisations providing managed service providers (MSPs) and recruitment process outsourcing (RPO) services, as well as activity from those providing HR services, such as umbrella companies and direct engagement solution providers.

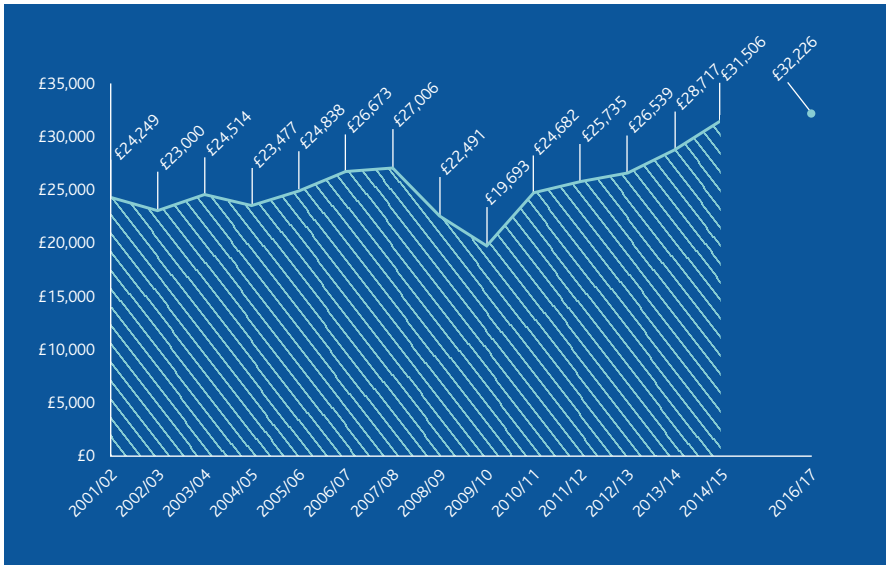
As such, the total industry turnover captured by the REC's analysis of the broader permanent and temporary/contract recruitment activity for 2016/17 was £32.2 billion – a figure comprising £28.2 billion (87.6 per cent) in temporary/contract revenue and £4.0 billion (12.4 per cent) in permanent placement fees income.

Behind the healthy top-line revenue delivered by the industry in 2016/17 amidst an unprecedentedly volatile political and economic climate lie several key influencers of note:

- Wage growth has been fairly stagnant.
- Employment legislation continues to change, requiring hirers, intermediaries and candidates alike to change their behaviours.
- The recruitment supply chain has become increasingly complex.

In previous *Recruitment industry trends* reports up until 2014/15, we collected data on activities of employment placement agencies and temporary employment agency activities (ONS SIC Codes 78.1 and 78.2, respectively). In this year's report we have also included other human resources provision (ONS SIC Code 78.3) to better capture all placement activity in the UK labour market. Although not directly comparable, the graphs throughout this report include historical data to provide some context to this year's market assessment.

FIGURE 1 / TURNOVER PER YEAR (£M)



Throughout the report market-wide calculations in 16/17 include activities by MSPs and RPOs, which were not included in previous years. Data up to 14/15 is included for context, but direct comparisons to 16/17 are not possible. In instances where 15/16 data was not available we have left a blank space.

2.3 Expectations for the future

Agencies remain cautiously optimistic about a continuing demand for their permanent recruitment services, with a net balance of 69 per cent forecasting growth in 2017, 70 per cent forecasting growth for 2018, but just 60 per cent anticipating growth in 2019.

In relation to temporary/contract recruitment, a net balance of 60 per cent of respondents forecast revenue growth in 2017, 67 per cent suggesting the same in 2018 and 64 per cent forecasting that turnover would increase in 2019.

2.4 Staffing and margins

While the permanent placement margins for recruitment agencies remained strong this year, with a plurality (47 per cent) of recruiters reporting margins of 15–19 per cent (and the RIB Index indicating an average of 16.3 per cent), the £3,984 average permanent placement fee in this year's report reflects the capture of additional higher-volume, lower-margin RPO activity.

The average annual turnover of temporary/contract workers was £21,953, with a plurality of agencies (31 per cent) reporting margins of 15–19 per cent. According to the RIB Index, the average margin for the placing recruitment businesses was recorded as 17.9 per cent for temporary and 18.1 per cent for contract assignments across 2016/17. Six in ten (61 per cent) temporary assignments were for 12+ weeks, while four in five (80 per cent) contract

assignments were similarly so. A notable 16 per cent of contract placements were for a year or more, compared with just 1 per cent of temporary assignments.

The broader recruitment industry captured by this year's study operates on a sizeable workforce of over 100,000 employees in 2016/17. This comprises 64 per cent consultants, 24 per cent resourcers and back-office staff, and 12 per cent management.

2.5 Benchmarks

Much of this report focuses on the detailed performance metrics that sit beneath the turnover line. In particular it looks at performance at a per employee level.

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INDUSTRY HEALTH – RECRUITMENT INDUSTRY SALES AND VOLUMES

3.1 Turnover

3.1.1 Total industry turnover

In recognition of the fact that the recruitment industry is evolving, and diversifying as a consequence, this year's *Recruitment industry trends* report captures the activity of a broader representation of providers than in previous years. This includes RPO and MSP activity (from providers not registered as predominantly providing permanent or temporary recruitment activities) as well as additional activity from those providing other HR services (including umbrella companies and direct engagement solution providers).

On this basis, the total turnover of this broader recruitment industry was £32.2 billion in 2016/17.

By way of a backdrop to this year's performance, it should additionally be noted that:

- **2016/17 was a year of significant market volatility** – one that was unprecedented in terms of employers' and candidates' reaction to the outcome of the EU referendum in June 2016 – a vote for the UK to leave the EU.
- **Permanent and temporary employee wage growth, as measured by the Office for National Statistics (ONS) for financial year 2016/17, was just 2.4 per cent (total pay, including bonuses) or 2.3 per cent (regular pay)** – taking an average of the rolling quarters from April–June 2016 to January–March 2017.[1] A cap on public sector pay increases imposed by government for the sixth successive year will also have partly contributed to this stagnation.
- **Hirers have continued to develop their direct sourcing capabilities – either internally or via an external partner.** While the proportion of employers who operate all of their recruitment in-house dropped from 69 per cent in 2013 to 54 per cent in 2017, this is viewed by the CIPD as a shift towards employers combining in-house and outsourced approaches (44 per cent of employers in 2017 versus 28 per cent in 2013).[2] From the outsourcers' perspective, they are incentivised within commercial models to directly source candidates rather than acquire them through agencies, and a number of major providers have recently enhanced their technological capability to further enable this.

In terms of where the industry's turnover was derived from, **87.6 per cent (£28.2 billion) came from placing temporary workers and contractors** – a slightly lower proportion than has been reported in previous reports because of the broader capture of RPO activity increasing permanent revenues in this year's study.

The **12.4 per cent (£4.0 billion) of turnover derived from permanent recruitment** activity hides a disproportionate level of activity, however, as turnover in this category equates solely to the sum of the net fees derived from permanent placements. In this year's report this also includes the more lower-margin/value activity of RPOs.

1 ONS: Labour Market Statistics Series. Available at: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsearn01
2 CIPD. (2017) *Resourcing and talent planning 2017*. Survey report. London: Chartered Institute of Personnel and Development. Available at: www.cipd.co.uk/knowledge/strategy/resourcing/surveys

TABLE 1 / INDUSTRY TURNOVER (£M)

	Total industry turnover	Turnover from permanent business	Turnover from temp/ contract business
2001/02	24,249	1,661	22,588
2002/03	23,000	1,583	21,418
2003/04	24,514	1,704	22,810
2004/05	23,477	3,211	20,265
2005/06	24,838	3,275	21,562
2006/07	26,673	3,514	23,158
2007/08	27,006	4,276	22,730
2008/09	22,491	2,609	19,882
2009/10	19,693	1,889	17,805
2010/11	24,682	2,587	22,096
2011/12	25,735	2,415	23,320
2012/13	26,539	2,469	24,069
2013/14	28,717	2,683	26,035
2014/15	31,506	2,993	28,514
2016/17	32,226	3,984	28,242

TABLE 2 / PERMANENT VERSUS TEMPORARY/CONTRACT MARKET SHARE

	Permanent	Temporary/contract
2007/08	15.8%	84.2%
2008/09	11.6%	88.4%
2009/10	9.6%	90.4%
2010/11	10.5%	89.5%
2011/12	9.4%	90.6%
2012/13	9.3%	90.7%
2013/14	9.3%	90.7%
2014/15	9.5%	90.5%
2016/17	12.4%	87.6%

3.1.2 Permanent recruitment turnover

Hiring organisations registered a continually positive sentiment towards permanent recruitment throughout 2016/17 in the REC's *JobsOutlook* monthly publications. While the direct sourcing trend should, in theory, have diminished the need for agency involvement, it has, instead, fuelled its evolution. In addition to agencies developing their RPO capabilities, it continues to alter the dynamics of the support that is required by hirers (and their RPOs) from agency partners. As charted by the *JobsOutlook* publication, hirers are increasingly relying on the industry for its

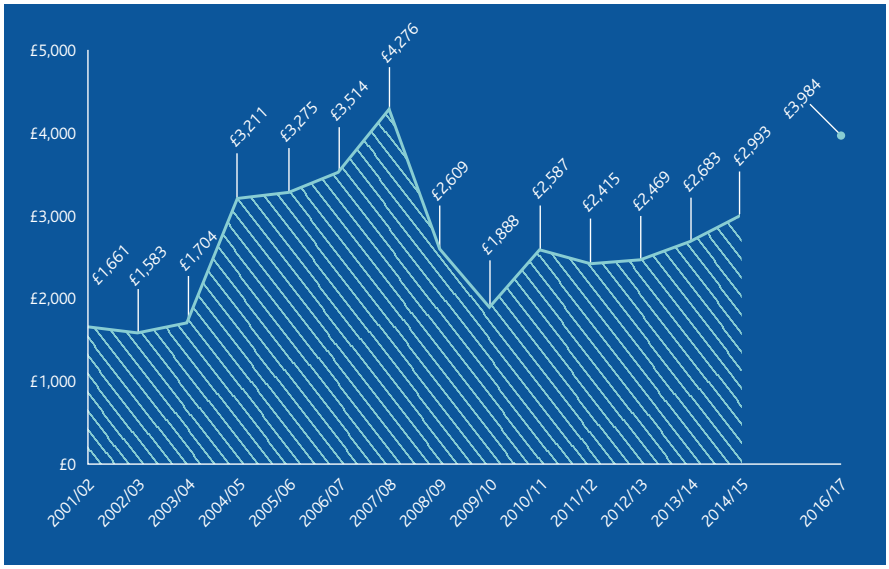
expertise to provide both the candidates and the market insights that they cannot access as standalone enterprises. As such, the collective recorded performance (£4.0 billion revenues) highlights a buoyant demand for the industry's services.

This is all the more notable considering:

- **the higher-volume but lower-margin reward from RPO activity, as providers facilitate direct as well as third party (agency) sourcing**
- **the continuing low employee wage inflation experienced throughout 2016/17.**

With employers' interest in recruitment process outsourcing/partnering growing in demand, many agencies have developed propositions to accommodate this need. In addition, businesses that exclusively provide RPO services with no agency sourcing interests have also moved in to respond to this growing interest.

FIGURE 2 / PERMANENT TURNOVER PER YEAR (£M)

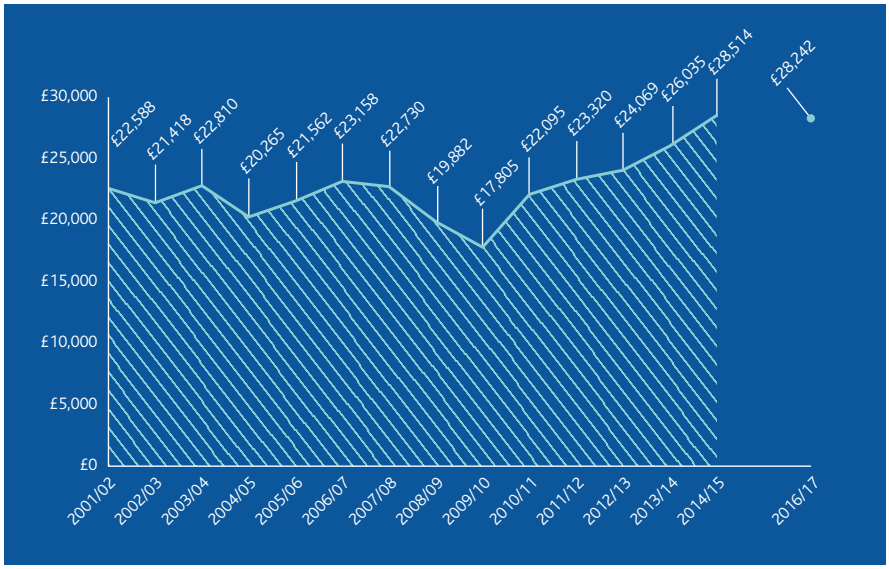


3.1.3 Temporary/contract staffing turnover

Based on the positive sentiment towards the use of agency labour registered by employers in the REC's *JobsOutlook* publication during 2016/17, a recorded performance of £28.2 billion in revenues was unsurprising.

With employers' interest for external providers to complement their own capabilities or manage their entire contingent hiring activities similarly growing, numerous agencies have developed propositions to accommodate this need. In addition, neutral MSP and blended RPO providers with no agency sourcing interests have also moved in to respond to these requirements. To more accurately reflect the broader industry activity in supporting employers with their contingent resourcing needs, this year's report captures more of this collective activity. As such, the recorded performance for 2016/17 highlights a buoyant demand for the industry's services.

FIGURE 3 / TEMPORARY/ CONTRACT TURNOVER PER YEAR (£M)



This performance is all the more notable when considering:

- **a significant but unquantified proportion of agency turnover has transferred to umbrella companies**, leaving just the assignment margin on the revenue line
- **there are key markets – notably the healthcare sector – where agencies deliver to an introduction fee only model**, once again removing the workers' wages from turnover. Because of the broader reach of this year's study, some – but not all – of the extended supply chain turnover will have been captured.

Beyond this in-depth knowledge of candidate availability and the market, there is another aspect of 'expertise' upon which hirers are also relying on the industry for support – to ensure that the required contingent worker is sourced for and stays on assignment for the desired duration.

The resulting split of assignment length shows a healthy balance of temporary agency placements fulfilling short-term and longer-term need. While four in ten (39 per cent) assignments were for less than 12 weeks, the majority (61 per cent) were for 12 weeks or more, including 20 per cent of all placements that extended beyond 6 months. Notably, in the context of the Taylor Review recommendation that all agency workers in post beyond 12 months should have the right to request a transfer to a permanent position, the industry suggested that just 1 per cent of temporary agency workers worked beyond this duration in 2016/17.

TABLE 3 / AVERAGE LENGTH OF TEMPORARY ASSIGNMENTS

	Temp 2013/14	Temp 2014/15	Temp 2016/17
<12 weeks	51%	29%	38%
12+ weeks	49%	71%	60%
Up to 25 weeks	78%	59%	78%
6+ months	22%	41%	20%
12+ months	7%	4%	1%

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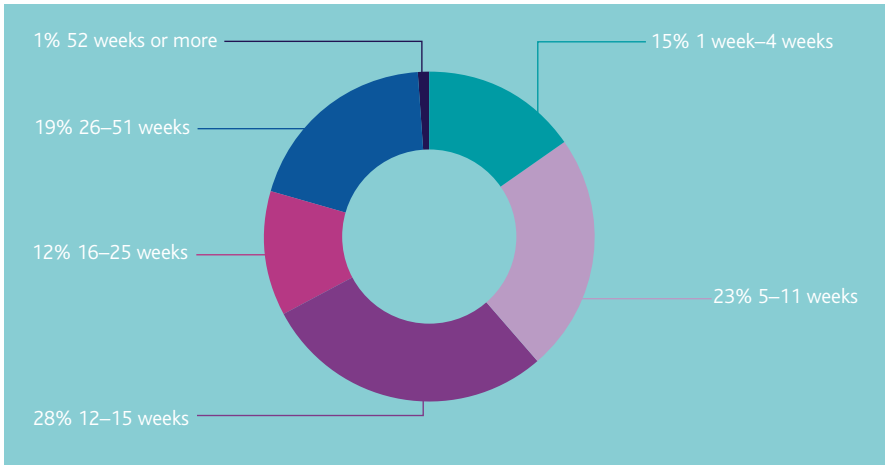
FIGURE 4 / AVERAGE LENGTH OF TEMPORARY ASSIGNMENTS



Figures may not add up to 100% due to rounding

The mean assignment for temporary agency workers in 2016/17 was 17 weeks.

In relation to contractors supplied by agencies, agencies suggested that, on average, a notable 45 per cent remained in post for six months or more, including 16 per cent of all contractors who were on assignment for 12 or more months.

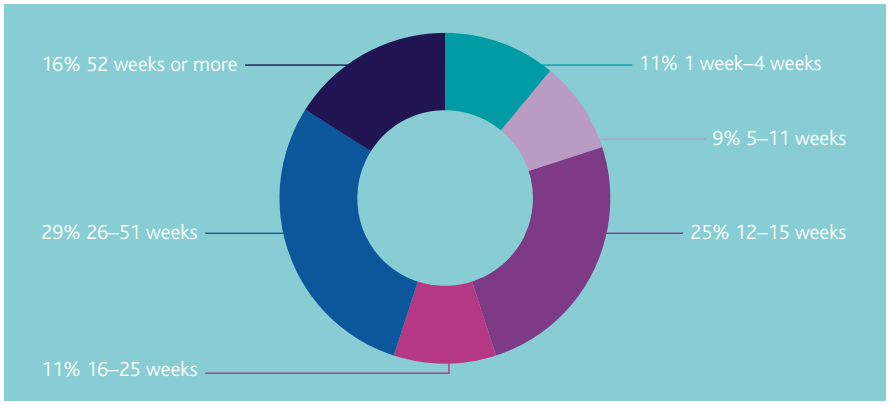
The mean contract length for the industry in 2016/17 was 23 weeks and one day.

TABLE 4 / AVERAGE LENGTH OF CONTRACT ASSIGNMENT

	Contract 2013/14	Contract 2014/15	Contract 2016/17
<12 weeks	25%	20%	20%
12+ weeks	75%	80%	80%
Up to 25 weeks	59%	48%	55%
6+ months	41%	52%	44%
12+ months	13%	14%	16%

Composite figures in this table may not match pie chart figures due to rounding

FIGURE 5 / AVERAGE LENGTH OF CONTRACT ASSIGNMENT



Figures may not add up to 100% due to rounding

In terms of the average number of hours worked by temporary agency workers and contractors, the proportion working on a part-time basis has been increasing in recent years. Across 2016/17, based on REC analysis of Office for National Statistics (ONS) employment data, the average proportion of part-time agency workers was 30 per cent.

3.2 Volumes

3.2.1 Permanent recruitment volumes

In 2016/17, permanent recruitment volumes were recorded at a notable 1 million.

Additionally, there are some important factors contextualising the industry's performance this year worthy of note:

- **The turbulence caused by the outcome of the EU referendum in June 2016** – Unsurprisingly, following the outcome of the vote, the net balance of employer confidence in the UK economy, as recorded by the REC's *JobsOutlook* publication, plummeted from 24.3 per cent in April–June 2016 to just 4.5 per cent in January–March 2017. Despite these concerns, which undoubtedly delayed or stalled hiring decisions amongst some employers, the net balance of respondents stating that they remained confident about making hiring and investment decisions remained firmly positive. As such, confidence in making such decisions fell to a lesser extent, from a net balance of 31.2 per cent in April–June 2016 to 19.4 per cent in January–March 2017.
- **The industry's ability to respond to the overall increasing demand** – In support of the employer sentiment recorded in *JobsOutlook* signalling strong increases in demand for permanent roles, the Office for National Statistics (ONS) job vacancy data shows that the average monthly number of recorded vacancies increased from 745,000 in April–June 2016 to 770,000 in January–March 2017. While demand stayed static amongst the largest employers (2,500+ employees) across that period, it notably increased within the significant majority of UK employers – SMEs (1–249 employees) and large enterprises (250–2,499 employees).
- **The availability of staff to fulfil permanent roles declined markedly** – As recorded in the REC's *Report on Jobs* monthly publications, the number of candidates available to fill permanent roles continued to decline markedly in 2016/17, with the rate of reduction reaching a 13-month record in February 2017.
- **More employers turned to agencies to find permanent staff** – As the shortage of candidates intensifies, a greater proportion of hiring organisations rely on recruiters to meet demand in permanent staff.
- **RPO providers responded to permanent resourcing needs** – Businesses that provide exclusively RPO services have developed propositions and supported employers in finding permanent staff.

TABLE 5 / PERMANENT PLACEMENT VOLUMES PER YEAR

Year	Permanent recruitment volumes
2002/03	515,344
2003/04	565,581
2004/05	654,203
2005/06	706,080
2006/07	787,280
2007/08	726,863
2008/09	582,803
2009/10	436,822
2010/11	604,193
2011/12	550,448
2012/13	617,314
2013/14	634,608
2014/15	633,992
2016/17	999,946

3.2.2 Temporary/contract staffing volumes

The average daily number of workers recorded as being on the collective industry's payroll during 2016/17 was approximately 1.3 million. Of this figure, the average daily number of workers on assignment on any given day across the year was recorded as 1.1 million (86 per cent of the on-payroll figure).

The following factors contextualising the industry's activities in sourcing temporary and contract workers are noteworthy:

- **Activity of a broader representation of providers is captured** – More of the activities of MSPs, blended permanent and temporary RPO assignments, and other HR services providers (including direct engagement model providers and umbrella companies) are included to more accurately reflect all industry activities in sourcing temporary and contract workers.
- **Temporary/contract vacancies increased at a steep pace** – As recorded by the REC's *Report on Jobs* publication, demand for temporary and contract workers remained robust in 2016/17, increasing across all monitored categories at the end of the first quarter of 2017.
- **The availability of staff to fulfil temporary/contract vacancies continued on a downward trend** – The rate of decline in temporary/contract staff availability, as registered by recruitment agencies in the REC's *Report on Jobs* publication, remained marked in 2016/17, signalling a further drop at the start of 2017.

TABLE 6 / AVERAGE DAILY TEMPORARY/CONTRACT RECRUITMENT VOLUMES

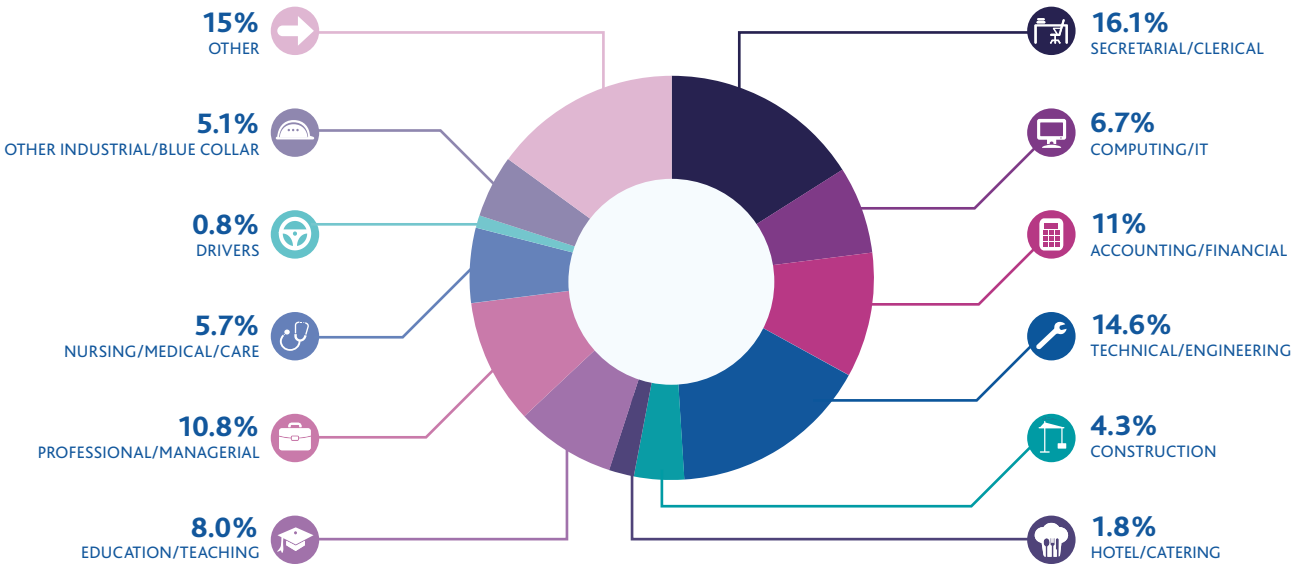
Year	Average number of daily temporary agency workers/ contractors on the payroll
2002/03	1,434,098
2003/04	1,516,323
2004/05	1,218,813
2005/06	1,265,060
2006/07	1,377,740
2007/08	1,220,310
2008/09	1,068,197
2009/10	879,302
2010/11	1,049,333
2011/12	1,105,894
2012/13	1,128,536
2013/14	1,155,932
2014/15	1,198,000
2016/17	1,286,469

3.3 Occupational analysis

3.3.1 Permanent placements by occupational sector

The resulting indicative distribution of permanent recruitment activity sees two-thirds (67 per cent) of placements now coming from just six skills categories: the traditional discipline of secretarial/clerical coupled with computing/IT, technical/engineering, accounting/finance, professional/managerial, and education.

FIGURE 6 / INDICATIVE PROPORTIONS OF PERMANENT PLACEMENTS, BY OCCUPATION, 2016/17

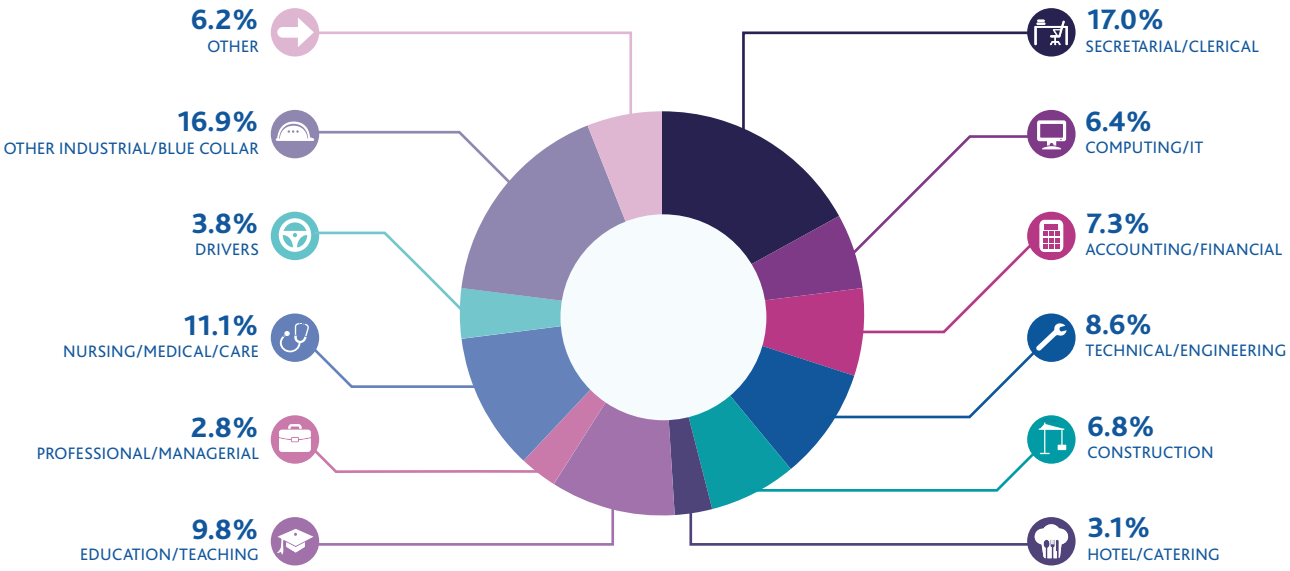


When looking at the indicative activity of the broader industry in 2016/17, the occupations with the highest proportion of permanent placements are secretarial/clerical, technical/engineering, accounting/financial and managerial/professional. Another occupation worthy of note is education/teaching, where there is currently negligible intermediary involvement in permanent sourcing. This rise is more likely to reflect the significantly increased dependency, particularly in schools, on agencies to support permanent hiring initiatives in this critically candidate-short market.

3.3.2 Temporary/contract staffing by occupational sector

The resulting indicative distribution of temporary/contract workers on their combined payroll sees a third (34 per cent) of workers within the traditional disciplines of secretarial/clerical and industrial/blue collar activities. Beyond this, there is a broad proportional spread of payroll worker activity across the occupations, with nursing/medical and education/teaching having a slightly higher indicative proportion of temporary/contract workers on the payroll.

FIGURE 7 / INDICATIVE PROPORTIONS OF TEMPORARY/CONTRACT WORKERS ON THE PAYROLL ON A DAILY BASIS, BY OCCUPATION, 2016/17



04

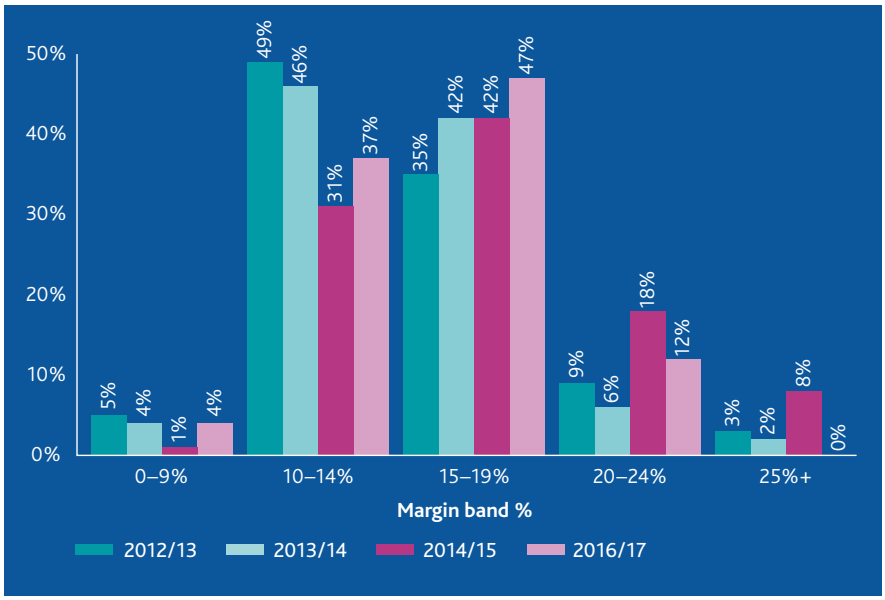
INDUSTRY STRUCTURE – MARGINS AND STAFFING

4.1 Margin analysis

4.1.1 Margins in permanent recruitment

More than eight in ten respondents registered average margins in permanent recruitment between 10 per cent and 19 per cent. A plurality of respondents (47 per cent) recorded margins of 15–19 per cent. When looking at the extremities of the bandings for average placement margins recorded within this year's REC study, just 4 per cent of industry respondents suggested an average of under 9 per cent. Three times as many respondents (12 per cent), however, indicated that they were achieving 20–24 per cent. According to *Recruitment Industry Benchmarking* (RIB Index), the average margin on permanent placements achieved by recruitment agencies (including those running managed service programmes) in 2016/17 was 16.3 per cent, which is in keeping with our findings.

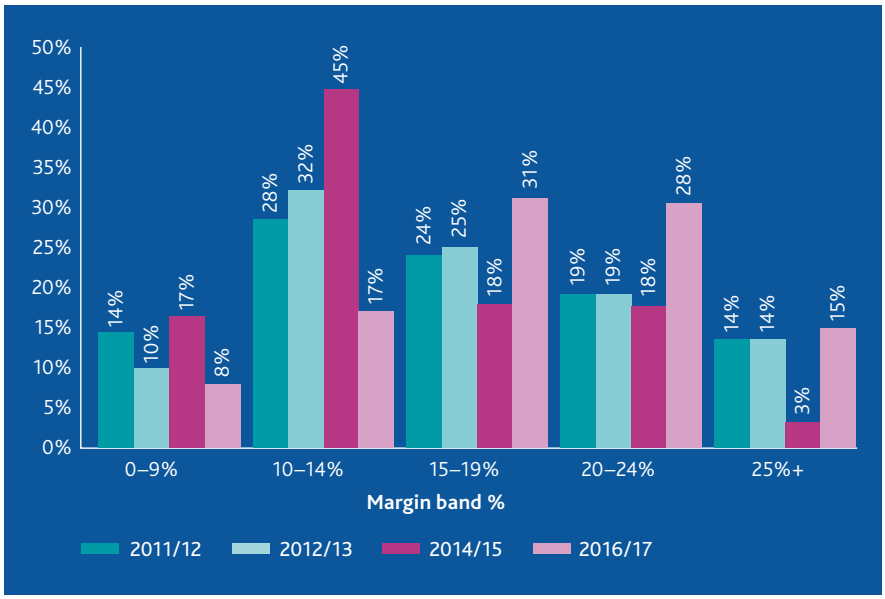
FIGURE 8 / MARGINS IN PERMANENT RECRUITMENT



4.1.2 Margins in temporary/contract staffing

Almost six in ten respondents recorded average margins in temporary and contract staffing between 15 per cent and 24 per cent. When looking at the extremities of the bandings for average temporary/contract assignment margins recorded within this year's REC study, just 8 per cent of industry respondents suggested an average of under 9 per cent. Almost twice as many (15 per cent), however, indicated that they were achieving margins of 25+ per cent. According to the *Recruitment Industry Benchmarking* (RIB Index), the average margin on temporary placements achieved by recruitment agencies (including those running managed service programmes) in 2016/17 was 17.9 per cent. For contract recruitment, the average margin recorded by the RIB Index was 18.1 per cent.

FIGURE 9 / MARGINS IN TEMPORARY/CONTRACT RECRUITMENT



4.1.3 Operating margins

The average 2016/17 industry gross profit margin (NDR, or net fee income), as recorded by the *Recruitment Industry Benchmarking* (RIB Index), was 27.2 per cent. From an operating profit perspective, the RIB Index recorded an average margin of 2.1 per cent for 2016/17, marking a slight decline from the previous year.

FIGURE 10 /AVERAGE MEDIAN NET FEE INCOME/GROSS PROFIT/ NET DISPOSABLE REVENUE

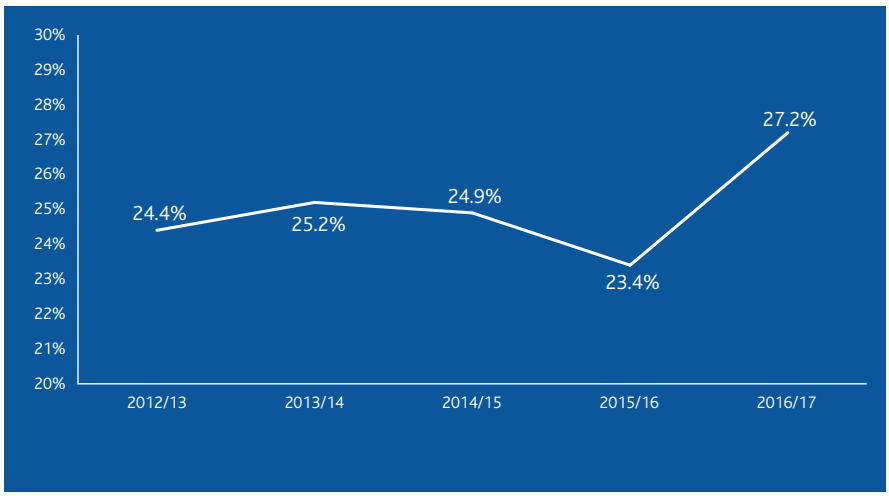
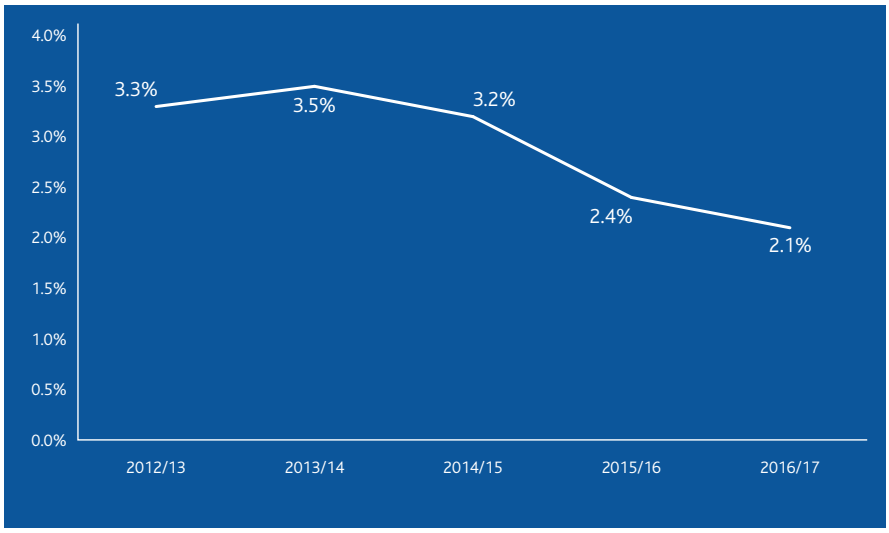


FIGURE 11 / AVERAGE MEDIAN OPERATING PROFIT MARGIN



4.2 Staffing ratios

4.2.1 Total number of staff employed

The recruitment industry profiled in this year's REC study has a workforce of over 100,000.

Within agile staffing businesses – notably those delivering MSP and RPO solutions as well as contingent recruitment – numbers will have ebbed and flowed in line with fluctuating demand for their services across the volatile year. The addition of more non-agency-affiliated and technology-oriented MSPs, RPO and umbrella solution providers will have added some (but not sizeable amounts of) headcount.

TABLE 7 / STAFF VOLUMES PER YEAR

Year	Number of staff
2003/04	96,625
2004/05	99,188
2005/06	97,674
2006/07	101,286
2007/08	108,833
2008/09	95,865
2009/10	80,528
2010/11	91,114
2011/12	92,747
2012/13	93,610
2013/14	96,357
2014/15	103,225
2016/17	100,226

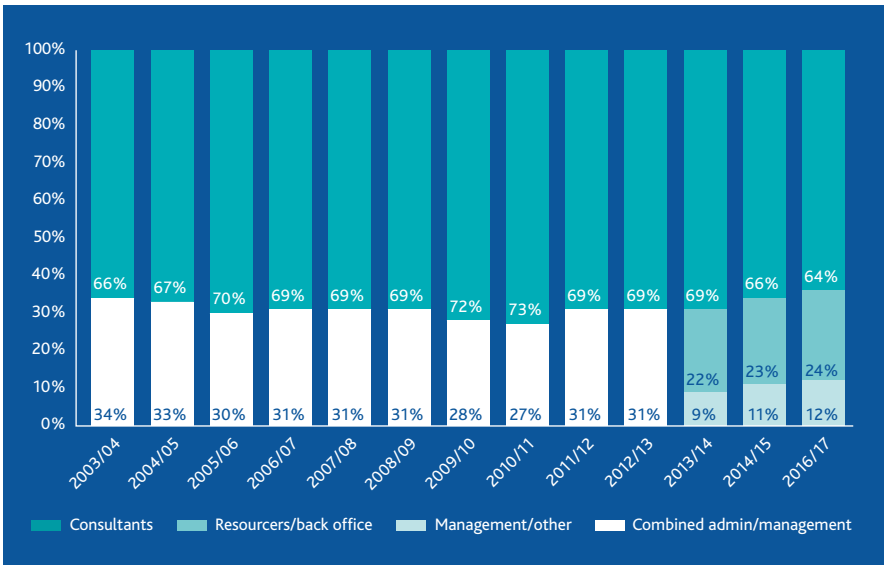
4.2.2 Breakdown by type of staff

In terms of the occupational profile of the industry workforce in 2016/17, just short of two-thirds (64 per cent) of the headcount comprised recruitment consultants. A further quarter (24 per cent) of the headcount was made up of resourcers and back-office staff, while one in eight (12 per cent) were those who managed the companies.

TABLE 8 / STAFF BREAKDOWN PER YEAR

Breakdown of staffing	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	% total	2014/15	% total	2016/17	% total
Total consultants	64,313	66,413	68,254	69,341	75,600	65,889	57,739	66,111	64,203	64,669	66,254	68.8%	68,358	66.2%	63,832	64%
Resourcers/ sourcers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12,228	12.7%	12,805	12.4%	N/A	
Back office	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8,985	9.3%	10,492	10.2%	N/A	
Total resourcer/ back-office support											21,213	22.0%	23,297	22.6%	24,468	24%
Management/ other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8,890	9.2%	11,570	11.2%	11,925	12%
Total admin/ management	32,312	32,775	29,420	31,945	33,233	29,976	22,789	25,003	28,243	28,941	30,103	31.2%	34,867	33.8%	36,393	36%
Total employees	96,625	99,188	97,674	101,286	108,833	95,865	80,528	91,114	92,747	93,610	96,357	100%	103,225	100.0%	100,225	100%

FIGURE 12 / STAFF PER EMPLOYEE TYPE (%)



05

INDUSTRY BENCHMARKS – PERMANENT

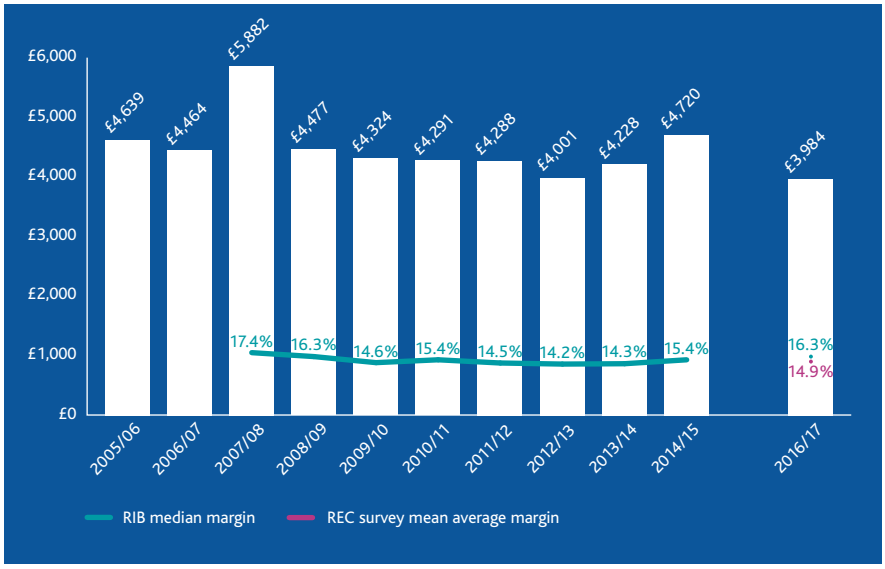
5.1 Turnover per placement

The average permanent placement fee margin achieved by the industry in 2016/17 was £3,984.

With lower average yield per permanent placement being achieved through RPO solutions, the broader industry average is unsurprisingly lower than averages in previous years, which reported only on agency activity. As all revenue from permanent placements goes to the agency, unlike fees from temporary placements (which also include workers' wages), and taking account of the high volume of permanent placements made in the year (nearly 1 million), this is a healthy figure.

The average margin achieved by recruitment agencies (including those who provide managed services), as recorded by the RIB Index, remained buoyant in 2016/17.

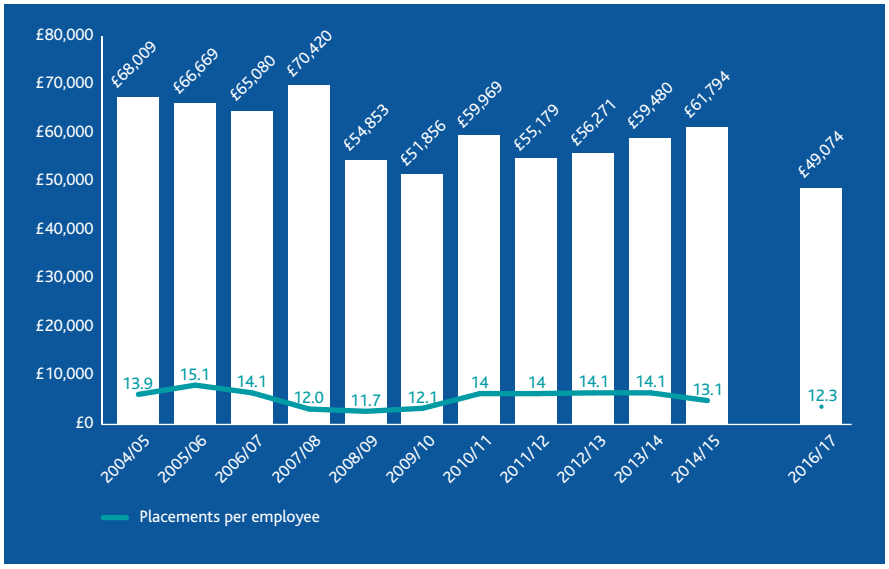
FIGURE 13 / AVERAGE PERMANENT PLACEMENT VALUE



5.2 Permanent recruitment sales and volume per employee (average)

When looking at the revenue generated through permanent recruitment activity as an average annual figure per employee, this translated into a benchmark of £49,074 in 2016/17. As with average revenue per placement, the inclusion this year of RPO placements means that the lower figure doesn't necessarily mean a fall in revenue overall per placement compared with previous years; it just gives a fuller picture than before by including data for all placements, not just those made by agencies in isolation.

FIGURE 14 / AVERAGE PERMANENT SALES AND PLACEMENTS PER EMPLOYEE, PER ANNUM



Even with the wider mix of services included in this year's performance benchmark, it is interesting to note that the average number of placements per employee across the broader industry remains similar to agency-only activity.

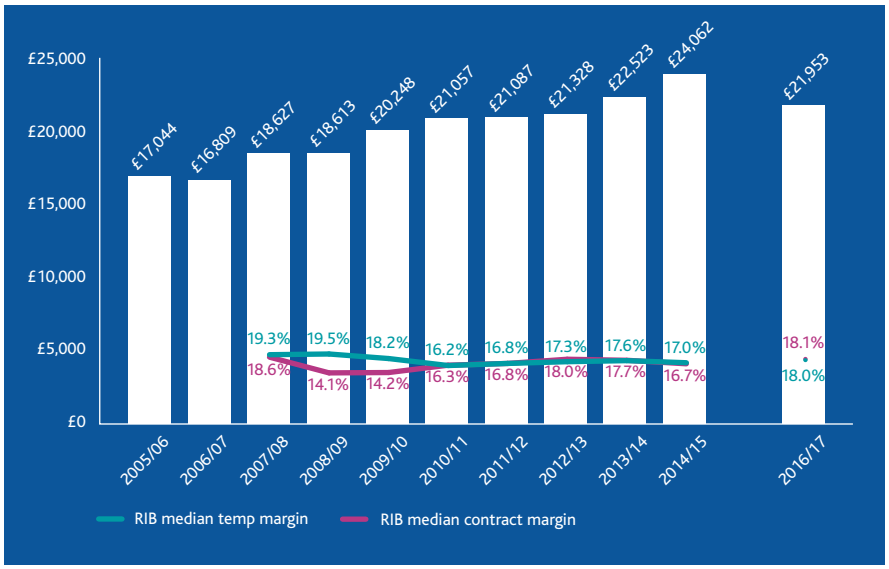
06

INDUSTRY BENCHMARKS – TEMPORARY/CONTRACT

6.1 Turnover value per temporary/ contract worker

The average annualised turnover per worker on temporary/contract payroll remained relatively resilient in 2016/17 at £21,953.

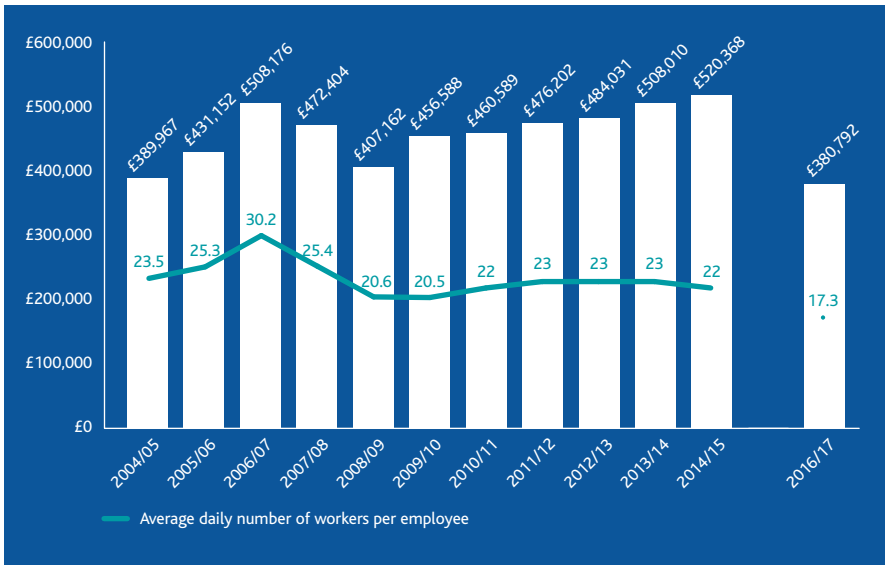
FIGURE 15 / AVERAGE ANNUALISED TURNOVER PER TEMPORARY/CONTRACT WORKER



6.2 Temporary/contract sales value and workers per employee (average)

While the average annualised turnover of each temporary/contract worker on the industry's payroll remained relatively buoyant in 2016/17, the average number of workers on the payroll per employee was lower than has historically been recorded by the agency community alone. This year's figure captures the temporary staff supplied via MSP and RPO arrangements, which deliver lower margins than those supplied directly by agencies. The resulting annualised temporary/contract turnover per employee was around £381,000.

FIGURE 16 / AVERAGE ANNUAL TEMPORARY/CONTRACT SALES AND AVERAGE NUMBER OF WORKERS ON THE PAYROLL PER EMPLOYEE



07

REC MEDIUM-TERM FORECAST

7.1 Introduction

The REC has reviewed responses from recruiters to our latest survey about their expectations for 2017–20 alongside other relevant market data, including forecasts for the general economic situation in the UK over the next three years, wage growth, and expected changes in employment legislation and business confidence.

The manner in which the UK approaches its departure from the EU and the final agreements the UK secures will have a significant impact on the growth of the recruitment market over the next three years and beyond. As well as the overall state of the post-Brexit UK economy affecting the demand for candidates, any additional immigration restrictions implemented for EU citizens will reduce the number of candidates available for roles.

Exacerbating skills shortages will have a mixed effect on recruiters by size, region, and sector, with some being harder hit than others. While some may benefit from increased margins due to employers agreeing higher fees to secure scarcer candidates, others may not be able to source enough candidates to place to maintain their current turnover rate or even continue trading.

The following annual contexts assume a reduction in candidates that allows the industry to continue to grow above GDP into the first year of the two-year transition period after the UK leaves the EU (which begins in April 2019). A successful economy and recruitment market beyond this will depend on the final Brexit settlement agreed between the UK and EU. The REC believes that designing an immigration system with the needs of business in mind and based on the evidence will allow the economy and our industry to continue to grow in the long term after the UK has left the EU.

FIGURE 17 / THE INDUSTRY'S EXPECTATIONS FOR GROWTH IN PERMANENT RECRUITMENT REQUIREMENTS 2017–19

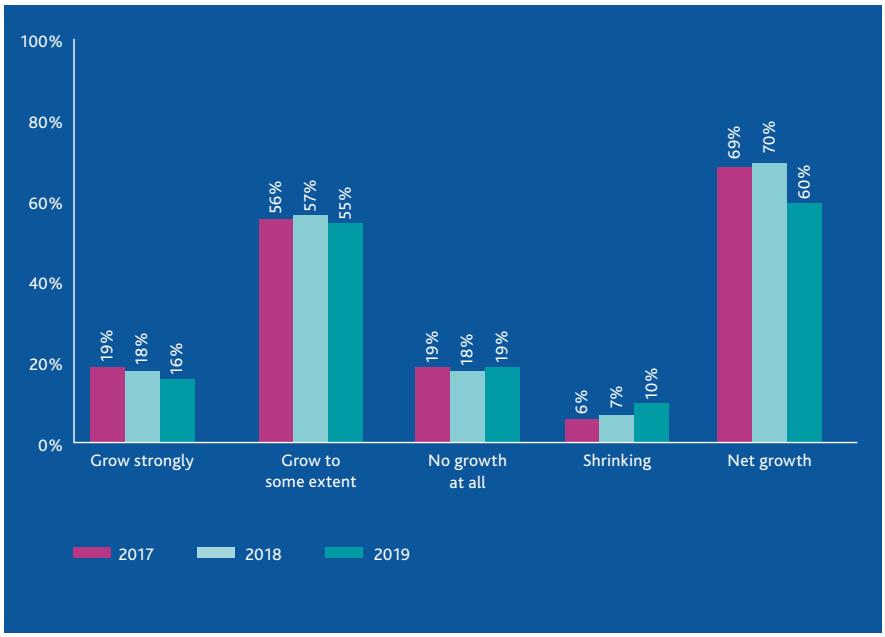
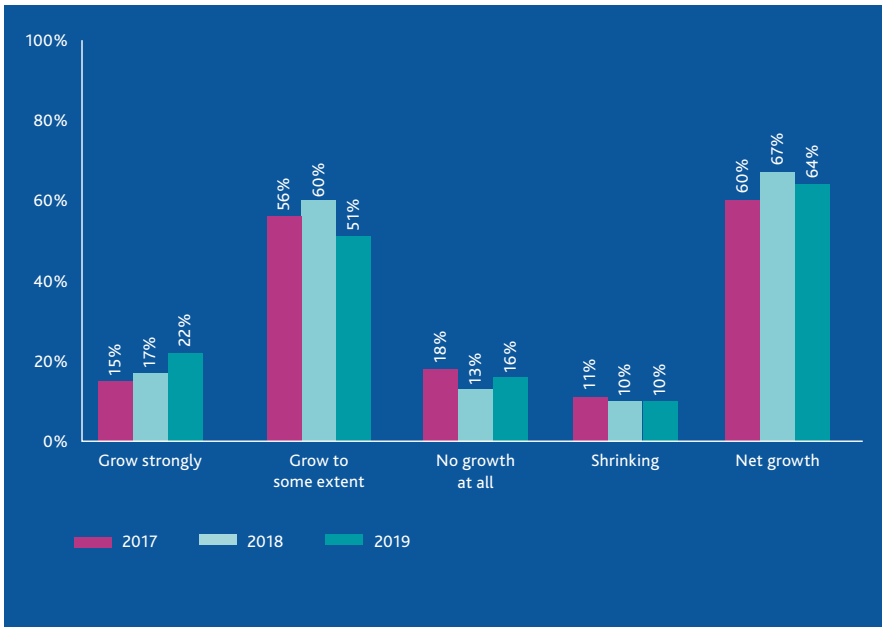


FIGURE 18 / THE INDUSTRY'S EXPECTATIONS FOR GROWTH IN TEMPORARY/CONTRACT REQUIREMENTS 2017–19



7.2 Factors affecting recruitment market growth over the next three years

Context for 2017/18

Both our data and anecdotal reports from our members suggest that they are currently operating in challenging and uncertain economic circumstances. Nevertheless, the number of recruitment agencies has continued to grow despite this adversity. The rate of growth in the number of perm-centric businesses has slowed in the past year and we anticipate this will continue. We also anticipate that the number of temporary and contract-centric businesses will continue to grow at a slow rate in 2017/18.

Projections from a range of independent forecasters suggest growth will remain sluggish for the next three years, with HM Treasury's comparison of independent forecast suggesting GDP growth will not surpass +1.5% in the three years to 2019/20. Monthly, year-on-year wage inflation has averaged 2.1% in 2017 to date and we anticipate wages will continue to grow at a similar rate for the remainder of 2017/18. We also anticipate that while the growth in the overall volume of temporary placements may slow, this will be offset in terms of turnover by short-term wage increases leading to higher margins and continuing volume increases in permanent placements.

Context for 2018/19

In 2018/19, we anticipate a slight increase in wage growth due to relaxations in the public sector pay cap and by skills shortages exacerbated by reduced net migration with the UK formally leaving the EU in 2019. We anticipate the latter

will lead to a short-term rise in the rate of wage growth (though in the longer term, we anticipate stark reductions in immigration risk, slower economic growth, redundancies, and significant economic damage to sectors that currently recruit a high proportion of EU labour as this cannot be fully replaced with domestic labour).

We anticipate that the impact of increasing skills shortages on recruiters will be mixed. While some may be forced to scale down or even close because of a lack of candidates, those that are able to source candidates for employers that are increasingly struggling to recruit will be able to command a premium. We also anticipate that new enterprises will be established and some existing operations will expand to meet the increasing demand for candidates from employers struggling to recruit via other means. We therefore believe that overall the industry will continue to grow in both permanent and temporary/contract-focused enterprises in 2018/19.

Additionally, the rise in the minimum employer pension auto-enrolment contributions to 2% in April 2018 will add an additional cost for recruitment businesses and employers. While this may temper turnover to a small degree, we believe the impact is likely to be small. We anticipate that volumes will continue to dip slightly for temporary placements but continue to rise for permanent placements.

Context for 2019/20

Our forecast for 2019/20 is based on the information we currently have about the terms of access to the single market, customs arrangements, and immigration policy for April 2019 and beyond. When we come to forecast again in 12 months' time, the situation should be clearer, allowing us to be more confident about future access to talent and business growth.

On this basis, in 2019/20 we anticipate that the demand for candidates in increasingly short supply will continue to drive net enterprise growth for those able to meet these demands. However, increasing difficulties in sourcing candidates is also likely to lead to further demand for both in-house and external recruitment support, particularly from larger enterprises. Increasing demand for skilled recruiters is likely to draw start-up entrepreneurs back into in-house and agency recruiting. Enterprise growth is therefore likely to be only marginally higher than preceding years.

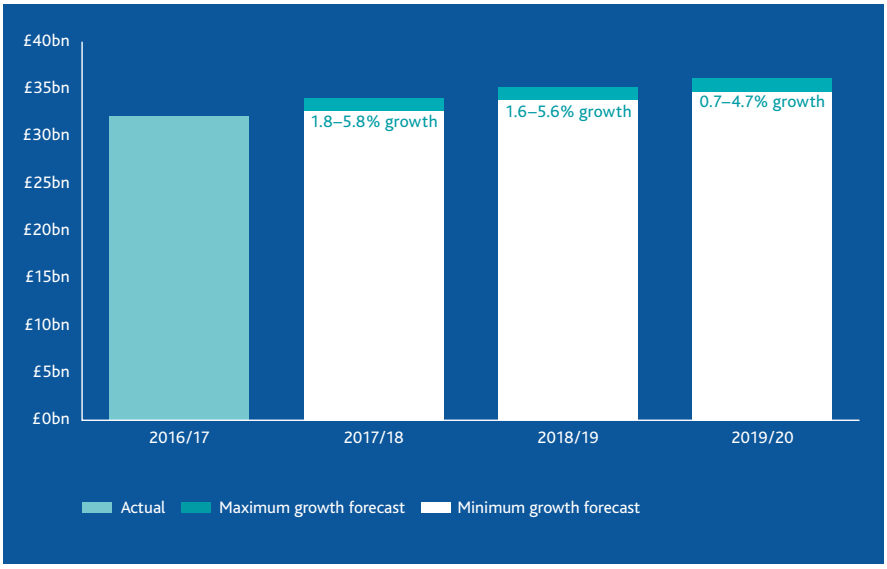
Relatedly, we also anticipate volumes to continue to fall for temporary placements for two main reasons. First of all, the government is likely to extend IR35 regulations to the private sector in this period, which may lead some contractors to seek permanent employment instead. Second, we anticipate that candidate shortage will become an increasing issue in industries that recruit high numbers of EU workers, with net EU migration falling lower as fewer EU workers come to the UK and more return home. While we anticipate that a continued rise in permanent placements and wage growth will counteract a fall in temporary volumes in this period to ensure the industry continues to grow, further candidate shortages due to reduced net migration beyond this may prevent the industry from growing.

Increased turnover from higher margins will also be tempered slightly by the additional costs due to the rise in the minimum employer pension auto-enrolment contributions to 3% in April 2019. Growth predictions also continue to suggest that GDP will grow at approximately 1.5% throughout this period.

TABLE 9 / POTENTIAL FOR RECRUITMENT INDUSTRY GROWTH IN THE MEDIUM TERM

Industry turnover (%, £b)	2017/18	2018/19	2019/20
Optimistic	£34.0	£35.2	£36.1
Pessimistic	£32.7	£33.8	£34.7
Realistic	£33.3	£34.5	£35.4
Realistic	3.8%	3.6%	2.7%

FIGURE 19 / POTENTIAL FOR RECRUITMENT INDUSTRY GROWTH IN THE MEDIUM TERM



APPENDIX

Methodology

Market-wide estimates for this annual industry snapshot have been calculated by the REC using data drawn from the survey of members conducted by ComRes and data from the ONS Inter-Departmental Business Register.

Throughout the report market-wide calculations in 16/17 include activities by MSPs and RPOs, which were not included in previous years. Data up to 14/15 is included for context, but direct comparisons to 16/17 are not possible. In instances where 15/16 data was not available we have left a blank space.

ComRes interviewed 209 recruitment firms online between 28th July and 2nd October 2017. Data were weighted by size and region to be representative of all recruitment agencies in the UK. ComRes is a member of the British Polling Council and abides by its rules. Data tables are available on the ComRes website, www.comresglobal.com

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