



talent works

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Why new government umbrella company rules may **drive up costs for employers.**

As the government works to reform umbrella companies,
employers need to drive their own changes too.

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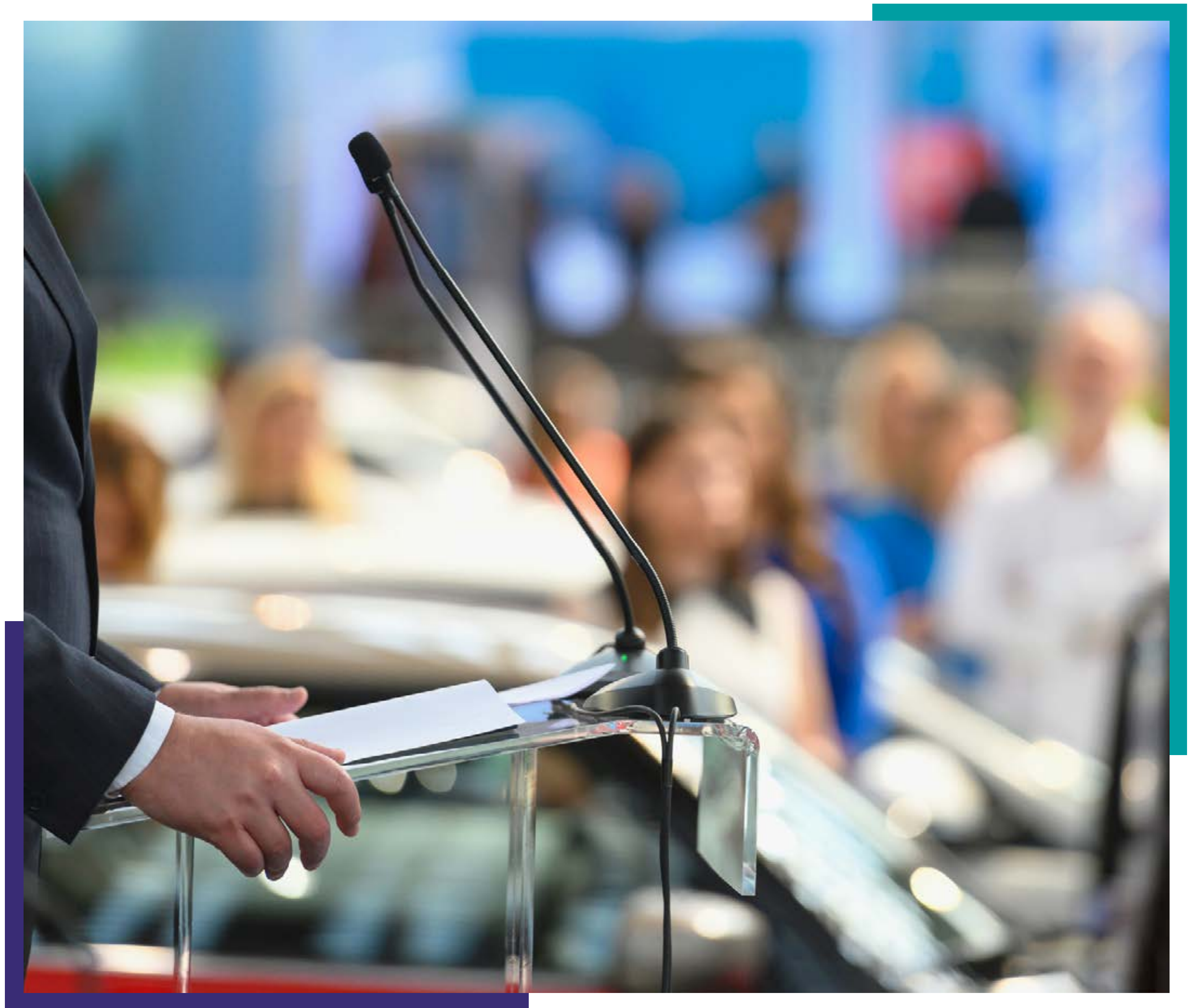
“Regulation may only be part of the solution. There will be changes in behaviour that need to be sector-driven rather than legislative. **”**





Introduction

While the government wrangles with another round of contingent worker regulation – this time publishing preliminary findings on the thorny issue of umbrella companies – there are many questions still to be answered. Amidst all of the uncertainty, there is also a strong sense that employers should be doing more to protect their contingent workers – and themselves. So why does it take new regulation to make change happen?





The Challenge for Employers

The government has released the initial, long-awaited findings from its consultation on contingent worker malpractice. The [58-page report, entitled 'Tackling non-compliance in the umbrella company market'](#), is the result of contract sector feedback from 400 respondents and is intended to be the first step in delivering reforms that 'change incentives and behaviours in the temporary labour market'.

It's fair to say that the new report has received a lukewarm response. The market has a fundamental need for reform and regulation, and there is a clamour for change to happen more quickly. Yet the new report only goes as far as outlining three possible routes to reform without yet committing to a roadmap or a timescale.

As much as anything else, it seems to lay down a challenge to employers. The systemic reform of umbrella company malpractice may well be on the horizon. But the gap between report and reform offers a serious window of opportunity for employers to ensure they are doing everything they can to protect their workers' rights and, just as importantly, to protect themselves and their reputation.

Who is responsible for making change happen?

Alongside the new government report, 2023 has also seen a rise in employers being held more accountable. [You can read more here](#) about how Nike has recently come under the spotlight for the way it handles independent contractors.

At the heart of the government's response to the consultation process is the desire to clarify where the responsibilities actually rest. At the moment, the way the market is regulated means that there are really few winners. Employers are often in the dark around the exact detail of workers contracts because those contracts are set by umbrella companies. The workers themselves are exposed to mistreatment and often face unexpected tax bills. The recruitment companies who utilise umbrellas can lose credibility and candidates. And those umbrella companies that do function correctly – and there are many that play a positive role within the talent supply chain – are suffering reputational damage and in danger of being seen as nothing more than a tax avoidance scheme.

So where does the responsibility lie? With the employers, with the recruiters, with the workers or with the umbrella companies themselves? The tone of the new government report suggests that regulation may only be part of the solution and there will be changes in behaviour that are sector-driven rather than legislative.





How far does the report go?

As it stands, the report outlines three options that are under consideration.



1

The first option puts the responsibility of umbrella companies' compliance on the recruiters or their clients, with penalties if they fail.

2

The second suggests giving HMRC powers to collect unpaid tax from another business in the supply chain.

3

The third option is to treat recruiters as the employer for tax purposes and hold them responsible should there be any irregularities in payroll. This would even be the case if an umbrella company was used.

There is no doubt that the market is in need of regulation. The Treasury also aims to provide a clearer definition of an umbrella company, which will form the basis for regulating them more effectively. There is also no doubt that, for many involved in the contingent supply chain, regulation and reform cannot come quickly enough.

Yet at the same time, it is equally clear that any reform has the potential to open up further questions for employers. While legislation (however far into the distance it is) would see new accountability embedded into the talent supply chain, the cost for new checks and balances is likely to get passed along to the employer, making managing cost-to-recruit more difficult.





What can and should employers do now?

The fact is that organisations who rely on agencies for contingent recruitment are also reliant on umbrella companies. In many cases, organisations do not even realise how reliant they are on umbrella companies – unless something goes wrong. And while heavy fines for big global companies make the news and set the tone, the consequences of unregulated umbrella companies are not always so dramatic. For many employers, the true impact is creeping costs and poor experiences for those individual contract workers that they often rely on.

Behind the debate around the new report, these are the questions that employers are facing. Are we doing enough to take control of our own supply chain? And what more can we do?

It could be argued that, regardless of changes in legislation, cost management and contract worker experience are issues that every employer should address as part of their own commitment to continuous improvement and best practice.

Conclusion

It can be easy to be distracted by the bigger picture of regulation and reform. It can be easy to hope that changes in legislation will solve all the problems. But the path to industry reform is rarely so smooth – by its very nature, fundamental change affects everyone involved and often has repercussions that are not planned for at the outset.

The latest data shows that changes in legislation are likely to coincide with an increased demand for contingent workers over the next five years. So the scene is set: a more competitive market for contracted and temporary talent, more scrutiny across every aspect of the supply chain, more costs passed on to employers when the overall aim of contingent workforce should be to help keep costs manageable.

The employers that will cope best will be those who have the systems in place to attract the best contracted talent without allowing those costs to escalate. Over the next few years, it could be the difference between those organisations that thrive and those that fall short.



Talent Works is dedicated to changing how employers hire, every role, in every way. If you would like to learn more about managing contingent cost and candidate experience in an evolving and competitive marketplace, our experts would be keen to help.

Contact us by either booking a meeting or sending us an email using one of the links below:

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Email: james.fallon@talent-works.com

Calendar link: meetings-eu1.hubspot.com/james-fallon