



# WHAT IS DRIVING THE RISE IN PAY FOR STEM TALENT

AN SRG GUIDE

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# INTRODUCTION

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Controlling costs is a growing priority for leaders across STEM in the face of ongoing economic turbulence.

Despite this, leaders' ambitions for growth and talent acquisition remains high – 80% of CEOs say they will not reduce compensation packages, and 60% of organisations do not plan to reduce headcount.

Technical and digital skills shortages, alongside complexities post IR35 are key drivers behind this trend.

[7 in 10 STEM leaders](#) are currently struggling with staff shortages, and finding it difficult to find and hire employees and finding it challenging to find and recruit employees with the skills needed for success.

Meanwhile, today's talent market is changing fast in the face of heightening competition across both the permanent and interim worker market, making it challenging for scientific organisations to control costs and power expansion.

Read on for expert guidance and insights into:

- [Why there is a workforce supply and demand issue](#)
- [How IR35 has transformed the contractor market](#)
- [What factors are driving costs in the permanent market](#)
- [What is the solution to the rising labour costs?](#)

# WHY IS THERE A WORKFORCE SUPPLY AND DEMAND ISSUE?

From the complexities of Brexit to skills misalignment and IR35 disruptions, both the permanent and contractor market have faced immense disruption and upheaval over the past few years.

In March 2022, [workforce demand and supply reached a historical point](#), as the number of job vacancies in the UK exceeded the number of unemployed individuals for the first time since records began.

To support leaders in making informed talent decisions as the STEM talent pool continues to narrow, this section will delve into some of the key trends underpinning the supply and demand issues across the wider STEM labour market.


## Permanent market

- Brexit

UK scientists have long benefited from EU funding, with the UK consistently ranking as one of the EU's top beneficiaries for scientific research.

[Horizon Europe](#), the EU's flagship science programme made awards to 143 UK based recipients, all of whom could not receive funding in the agreed timelines due to Brexit disruption.

While the UK has promised to provide the 250 million in funding, UK scientists are increasingly opting to relocate along with their researchers to the EU, whereupon the EU has agreed to pay the grant in full.



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## WHY IS THERE A WORKFORCE SUPPLY AND DEMAND ISSUE?

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- Graduate skills expectation shift

While in 2002, just 24% of the UK population held a degree, in [2017 42% of the population](#) were degree holders. Once highly regarded accolades, higher education degrees have become the expected base requirement for roles in STEM.

As the number of graduates continues to increase in the UK, graduate skill sets are rarely valued for mid-level positions as they once were. Today many organisations recruit graduates at lower occupational levels, especially technician-related roles that would have once been filled by apprentices without degrees.

- Lack of training

Government research shows that there is no overall undersupply in the labour market of individuals with STEM-skills, however, [the skills gap does exist](#), and it is driven specifically by a lack of specialist and specific role related skills.

Laura Docherty, Account Director at SRG provides her insight into the issue saying, “Alongside an increased pace of work, a shift to more digital requirements and advanced technology means that it’s increasingly difficult to find the more specific skills sets required to thrive in today’s world of STEM.” She explains, “organisations looking for specific skill sets and a high level of experience can struggle to hire at pace, as finding the right hire can sometimes take some time. Where possible, using this time to hire and train less experienced employees may be beneficial.”



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## WHY IS THERE A WORKFORCE SUPPLY AND DEMAND ISSUE?

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As the volume of graduates has increased over the years, the number of apprenticeships has declined alongside other alternative training routes into STEM careers. This trend, and a lack of on-the-job training for graduates has severed the opportunity for many organisations to cultivate the specific role-related skills needed to find new talent and empower their new hires' success in role.

### Contractor market

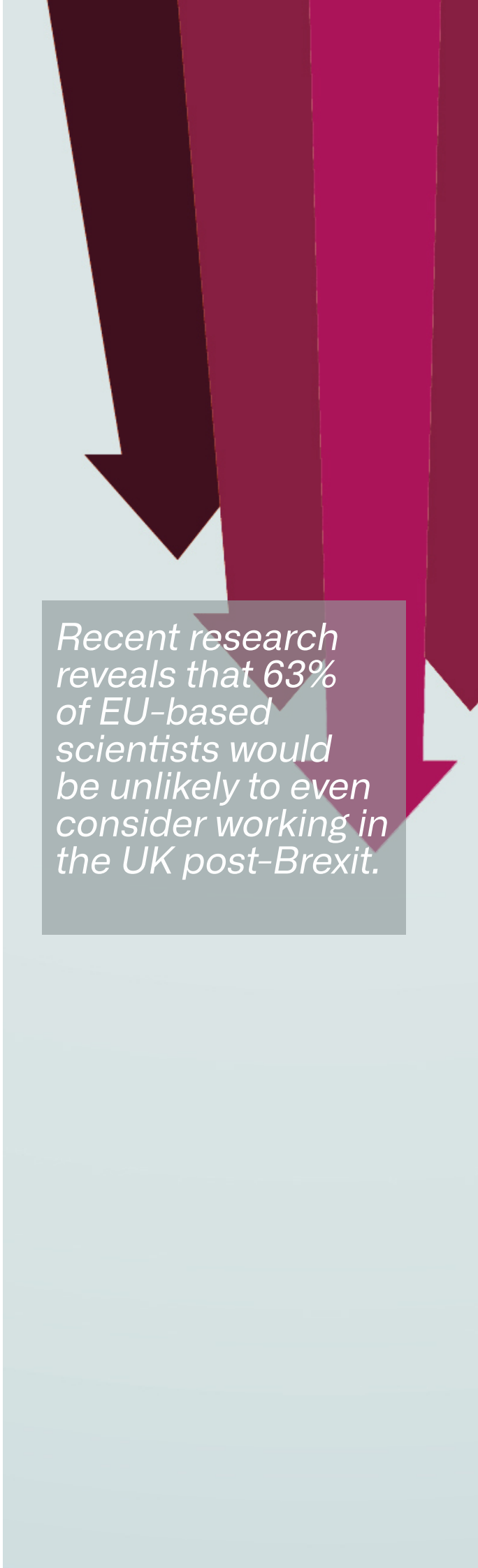
- Brexit

Post Brexit, a lack of clarity and complex visa routes continue to deter scientists from working in the UK. [Recent research reveals](#) that 63% of EU-based scientists would be unlikely to even consider working in the UK post-Brexit.

Alongside a lack of access to EU science programmes, Brexit-related trends are reducing the competitiveness of UK-based work, curbing access to international interim talent.

- COVID-19

Like much of the workforce, contractors and other interim workers were heavily affected by the pandemic. While the government introduced a coronavirus job retention scheme, 93% of interim workers did not feel as though it helped them.



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## WHY IS THERE A WORKFORCE SUPPLY AND DEMAND ISSUE?


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Research shows that 32% of contracts were severed due to COVID-19 related disruptions of which drove interim workers to change the ways in which they worked. [Over the course of 2020](#), 21% of interim workers moved from limited companies to an umbrella company, 22% of interim workers moved from a limited company to an FTC, and 10% left interim work altogether, transferring over to the permanent market.

- IR35 disruption

[According to a recent study](#), 91% of contractors say that the IR35 reforms are impacting their business in some way, with 55% of contractors saying they are experiencing a significant impact.

[As the new regulations came into force](#), 56% of contractors were planning to move over to the permanent market. The stark decrease in the number of interim workers available to the wider market is driving costs for organisations that rely on interim talent.



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# HOW IR35 HAS TRANSFORMED THE CONTRACTOR MARKET

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After intermittent delays, IR35 was finally fully introduced in April 2022, after a 12-month grace period for off-payroll working regime changes granted by the government in light of the COVID-19 pandemic.


As organisations across STEM seek to ensure compliance, the wider impact the regulations are having on the contractor market and their relationship with STEM organisations is evolving.

Here's how:

## Expenses and tax deductions are driving Rate increases

While contractors have always been more expensive than permanent employees owing to their expertise and ability to 'hit-the-ground-running', many are increasing their hourly or daily rates post IR35.

[Under IR35](#), 80% of interim workers have reported quarterly income decreases, with 64% of this group reporting significant income decreases. [Research suggests](#) that on average, interim workers have experienced an annual rate loss of £20,000. IR35 also impacts taxation, meaning that contractors and other interim workers are paying more in tax, leading them to increase their hourly or daily rates to compensate for the difference.



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### Increasing rarity of specialist interim workers

Over the course of both COVID-19, and post-IR35, over half of the interim workforce has moved over to permanent roles. This transition has driven a scarcity in specialist interim workers, meaning that the market is far more competitive and expensive than ever before.

Meanwhile, skills gaps that were previously mended with interim talent are increasing in cost, heightening the issue for many organisations, and increasing the importance of adequate training and skills pathways for permanent staff.

Laith Mustafa, Medical Technology Sector Head explains, “IR35 has affected a number of things across the interim market. Labour costs, the market supply and demand, alongside inflation costs that reflect the UK’s economic situation, have created a candidate-led market where specialist interim workers can ask for a higher daily, or hourly rate”.

### Prevailing misconceptions around interim recruitment

Prevailing misconceptions surrounding interim recruitment can make it difficult for hiring managers and organisational leaders to justify the costs of investing in interim talent.

Shen Mawani, Client Solutions Manager at SRG, explores some of these misconceptions saying, “hiring managers and leaders involved in the hiring process rarely have access to accurate contractor rate information, making it difficult to provide informed offers to interim workers.

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## HOW IR35 HAS TRANSFORMED THE CONTRACTOR MARKET

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When you break down permanent salaries into hourly rates, they don't reflect the full market value of a contractor's work – this can make requested salaries seem hyper-inflated, despite being market standard."

Shen also points out the importance of broadening the search commenting, "hiring managers too often overlook international, or even distant regional, interim talent without realising that contractors will often travel for a job. It's important to realise that there's the potential to open up the search nation-wide without compromise."


### Blanket bans on hiring outside of IR35

While smaller organisations can in some cases be exempt from the IR35 regulations, larger companies across STEM are taking bold steps to curb risk by introducing blanket bans on hiring outside of IR35.

These blanket bans are driving many experienced contractors and interim workers out of the industry, towards permanent work due to lower take home pay, amidst rises in inflation.

[60% of interim workers](#) said that working inside IR35 was not financially viable for them, driving their move over to permanent work.

44% of interim workers who moved to permanent employment have over 10 years of experience, and half of this group were motivated to move over to a permanent role as they were unable to secure an outside IR35 contract.



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## HOW IR35 HAS TRANSFORMED THE CONTRACTOR MARKET

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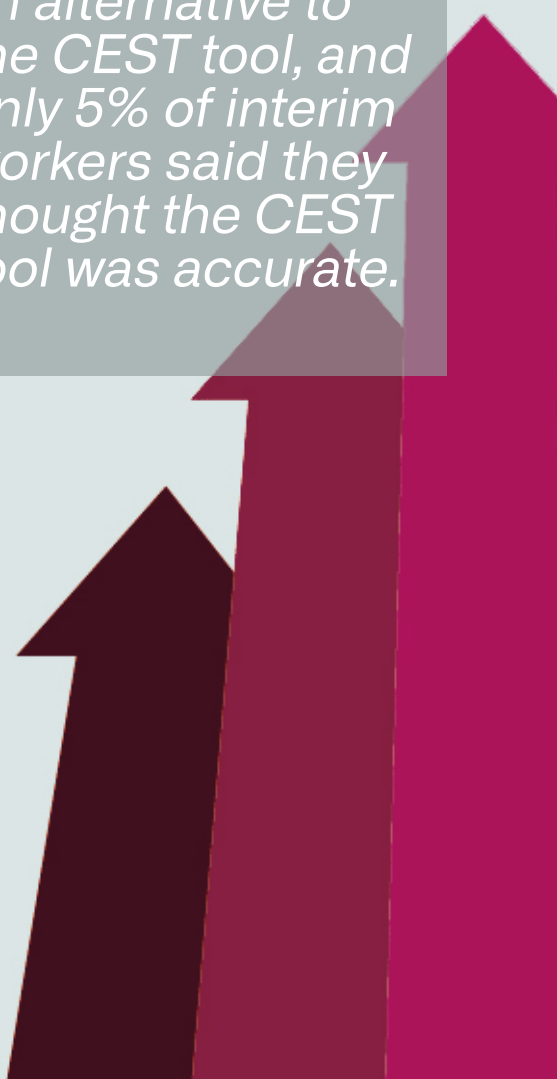
### Inaccuracy of the HMRC's CEST test

According to market research, the CEST tool, which has been provided by the HMRC to assess whether contractors fall under IR35, is losing credibility fast.

[60% of interim workers](#) would rather organisations use an alternative to the CEST tool, and only 5% of interim workers said they thought the CEST tool was accurate. Moreover, merely 4% of interim said they trusted HMRC to stand by the tool's results.

This wide-spread opinion is reflected in the UK government's own non-compliance after using the CEST tool for government internal recruitment. [The Public Accounts Committee](#) describe the situation saying, "Central government is spending hundreds of millions of pounds to cover tax owed for individuals wrongly assessed as self-employed. Government departments and agencies owed, or expected to owe, HMRC £263 million in 2020–21 due to incorrect administration of the rules."

[Click here to access our complete guide to IR35 for STEM businesses for further information](#)



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# WHAT FACTORS ARE DRIVING COSTS IN THE PERMANENT MARKET

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As the skills gap widens across STEM, and competition for talent increases, the permanent market is becoming increasingly candidate-led, increasing pressure and costs for businesses.

Read on to find out more about the key factors accelerating costs in the permanent market.

## The skills gap is heightening the competition for technical and digital talent

As digitalisation gains ground across life sciences, automation is becoming increasingly common across STEM. Offering businesses, a cheaper, more efficient alternative, automation can enable faster process times and a more streamlined process, making it an attractive prospect for leaders.

While automation can in some cases reduce the workforce, in times of transition organisations are more likely to be actively seeking to expand and supplement their workforce with technically skilled professionals to help upskill their existing staff. [While 43% of UK organisations](#) are set to reduce their workforce due to automation, 34% of organisations are actively expanding their teams, and an additional 41% are turning to contractors for task-specialised work.

However, [the digital skills gap](#) is prevalent and 7 out of 10 leaders are struggling to find talent with digital and technical expertise, while dealing with major staff shortages.



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## WHAT FACTORS ARE DRIVING COSTS IN THE PERMANENT MARKET

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This skills gap, alongside the current need for digital skills is driving the competition for talent, and increasing the costs of hiring, as companies try and stay competitive by raising salaries.

### The pace of recruitment has accelerated

As recruitment becomes increasingly digital, organisations are broadening their search for talent, leading to increased competition from global and national competitors.

Candidates often interview for multiple roles at the same time. As a consequence, organisations are rethinking their hiring processes to improve the speed at which they can react when candidates are made other offers, to ensure that the right hiring decisions are consistently made.

This fast-paced environment where organisations make multiple offers against a competitor, often drives an increase in salary.

### Changes in client expectation

A preference for experience over degrees or transferable skills is accelerating costs for employers, as qualified and experienced candidates will inevitably always come at a higher salary. This hiring trend is driving costs across the permanent market and is largely borne from an internal lack of training and development.



# WHAT IS THE SOLUTION TO RISING LABOUR COSTS?

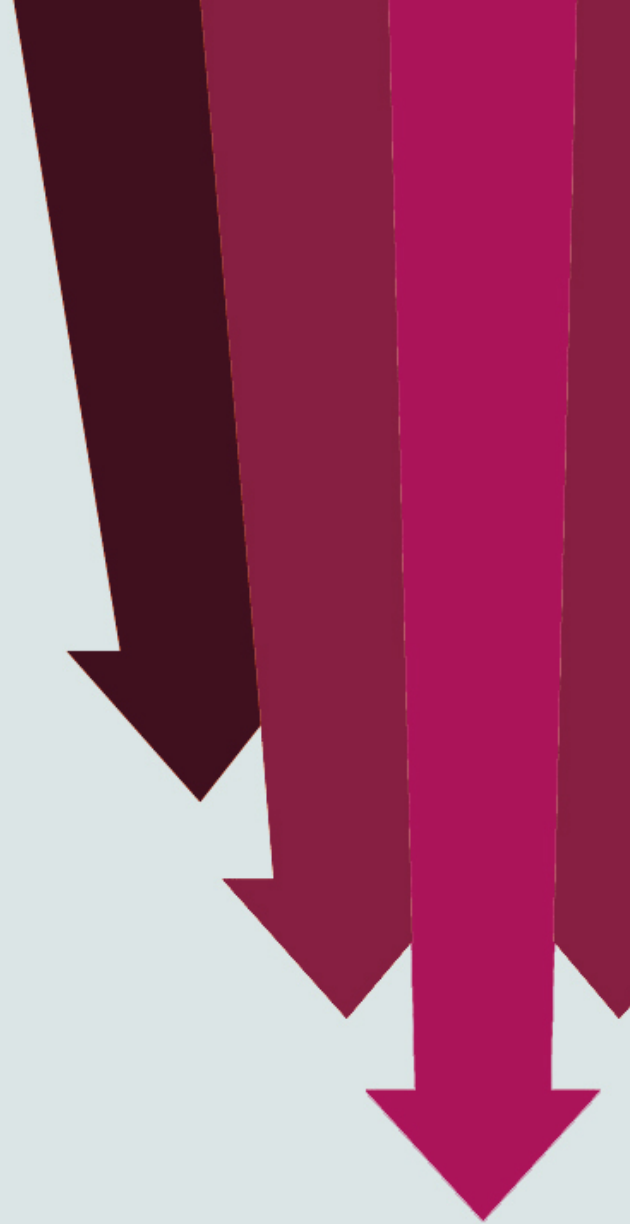
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Rising labour costs are the result of a range of interlinking challenges, the most prominent of which we've covered in this whitepaper. Like the issue itself, the solution to rising labour costs is multi-faceted to reflect the complexities of a changing world of work.

To help leaders, and organisations across STEM effectively tackle rising labour costs, we've compiled a simple checklist to help you take action.

## Solutions checklist:

1. Produce a robust Early Talent programme that focuses on succession planning, upskilling, and training, whilst keeping an open mind to qualifications, depending on the level
2. Seek expert advice on how to continue to use contractors rather than implementing a blanket ban on their use to help fill the skills gap
3. Seek benchmarking advice on contractor salaries to ensure you remain competitive
4. Consider if international contractors can help fill your skills gap and reduce your contractor spend



# HOW SRG HELP BUSINESS ASSESS ITS WORKFORCE CHALLENGES

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SRG are STEM industry experts with over 32 years of experience in connecting and aligning expert talent with scientific organisations across the globe.

We provide full spectrum recruitment support, working with niche skills, multiple industries, and all experience levels, including roles across both interim and permanent recruitment.

Whether you're looking to futureproof your contractor network, or bridge existing skill gaps, we can link your organisation to a dedicated talent consultant, enabling access to an extensive network of both permanent, and interim candidates across various future-proofed skill sets.

For those organisations struggling with the challenges in the interim market post IR35, we can offer specialised PAYE contractors hired under SRG to work directly within your organisation. Additionally, we can help you branch out globally, unlocking access to expert global interim workers and contractors to help you control costs and futureproof your organisation.

At SRG, our contractor market specialist consultants are on hand to support with your hiring requirements and provide advice on market rates for any interim hiring.

If you require any specific advice regarding IR35 regulations, our dedicated IR35 team can provide expert advice to both clients, and contractors to help you streamline and optimise your regulatory adherence from end to end.

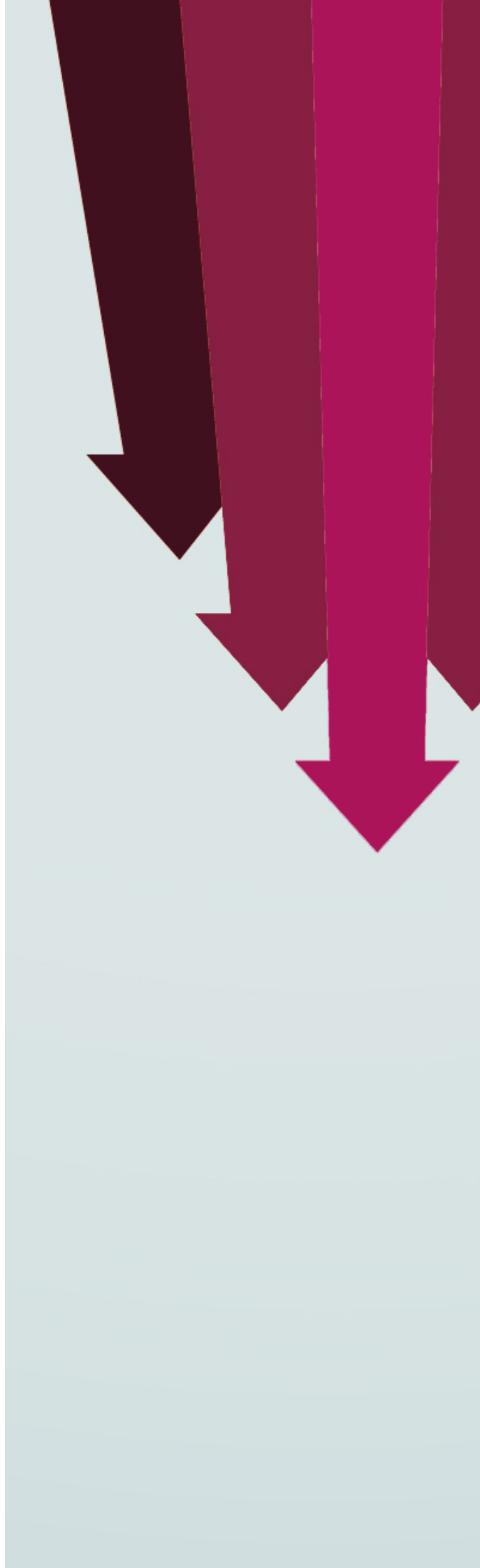
## ACCESS SPECIALIST ADVICE

### ARRANGE A CALL BACK

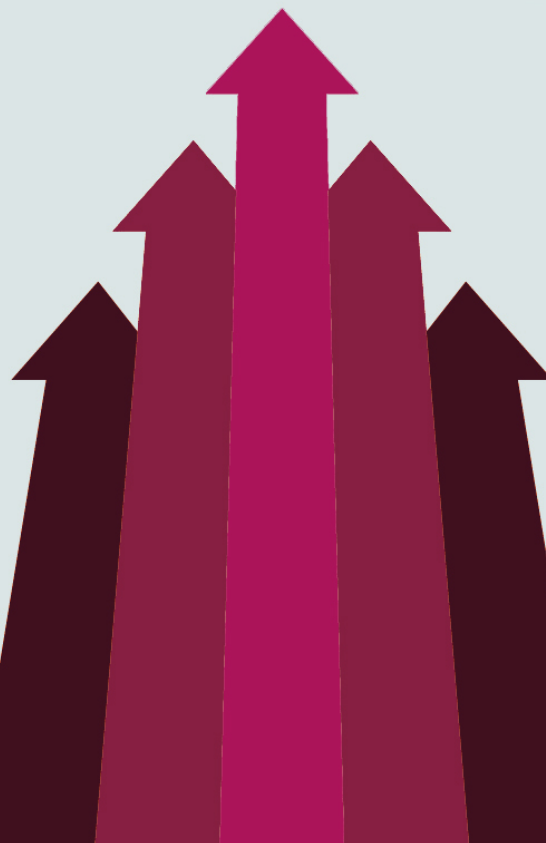
To find out more about how SRG can help you achieve cost-efficient interim, and permanent recruitment, email [solutions@srgtalent.com](mailto:solutions@srgtalent.com) for a no-obligation discussion of how we can best meet your requirements together.

## 15 | What is driving the rise in pay for STEM talent

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