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**DEVELOPMENT OF A PRICE INDEX FOR  
EMPLOYMENT SERVICES IN THE UK**

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# THE DEVELOPMENT OF A PRICE INDEX FOR EMPLOYMENT SERVICES IN THE UK

## Introduction

The Office for National Statistics (ONS) has had a Corporate Services Price Index (CSPI) for Employment Services in place since the first quarter of 1997. Information on industry structure, outputs and pricing considerations was obtained from a small sample of companies and other trade associations operating in the employment agencies sector. This provided the foundation for the price index we currently have in use. The index currently covers most of the key employment agency services and is used as a proxy for the industry as a whole. The coverage, along with a number of other issues, will be subject to further consideration as part of an upcoming quality assurance process for this CSPI.

## Industrial classification

This price index relates to activity within the heading “Labour recruitment and provision of personnel” which is 74.50 in the UK Standard Industrial Classification (SIC 92). The three main categories of services in this sector are:

1. Personnel search, selection referral and placement in connection with employment supplied to a potential employer or to a prospective employee;
2. Executive search and placement activities (“head-hunters”); and
3. Labour contracting activities.

The UN’s CPC (category 851) is divided into 8511, Executive search and employment agency services, and 8512, Supply of personnel services. It goes into a greater level of detail than the SIC regarding the types of personnel sourced and provided to agencies’ client companies.

The current UK CSPI focuses on placement activities only and therefore is not necessarily representative of the whole sector. It is regarded as a proxy for the whole industry - a potential weakness requiring further investigation. Note also that some services are provided to individuals, not companies, and are therefore outside the scope of the CSPI.

## Size and structure of the industry

At August 2002, the UK’s Inter-departmental Business Register (IDBR) which is maintained by the ONS, listed some 16,300 UK companies in the sector (SIC 74.50) with a combined turnover of over £27bn. The index has a weight of 6 per cent in the currently published top-level CSPI.

The largest trade association is The Recruitment and Employment Confederation (REC). This includes over 6,000 recruitment agencies and over 8,000 recruitment consultants within its membership. REC claim to represent over 50% of the UK

market, which they estimate is worth £23 billion per year and increasing. This percentage seems to be slightly at odds with the figures obtained by the IDBR and this will be investigated further. There could be many reasons for this apparent discrepancy, e.g. mis-classifications on the register or recruitment consultants being classified to Business Consultancy.

### **The current CSPI sample**

The sample – which is actually a panel that has been in place since 1997 - includes 63 companies, 56 of which are directly classified to SIC 74.50. The original sample was based on a list supplied by a trade association after it was found that several large companies were not classified to SIC 74.50 on the register. The companies in the panel provide prices for a total of 268 items in main 13 service categories every quarter.

### **Choice of services to price**

There are a range of employment services included in the sector. After consultation with a major trade association (the Federation of Recruitment and Employment Services (FRES) - now part of the REC), it was decided that price collection should concentrate on supply and placement of staff.

Executive search and placement (headhunting) is a highly specialised area and is therefore carried out by only a few agencies. Agencies are not allowed to "poach" other people's employees, but they can ask them in certain ways if they would like a certain job. This differs from the usual placement services offered, as detailed below.

Placement services cover selecting, referring and placing applicants, in either temporary or permanent employment. The fees charged for placing an employee are less volatile than for head-hunting services and tend to be governed more by standard terms of business. The charge made is sometimes split into three payments:

1. Retainer fee. This is paid to employ the agency to search for potential employees and advertise or recruit for the post.
2. Short list fee. Once several candidates have been chosen, a second fee is payable to cover interview costs etc.
3. Final fee. This is paid once an individual has been chosen and supplied to the client.

If the fee is paid in three stages, the agency can keep each part of the fee once it has been paid. These three fees may total the same as the standard fee. Often, all costs will be covered by the one-off fee earned by the agency once the employee has been given the job. This means that the agency will earn nothing if they fail to fill the vacancy. To avoid this, some agencies will offer a discounted rate if they are given exclusive details of a vacancy. The prices collected so far relate to the fee payable on placement, therefore it is possible that some services (which do not result in placement) are not being priced.

The different types of employees need to be identifiable and categorised in some way. It was decided to use the Standard Occupational Classification (SOC). This classification is also used in other ONS surveys such as the Labour Force Survey (LFS) and New Earnings Survey (NES). The use of the SOC also supported the use of salary data from the NES, which is used in the price index to a certain extent (see later).

The SOC was first published in 1990 and is partly designed to be in alignment with the International Standard Classification of Occupations. It is acknowledged though that some employment agencies, when first surveyed, may not find it easy to identify the relevant SOC category for the services they provide. The extent of this problem is not thought to be significant though. It will be addressed more thoroughly as part of quality assurance.

The main Standard Occupational Classifications used in the survey are:

1. Managers and administrators
2. Professional occupations
3. Assistant professional and technical occupations
4. Clerical and secretarial occupations
5. Craft and related occupations
6. Personal and protective service occupations
7. Sales
8. Plant and machine operators
9. Other

## **Price collection**

The price collection framework, or family tree, is given at Annex A. It consists of 9 categories for temporary staff and 4 for permanent staff. It is estimated that placement of temporary staff comprises 90 per cent of all placement activity. Weights for each service category are shown on the diagram and were derived from turnover data collected at initial data collection. Turnover was only collected for those categories for which prices were provided. It was left to responders to choose the categories they wished to provide prices for and they were not required to cover all categories. Therefore the weights may not be fully representative of the industry as a whole.

The current family tree exists for 3 separate regions of the UK – Greater London, England and Wales (excluding London) and Scotland. Initial research suggested that price trends in each of these regions would be rather different and that it was essential for each to be represented appropriately in the sample. The value of this regional breakdown has yet to be fully proven it will be investigated further as part of quality assurance. Also the NES results are at national level only, which reduces the advantages that regional collection may bring.

During price collection, a category of staff is chosen for a given region and a rate or fee for placing those staff with a specific employer is supplied. Here are a few examples:

- Temporary staff; associate professionals; Grade D nurse, Nottingham City Hospital; day shift per hour.
- Temporary staff; clerical and secretarial; data entry clerk; 1 month contract, per hour.
- Temporary staff; plant and machine operators; drivers for a warehouse, (Class 1 & 2 HGV drivers); Price per hour.
- Permanent staff; managers and administrators; team leader, salary over £35k; percentage fee.

In 50% of cases the price collected is a commission rate. For example, the commission rate charged for supplying a temporary plant and machinery operator might amount to £5.00 per hour. However agencies can also provide us with data in other formats such as the standard fees they receive or a percentage of salaries. The prices collected are intended to relate to the income earned by the employment agency and should not include the amount paid to the employee – providing this information is readily available.

Some agencies employ all the staff that they supply to clients, others do not employ any, i.e. the client is the employer. This can cause some confusion as, in the former case, it may be more difficult to identify the commission element because the payment by the client will include the wages. Also, less value added tax (VAT) is payable if the client is the employer.

Under the aim of making data provision as easy as possible, the nature of the data provided is at the responders' own discretion. Although this flexible approach seems to work well, it does mean there can be several different processes for dealing with incoming data, depending on which type of data the supplier has provided. If a supplier were to switch to another means of charging, we would need to adapt our procedures accordingly.

Where a responder supplies a commission rate (percentage) relating to a salary, normally only for permanent staff, it is combined with an estimate of the average annual salary for the SOC category to produce the price. The salary data are the average gross weekly earnings for full-time employees on adult rates, available via the National Earnings Survey (NES). Sixty-nine of the 268 items are based on commission rates which are percentages of salary. The combined weighting of these items is approximately 10% of the total weight of this index.

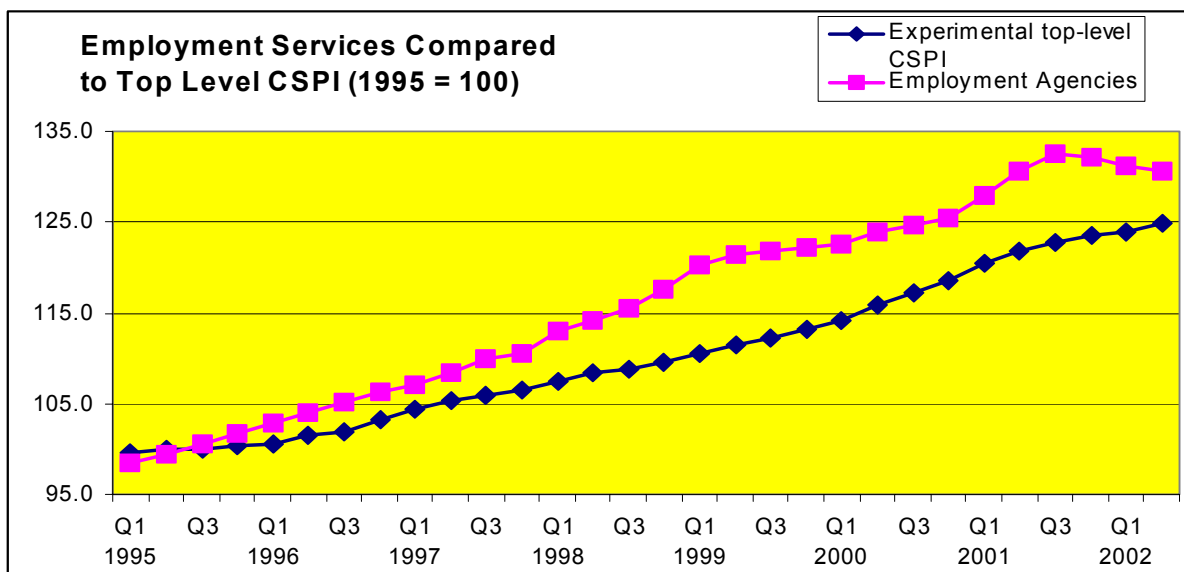
There have been some difficulties associated with the use of NES data. The results are only available annually, whereas CSPI is a quarterly inquiry. Also there is a time lag which means that provisional, projected figures are used which are subject to revision. Though the timing of the NES data is not ideal, it is only applicable to 10% of the price index and which means the impact of this weakness is not significant. Also, NES results are only available at the national level and not for the 3 regions used in the sample structure, so further reducing the potential value of price indices at a regional level.

At annexes B and C at the end of this document, there are specimens of the form used to recruit new suppliers to this inquiry and also specimens of the standard data collection form.

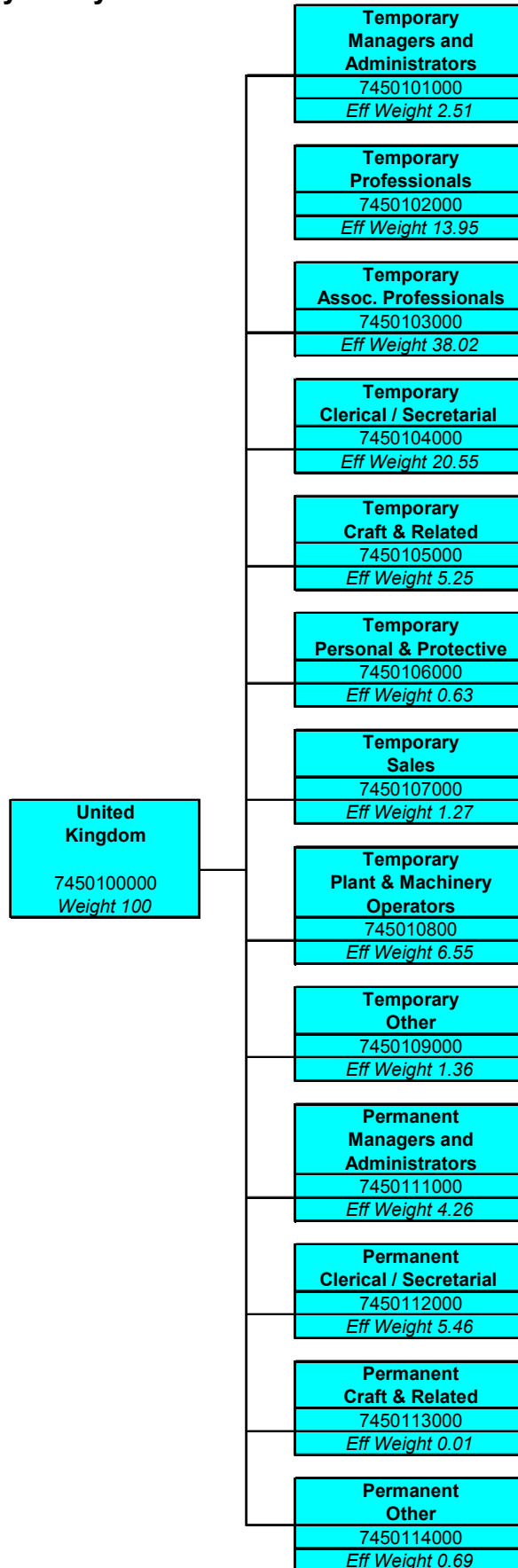
## Results

Below is a table a graph that compares the employment services CSPI to the top-level CSPI. The top level is an amalgamation of all published CSPI indices.

	Experimental top-level CSPI	Employment services CSPI
1997 Q1	104.5	107.0
Q2	105.4	108.4
Q3	106.0	109.9
Q4	106.4	110.4
1998 Q1	107.4	112.9
Q2	108.4	114.1
Q3	108.9	115.5
Q4	109.5	117.6
1999 Q1	110.5	120.2
Q2	111.4	121.4
Q3	112.3	121.9
Q4	113.3	122.1
2000 Q1	114.1	122.5
Q2	115.8	123.9
Q3	117.2	124.6
Q4	118.6	125.4
2001 Q1	120.4	128.0
Q2	121.8	131.3
Q3	122.7	133.2
Q4	123.5	132.8
2002 Q1	123.8	132.3
Q2	124.8	130.6



## Annex A Industry family tree



## Annex B Specimen of the recruitment form that was sent to companies selected to participate in the CSPI for Employment Services

Recruitment and Personnel Services: Recruitment form.

Price Quotation for Greater London

Please provide prices for services or contracts that you expect to continue to provide into the future

INDUSTRY SECTOR Please refer to family tree diagram	Sales 1995 - 1996 (£000)	Current Price £ : P	DESCRIPTION OF SERVICE YOU PROVIDE Please refer to the examples provided and the notes page. The price quotes should be the actual/achieved rate paid to the agency
<b>TEMPORARY STAFF</b>			
1. Managers & Administrators			
2. Professionals			
3. Associate Professionals			
4. Clerical & Secretarial			
5. Craft & Related			
6. Personal & Protective			
7. Sales			
8. Plant & Machinery Operators			
9. Other (than the above)			
<b>PERMANENT STAFF</b>			
	Sales 1995 - 1996 (£000)	Current Price £ : P	The price quotes should be the percentage of salary actually achieved (after discounts), or other fee charged.
10. Managers & Administrators			
11. Clerical & Secretarial			
12. Craft & Related			
13. Other (than the above)			



**Annex C Specimen of the Inquiry form showing the types of questions suppliers are asked to respond to each quarter.**

<b>SPECIMEN OF INQUIRY FORM:</b>			
For each reference shown below, please supply a price/value for the periods shown and the date any new prices became effective.			
Supplier reference: 79901234567			
Supplier: ACE RECRUITMENT LIMITED			
<b>Service Reference</b>	<b>Specification</b>		<b>Comments</b>
Please quote this number when telephoning with a query  7450902001	England (outside London) & Wales Temp. staff managers & Admin. Production Manager, hourly rate		
Last return	Qtr 4/2001	19.00	Currency Pounds Sterling
Returns required for:			
Qtr 1 / 2002 Price / value *		Date effective*	

<b>Service Reference</b>	<b>Specification</b>		<b>Comments</b>
Please quote this number when telephoning with a query  7450902004	England (outside London) & Wales Managers & Admin. Per hour Qualified Accountant		
Last return	Qtr 4/2001	23.60	Currency Pounds Sterling
Returns required for:			
Qtr 1 / 2002 Price / value *		Date effective*	