



Recruitment & IT - Shaping the Future

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The IT market place

'Geeky', 'boring' and 'difficult'. The IT industry has some negative stereotypes to overcome on the road to recruitment success. Its image of being a 'geeky' industry apparently puts young people off choosing IT as a career, creating something of a recruitment crisis, and it is getting worse.

Demand for IT professionals is seven per cent greater than the people available, last year the skills shortage in the IT industry was 4.2 per cent and this year it is 6.8 per cent.

In February 2008, a global survey of 750 CIOs and CEOs revealed their biggest worry is staffing problems and a crisis in IT skills. The survey, commissioned by the independent IT Governance Institute (ITGI), found that more than one-third (38%) of CIOs and CEOs worldwide pointed to problems relating to staff with inadequate skills and 58% of CIOs and CEOs are worried about an insufficient number of staff.

In addition, 48% said that IT service delivery problems were a common problem.

The skills shortage in IT is at the highest for a decade (according to a National Computing Centre report). There has been a 50 percent fall in IT students over the last five years and 140,000 new recruits are needed to satisfy demand.

Not helping matters is a brain drain to the US, where a career in IT gives workers a better deal, with higher salaries and lower tax. This is not assisted either by statistics such as those released by recruiters Badenoch & Clark. They found that 25 per cent of IT professionals are unhappy at work, more than any other sector except, ironically, human resources (perhaps up to their eyeballs in unhappy IT staff who want out!).

World Economy – the credit crunch

The impact of the global credit crunch on IT has yet to be seen, but the perception is that IT is an unstoppable juggernaut that will vanquish even something like a downturn in the global economy. Come what may, businesses are moving to web-based services, meaning there is sustained demand for IT skills.

IT deals in Europe have not been hit by fears over the impact of the US sub-prime crisis. Figures from merger adviser Regent Associates indicate the number of European technology mergers and acquisitions (M&As) leapt from 772 in Q3 to 799 in Q4, defying forecasts activity would be stunted by fears over the credit crunch.

However, the perception is that in the longer term, a tightening of belts throughout the economy and calls for efficiency could lead to an increase in offshoring. This is driven by the breathtakingly high cost of IT skills (including pay) within an enterprise - as high as 60% of the IT department's budget.

The need to drive down costs and maintain competitive means organisations will increasingly look to providers in locations such as India and eastern Europe that can out-perform on quality and delivery.

IT provision is becoming increasingly sophisticated in these markets. In the past, tasks performed by offshore providers have involved basic help desk or maintenance skills. But the capabilities are becoming more sophisticated and offshore providers can cope with most tasks.

However, they still need to be managed. Offshoring has removed some of the more mundane day-to-day tasks for senior IT staff in the UK, leaving them free to focus on higher level modern technology management.

Blue Card

Such is the need to attract skilled workers in the EU; a blue card for skilled immigrants was unveiled last year. The EU needs 20m skilled workers over the next 20 years. At the moment, the EU gets 5% of skilled labour and the US gets 55%. There is a particular shortage of expertise in engineering and computer technology. By 2010 jobs in industries that depend heavily on information and communication technology will account for half the total in Europe.

IT pays - inflated rates

Increased demand matched with poor supply can only mean one thing - plump salaries. There has been a sharp increase in the wages for salaried employees and daily rates for contract/interim work.

Recent experience shows that the wage packets of IT contractors in financial services have risen by 11 per cent in the past six months to pay increases of between £45 and £50 an hour. Salaries for IT contractors in the financial services sector are the highest they have been in two years. Technology interim are paid the most with daily rates of £622, at December 2007.

IT recruitment – the challenges

There is a skills shortage in some specific highly technical areas, but the majority of the industry is well served, according to Richard Forkan, head of recruitment at consulting firm Plan-Net, who identified major problems in current practice in IT recruitment.

The market is tough for recruiters. A skills shortage in specific areas leads to artificially inflated rates. It also leads to a scramble to find the best candidate to put forward for the each job.

Speed of delivery of a CV is prized. Agencies' margins are under pressure as they struggle with salary inflation. Contractor turnover remains high; and candidates are unsatisfied while UK businesses waste a fortune on churn. Attracting and retaining IT talent are key challenges for organisations.

The skill sets required are complex - challenging for any HR department to fully understand - to say nothing of finding someone who will fit into the culture of the organisation.

A nervous market still demanding IT professionals, but with restricted supply also creates an interesting riddle for recruitment agents. One solution is contract or temporary work, outsourcing or offshoring contracts.

The problem with outsourcing recruitment through third party organisations that is not a specialist recruiter, is it tends to be unsophisticated, with little understanding of the technical requirements - and no candidate interview - the organisation is less likely to get the right person for the job and gets no choice of candidate.

For agencies to make money from a process in which margins are minimal and linked to the contractor's rate, their incentive is to push contractor rates up. To keep the costs down, organisations in turn will go for recruiters that are non-specialist, because they're cheaper.

There are calls for a change to current practices to give employers more control over their recruitment and reject what Mr Forkan described as 'commoditised recruitment practices'.

Another challenge hit the market in January when new Managed Service Company legislation was introduced (see below). Under this new legislation, a third party (ie a recruitment agency) could become liable for any unpaid tax by a temporary or contract worker.

IT skills in demand

There is exceptional demand for good programmers and project managers with business management skills. Increasingly businesses are considering candidates whose experience is non-IT to satisfy demand.

The requirement to keep costs low and meet demand has led to a growth in outsourcing/offshoring. There is a growth in outsourcing business processes to low cost centres (in call centres, HR support, accounting, etc); India has competitors in China, Puerto Rica and also Eastern European countries. There is a major shortage of executives with the skills required to manage these offshore centres. However, a reverse trend has occurred in which outsourced services are being brought back in house.

IT is a key aspect of change in any organisation and demand for executives who can manage change and move between industry sectors and challenge established practices. Executives are required to oversee the practical implementation of compliance and risk management. They must also have a business background to engage with all aspects of the organisation and there is a greater requirement for all members of the technology management team to embrace the business aspect of the IT function.

There is continued demand for knowledge and expertise in the implementation of technology supporting and related to broadband and VoIP. Knowledge of how to exploit the opportunities offered by Internet retailing is in demand.

Demand for all kinds of architects - technical, functional, solutions - is huge and there is a shortage of practitioners who know how to route the technology in commercial reality and create a benefit for the business.

There is increased demand for Service Orientated Architects (SOA) - in which business processes are linked together for different businesses. Common generic functions can be tailored for separate requirements and organisations.

IT trends within investment banking/management

This is a massive area of growth across all areas - architects, analysts, service delivery managers and vendor managers. High-speed networking skills are in short supply, with ongoing VoIP implementation and Oracle usurping Sybase as a database.

Skills in Basel II will be at a premium and in the future Basel III. Good Java and C# skills are in short supply. Within investment management there will be large movement towards algorithmic trading.

Contractor work – the up side

The demand for contract work is also being fuelled by that 'old chestnut' that IT is boring. Variety is the spice of the IT professional's life and mundane jobs can be offset by a change of scenery.

The downside of contract work is how to keep track of payment and tax when work is spread across several different companies at different rates of pay and different times. Many contractors find sorting out the web of pay and tax can be tedious and complicated, especially when their focus should be on client work. At the same time, they don't wish to be on the receiving end of a large and unexpected tax bill!

Smart payment services

Many IT contractors find using an outside payment to be a great support. Easy, safe and simple, payment service providers offer many enticements to make this the best way to be paid for contract and temporary work in the UK.

Freelance Professional Services (FPS) Umbrella is part of Charterhouse Group International, established in 1989, a worldwide operation providing support services to the international recruitment and contract industry.

FPS Umbrella ensures its members are paid on time and that the correct tax has been deducted. Should any issues arise the member knows exactly who to call with any queries. Using FPS Umbrella could deliver up to a 40% boost to take home pay by maximising business expenses, which is not an insignificant sum for most IT contractors.

FPS Umbrella, as one of the first ever services of its kind has unparalleled experience in understanding temporary or contract workers' needs, and there is a range of additional benefits including:

- Expenses processing
- Access to the latest information and tips to make the most of temping
- Access to payments history
- Payroll and expenses expert advice always on call.

IR35

Membership of FPS Umbrella makes the risk of contravening IR35 a nightmare of the past. By signing up with FPS Umbrella, the member becomes an employee with the added benefits that their salary is subject to full PAYE and National Insurance contribution deductions. This means FPS Umbrella members don't have to give IR35 legislation - applicable to the self-employed - a second thought. Also, UK state benefits are available to members who become a new parent or fall sick.

Managed Service Company (MSC) Legislation

This new legislation - the third part of which was introduced on 6th January - is thought to be a time bomb for contractors operating through their own limited company and using a managed service provider to administer it.

It means the UK government can recover PAYE and NIC debts incurred by MSCs from a third party - such as a recruitment agency - if they can't be obtained directly from the worker.

Given the vagaries of the new legislation, FPS Umbrella withdrew its accountancy and limited company services, to give members the highest level of protection from the risk of financial ruin.

The legislation brings to an end the scheme of contractors sharing the cost of running a company with other contractors. It means workers each have to run his own company, manage it and make sure it conforms to UK company law and engage an accountant. It's a tall order, particularly when already working over 50 hours a week, as many contractors do.

Payment services do offer a solution, but it is important to ensure it is the correct one. Those offering additional solutions such as personal service companies or employee benefits trusts fail to eliminate risk.

For recruitment companies and temp agencies, the management and administrative burden of payrolling temporary workers can be solved using the services of FPS Umbrella, removing the risk and leaving them free to get on with the job of recruitment.

The MSC legislation is not relevant to FPS Umbrella members as they do not operate through their own limited company and their only payment is 100% salary that is subject to full PAYE and National Insurance contributions.

PAYE through your agency

Not all agencies run a payroll for temps. Indeed when they do, it's important to remember that for contractors and temps on an agency's payroll, their income will be subject to full PAYE and NICs but they will be unable to offset eligible business expenses against earnings, even though they are incurred to do the job. Using FPS Umbrella instead could deliver up to a 40% boost to take home pay by maximising business expenses, which is not an insignificant sum for most IT contractors.

In addition, should a contractor work through more than one agency, there will be numerous payroll contacts making things even more complicated. Getting the correct tax code is challenging and leads to workers paying more tax than is necessary.

Benefits of FPS Umbrella:

- 4-second registration process;
- Tax relief on your business expenses;
- Inclusive insurance to cover you whilst contracting;
- Prompt payment via electronic transfer to your bank account;
- No director or corporate responsibilities;
- No registration fees, exit penalties or notice period ;
- No threat of IR35 or anti tax avoidance legislation;
- Supported by over 140 staff at head office and branches;
- Flat weekly fee applied, only when you work;

How FPS Umbrella works:

- FPS Member tells us their hours
- FPS Umbrella invoices the agency/client for the hours worked
- FPS Member forwards receipts and expenses claim form
- Cleared funds are received from the agency/client
- FPS Umbrella process the expenses and deducts relevant PAYE and NICs, and makes a net payment into members' personal bank account
- All members receive an SMS message when their bank account has been credited.

FPS Umbrella complies with all company and other statutory issues, including: company law requirements to file accounts and returns to Companies House; calculates and makes payment of VAT and corporation tax liabilities; runs payroll calculations and makes returns and various other statutory requirements; provides business insurance to meet claims made by clients against negligence or service deficiencies.

Claiming expenses

FPS Umbrella gives advice on expenses that can be claimed and they could include:

- Travel between home and temporary place of work
- Accommodation and subsistence (receipts are required)
- Personal Incident Expenditure (PIE) – for an overnight stay on business claims of £5 for miscellaneous items can be made. No receipt needed
- Professional Indemnity Insurance (PII). Inclusive PI, taking out PII is an allowable expense
- Specialist clothing such as protective clothing, uniforms or parts of uniforms will be allowed
- Home/mobile telephones - the cost of itemised business calls are allowable
- Professional subscriptions - the cost of joining a professional association is an allowable business expense.

Examples of expenses for IT contractors include: purchasing hardware and software, travel, accommodation, subsistence, professional dues and more.

Inclusive insurance

With FPS Umbrella, comprehensive insurance cover comes automatically and at no extra cost. Members are covered by a Professional Indemnity policy worth £1,000,000. Social workers and other allied health professionals are covered up to £2,000,000 but other medical professionals may be excluded, if in the medical field i.e: doctors and nurses.

FPS Umbrella company is covered by £10,000,000 employer's liability insurance, to account for the consequences of injury to members while at work and public liability insurance up to £5,000,000 to cover any bodily injury or damage to property members may cause.

Tax rebates

Members who haven't worked a full tax year may be eligible for a tax rebate. Through FPS Umbrella they can use a leading specialist company who undertakes all the paperwork and submission on a no win, no fee basis.

Visa applications

FPS Umbrella has teamed up with an authorised immigration company that will advise on the options available if you want to extend your working visa in the UK. The company will also arrange all the paperwork - that, given tough new UK immigration laws can be gruelling - on your behalf.

Financial advice

The safety net of working in a salaried position - income protection, company pension scheme, medical and life insurance - is taken away for IT contractors. FPS Umbrella can offer advice on replacing some or all of this safety net and replacement services can be provided very tax efficiently through FPS Umbrella.

More of the same

The IT professional may be more in demand and better paid than ever before, but given the recruitment crisis, they are certainly time poor and it is hitting morale - which is bad news given the imperative to keep them in the UK.

83% of managers in the IT sector regularly work more than their contracted hours. 49% work longer to meet deadlines and/or to deal with the high volume of work.

For those involved in contract work, these statistics are likely to be more damaging to morale if they also have to unravel the complexities of working for several different organisations, and making sure their pay and tax is correct. Can they really afford to be without an umbrella?

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