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Producer price index for services

## Labour Recruitment in UK's Corporate Services Price Index (CSPI)

**Tim Clode**

## A Business Model

Labour recruitment services in the UK are classified to SIC 74.50 (Labour recruitment and provision of personnel). This class includes: personnel search, selection referral and placement in connection with employment supplied to the potential employer or to the prospective employee (formulation of job description, screening and testing of applicants and investigation of references, etc.); executive search and placement activities (headhunters); labour contracting activities (supply to others, chiefly on a temporary basis, of personnel hired by, and whose salary are paid by, the agency).

Across all of these activities, the agencies act as intermediaries through which parties find each other for the purpose of undertaking work.

In temporary placements, the distribution of skills and occupations placed by labour recruitment agencies reflects the needs of the economy. The ONS estimate that around 70 per cent of all temporary placements are male overall, with even higher representation in occupational groups such as building labourers, building tradesmen, drivers, engineers and electricians. Temporary female workers provide around 80 per cent of placements in medical, healthcare and nursing occupational groups.

In permanent placements, most vacancies are in IT, computing and telecommunications, secretarial, clerical and junior office staff.

## B Overview of Government Regulation

There is no specific legislation in the UK that directly affects the labour recruitment services industry.

## C Pricing Methodology

The UK pricing methodology for labour recruitment is divided into two categories. The preferred method of price collection is to measure periodic charges levied under a continuing contract for a given service. Where this is not possible, price quotations are accepted based on list prices (discounted according to normal business practice). Price quotations are based on a client wanting to fill a post that is vacant, with either a temporary employee or a permanent one.

One of the difficulties in collecting prices for labour recruitment is separating what the client pays the agency for its services and the salary that is paid to the employee being placed. In some cases, a labour recruitment agency will actually employ the staff being placed rather than the client. This means the client is paying the agency both the employee's salary and their commission fee, making the two components difficult to separate. To counteract this problem, respondents to the CSPI are given the opportunity to return price information in one of three ways:

- Commission rate (eg £1.30 per hour for a sales assistant)
- Standard fee (eg £85.00 one-off fee for placing an employee in a vacancy)
- Percentage commission (eg 35 per cent of an employee's total salary)

If the post is permanent, a fee is earned by the agency. This is more commonly given as a percentage of the annual salary but is also given as a monetary value. Where the respondent gives a percentage fee, a price quotation is calculated using the percentage fee and salary data obtained from the ONS Annual Survey of Hours and Earnings (ASHE) survey. The ASHE survey gives a breakdown of annual salaries for all types of employment.

The percentage of the salary given is used against the ASHE salary data to give a price quotation in monetary terms.

If the post is temporary, there is an hourly (or sometimes weekly) rate charged for supplying the employee. In either case, this fee/rate will not only cover the wage of the employee but also National Insurance contributions and other overheads of the agency. Each price quotation is accompanied by a clear definition of the service provided. This enables the identification of genuine price changes and the ability to distinguish between changes in specification and quality of service.

A random sampling scheme, stratified by employment sizeband, is adopted in order to collect price and turnover information for labour recruitment services businesses. The UK Inter-Departmental Business Register (IDBR) is used as the sampling frame. Business are asked to provide an estimate of their turnover derived from each of the following categories:

- Temporary managers and administrators
- Temporary professionals
- Temporary associate professionals
- Temporary clerical and secretarial
- Temporary personal and protective
- Temporary craft and related
- Temporary sales
- Temporary plant and machinery operators
- Temporary other
- Permanent managers and administrators
- Permanent clerical and secretarial
- Permanent craft and related
- Permanent other

When supplying prices and accompanying specifications according to the categories listed above, businesses are also asked to consider the following price-determining criteria:

- Geographical location
- Salary offered if permanent
- Type of work offered
- The potential employer relationship status with the agency
- Length of contract offered
- Level of skill required

#### **D/E Published Data**

The labour recruitment industry was introduced into the CSPI in the first quarter of 1997. Since inception, its index value has risen steadily over time, as depicted in the following graph. The main factors influencing price change in the labour recruitment industry are supply and demand, minimum wage constraints and general wage costs.

Labour Recruitment

