

Resolution Foundation

REPORT

Secret agents

Agency workers in the new world of work

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Executive Summary

Despite their longstanding presence in the UK's labour market, agency workers have been little more than a footnote in recent debates about the new world of work. This report aims to shed new light on this overlooked group by mapping out the scale and nature of agency work in the UK today. It is firmly located within a body of previous research from the Resolution Foundation that has analysed the rise of atypical - and sometimes precarious - forms of employment such as zero-hours contracts and self-employment. By zooming in on this often obscure part of the workforce, can we uncover the truth about the UK's 'secret agents'?

Agency worker numbers are significant, and rising fast

Analysis of the Labour Force Survey (LFS) shows that there are an **estimated 865,000 agency workers in the UK today**. As a result, agency workers are as significant a group (at least in numerical terms) as those working on zero-hours contracts. Moreover, agency working has grown over time, with the number rising by over 200,000 just since 2011 – that's the equivalent of a 30 per cent increase over the period.

If the rate of change observed over the last five years were to be sustained, we estimate there would be **more than a million agency workers in the UK by the end of the decade** – even after accounting for an expected overall slowdown in employment growth in the coming years.

This part of the labour market is highly heterogeneous, not least terms of the types of contract which agency workers receive. Our new, detailed, agency worker definition captures four specific forms of agency working:

- » Looking at the group that most would consider typical agency workers, we find that there are close to **340,000 people in temporary agency work** in their main job.

- » A startling **440,000 permanent agency workers** are also found in the data. Uncounted before 2011, this group has expanded rapidly over the past five years, begging the question just who these people could be. While some may be agency workers on the 'pay between assignment' (or 'Swedish Derogation') contracts that have become more commonplace since the Agency Worker Regulations (2010) were introduced in 2011, the size of the group is simply too large to be explained by this alone. Instead, these permanent agency workers may have been in the workforce for many years - we have simply been unaware of their presence to date.
- » Another group that has been missing from previous studies is those agency workers who for a range of reasons identify as self-employed. The LFS shows that there are a further **66,000 self-employed who indicate that they are paid by an agency and do not administer their own tax and/or national insurance**. We regard this as sufficient to class them as agency workers, and note overlaps such as this between the many forms of insecure working as a topic for future research.
- » Finally, we identify 20,000 who are agency workers in their second jobs.

These **niceties of legal form may seem abstract but they are nothing of the sort for the agency workers themselves**. Those classified as employees are entitled to the full suite of employment rights (although enforcement can be a challenge); those with worker status forgo some entitlements in return (at least in theory) for greater flexibility; and those deemed self-employed trade off almost all their protection under employment law in return for the control that working in this way (supposedly) brings. Much of the live debate on agency working turns on these distinctions, with some questioning whether agency workers truly enjoy the advantages of their employment status, or whether the benefits are captured elsewhere.

They are spread across the economy, but there is a clear occupational gradient

Just as agency workers are found on many different contractual forms, so too are they widely dispersed throughout the economy. However, agency workers *do* cluster in certain industries, most notably **manufacturing** (where 4.1 per cent of the total workforce is an agency worker) and **transport, warehousing and communications** (4 per cent). However, it is not just in industries such as

these where agency workers are concentrated. We see higher than average rates of agency worker use in the high-end **business activities** sector, for example, as well as parts of the **public sector** such as health and social work.

Agency workers are also more prevalent in certain regions of the country. While close to one in five agency workers (18 per cent) are found in London, it is in the **East Midlands** that we see the largest share of the local labour force working in this way (3.2 per cent). Overall however we do not observe large regional variations, suggesting that agency work is either widespread geographically or that it is concentrated at a more local level than we can pick up in our analysis.

The opposite, however, proves to be the case when we look at agency workers by occupational class. Here, we see both a wide variation and a striking gradient, with a **far higher incidence of agency work observed in lower skilled occupations**. While 6 per cent of those in elementary occupations are agency workers, for example, just 0.2 per cent of directors and managers work in this form. While agency workers are found in many parts of the economy and across all regions, it is clear that this is a more common form of working for those in lower skilled jobs.

Agency workers are more likely to be from groups that suffer labour market disadvantage

It may come as no surprise, then, to discover that **agency workers are more likely to be younger and less qualified than the overall workforce**. Close to one in five agency workers are aged 16 to 24, while at least one in four are qualified only to GCSE level or below. However, there are other forms of labour market disadvantage that prove to be even stronger predictors of agency worker status than age and educational achievement.

Ethnicity is a perfect case in point. Four out of every five agency workers are white, making them numerically far more significant part of the agency workforce than those from other ethnic groups. However, when we look at the share of the total workforce from each ethnic group that is in agency work a different picture emerges. We find, for example, that **8 per cent of all Black and African Caribbean workers in the UK today are agency workers**.

Finally, we know that agencies play a key role in brokering employment for those from abroad who may have few other connections to an overseas labour market. Given this, it is easy to understand why workers born overseas are over-represented in the agency worker group. But strikingly we find that **one in ten of all workers born in Eastern Europe and the A8 accession countries that are working in the UK today do so via an employment agency.**

Working for an agency carries an average 'pay penalty' of 22p an hour

In 2016, agency workers were paid £2.57 an hour less their non-agency counterparts on average. But how much of that pay reduction actually stems from their agency worker status rather than reflecting personal characteristics or other aspects of the way they work? Controlling for both types of variables, we find that **working via an agency carries an average 'pay penalty' of 22p an hour, equivalent to a loss of £430 a year for those working full-time.**

Interestingly though, the **pay penalty rises to 45p an hour when focusing just on permanent agency workers** (and comparing them with other permanent workers). In contrast, it drops out altogether when looking just at temporary agency workers (in comparison with others on temporary contracts), converting into a 21p hourly 'pay premium'. The implication is that agency working is a premier form of temporary working, but a less well remunerated form of permanent employment.

It appears to suits some workers' needs, but significant numbers want more

Agency work may pay less to similar workers in similar jobs but money isn't everything. For some workers, the flexibility, variety and lack of bureaucracy offered by this way of working may be sufficient for them to trade-off an element of their pay. The evidence at hand however suggest this may not be the case for everyone.

Three-quarters of all agency workers are full-time for instance, suggesting that for many, agency work is not just a job which conveniently fits with other commitments but rather the main source of earnings. Moreover, agency workers report far higher levels of under-employment than other parts of the workforce, with close to 6 per cent saying they would like to work more hours.

Warning bells sound too when we look at job tenure. While agency workers naturally have much shorter lengths of continuous employment than others in the workforce, **close to a quarter indicate that they have been working in this form in employment for more than two years.** Given some ambiguity in the survey, we should be careful not to interpret this as conclusive evidence that all in this group are working on long-term assignments (which would then beg the question why they are not given employee status in the first instance). However, it is also worth noting that the proportion of agency workers indicating they have been in continuous employment for more than two years has been increasing of late.

Finally, we have further insight into the level of choice exercised by temporary agency workers when **we note that more than 60 per cent of this group would prefer to be in a permanent job.** And for a minority, the pay penalty and lack of choice goes hand in hand with the other forms of insecure working. When we look back over the last 18 months we see **14 per cent of agency workers are also employed on zero-hours contracts.**

Agency work is a booming and plural way of earning a living – but for many it offers a raw deal

One of the key takeaways from this report is that **the growing army of agency workers do not always conform to type.** More than half consider themselves to be permanent rather than temporary, for example; many work in high-end industries; and the majority are not the low-skill migrants, stay-at-home mums or students that many suggest them to be.

That said, this report shows that agency workers are disproportionately drawn from groups who suffer labour market disadvantage, are more concentrated in low-paid industries and cluster in lower-skilled jobs. Moreover, agency workers experience a significant pay penalty and there is little evidence to suggest that they accept this by choice. For many, agency work looks nothing like the nimble, modern way of working that it is sometimes presented to be.

This report marks the start of an 18 month project exploring the topic of agency work. It is good, then, that it provokes many questions for future consideration. Who, for example, are the self-employed people who also appear to be agency workers? What has driven the expansion of permanent agency working over the last five years and will it endure? Answering



these questions will mean moving beyond the data already available to us, something we will do over the coming months. Critically, we will also be pondering the role that policy makers, firms and agencies themselves can play in ensuring that agency working does not become an enduring form of precarious work.

Section 1

Introduction

Agency workers have long been a feature of the UK labour market. From seasonal agricultural workers to office temps, IT consultants to bank nurses, workers supplied by an intermediary agency to assist firms with fluctuating demand have an enduring track record. In this, the UK stands out from the majority of its OECD comparators: only in the US have agency workers had a longer, more extensive presence than that observed in the UK.^[1]

Agency work is characterised first and foremost by a triangular working relationship. The worker provides services in a workplace, but unlike a direct employee, has no employment relationship with the workplace firm. Instead, the worker is contracted by an agency which in turn contracts with the client firm to provide the required staff. True agency workers should therefore be distinguished from those who may find a job through an agency, but who subsequently enter into a direct employment relationship with the recruiting firm.

Typically, and as the name suggests, agency workers have been classified as ‘workers’ rather than ‘employees’ under employment law. Subject to the same tax and National Insurance (NI) regime as employees, workers can also avail themselves of some of the same rights. They are entitled to be paid the statutory minimum wage (either the National Minimum Wage (NMW) or National Living Wage (NLW) depending on age), to holiday pay and to working time rights. They also have whistle-blower protection and cannot be subject to unlawful discrimination. However, unlike employees, they are not entitled to sick pay or maternity, paternity and adoption pay. And crucially, they have no notice period or recourse in the event of dismissal (with the sole exception of cases where workplace practice may have fallen foul of discrimination law).

There are other emerging working arrangements, however, which increasingly blur the distinction between agency and other forms of work. A small but growing part of the workforce is paid via an umbrella company – a firm set up solely to provide payroll services – or is incorporating as a limited company. Workers in these positions may still work via an agency but, in contrast to the classic agency worker, are viewed as self-employed. As a result, they have minimal employment rights and are subject to a different tax and NI treatment.

Table 1 summarises the key characteristics and rights of the three main types of employment status we have in the UK. As this shows, there is essentially a trade-off struck in each category between the degree of control an earner has over his/her work and the rights he/she is accorded by law. At one end of the spectrum, employees have a high level of obligation to their employer but in return receive the full suite of employment protections. At the other end of the scale, the self-employed have minimal rights but in return enjoy far greater freedom and a more preferential tax and NI treatment. And in the middle are workers, with some discretion over the work they take compared to employees but with fewer rights as a result.

[1] See for example B Enright and S Pemberton, *Strategies and tactics for local market making in the Temporary Staffing Industry*, Geoforum 74, 2016

Table 1: Employment status and rights in the UK

| Employment status | Defining features | NLW | Auto-enrolment | Sick pay, maternity, paternity and adoption pay | Holiday pay |
|-------------------|--|---------------------------------|---------------------------|--|--|
| Employee | Contract of employment or service Mutuality of obligation - to be given work and turn up for work Tax and NI paid via PAYE | ✓ | ✓ | ✓ | ✓ |
| Worker | Contract to provide services Is able to reject offer of work without penalty Tax and NI paid by organisation | ✓ | See note 1 | See note 2 | ✓ |
| Self-employed | In business on own account Decides how the work is to be done and can delegate to others Pays own tax and NI | | | | |
| | | Unfair dismissal and redundancy | Whistleblower protections | Right not to have unlawful deductions from wages | Protection against unlawful discrimination |
| Employee | Contract of employment or service Mutuality of obligation - to be given work and turn up for work Tax and NI paid via PAYE | ✓ | ✓ | ✓ | ✓ |
| Worker | Contract to provide services Is able to reject offer of work without penalty Tax and NI paid by organisation | | ✓ | ✓ | ✓ |
| Self-employed | In business on own account Decides how the work is to be done and can delegate to others Pays own tax and NI | | | | See note 3 |

Notes 1. This right only applies to a worker whose employer has passed the “staging date” assigned to it by the Department for Work and Pensions and who satisfies the definition of an “eligible jobholder”. Not all workers will be “eligible jobholders”. 2. A limited number of workers are entitled to statutory maternity pay including company directors whose earnings are taxed in the same way as employees, Crown servants and agency workers other than models and homeworkers 3. If the self-employed person has a contract meaning they cannot sub-contract any part of the work or employ their own staff to do it, they can benefit from discrimination protection

There is evidence to suggest that agency workers often value the flexibility, the variety and the absence of bureaucracy that this more contingent form of work can provide.^[2] However, for many years a more tepid view of agency work has existed alongside this positive take. Throughout the 1990s and 2000s, for example, campaigners worked to secure the same rights as employees for agency workers who perform significant periods of service for the same client company. And in more recent years agency work has often been wrapped up as part of the growing ‘gig economy’ within which many workers are insecure and exposed.

This report begins a new 18 month work programme exploring the world of agency work. To better understand this often obscure part of the labour marker we start with a detailed exploration of the Labour Force Survey (LFS). To this end, this report is structured as follows:

- » Section 1 builds up a new definition of who should be considered an agency worker using the LFS, establishes our headline figures and looks at trends in these figures over time;
- » Section 2 explores where agency workers are concentrated in our labour force and what types of jobs they perform;
- » Section 3 then turns to consider who is more likely to be an agency worker and looks at personal characteristics such as age, sex, ethnicity and country of birth as well as qualification level;
- » Section 4 then assesses whether working for an agency has any impact on an individual’s pay and considers the extent to which agency workers are exercising an active choice; and
- » Section 5 concludes with look to future research on the subject.

[2] Recruitment and Employment Confederation, *Flex Appeal: Why freelancers, contractors and agency workers choose to work this way*, 2014

Section 2

The rise and rise of agency work

Agency working is a long-established part of the UK labour market, yet relatively little attention has been given to the size and shape of this workforce. In this section we build up a comprehensive picture of agency workers using data from the Labour Force Survey. By teasing out the meaning from a number of variables, we find two new groups of agency workers who have been missing from previous accounts. Taking this fuller view of the group, we estimate that there are 865,000 agency workers in the UK today making the group broadly equivalent in scale to those working on zero-hours contracts. Moreover, if this part of the workforce continues to grow at the same rate that we have observed over the last five years, we forecast that there will be more than 1 million agency workers in the UK before the end of the decade.

Given that agency workers are not a new phenomenon in the UK labour market, it is surprising to find that estimates of their numbers are few and far between. In addition, those that are available vary widely, from figures of around the 250,000 mark found in academic studies^[3] to the 1.1 million workers that the industry body the REC estimates provided temporary services in 2015.^[4] Perhaps most surprisingly, there are no official figures of the number of agency workers in circulation. Instead, the government has relied on the REC data in both a recent impact assessment and a parliamentary question response.^[5]

Throughout this report we use the Labour Force Survey (LFS) to help us fill this gap, though this approach is not without its challenges. As the previous section showed, agency work is far from a clear-cut concept and the survey questions do not always map neatly to emerging practice in the agency world. As a result, the LFS does not provide a straightforward answer to the question of how many agency workers there are in the UK today. Instead, we use a four-step process drawing sensible inferences from the data to come to a robust 'best estimate'.^[6] We consider each of these steps, and the number of workers they add to our final definition, in turn below.

Temps account for around 340,000 agency workers, a 25 year high

For most, a typical agency worker is someone working on a short term basis to help a client firm manage a temporary blip in demand. Workers providing holiday cover, Christmas temps and seasonal agricultural workers perhaps all spring to mind. The obvious starting point for this enquiry is therefore to ask how many temporary agency workers there are in today's labour force.

Analysis of the LFS puts the figure close to 340,000, comprising a small but significant 1 per cent of the total work force. As Figure 1 illustrates, the number of these workers has risen significantly in the last 25 years, increasing by more than a factor of three from just below 100,000 in 1992.

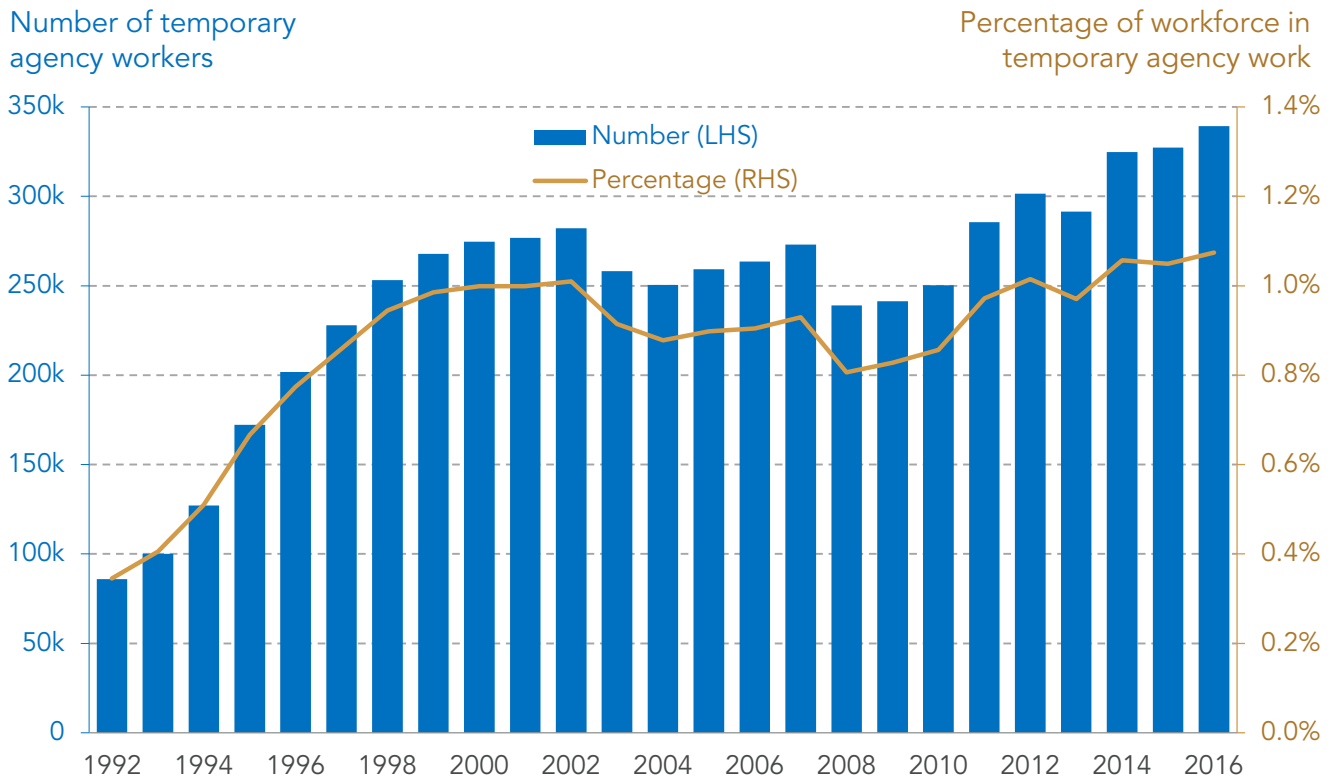
[3] C Forde and G Slater, *The effects of Agency Workers Regulations on agency and employer practice*, ACAS 2014

[4] Recruitment and Employment Confederation, *Recruitment Industry Trends Survey 2014/15*, 2015

[5] See HC Deb, 14 April 2016, cW and BIS, *Hiring Agency Staff During Strike Action: Reforming regulation*, Impact Assessment, July 2015

[6] See Annex 1 for a more detailed discussion of the methodology used in this section of the report

Figure 1: Temporary agency workers: UK



Source: RF analysis of ONS, Labour Force Survey

That said, 1992 (the year in which the LFS began) may not be an ideal starting point for our comparisons given this was a period in which unemployment was rising. Nevertheless, the recent upward trend is clear. Indeed, the post-financial crisis experience contrasts sharply with that of the early 1990s. Studies of the temporary staffing industry suggest that agency workers were the fat that firms trimmed first during the 1990s.^[7] While there was a drop off in the number of temporary agency workers after 2008, it was short lived, and pre-crisis levels were exceeded by 2011. The implication is that this time around, agency workers have been one way that firms have coped during with contraction and a sluggish recovery.

Previously missing permanent staff account for a further 440,000 agency workers – more than the temporary group

As studies have shown, the level of agency worker use is not just determined by the economic cycle but is also sensitive to regulation.^[8] The introduction of the Agency Worker Regulations (AWR) 2010 was a key development in this respect, presented at the time as representing a significant change to the legal landscape governing agency workers and expected to have a widespread impact across the industry (see Box 1 for details).

[7] N Theodore and J Peck, *Temporary staffing in a volatile economy*, in J Fudge and S Kendra, *Temporary work, agencies and unfree labour*, 2013

[8] See, for example, J Ferreira, *The changing regulatory mosaic of the temporary staffing industry in Europe*, Coventry University 2015

i Box 1: The Agency Worker Regulations (2010)

The Agency Worker Regulations (2010) were the product of a long and contentious process at the European level designed to give agency workers parity of treatment with a client firms' employees. Agreed in 2008 and formally introduced in the UK in 2011, the Regulations represented a victory for campaigners who had long argued it was unjust that employees and agency workers operating side by side in the workplace had different entitlements and protections.

The AWR introduced two sets of new rights. To begin, it ensures agency workers are treated the same as employees from day one of an assignment with respect to benefits such as eating facilities, childcare provision and work-related transport. Far more significantly, however, it also guarantees agency workers who have been with the

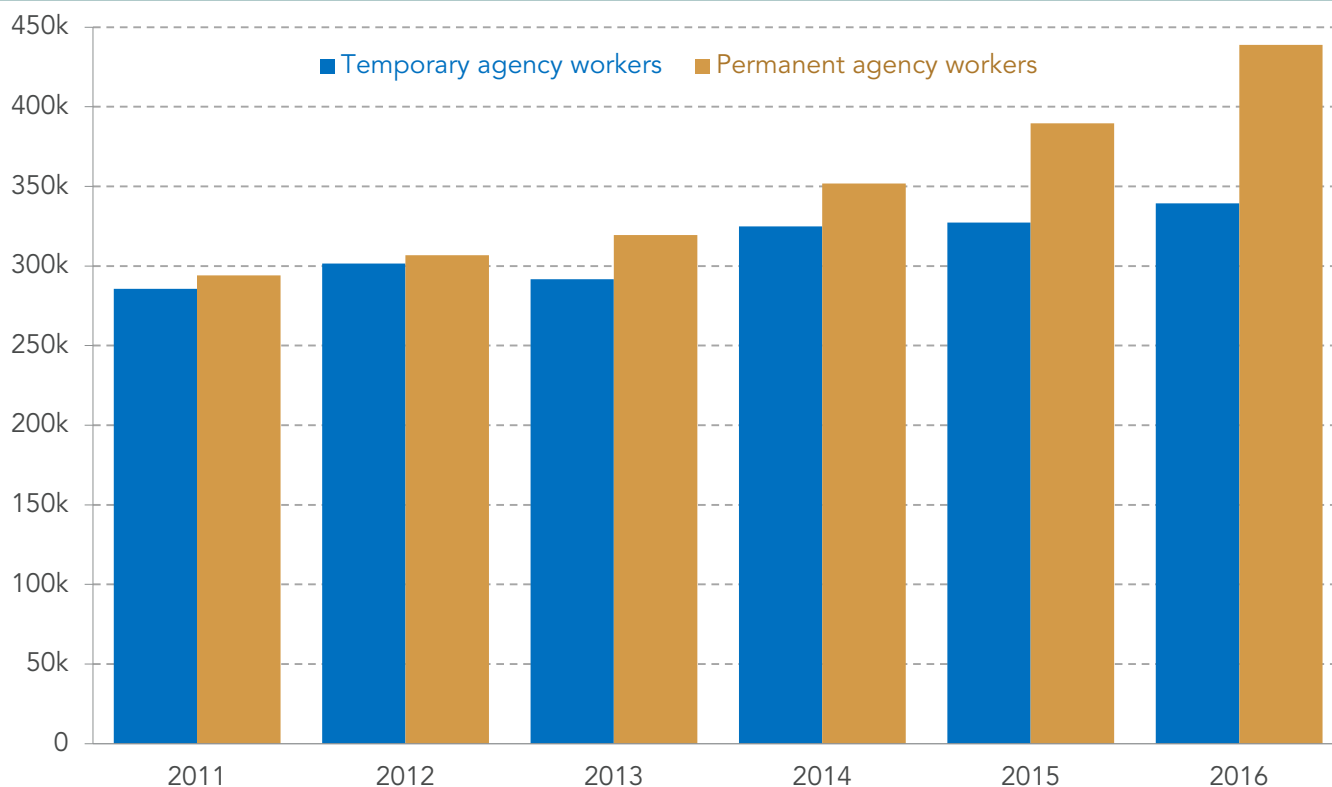
same firm for 12 continuous weeks the right to equal pay with those doing the same job, equal paid holiday and automatic pension enrolment.

During the Regulation's negotiations the government argued strongly that requirements of this type would bear down particularly hard in the UK given its high level of labour market flexibility. Consequently they inserted an additional clause known as the Swedish Derogation into the national regulations. This allows agencies to offer workers a 'pay between assignments' contract which should guarantee a permanent income stream. In exchange, the agency worker forgoes their right to equal pay with employees at a client firm performing the same tasks as themselves.

Consequently, in 2011 a new question was introduced into the LFS designed to pick up those agency workers who may be working on 'pay between assignments' contracts as a result of the AWR. For the first time the survey asked those who regarded themselves to be working permanently if they were also working for an agency.

As Figure 2 shows the results are somewhat surprising. Rather than picking up on a small number of agency workers on permanent contracts as might have been expected after the introduction of the AWR, it appears there was a large number of permanent agency workers already present in the labour force in 2011. While it is feasible that some of these were workers who had transferred onto permanent contracts ahead of the AWR's formal introduction at the end of the year, the size of this group cannot be explained by this alone. Moreover, there is little evidence of a substitution effect in the following years when number of temporary agency workers has remained on an upward trend albeit increasing at a slower pace than those in the permanent group.

Figure 2: Comparison of the number of temporary and permanent agency workers: UK



Source: RF analysis of ONS, Labour Force Survey

All in all, this seems to suggest that there was a significant group of agency workers who were not being picked up by the data prior to 2011. So who could these missing workers be? Are they those agency workers who spend such long periods of time with the same client firm that they consider themselves permanently employed? Or those who stitch together different assignments so seamlessly it looks and feels like a permanent job? As far as the data allows we explore these questions further in our subsequent sections.

For now it is sufficient to note that there are close to 440,000 permanent agency workers in the UK today, making them a larger group than temporary agency workers. They comprise 1 per cent of the workforce and, as Figure 2 shows, their numbers have increased rapidly in the last five years, growing by close to 50 per cent since 2011.

A further 66,000 agency workers are drawn from the officially self-employed

So far our analysis has only picked up agency workers who identify as employees. However, as the ONS states, “It is recognised that some people who state that they are self-employed [in the LFS] are actually employees due to the way in which they are paid. This may arise because they work on a casual basis as employees or *are employed through an agency*, or because the status of their business classifies them as employees” (our italics).^[9]

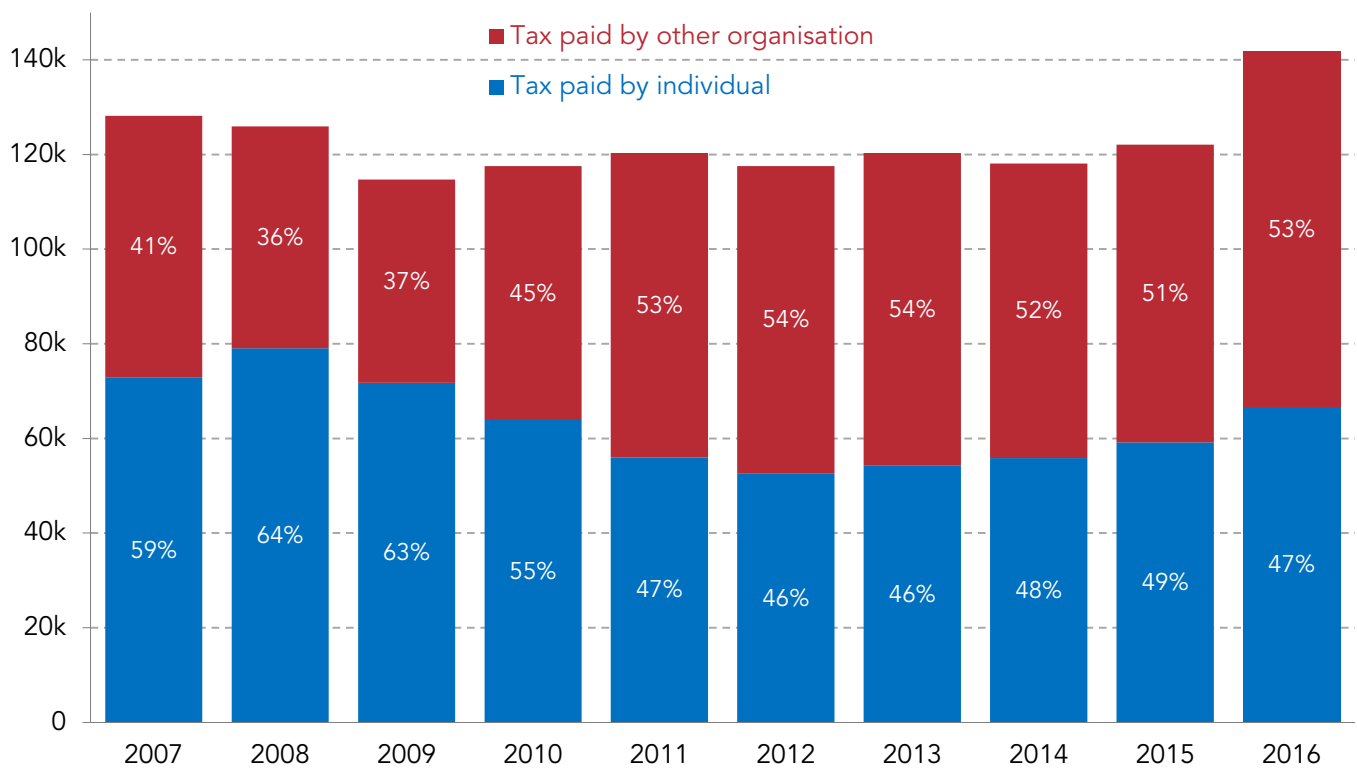
If we follow through on this logic and look at those who indicate they are paid a salary or a wage by an employment agency in the LFS, we find an additional 140,000 workers in 2016 who have not already been captured in our two preceding groups. These are mainly, although not exclusively, self-employed. In addition, while their numbers are rising they are not a new phenomenon and have been present in the labour force since the data begins. Here, we appear to be very much at the

[9] ONS, Review of the Reconciliation of ONS Estimates of Jobs 2015, Labour Market Statistics Methodology Article, June 2015

blurry boundary between agency work and other forms of labour market activity. However, there are further refinements that can help us understand this group better and separate out the true agency workers from those who it would be wrong to classify in this way.

Crucially, data is available on whether workers pay their own income tax and/or NI or not. We can therefore drill down into the 140,000 saying they are paid by an employment agency to consider how many also say they have their tax and NI paid for them by an organisation. While much about this group remains obscure, in our view being paid by an employment agency and indicating that an organisation administers tax and/or NI on the worker's behalf is sufficiently suggestive of agency worker status. As Figure 3 shows, this adds a further 66,000 people to our overall agency worker definition in 2016.^[10]

Figure 3: Workers paid by an employment agency, by tax and NI status: UK



Note: While we know the total size of 'paid by agency' workers in 2016, information on split between the 'tax paid by individual' and 'tax paid by other organisation' was not available at the time of publication. This split in 2016 has therefore been extrapolated by applying the five-year average 'tax paid by individual' to 'tax paid by other organisation' ratio to our known 2016 total.

Source: RF analysis of ONS, Labour Force Survey 2007-2016 (secure access datasets)

Around 20,000 more are agency workers in their second jobs

The final stage in our four-step process considers second jobs. Although recent Resolution Foundation work has shown that the overall number of workers with second jobs of any description is at an all-time low, there is a small group of people who are not agency workers in their main jobs but who do work via an agency in second roles.^[11] Analysis of the LFS shows that

[10] Here, we are following in a more conservative fashion the approach taken by the ONS in the note referenced above who re-classify self-employed as employed if (i) respondents answer that they pay their own NI or income tax or (ii) respondents do not give an answer to the question about who pays their NI or income tax and they don't give an answer to who pays their salary or wage.

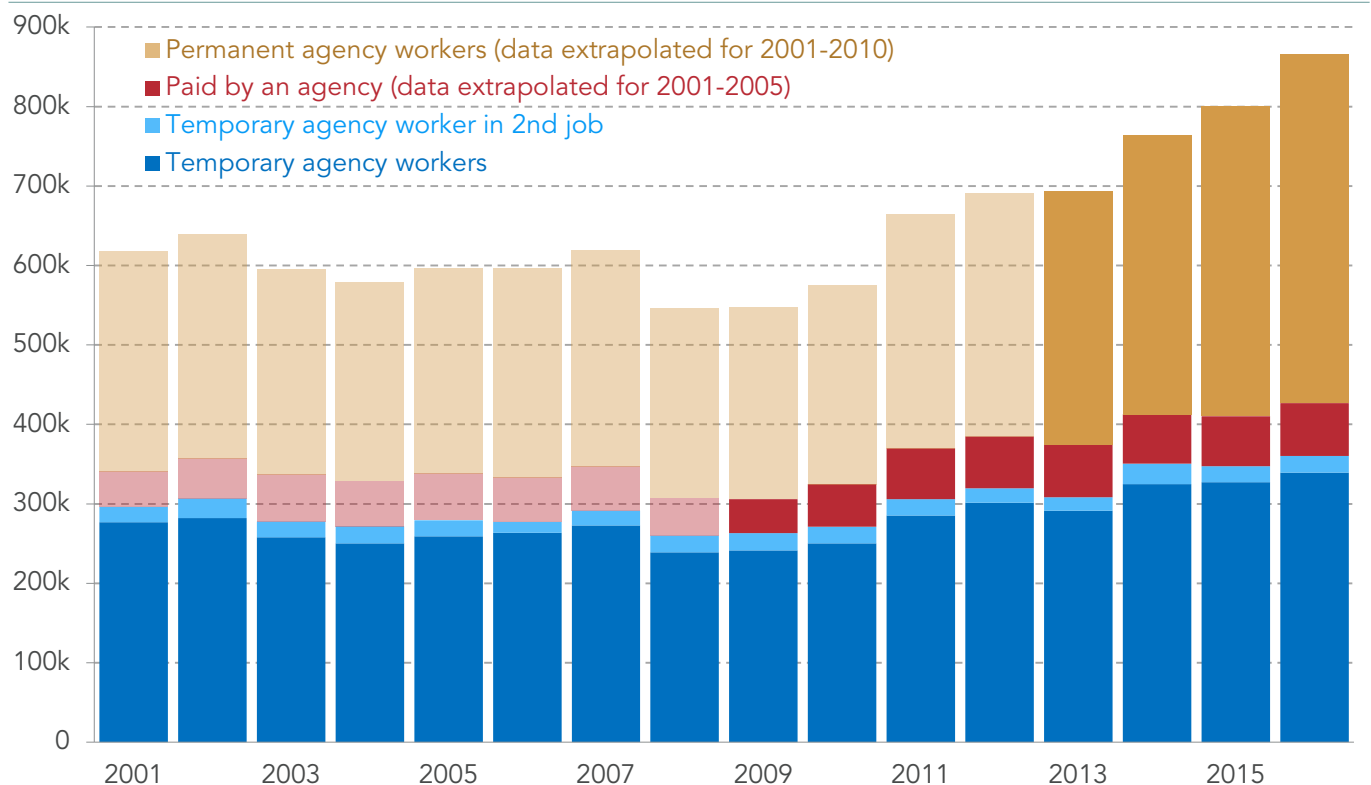
[11] A Corlett and D Finch, [Double take: Workers with multiple jobs and reforms to National Insurance](#), Resolution Foundation 2016

there were approximately 20,000 workers who could be classified this way in 2016. This number has been broadly stable over the 15 years for which the data has been collected.

Putting our four steps together shows there are 865,000 agency workers in the UK today

Putting the forgoing analysis together allows us to come to a more robust assessment than has previously been produced of the number of agency workers in our economy. By adding up our four groups – temporary agency workers, permanent agency workers, those paid by an employment agency who are not responsible for their own tax and/or NI, and agency workers in second jobs – as we do in Figure 4, we estimate that there are 865,000 agency workers in the UK today. At 3 per cent of the workforce, agency workers are therefore as numerically significant a group as those who work zero-hours contracts.^[12]

Figure 4: All agency workers: UK



Notes: 'Permanent agency worker' back series is extrapolated by applying five year average 'temporary to permanent agency worker' ratio to 'temporary agency worker' data. 'Paid by an agency' worker back series is extrapolated using a similar method.

Source: RF analysis of ONS, Labour Force Survey (secure access datasets)

Moreover, agency workers are increasing in number over time. In the five years between 2011 (the point from which we have a full dataset) and 2016, we estimate that the number of agency workers has increased by over 200,000, the equivalent of a 30 per cent increase. And if agency workers continue to grow at the same rate as they have over the last five years, even factoring in projected lower employment growth we estimate that their number will exceed 1 million before the end of the decade.

[12] D Tomlinson, [Zero-hours contracts: casual contracts are becoming a permanent feature of the UK economy](#), Resolution Foundation, 2016

Section 3

The where and what of agency work

Agency workers are a diverse group, widely dispersed throughout the country. Perhaps contrary to popular perceptions, they are not only found in high-volume, low-value industries. However, they are far more clustered in low-skilled occupations than they are in managerial and professional roles. Having established the – sizeable – scale of agency work in the UK in Section 2, we explore in this section to consider which sectors and regions rely most heavily on this type of worker.

There are two key ways we can approach the ‘where and what’ question when it comes to agency workers:

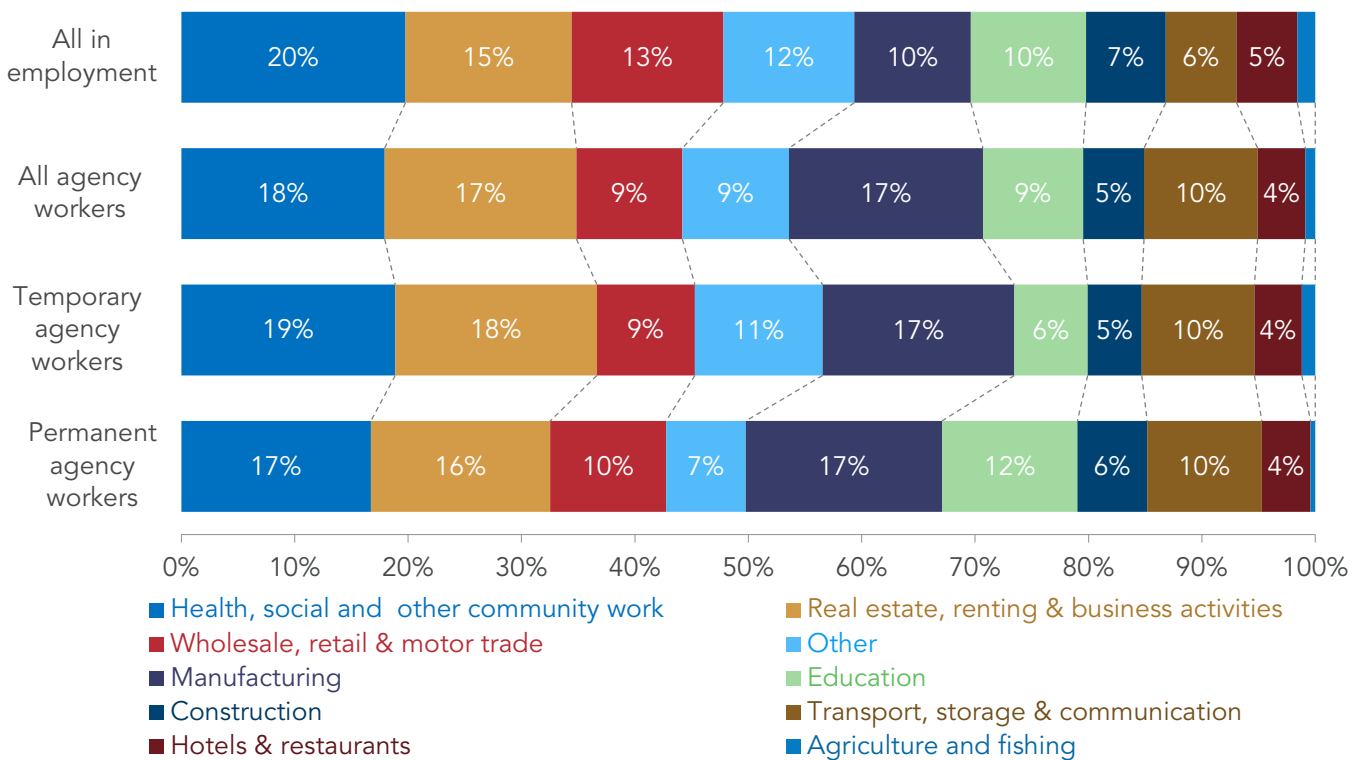
- » First, we can start with the total agency worker population and consider its **composition**. For example, we can establish what proportion of all agency workers are employed in agriculture. This is particularly useful in providing us with an insight into how the permanent agency worker group, which has been missed out of all previous research, compares to the temporary group.^[13]
- » Second, we can flip the question and look at **the share** of agency workers in specific parts of the labour market. For example, we can establish what proportion of the agricultural workforce is comprises agency workers and compare this to the national average. This allows us to establish in which parts of the economy agency workers are over- and under-represented.

Agency workers are found in both high- and low-value sectors – and in the public sector too

Looking at how agency workers are spread across industries, as we do in Figure 5, three sectors stand out. We see that agency workers are heavily concentrated in health and social work (18 per cent), manufacturing (17 per cent) and business activities (17 per cent). These three sectors alone account for more than half of all agency workers.

[13] From this point on ‘paid by an agency’ and ‘second jobs agency workers’ are excluded from our analysis given small sample sizes.

Figure 5: Composition of agency workers by industry: UK, 2016



Source: RF analysis of ONS, Labour Force Survey

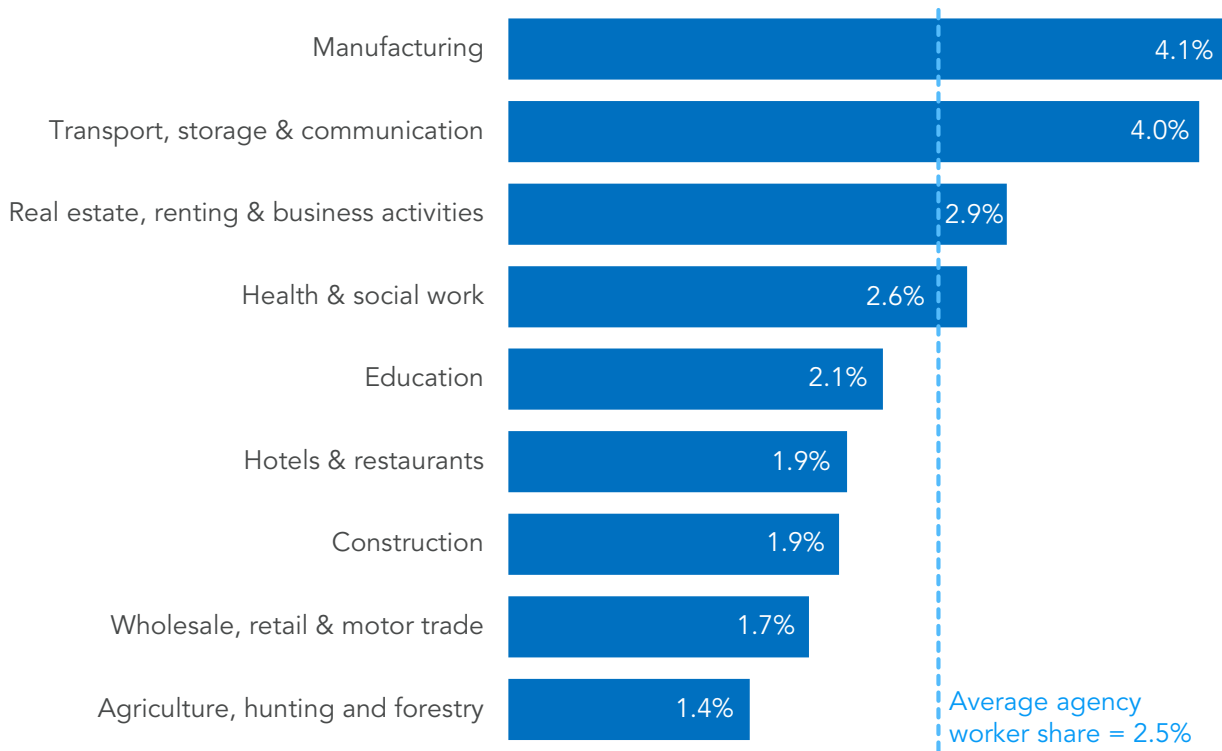
The high share of agency work accounted for by health and social care is in part a product of the sector’s size: relative to the overall distribution of employment agency workers actually appear to be a little *under*-represented. In contrast, agency workers are over-represented in both the business activities and (more markedly) the manufacturing sectors. This is also true in relation to transport, storage and communication.

The chart also highlights some small but significant differences in the composition of our two main classes of agency worker: 12 per cent of temporary agency workers are in the education sector, for example, compared to only 6 per cent of permanent agency workers.

Given that the growth in the overall number of agency workers has largely been driven by rising numbers in the permanent group since 2011, it is worth considering the industrial breakdown of this change. Manufacturing is the source of the single biggest increase, with permanent agency worker numbers rising by nearly 40,000 in five years. Permanent numbers are also up by close to 30,000 over the same period in each of the health and social work, transport, storage and communication, and business activities sectors.

When we consider the share of agency workers by sector (Figure 6) our preceding analysis is both confirmed and refined. While it’s true that agency workers are disproportionately likely to be employed in relatively low-value transport, storage and communication sector, there is no evidence of lower end ‘skew’. For example, they are similarly over-represented in business activities (2.9 per cent) and health and social work (2.6 per cent) and are under-represented in hotels and restaurants and in agriculture. It is fitting therefore that the sector in which agency workers are most highly represented – manufacturing – is characterised by a wide mix of high- and low-value operations.

Figure 6: Share of agency workers in each industry: UK, 2016



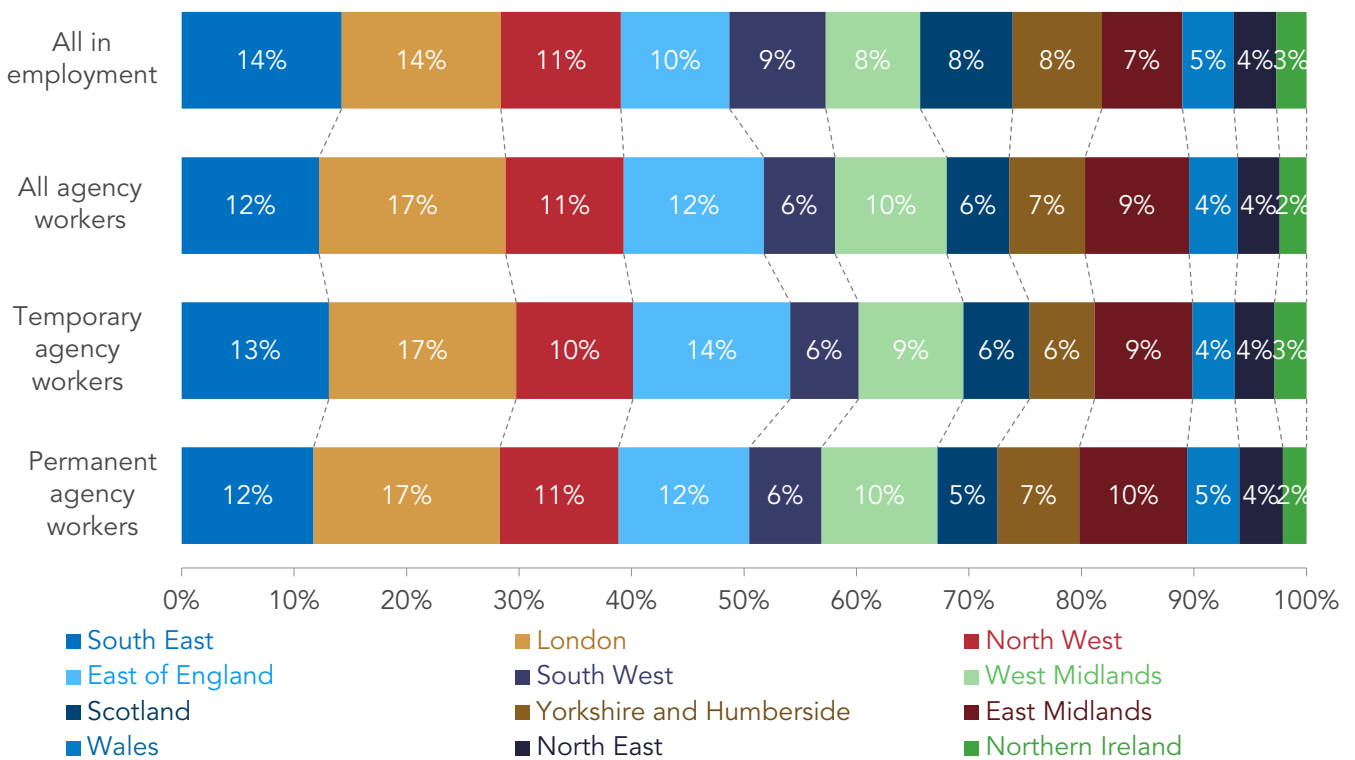
Notes: The average agency worker share of 2.5 per cent used here is that of 'temporary and permanent agency workers' only and excludes 'paid by an agency' and 'second jobs'

Source: RF analysis of ONS, *Labour Force Survey*

While there are some agency worker hotspots, the regional variations in agency work rates are not stark

We might expect the geographical distribution of agency workers to match the industrial map of Britain, but are there any other regional differences to note? Figure 7 sets out the picture across the different parts of the UK. It shows that 17 per cent of agency workers are in London, compared with an overall figure for all employees of 14 per cent. There is evidence of similarly modest levels of over-representation in the East of England and in the West and East Midlands. In contrast, numbers are a little lower than would be expected if the regional distribution was even in the South East, South West and Scotland.

Figure 7: Composition of agency workers by region, 2016

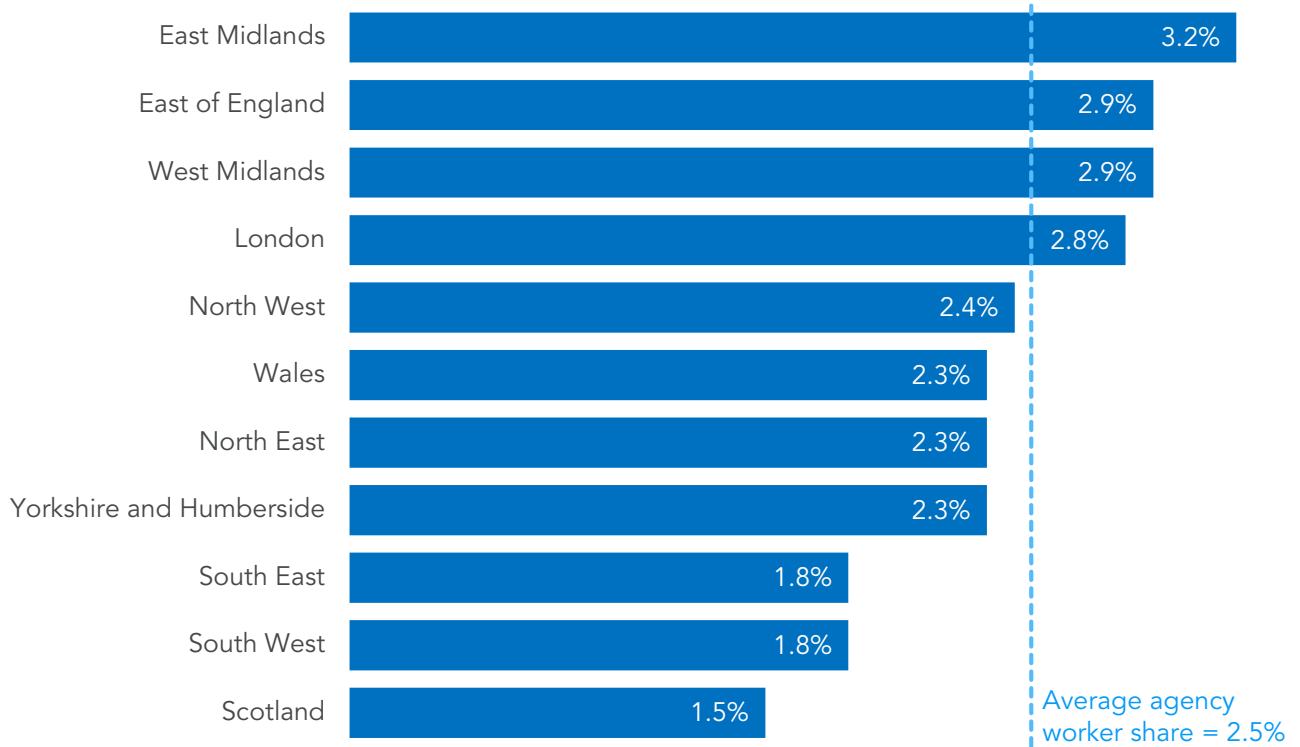


Source: RF analysis of ONS, Labour Force Survey

When we look to see where the growth in the permanent agency worker group has been since 2011, it is in the East and West Midlands, the South East and the East of England. Numbers here have more than doubled over this time.

It is no surprise, then, that it is in these areas – alongside London – that we also see the highest share of agency workers in the regional labour market. Figure 8 sets out the data, and shows that it is the East Midlands that has the largest proportion of agency workers in its workforce at 3.2 per cent. Overall, however, it is worth noting that rates of agency working in the regional economies in England do not show especially large variation – suggesting either that agency workers have widespread presence or, potentially, that there are highly local concentrations we are unable to pick up in our regional analysis here.

Figure 8: Share of agency workers in each region: UK, 2016



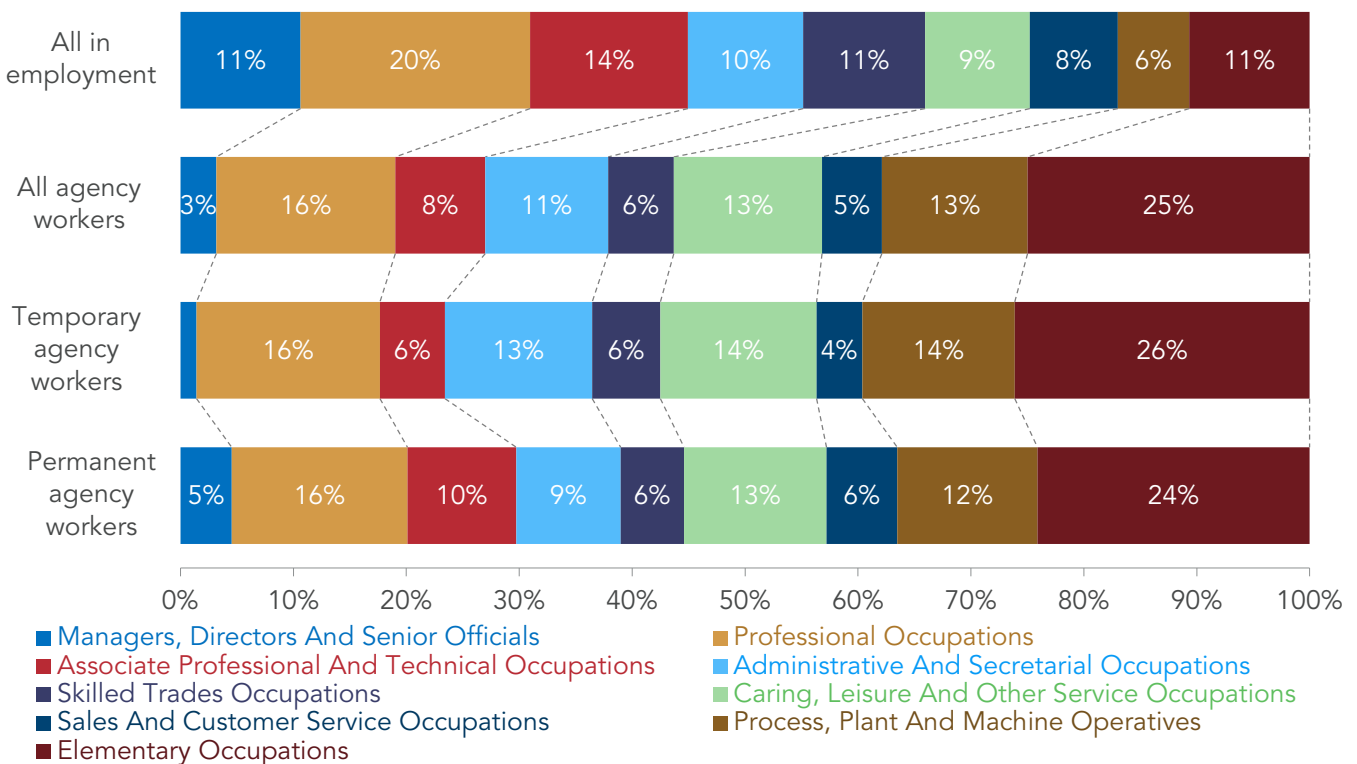
Source: RF analysis of ONS, Labour Force Survey

Note: The average agency worker share of 2.5 per cent used here is that of 'temporary and permanent agency workers' only and excludes 'paid by an agency' and 'second jobs'

Agency work is strongly biased towards lower skilled occupational roles

Figure 9 provides a sense of the occupational level at which agency workers are to be found. Most strikingly, this shows that a quarter of agency workers are in elementary occupations while a further 13 per cent perform 'caring, leisure and service' and 'process, plant and machine' roles. However, it is clearly wrong to characterise all agency work as lower end, given that 16 per cent of our group works in professional occupations.

Figure 9: Composition of agency workers by occupational class: UK, 2016

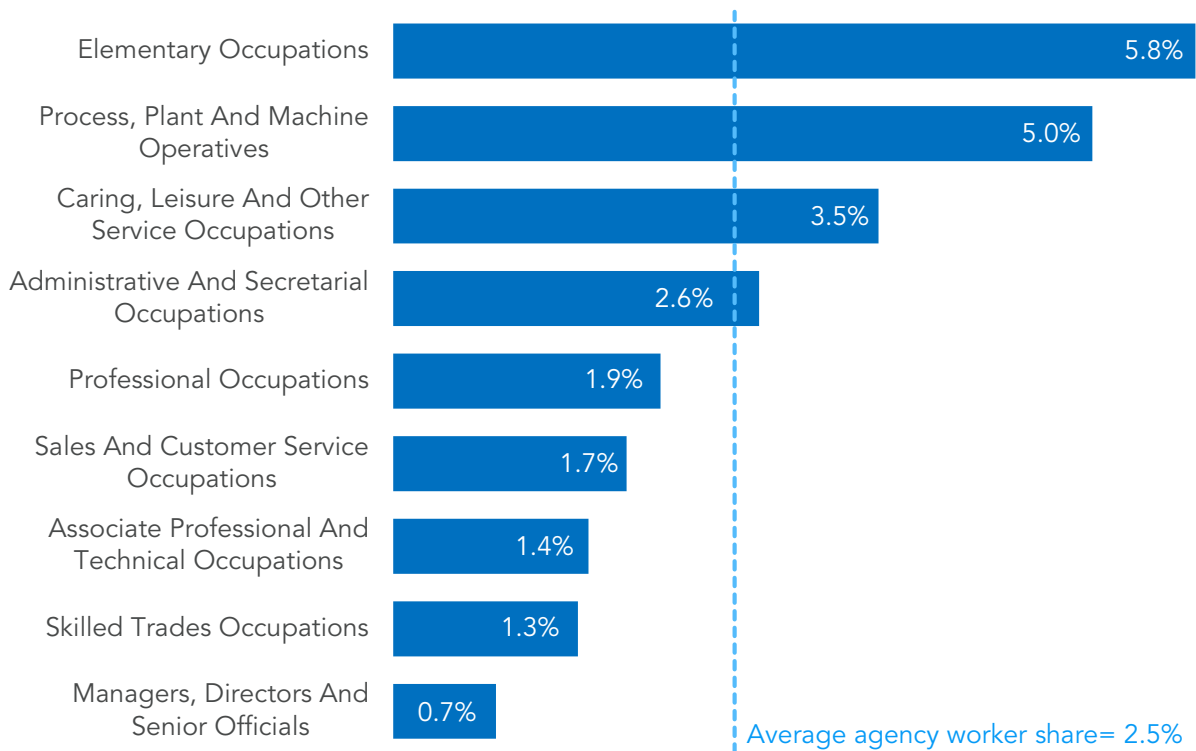


Source: RF analysis of ONS, Labour Force Survey

Comparing the composition of the temporary and permanent agency groups is once again revealing. We see, for example, that those working in higher end jobs such as management or the professions are more likely to be a permanent agency worker than temporary, while the opposite is true for administrative and secretarial occupations. However, even more striking is that the ranks of the permanent agency workers have been joined by an additional 60,000 elementary level workers since 2011 which account for close to a third of the increase over this time.

Finally, looking at the share confirms our hunch that agency work is more prevalent in lower occupational brackets. Figure 10 presents the results. As this makes clear, agency workers of both types form a higher than average part of the workforce in elementary occupations, process plant and machinery and caring and leisure. In addition, when we at the granular data we can see that being a temporary agency worker is also more common in administrative and secretarial occupations (but not in the permanent category).

Figure 10: Share of agency workers by occupational class: UK, 2016



Source: RF analysis of ONS, Labour Force Survey

Note: The average agency worker share of 2.5 per cent used here is that of 'temporary and permanent agency workers' only and excludes 'paid by an agency' and 'second jobs'

Overall, we can see that agency workers are widely dispersed throughout the country and the economy. Having clarified where they work and what they do, we now turn to the next question of exactly who they are.

Section 4

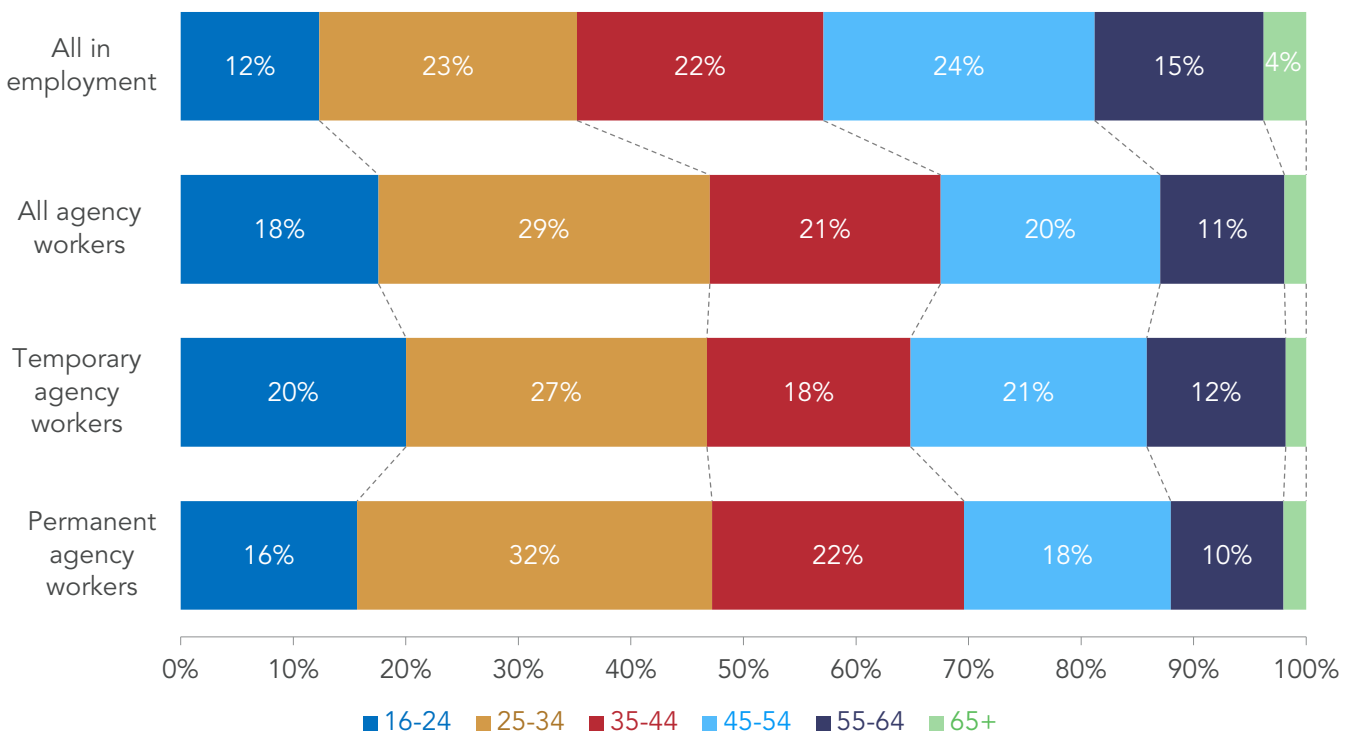
Who are agency workers?

Asked to imagine a typical agency worker, just who would spring to mind? As we have seen, they work across the country and within all industries. Nevertheless, agency working is particularly prevalent among younger people and among Black and African Caribbean workers. They are also over-represented among those born in Eastern Europe and the EU accession countries, though a clear majority of agency workers are British born. In this section we delve deeper into the LFS in order to explore the demographic make-up of the agency worker population.

Agency workers are a young group of people

Looking at the composition of the agency worker group by age, as we do in Figure 11, we find that agency work is almost entirely carried out by those of ‘working age’ (those aged 64 and under). Just 2 per cent of agency workers are aged 65 or over, despite this age group comprising 4 per cent of the overall workforce. Agency workers significantly over-represented among younger groups, with close to half (47 per cent) being aged under-35 compared with one-third (35 per cent) of the workforce more generally.

Figure 11: Composition of agency workers by age group: UK, 2016



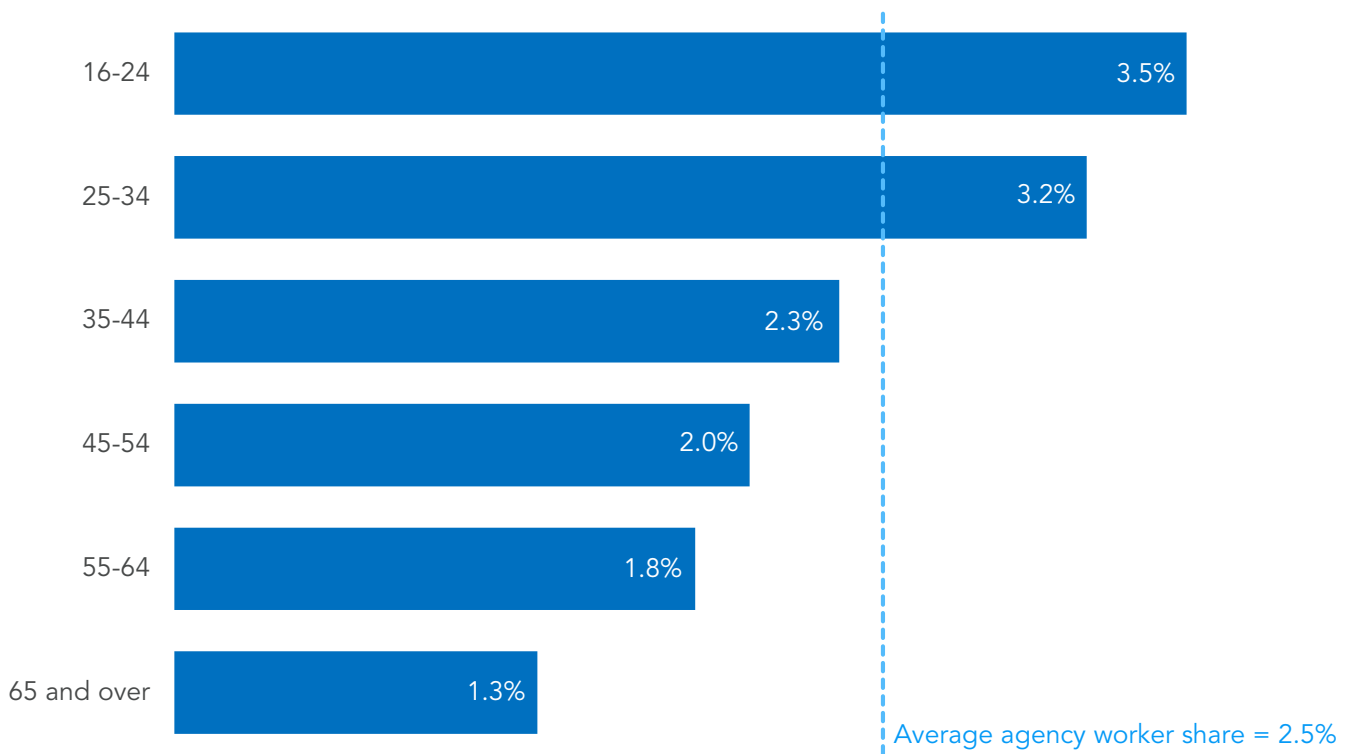
Source: RF analysis of ONS, Labour Force Survey

Figure 11 shows that those aged 16-24 make up a larger proportion of the temporary agency worker population than the permanent agency worker population – accounting for one in five of the former group, and less than one in six of the latter. In contrast, those aged between 45 and 54 account for a larger proportion of the permanent agency worker population than the temporary agency worker population.

Over the past five years the permanent agency worker group has aged somewhat. The proportion of permanent agency workers who are 65 and over has doubled – though from a small base of just 1 per cent. At the same time the proportion who are aged 16 to 24 has fallen by 3 percentage points, a 16 per cent fall.

Figure 12 confirms that the likelihood of an individual being an agency worker decreases with age. For example, those in employment and aged 16 to 24 are twice as likely to be agency workers as those aged 55 to 64, and three times as likely as someone aged 65 or over who is in work.

Figure 12: Share of agency workers across age groups: UK, 2016



Notes (1) The average agency worker share of 2.5 per cent used here is that of 'temporary and permanent agency workers' only and excludes 'paid by an agency' and 'second jobs' (2) Figures are calculated relative to those in the age group who are in work, rather than relative to the entire population

Source: RF analysis of ONS, *Labour Force Survey*

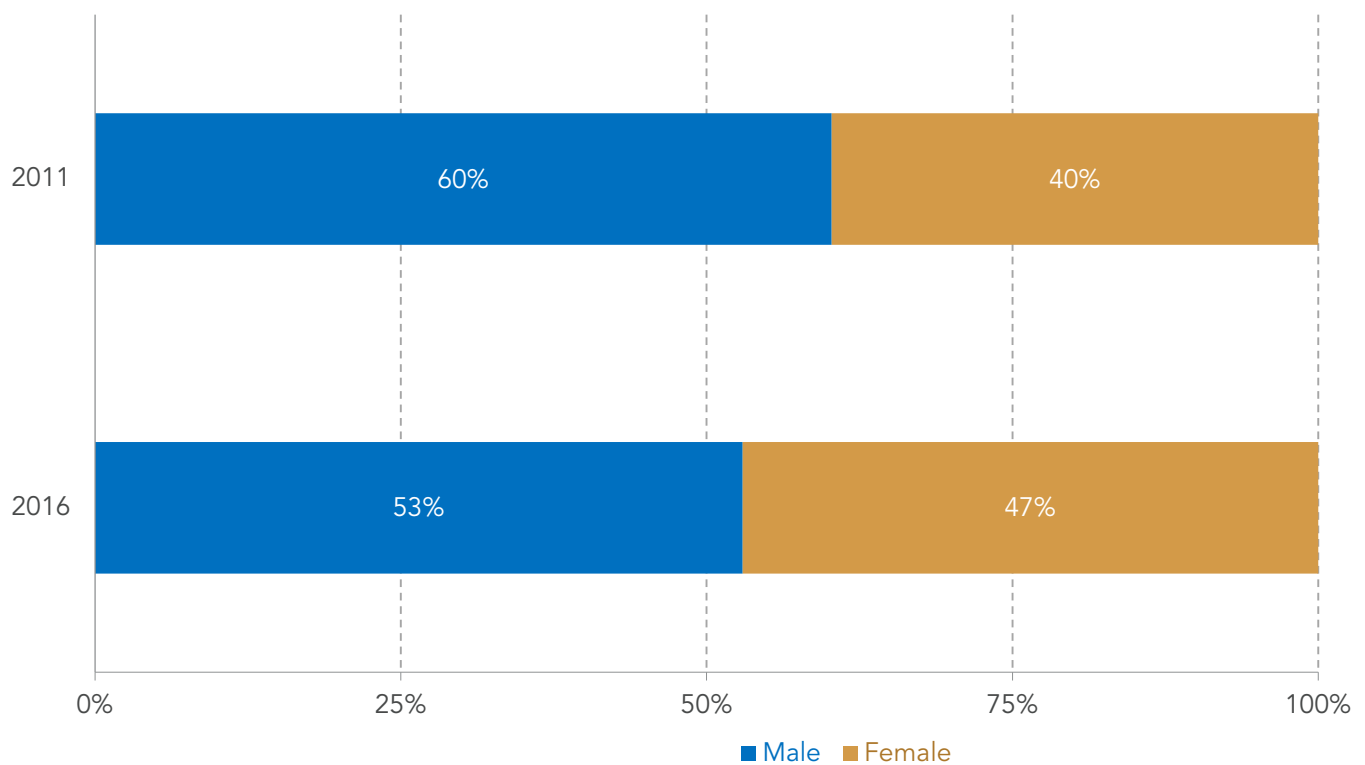
Men and women are equally represented in the group

As studies have found before us, the majority (54 per cent) of agency workers are male. This does not mean men are disproportionately represented in the agency worker population, however, as they comprise 53 per cent of total employment in the UK. We see only slight and not significant differences in the sex make-up of our temporary and permanent worker groups.

This sex neutral profile is surprising, perhaps, given that agency work is often depicted as suiting those with caring and other responsibilities. However, it *is* the case that women have accounted for 85 per cent of the growth in the number of temporary agency workers between 2011 and 2016 – a trend that is evident in the changing composition of the temporary agency worker population.

As Figure 13 shows, just four in ten temporary agency workers in 2011 were women. But over the past five years this share has steadily increased to the point that women now make up almost half of this group of workers.

Figure 13: Composition of temporary agency workers by sex, 2011 and 2016

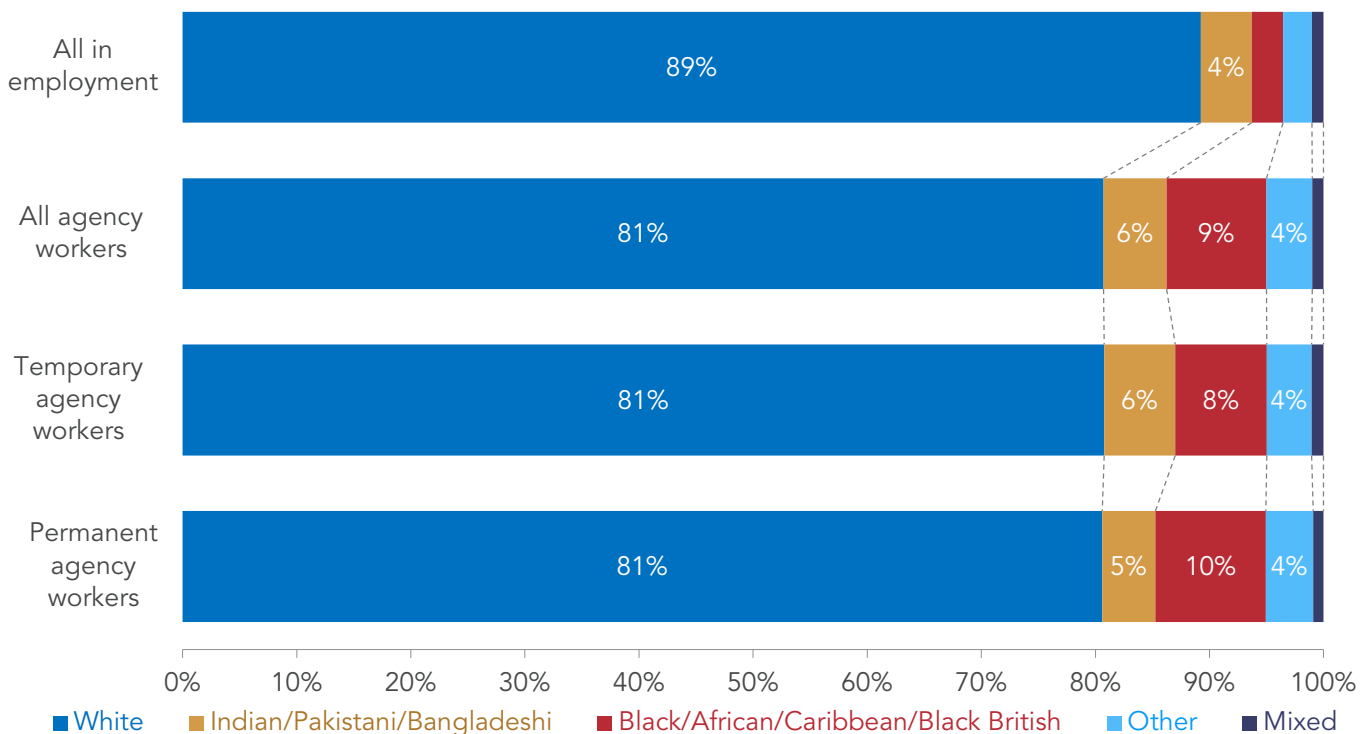


Source: RF analysis of ONS, Labour Force Survey

Members of the Black, African and Caribbean labour force are more than three times as likely to be agency workers than average

The split by ethnic group of the agency worker population has remained constant in recent years, and varies little across the permanent and temporary agency worker groups as Figure 14 shows. What is clear however, is that those from BAME backgrounds form a disproportionately large share of the UK's agency workforce: 19 per cent of the agency worker population is from an ethnic minority, compared with just 12 per cent of the overall workforce.

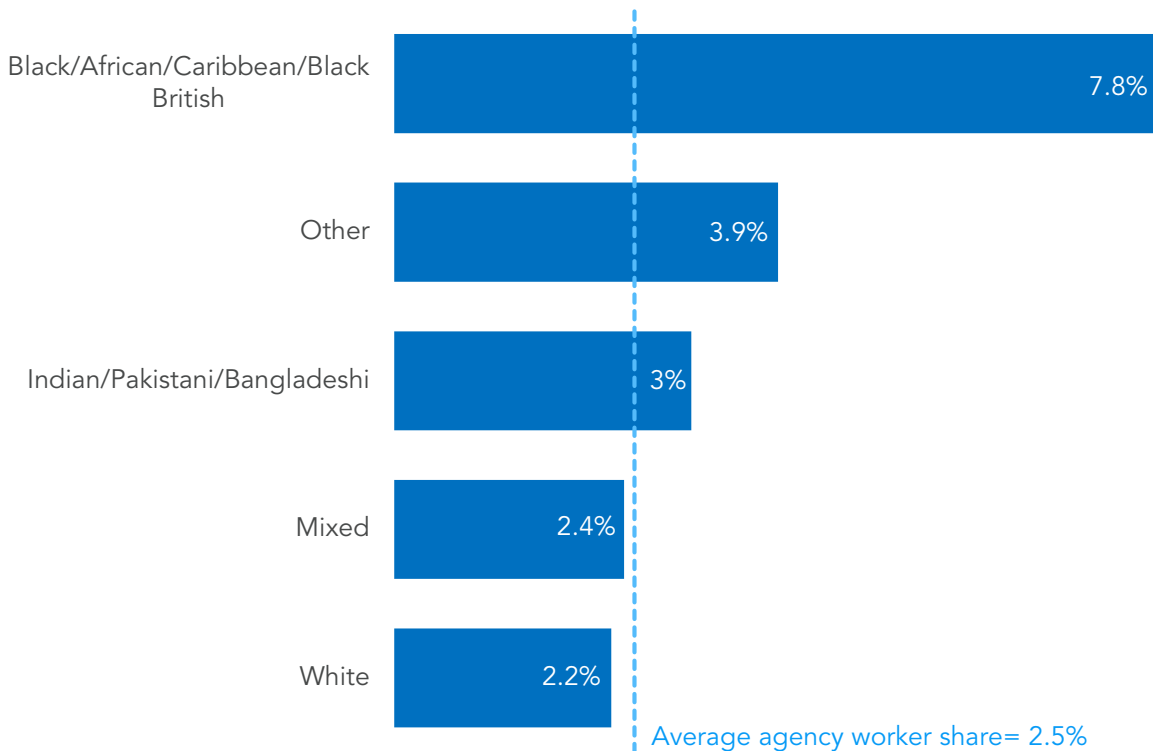
Figure 14: Composition of agency workers by ethnicity: UK, 2016



Source: RF analysis of ONS, Labour Force Survey

That non-white workers are over-represented in the agency worker population is made clearer still by Figure 15. This shows how just shy of 8 per cent of Black/African/Caribbean employees are agency workers. That's more than three times the overall share of 2.5 per cent and contrasts with just 2.2 per cent among those who identify as White. The striking over-representation of Black/African/Caribbean is not a new phenomenon, although it is worth noting that the proportion of this group in agency work has increased by 2 percentage points since 2011.

Figure 15: Share of agency workers across ethnicities: UK, 2016



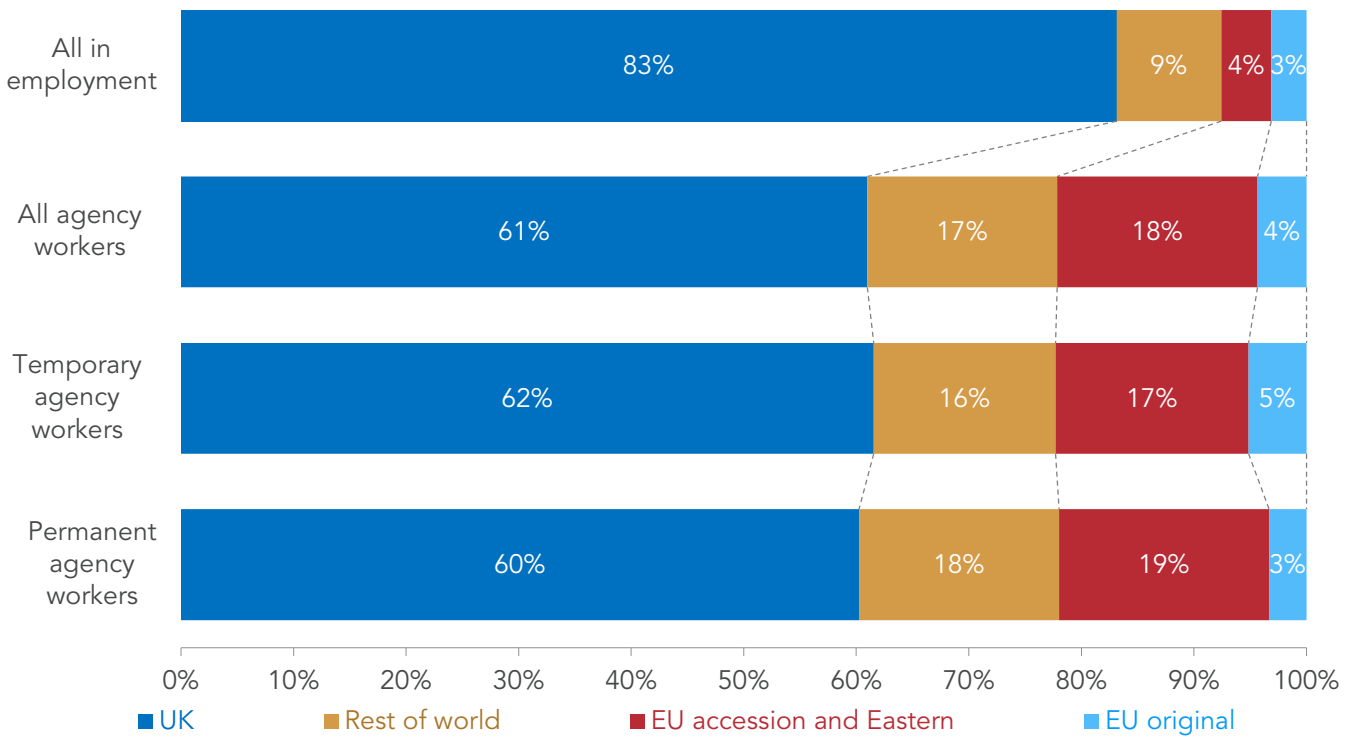
Notes (1) The average agency worker share of 2.5 per cent used here is that of 'temporary and permanent agency workers' only and excludes 'paid by an agency' and 'second jobs' (2) Figures are calculated relative to those in the ethnic group in question who are in work, rather than relative to the entire population

Source: RF analysis of ONS, Labour Force Survey

The majority of agency workers are British-born – but a significant part of the non-British workforce is employed via an agency

It is well established that agencies play a key role in brokering work for migrants who have little, if any, connection to the UK labour market. That said, agency workers are not – as many may assume – more likely to be overseas nationals than born in the UK. As Figure 16 shows, over six in ten agency workers are UK nationals.

Figure 16: Composition of agency workers by place of birth: UK, 2016



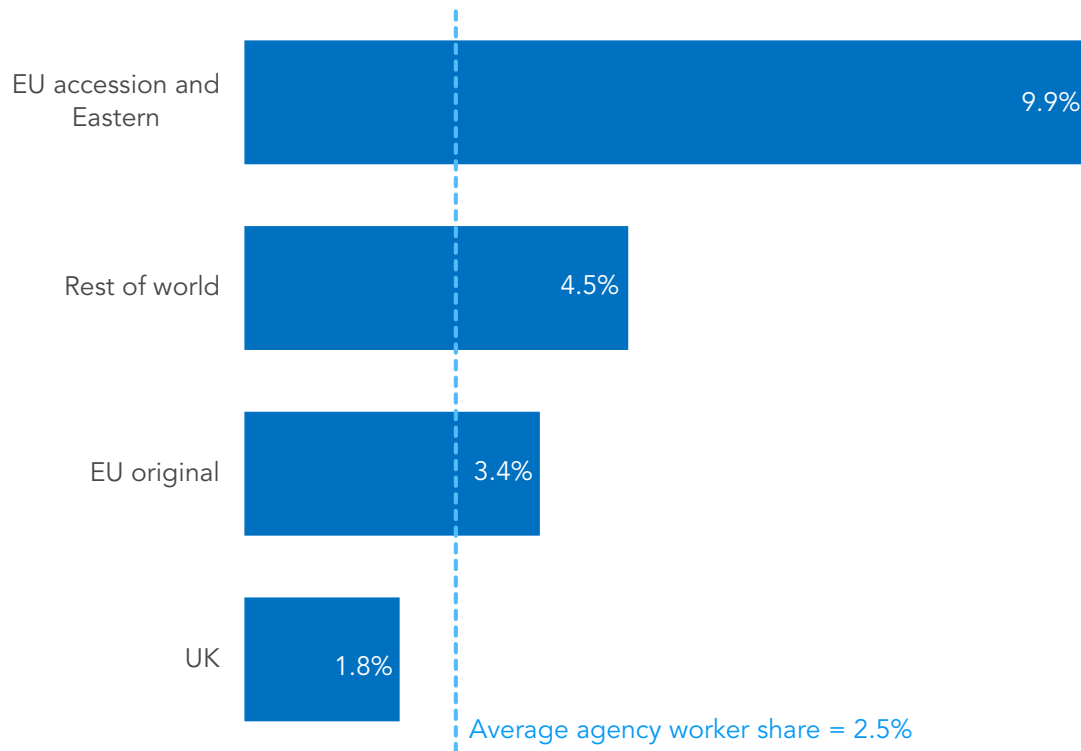
Source: RF analysis of ONS, Labour Force Survey

However, even though UK nationals constitute the majority of agency workers in the UK this share has been consistently falling over the course of the decade. In 2011, those born in the UK accounted for over two-thirds of agency workers; they now account for 61 per cent of the total. This declining share is a product of both a higher number of migrants entering the UK over the period *and* an increasing tendency for those born overseas to carry out agency work.

When we flip the question to consider the share of different labour market groups accounted for by agency workers – as Figure 17 does – we see that non-UK born workers are significantly more likely than those born in the UK to be agency workers. One in ten of those working in the UK born in an EU Accession and Eastern European country is an agency worker – that’s four times the average share and compares with a figure of less than 1 in 50 among those in employment who were born in the UK.^[14]

[14] It is worth noting that the LFS sampling framework excludes anyone from the survey who has been resident in their dwelling for less than six months. As a result, this may under-estimate the level of migrant presence in the agency worker population as the very transient would not be captured.

Figure 17: Share of agency workers by place of birth: UK, 2016



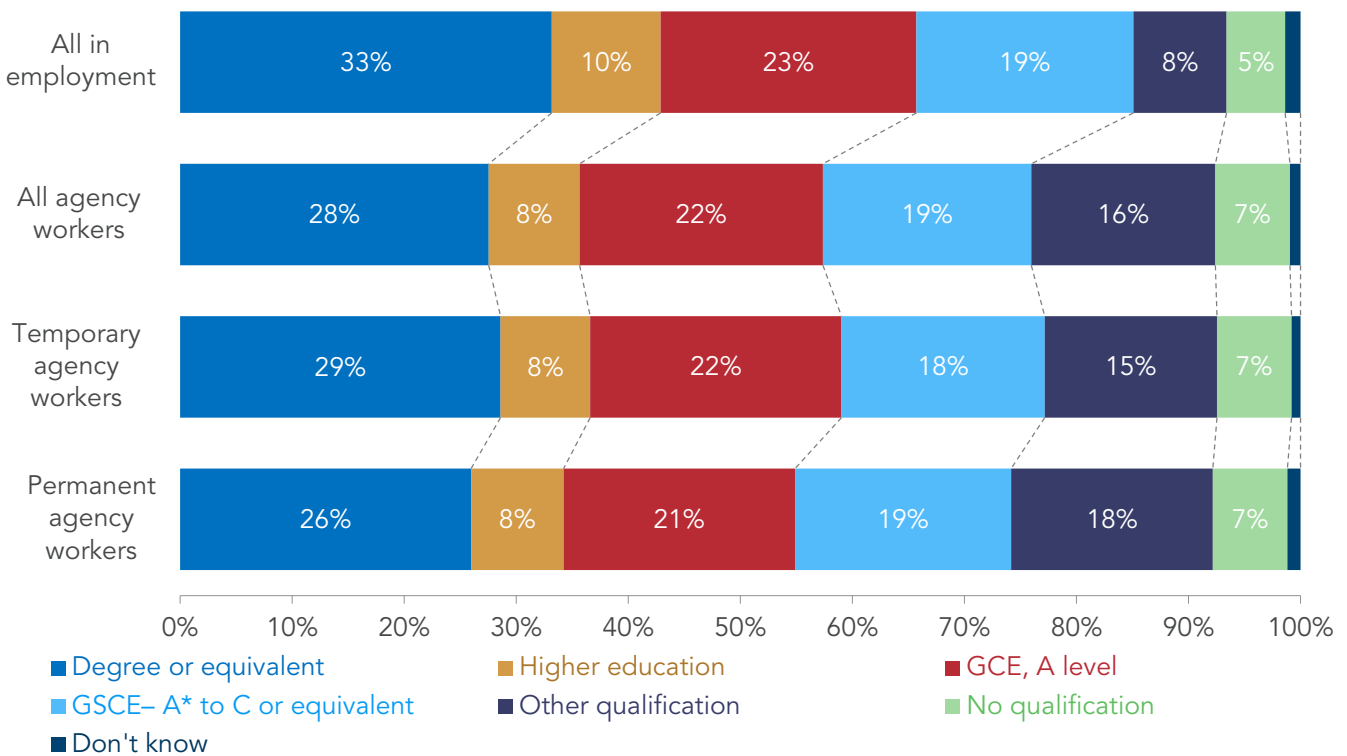
Source: RF analysis of ONS, Labour Force Survey

Notes (1) The average agency worker share of 2.5 per cent used here is that of 'temporary and permanent agency workers' only and excludes 'paid by an agency' and 'second jobs' (2) Figures are calculated relative to those in the nationality group in question who are in work, rather than relative to the entire population

One in four agency workers are educated to degree level – but those with no qualifications are more likely to work in this way

This high level of overseas-born workers explains a key finding we can from our final analytical cut when we break down agency workers by education level. As Figure 18 makes clear, a significant number of agency workers have 'other' qualifications, which we ascribe to the high level of overseas agency workers.

Figure 18: Composition of agency workers by level of qualification: UK, 2016

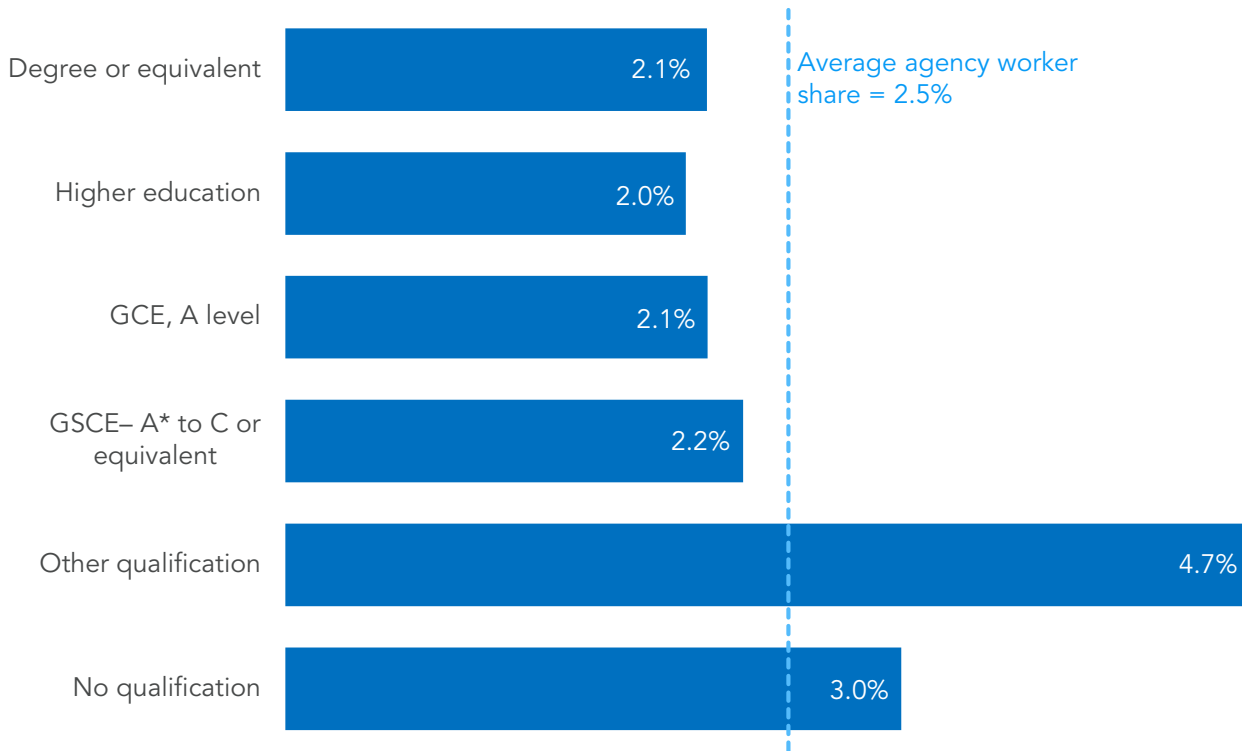


Source: RF analysis of ONS, Labour Force Survey

The other key finding depicted in Figure 18 is that, while agency workers are less likely to be educated to degree level than the overall workforce, it is still true that more than one-quarter are educated to this level. Once again, we are reminded that it would be wrong to see the agency workforce as especially low-skilled or bottom-end. We can also note that permanent agency workers are educated to marginally higher levels than temporary workers.

However, when we look at the share of different education cohorts in the workforce that are agency workers (Figure 19) a different picture emerges. Here we can again see the striking preponderance of workers with ‘other’ qualifications, but also that it is those with no qualifications who are more likely to be agency workers than the national average.

Figure 19: Share of agency workers by level of qualification: UK, 2016



Source: RF analysis of ONS, *Labour Force Survey*

Notes (1) The average agency share rate of 2.5 per cent used here is that of 'temporary and permanent agency workers' only and excludes 'paid by an agency' and 'second jobs' (2) Figures are calculated relative to those in the nationality group in question who are in work, rather than relative to the entire population

To conclude, just as we saw that agency workers are dispersed widely through the economy, the same is true when we look at the population. Agency workers do not always conform to stereotype – they are younger, for sure, but they are not dominated by either sex, are overwhelmingly white and British-born, and a significant proportion are educated to degree level. However, we can also see that being Black/African/Caribbean/Black British, a migrant from an EU Accession country or Eastern Europe, or have no qualifications significantly increases the likelihood of a person being an agency worker.

Section 5

Pay, working conditions and choice

In this final section we consider to what extent agency work looks like a good deal for the workers themselves. Much of the debate about agency workers revolves around the question of whether the benefits of this form of working accrue as much to the workers as they do to the agencies and client firms. Does agency work offer a flexible pattern that many enjoy for example? The evidence is mixed. What is clear is that flexibility or otherwise of agency work can come at a price. Controlling for everything else we find that agency workers face a 'pay penalty' relative to other workers of 22p an hour – though this varies in an interesting way between permanent and temporary agency workers.

The agency 'pay penalty'

In the preceding section we showed that agency workers are more likely to be lower qualified, younger and from groups that experience other forms of disadvantage in the labour market compared with the total working population. It is unsurprising then, that when we compare the raw wages of agency workers with the total non-agency workforce for 2011-2016 we see a stark pay differential of £2.57 an hour between the two groups (with this being more marked for men than women).

However, clearly some if not all of this effect could stem simply from the personal characteristics of this group. In order to test whether being an agency worker has an independent effect on pay we therefore regress hourly pay rates, controlling for the various personal characteristics we identified in section 4.^[15] Table 2 sets out the results broken out for male and female agency workers. As this makes clear, agency workers receive an hourly rate £1.09 lower than their non-agency worker counterparts with the same personal characteristics. Once again, the difference between male and female agency workers is worthy of note.

Table 2: Estimated agency worker to non-agency worker hourly pay differential, 2011-2016 (CPI-adjusted to 2016 prices)

| Model specifications | | All | Male | Female |
|---|----------------|-----------|-----------|-----------|
| Raw differential | % differential | -18.9%*** | -25%*** | -12.3%*** |
| | £ differential | -£2.57*** | -£3.83*** | -£1.49*** |
| All fixed controls: Controlled for age, age squared, region, education, experience, country of birth, ethnicity | % differential | -8%*** | -11.1%*** | -3.8%*** |
| | £ differential | -£1.09*** | -£1.7*** | -£0.47*** |

Notes: Results are calculated using estimated coefficients from an ordinary least squares regression of the natural logarithm of pay (CPI-adjusted to 2016 prices) on an agency employee indicator. Raw differential (and all other specifications) include a dummy variable for each quarter of the year. All standard errors are robust to heteroscedasticity. *, ** and *** indicate statistical significance at the 10 per cent, 5 per cent and 1 per cent levels, respectively. Weighted using LFS income weights.

Source: Resolution Foundation analysis of ONS, Labour Force Survey

Of course, the wage that an agency worker receives is potentially influenced not just by the fixed characteristics of the group but also by the nature of the work they perform. In Table 3 we take our analysis one step further and control for industry, region, occupational class and other job-related characteristics alongside the personal qualities we have included thus far. It shows that, when we control for both fixed and non-fixed effects, we find that being an agency worker has a pay penalty of 22p per hour, equivalent to £430 a year for a full-time worker.

[15] See Annex 2 for more details of the regressions conducted in this section.

Table 3: Estimated agency worker to non-agency worker hourly pay differential, 2011-2016 (CPI-adjusted to 2016 prices)

| Model specifications | | All | Permanent employees | Temporary employees |
|---|----------------|-----------|---------------------|---------------------|
| Raw differential | % differential | -18.9%*** | - | - |
| | £ differential | −£2.57*** | - | - |
| All fixed controls: Controlled for age, age squared, region, education, experience, country of birth, ethnicity | % differential | -8%*** | - | - |
| | £ differential | −£1.09*** | - | - |
| All fixed and non-fixed controls: All fixed controls plus industry, occupation, public/private sector and full time/part time, interacted with temporary/permanent status | % differential | -1.6%** | -3.2%*** | 1.8% |
| | £ differential | −£0.22** | −£0.45*** | £0.21 |

Notes: Results are calculated using estimated coefficients from an ordinary least squares regression of the natural logarithm of pay (CPI-adjusted to 2016 prices) on an agency employee indicator. Raw differential (and all other specifications) include a dummy variable for each quarter of the year. All standard errors are robust to heteroscedasticity. *, ** and *** indicate statistical significance at the 10 per cent, 5 per cent and 1 per cent levels, respectively. Weighted using LFS income weights.

Source: Resolution Foundation analysis of ONS, *Labour Force Survey*

Splitting out our analysis this time not by sex, but by our two main types of agency worker, we note an interesting difference. Among permanent agency workers, the pay penalty rises to 45p an hour relative to other permanently employed workers with similar characteristics. In contrast, those classed as temporary agency workers are actually *better paid* than their counterparts in other forms of temporary work: that is, they enjoy a ‘pay premium’ of 21p an hour.

Pay is of course just one factor that determines the way in which people choose to work. So are there other compensations offered by agency work which offset the pay penalty and make this form of employment an active, rather than an involuntary, choice?

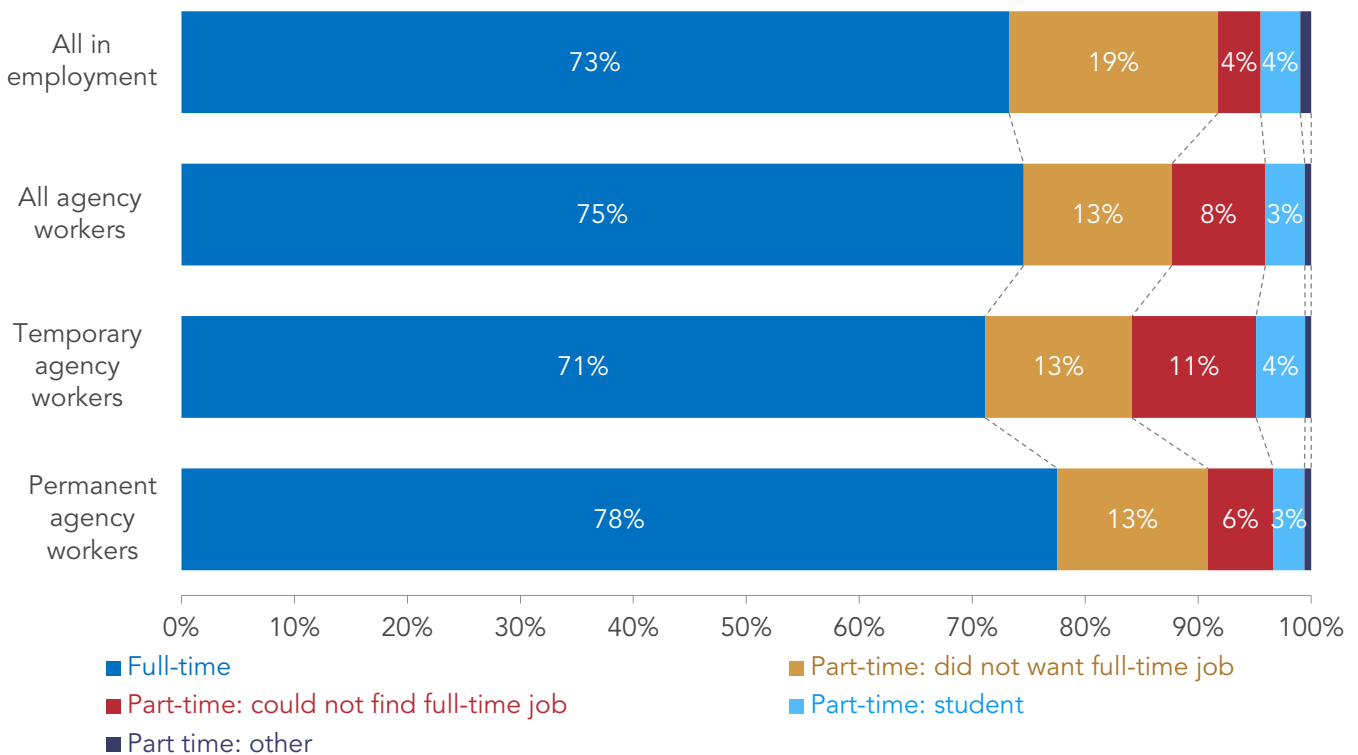
Agency workers report higher levels of under-employment than others

Some studies have suggested that agency work is primarily the preserve of those with other priorities in their lives who find this form of work useful in fitting around other commitments. For example, a recent report suggests that those with caring responsibilities, studying or transitioning into a different working role often prize the fact that agency work can fit around other these other important parts of their lives.^[16]

While the data does not provide us with insight into individual motivation it does tell us something about the working patterns of the two main groups of agency workers. Figure 20 shows that more than three quarters of agency workers are working full-time, with marginally more permanent than temporary agency workers working in this way.

[16] Recruitment and Employment Confederation, *Flex Appeal: Why freelancers, contractors and agency workers choose to work this way*, 2014

Figure 20: Working patterns of agency workers: UK 2014-2016

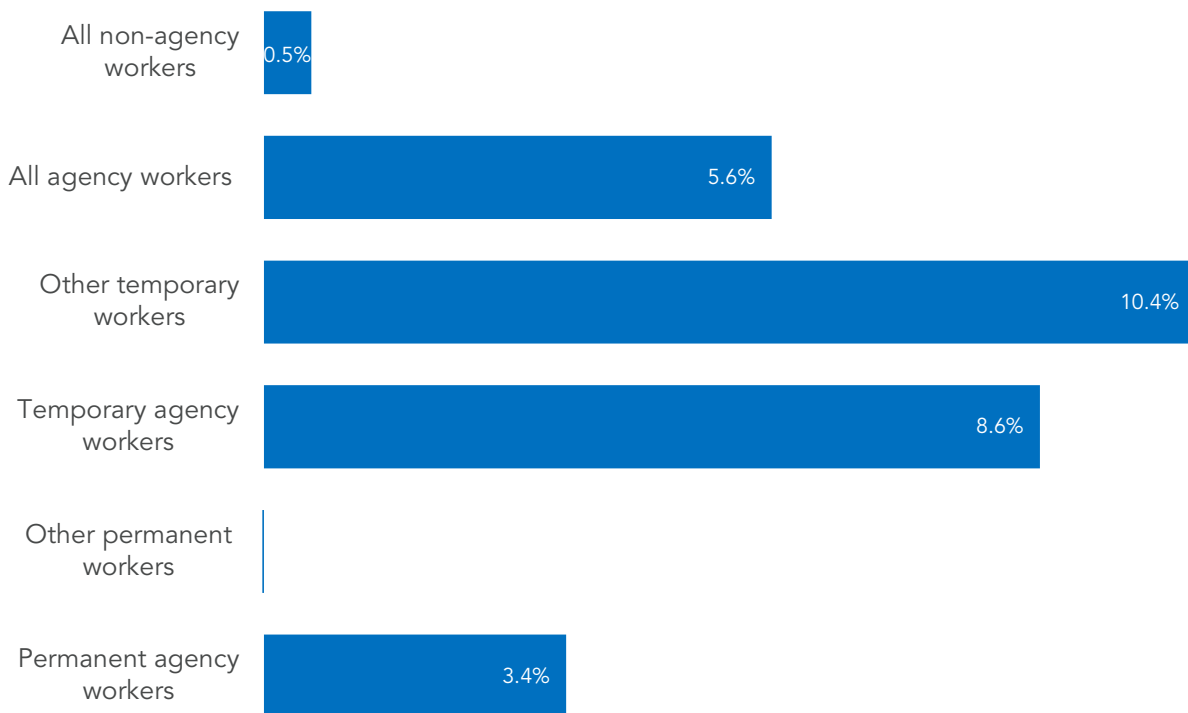


Source: RF analysis of ONS, Labour Force Survey

The chart also provides us with some insight into the reasons agency workers are working part-time. Just over one in ten (12 per cent) of temporary agency workers indicate they work part-time because they cannot find a full-time job, almost the same level as those who work shorter hours by choice (11 per cent) while just 3 per cent are students. The picture is different for permanent agency workers, however, with 13 per cent indicating part-time working is a positive choice compared to only 6 per cent who would rather have a full-time job.

Agency working looks like it offers a stable set of hours to a significant number of workers then, but it is also interesting to look at the question of under-employment. Figure 21 sets out the results and shows that in the period 2013-2016, 5.6 per cent of agency workers were under-employed compared to just 0.5 per cent of the total workforce.

Figure 21: Under-employment of agency workers: UK 2014-2016



Source: RF analysis of ONS, Labour Force Survey

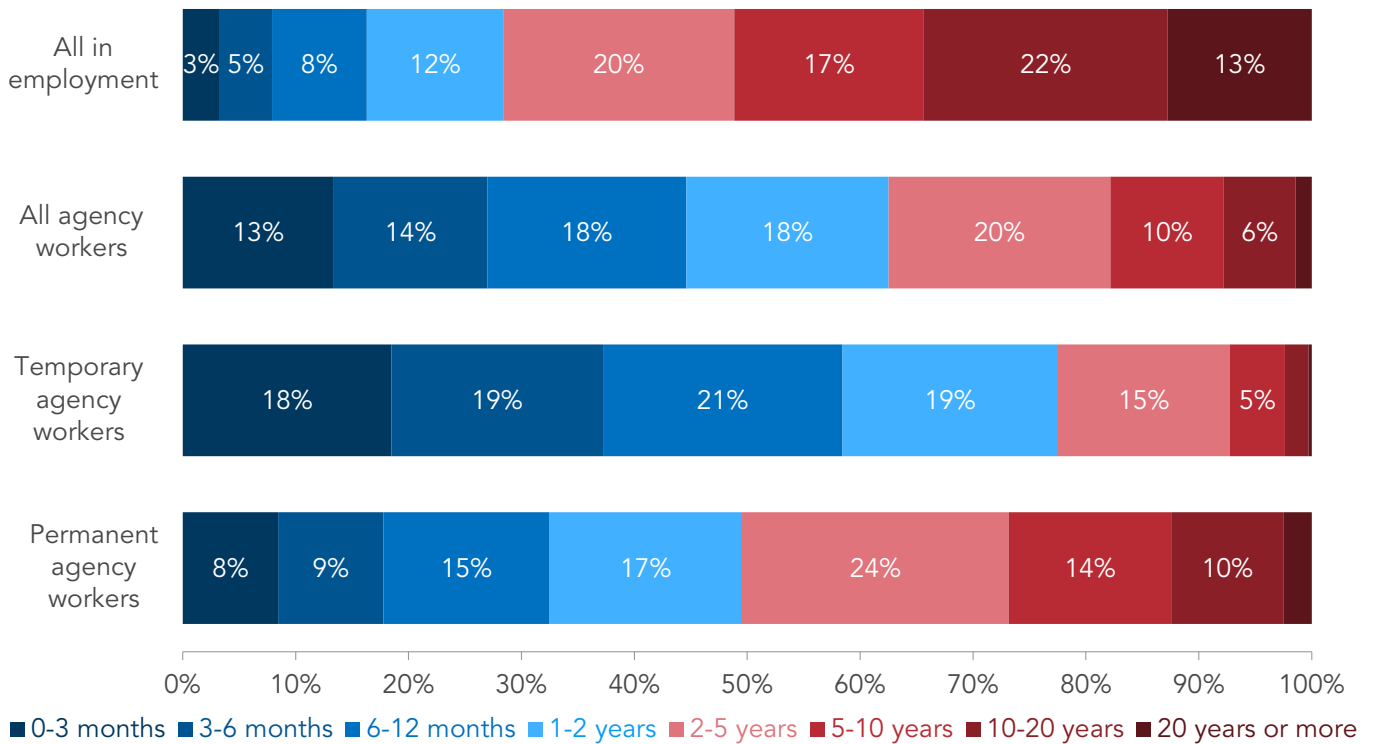
Moreover, when we compare our two agency worker groups to their non-agency peers, some interesting distinctions emerge. We see, for example, that temporary agency workers have a high under-employment rate (8.6 per cent) but that this is lower than that of other types of temporary worker, once again suggesting that agency work is the premier form of temporary working. In contrast, while permanent agency workers have a lower under-employment rate than temporary (3.4 per cent), this compares unfavourably with the rest of the permanent workforce who report no underemployment.

Agency work is increasingly not a transient form of employment

Agency work is often viewed as a contingent form of work that can be used as a stepping stone to a more settled working pattern. When we look at Figure 22, however, which shows the length of time that agency workers indicate they have spent with the same employer and in continuous employment, we can see that this is clearly not a short-term way of working for many.^[17]

[17] It is open to debate exactly how an agency worker interprets the survey question (EMPLEN) which asks how long he/she has worked for the same firm on which this sub-section is based. For example, he/she may be answer referring to assignments with client firms or to the length of the relationship with the agency itself. However, as the survey guide makes clear, any break in the working arrangement whether with the client firm or the agency itself should be captured in this variable.

Figure 22: Length of continuous employment for agency workers: : UK 2014-2016

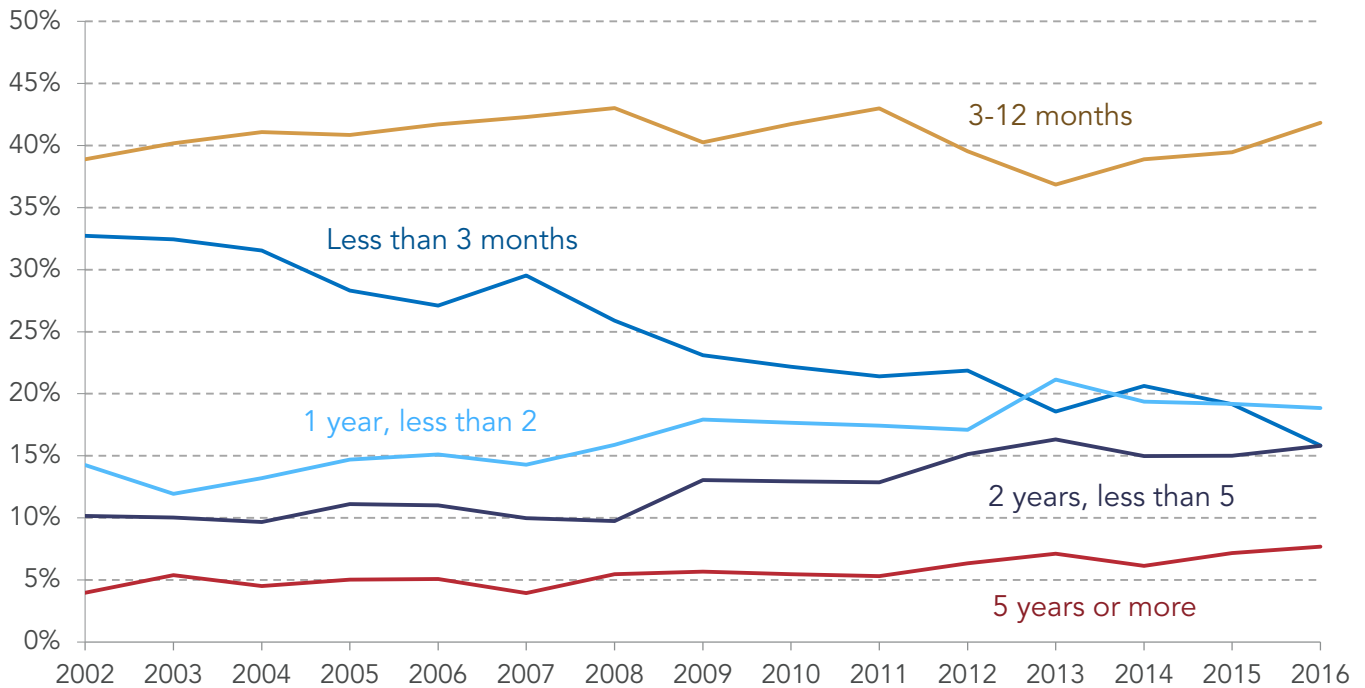


Source: RF analysis of ONS, Labour Force Survey

Unsurprisingly, more than half of temporary agency workers had been in continuous employment for less than a year in 2016, compared to just 16 per cent of the overall workforce. However, close to a quarter (23 per cent) suggested that they had been in continuous employment of this nature for two years or more. As would be expected permanent agency workers had a longer track record, with half indicating that they had the same working arrangement for over two years and close to a quarter for over five years.

Data is available for temporary agency workers to enable us to look back far enough to assess whether this pattern has changed over time. In fact, as Figure 23 shows, the proportion of temporary agency workers who have been in continuous employment for less than three months has dropped considerably over a 14 year period, from 33 per cent in 2002 to 16 per cent today. In contrast, the share of those working for between two and five years as a temporary agency worker has increased from 10 per cent to 16 per cent. Although not conclusive proof, this hints at an increasing normalisation of temporary agency work, at least for some. Whether this is voluntary or involuntary remains unclear.

Figure 23: Length of continuous employment of temporary agency workers: UK

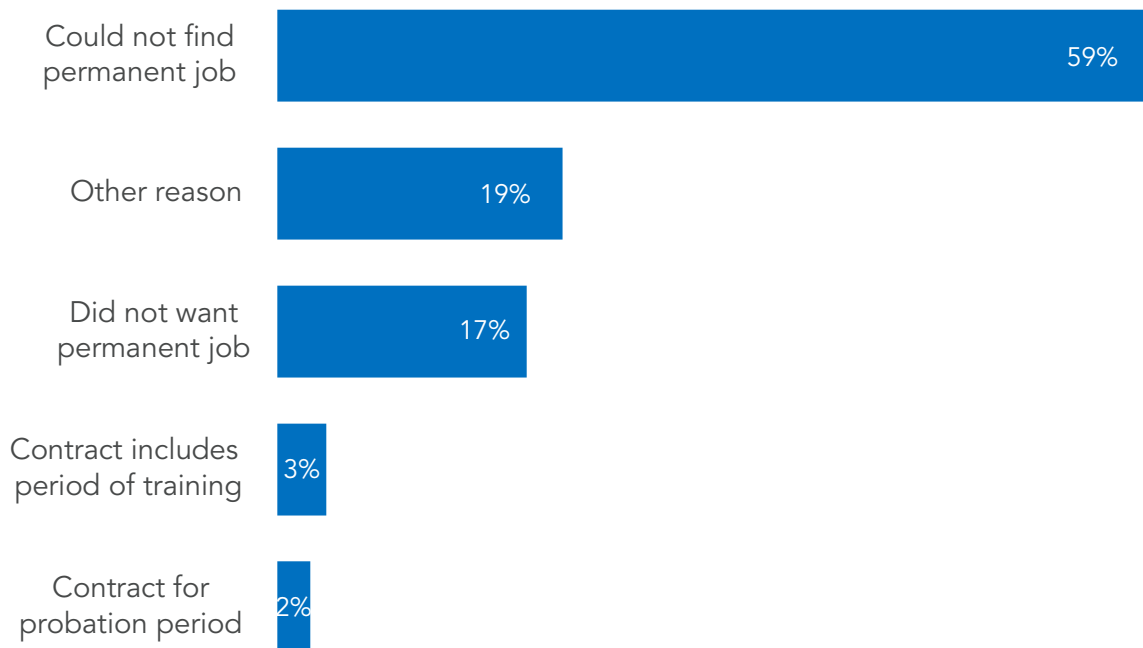


Source: RF analysis of ONS, Labour Force Survey

Temporary agency work is a second best option for many

We can dig a bit deeper into the motivations of (at least some) agency workers by looking at the reasons given for working on a temporary basis. The results are set out in Figure 24, which shows that 15 per cent indicate that they do not want a permanent job and a further 18 per cent suggest they have another reason for wanting to work temporarily. However, a very sizeable six in ten temporary agency workers say that they are working in this way because they could not find a permanent job. The implication is that for many temporary agency workers this is a second-best job outcome.

Figure 24: Reasons for working temporarily, temporary agency workers only: UK 2013-2016



Source: RF analysis of ONS, Labour Force Survey

One in seven agency workers is on a zero-hours contract

In Section 2 we saw that there is some overlap between agency work and self-employment, but is there an intersection with the most notorious form of insecure work, zero-hours contracts? Data has been collected systematically on zero-hours contracts only recently and suffers from some shortcomings. However, when we look at what is available we see that 14 per cent of agency workers also indicated they were on a zero-hours contract in the period 2014-2016, close to five times the current national average of 3 per cent.

So how can we sum up our findings? Clearly there are aspects of agency work that suit many: the 13 per cent who do not want a full-time job for example, or the 17 per cent who do not want to work in a permanent role. Moreover, there are other potential benefits of agency work that we cannot analyse through the LFS: how much people appreciate the variety it may offer, for example, or the speed with which they are able to find work with the help of agency.

However, it is also fair to say that the data shows that many agency workers are not content with some aspects of their work. From the 6 per cent who regard themselves as under-employed to the 60 per cent of temporary agency workers who would rather have a permanent job, there is evidence that suggests agency work does not always offer sufficient compensations to indicate the pay penalty is accepted voluntarily. And while this may not matter if agency working is a just a transitory state, when the evidence shows that an increasing share of the agency worker population often maintains that status for some years, perhaps we should be concerned.

Conclusion

Through the course of this report we have uncovered much new information about the lives of the UK's 'secret agents'. We have found two groups of agency workers – the permanent and the self-employed – who have been missing from all previous accounts. We have discovered what agency workers do, where they work and who they are. And, critically, we have found that there is a significant pay penalty attached to being an agency worker, with only little evidence to suggest that other features of this way of working compensate for this loss.

The report suggests a number of areas for future research:

- » To begin, we need to improve our understanding of the previously unacknowledged groups of agency workers. Why do people consider themselves to be permanent in this role for example? Are they working for the same client firm for a number of years? Do they have back-to-back assignments? Or are they on 'pay between assignments' contracts?
- » Equally mysterious are the agency workers who regard themselves as self-employed. Exploring the overlap between agency work, self-employment and other contingent forms such as zero-hours contracts is clearly a fruitful field for future work.
- » Improving our understanding of why firms use agency workers will be critical if we are to improve our assessment of whether the upward trend in agency worker use will endure.
- » And critically, what is the role that policy, firms and agencies themselves can play in ensuring that agency working is not to become an enduring form of precarious work?

Over the course of this 18 month project we will seek to explore these questions and others – using both quantitative and qualitative research – in order both to better understand the advantages and opportunities provided by agency working and to meet the inevitable challenges it poses.

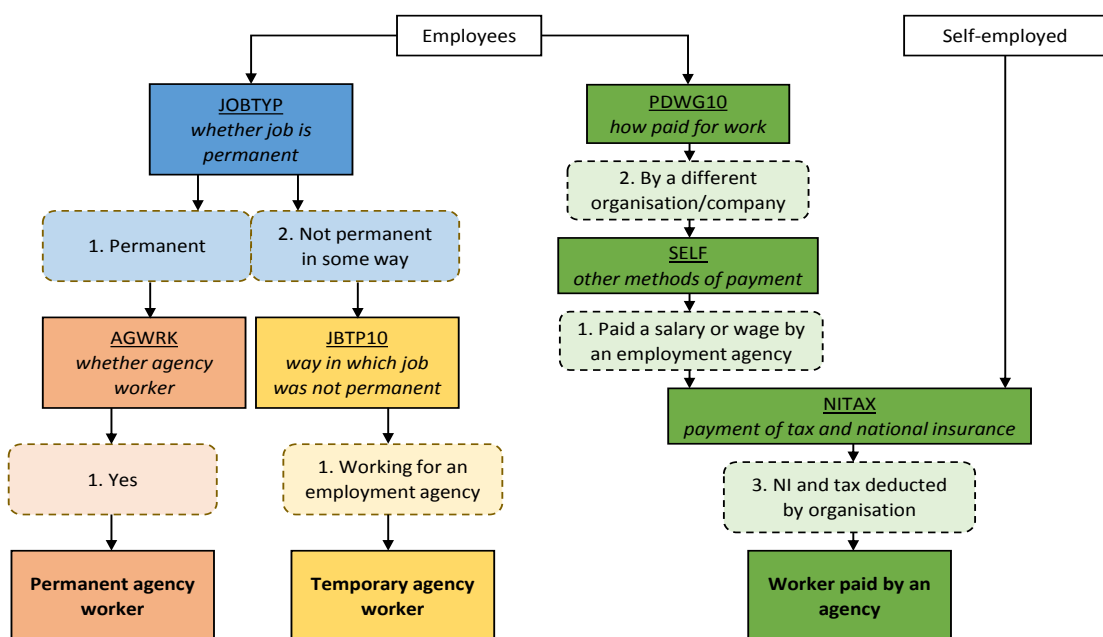
Annex 1: Methodology

This report uses the Labour Force Survey to establish the number of agency workers in the UK today. There is a prima facie assumption that respondents correctly identify the type of work they do in response to questions in the survey. However, this may be a particular challenge for agency workers given the various obscurities that exist in this part of the labour market. Moreover, some key questions that potentially help us to distinguish agency workers are only asked of some but not all of the sample.

Mindful of these constraints, our definition of an agency worker brings together a number of variables and is constructed as follows (see Figure 24 for further details):

- » Temporary agency workers are those employees who are not permanently employed (JOBTYP=2) who are also working for an employment agency (JBTP10=1).
- » Permanent agency workers are those respondents who say that they are permanently employed (JOBTYP=1) but who then indicate they are working for an employment agency (AGWRK=1).
- » Paid by an employment agency are those who indicate that they are paid by a different organisation or company (PDWG10=2) and paid a salary or wage by an employment agency (SELF=1) but who are not already picked up in 1) or 2). This group is primarily comprised of self-employed respondents. However, we then filter this group further and keep only those who indicate that their tax and/or NI are deducted by an organisation (NITAX=3) in order to exclude those who are definitively self-employed. In this we follow similar practice to that used by the ONS.
- » Temporary agency workers in their 2nd job are those employees who indicate they are not permanently employed in a second job (JOB2TYP=2) who are also working for an employment agency (JB2T10=1) and who have not already been counted in 1), 2) or 3).

Figure 25: LFS variables and our agency definition



Annex 2: Regression analysis

The approach we take in our regression analysis is based on that used by J Cribb, C Emmerson & L Sibieta, Public Sector Pay in the UK, Institute for Fiscal Studies, October 2014 and is specified as follows:

- » Results are calculated using estimated coefficients from an ordinary least squares regression of the natural logarithm of pay (CPI-adjusted to 2016 prices) on an agency employee indicator.
- » Coefficients are converted to percentages and cash values following R Halverson & R Palmquist, 'The interpretation of dummy variables in semi logarithmic equations,' American Economic Review 70:3, 1979.
- » Raw differential (and all other specifications) include a dummy variable for each quarter of the year.
- » Region is a 12-category variable; education a seven-category variable based on highest qualification; country of birth a four-category variable; ethnicity a six-category variable; job tenure an eight-category variable; and occupation and industry are based on the standard coding at the one-digit level. Experience is measured by age minus age of leaving education, and is interacted with a three-category qualification variable (indicating higher education, secondary education or other/no education).
- » In contrast to the IFS approach we do not use length of continuous employment (EMPLN) as an indicator of experience given the ambiguity of this question for agency workers. However, results including this are set out below.
- » For the results including all employees, all controls are interacted with a sex dummy variable, and a temporary/permanent status dummy variable for the fixed and non-fixed characteristics models.
- » Similarly, in the male and female models all controls are interacted with the temporary/permanent status dummy variable, and in the permanent and temporary models all controls are interacted with the sex dummy variable.
- » All standard errors are robust to heteroscedasticity. *, ** and *** indicate statistical significance at the 10 per cent, 5 per cent and 1 per cent levels, respectively.
- » Weighted using LFS income weights.

Full results are set out in Table 4 below.

Table 4

Estimated agency employee to non-agency employee hourly pay differential for different specifications, 2011-2016 (CPI-adjusted to 2016 prices)

| Model specifications | | All | Male | Female | Permanent employees | Temporary employees | |
|---|---|----------------|-----------|-----------|---------------------|---------------------|--------|
| 'Fixed' characteristics | Raw differential | % differential | -18.9%*** | -25%*** | -12.3%*** | - | - |
| | | £ differential | -£2.57*** | -£3.83*** | -£1.49*** | - | - |
| | Controlled for age, age squared, region | % differential | -16.3%*** | -20.1%*** | -11.1%*** | - | - |
| | | £ differential | -£2.21*** | -£3.08*** | -£1.34*** | - | - |
| | Controlled for age, age squared, region, education, experience | % differential | -11.4%*** | -14.2%*** | -7.6%*** | - | - |
| | | £ differential | -£1.55*** | -£2.18*** | -£0.92*** | - | - |
| 'All fixed controls specification': Controlled for age, age squared, region, education, experience, country of birth, ethnicity | % differential | -8%*** | -11.1%*** | -3.8%*** | - | - | |
| | £ differential | -£1.09*** | -£1.7*** | -£0.47*** | - | - | |
| 'Fixed' and 'non-fixed' characteristics | 'All fixed plus temp/perm': All fixed controls specification above, interacted with temporary/permanent status | % differential | -3.1%*** | -5.4%*** | -0.3% | -4.4%*** | -0.7% |
| | | £ differential | -£0.42*** | -£0.82*** | -£0.04 | -£0.6*** | -£0.08 |
| | 'All fixed and non-fixed, excluding job tenure': All fixed controls specification above, plus industry, occupation, public/private sector and full time/part time, interacted with temporary/permanent status | % differential | -1.6%** | -2.6%*** | -0.5% | -3.2%*** | 1.8% |
| | | £ differential | -£0.22** | -£0.4*** | -£0.06 | -£0.45*** | £0.21 |
| | 'All fixed and non-fixed, including job tenure': All fixed controls specification above, plus industry, occupation, public/private sector, full time/part time and job tenure, interacted with temporary/permanent status | % differential | -0.1% | -1.0% | 1.0% | -1.2% | 2.3%* |
| | | £ differential | -£0.02 | -£0.16 | £0.12 | -£0.17 | £0.26* |



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