

# Technical Annex: Long terms effects of the Off-Payroll working rules

HMRC

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## Contents

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1	Introduction	3
2	Quantitative stage	4
	Questionnaire development	4
	Approach to sampling	6
	Achieved quantitative interviews	7
	Response rate	8
	Analysis and weighting	9
3	Qualitative stage	10
	Questionnaire Development	10
	Approach to sampling	11
	Achieved qualitative follow-up interviews	11

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# 1 Introduction

- 1.1 In April 2017, the government reformed the off-payroll working rules in the public sector. IFF Research and Frontier Economics were commissioned by HMRC to gather evidence on experiences of the public sector bodies in implementing the reforms.<sup>1</sup> This research was then followed up in 2020 and 2021, looking at longer term impacts of the original reforms, as well as impacts of the 2021 reforms to off-payroll working in the public sector. The research looked at the key sectors of Public Administration & Defence, Education and Health & Social Work sectors, and considered implications for employment, costs incurred and any process changes required.
- 1.2 The research consisted of a quantitative survey of 80 central bodies (covering 2,635 sites) and 101 individual sites in the public sector, all of which had engaged off-payroll contractors via Personal Service Companies (PSCs) in the financial year 2019/2020. There were also qualitative follow-up interviews with 30 respondents whose responses indicated they had been affected by the reforms.
- 1.3 For the purpose of this research, public authorities can either be 'central bodies' or 'individual sites'. Those categorised as a 'central body' in this report are survey respondents that stated that they conduct payroll for more than one public sector site or organisation. Therefore, these respondents oversee and administer the processes relating to the off-payroll working rules for multiple sites or organisations.
- 1.4 Those categorised as an 'individual site' in this report are survey respondents that stated that they conduct payroll for their site only. These respondents therefore oversee and administer the processes relating to the off-payroll working rules for their own site and no others. If an establishment did not deal with the administration of the reforms, they were asked to pass on details of the establishment where they were dealt with. Therefore, individual sites and central bodies are mutually exclusive groups.
- 1.5 The fieldwork for both the quantitative and qualitative stages took place over 2 phases. Phase 1 took place between 29<sup>th</sup> September and 6<sup>th</sup> November 2020 and follow-up qualitative interviews took place between 26<sup>th</sup> October and 19<sup>th</sup> November 2020. Due to increased pressures on the public sector as result of the COVID-19 pandemic, a decision was taken to pause the fieldwork and resume in Summer 2021. The second phase of survey fieldwork took place between 5<sup>th</sup> July and 23<sup>rd</sup> September 2021 and follow-up qualitative interviews took place between 27<sup>th</sup> July and 29<sup>th</sup> September 2021.
- 1.6 This annex outlines technical information on how the research was developed, conducted, and analysed.

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<sup>1</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/704931/Off-Payroll Reform in the Public Sector.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/704931/Off-Payroll_Reform_in_the_Public_Sector.pdf)

## 2 Quantitative stage

### Questionnaire development

- 2.1 The questionnaire for the 2020/21 research was developed by IFF Research in collaboration with HMRC, adapting the previous questionnaire used in the 2017 research. The structure was as follows:
- **Screener:** this section checked, among other details, that the establishment was a public authority, that respondents were familiar with the reforms and that the establishment had engaged off-payroll contractors through PSCs in the financial year April 2019 to March 2020.
  - **Workforce structures:** this section obtained volumetric data (prepared in advance by respondents via a datasheet) for various types of workforce structure, including direct employees; all off-payroll contractors; off-payroll contractors engaged via PSCs; PSC contractors engaged directly; PSC contractors engaged via employment agencies; and off-payroll contractors engaged via umbrella companies. This section also asked for costs associated with the administration of the reforms.
  - **Impacts of the reforms:** this section asked about changes in rates for PSC contractors since the 2017 off-payroll working reforms were introduced and the impact that the reforms had on filling vacancies.
  - **Administration of the reforms:** this section covered whether the 2017 reforms to off-payroll working had been easy or difficult to comply with and the reasons for this, as well as other perceptions about the impact of the reforms for their organisation. Public authorities were also asked whether they had taken on new staff to deal with the reforms and if they had consequently moved off-payroll contractors onto their payroll. This section also covered how status determinations are made and whether any disputes had arisen with their off-payroll contractors regarding these decisions.
  - **Advice and guidance:** this section covered sources of advice and guidance for the reforms to the off-payroll working rules, and how helpful these were. In particular, it explored the efficacy of updates to the Check Employment Status for Tax tool and its guidance.
  - **2021 reforms:** this section covered awareness of and preparedness for the new reforms introduced in 2021, which affected public authorities, including the requirement to communicate the results of status determinations to off-payroll contractors via a Status Determination Statement (SDS) and to have a process in place to deal with disagreements that arise.. In Phase 2, questions were added about whether the reforms had impacted working structures, and whether the extension of the reforms to the private sector had had an impact.
- 2.2 To ensure comparability, survey questions were kept as consistent as possible with the previous wave of the research conducted in 2017. However, some revisions were made to existing questions, as well as new questions added, in order to provide relevant and insightful data and to respond to changes to the off-payroll working landscape.
- 2.3 Screening questions were adapted to refine the terminology covering who was in scope for the survey. This included changing the description of the target audience to 'public authorities', rather than 'public sector bodies' which was the term used in the 2017 survey.

- 2.4 Furthermore, whereas in 2017 respondents needed to confirm that they had engaged any off-payroll contractors in the previous 12 months, this was updated in the 2020/21 research to check that they had specifically engaged off-payroll contractors via Personal Service Companies (PSCs), given that these are the contractors who fall inside the off-payroll working rules and so public authorities would have had to engage PSC contractors following the reform in order to be able to provide insights on the ongoing administration costs of the reform and ease of complying.
- 2.5 The report provides statistics on the proportion of public authorities screened out of the research due to this criterion. The content of the workforce structures section was adapted to further refine the data collected and increase clarity. This included, for example, changing the definition of the wider 'off-payroll contractors' to encompass all individuals working for a public authority but not on their payroll (including self-employed); a narrower definition was used in the previous survey which excluded the self-employed.
- 2.6 Other changes also sought to improve the quality of data collected; for example, additional granularity was captured when discussing how workforce numbers had changed between March 2017 and March 2020, in order to assess not only the direction of change but the extent (if increased, capturing whether the structure increased a little or a lot).
- 2.7 Another key change in this section was the inclusion of new questions which captured the volumetric breakdown of PSC contractors engaged directly vs. via employment agencies. Previously this information was captured for all off-payroll contractors rather than specifically for those working via PSCs. Mirroring the 2017 survey, this detailed information on the number of individuals engaged via different workforce structures was captured via a datasheet prior to interview.
- 2.8 A series of new questions were added to assess the usefulness of changes to the Check Employment Status for Tax (CEST) tool and accompanying guidance.
- 2.9 A new section of the questionnaire covered the 2021 changes to the off-payroll working rules for the public sector, including checking preparedness and impacts of these changes.
- 2.10 The questionnaire was cognitively tested between 1<sup>st</sup> and 4<sup>th</sup> September 2020 with 3 public authorities, mainly focusing on the more extensive changes to the workforce structures that had been implemented in the initial questionnaire design phase. The aim of the cognitive interviews was to test that the language used was appropriate and that the questions were understood. Following some further refinements, the survey was also launched with a rolling pilot to ensure that any further comprehension issues following changes could be picked up early on during fieldwork.
- 2.11 Following the pause in fieldwork after Phase 1, further changes were made to the questionnaire. These were relatively small changes to wording to add extra clarity; for example, it was important to emphasise that most of the questions concerned the impacts of the 2017 reforms specifically, given that respondents may have been inclined to answer in relation to the 2021 reforms which had since been introduced by the time Phase 2 fieldwork was undertaken.
- 2.12 For similar reasons, the specific questions on the 2021 reforms were revised so that they focused more on assessing impacts following their introduction rather than preparedness, which was more relevant in Phase 1 when the reforms had yet to be introduced.<sup>2</sup>

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<sup>2</sup> For more information on the analysis implications of these questionnaire changes, see 2.26.

## Approach to sampling

- 2.13 For Phase 1 fieldwork, HMRC provided contact details for 6,500 public authorities, split by size, but with no sector information included.
- 2.14 After a process of de-duplicating and cleaning the sample file, 5,170 sites were available and were invited to participate in the research. Table 2-1 presents a breakdown of the sites invited to participate by size.

**Table 2-1 Sample selection for Phase 1 fieldwork, by sector and size**

-	Total in mailout	Total provided by HMRC
<b>Between 10 and 49 employees</b>	736	928
<b>Between 50 and 99 employees</b>	1401	1,773
<b>Between 100 and 249 employees</b>	1243	1,528
<b>Between 250 and 499 employees</b>	688	850
<b>Between 500 and 999 employees</b>	437	532
<b>1000 employees or more</b>	665	889
<b>Total</b>	5,170	6,500

- 2.15 All 5,170 sites were sent an advance letter which introduced the research and provided the opportunity to opt out of the research. The letter also included a datasheet to help participants prepare the numerical data collected in the survey on workforce structures. During the survey itself, in cases where individual sites mentioned that the administration of the off-payroll working rules was dealt with by a central body, the details of the central body were collected and added to the sample.
- 2.16 For Phase 2 fieldwork, a different sampling approach was implemented. This was due to finding that the original sample was largely dominated by Education establishments and had generated fewer central bodies than in the 2017 survey. Phase 2 therefore replicated the 2017 survey approach of using commercially available sample in order to boost the number of central bodies and level out the sector profile of the sites.
- 2.17 Details were obtained for 5,980 public authorities from the Market Location database; this included all available sample with over 50 employees in the Public Administration and Defence and Health and Social Care sectors. In the Education sector, only sites with 250 or more employees were ordered, as the target interviews with individual sites had been achieved at Phase 1, and we anticipated that Central Bodies were more likely to be in the larger size bands.

After a process of de-duplicating and cleaning the sample file against records called in Phase 1, 5,206 sites were available and were invited to participate in the research.

2.18 Table 2-2 presents a breakdown of the sites invited to participate by size.

Table 2-2 Sample selection for Phase 2 fieldwork, by sector and size

	Public Administration & Defence	Education	Health & Social work	Total
Between 50 and 99 employees	257	0	1377	1634
Between 100 and 249 employees	413	0	1230	1643
Between 250 and 499 employees	242	377	274	893
Between 500 and 999 employees	130	229	112	471
1000 employees or more	160	158	247	565
<b>Total</b>	<b>1202</b>	<b>764</b>	<b>3240</b>	<b>5206</b>

2.19 Again, all 5,206 sites were sent an advance letter with an accompanying datasheet prior to fieldwork. As with Phase 1, this sample was supplemented with central body referrals during survey fieldwork.

### Achieved quantitative interviews

In total, 113 interviews were achieved with sites and 80 interviews were achieved with central bodies. Table 2-3 and

2.20 Table 2-4 breakdown the interviews by sector and phase. Table 2-5 shows the number of sites covered by the 80 central bodies that were interviewed (2,653 in total). It should be noted that central bodies could deal with the administration of the reforms for sites across more than one sector. The sector listed for the central bodies in Table 2-4 is the main sector.

2.21 On average, interviews took 44 minutes 35 seconds.

Table 2-3 Site survey interviews achieved, by sector

Industry	Phase 1 (2020)	Phase 2 (2021)	No. of interviews
Public Administration & Defence	18	32	50
Education	51	0	51
Health & Social work	12	0	12
<b>Total</b>	<b>81</b>	<b>32</b>	<b>113</b>

Table 2-4 Central body interviews achieved, by sector

Industry	Phase 1 (2020)	Phase 2 (2021)	No. of interviews
Public Administration & Defence	9	32	41
Education	16	4	20
Health & Social work	3	16	19



<b>Total</b>	<b>28</b>	<b>52</b>	<b>80</b>
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Table 2-5 Sector coverage of the central bodies interviewed (80 central bodies)

<b>Industry</b>	<b>No. of sites covered</b>
Public Administration & Defence	858
Education	769
Health & Social work	620
Other	382
Unassigned	24
<b>Total sites</b>	<b>2653</b>

### Response rate

2.22 Table 2-6 and Table 2-7 show the call outcomes and the response rate for all sample records where contact was attempted. This data has been broken down separately by Phase 1 and Phase 2 fieldwork given the differing makeup of the samples. It also shows the same analysis for all valid sample records where contact was attempted.<sup>3</sup>

2.23 The survey achieved a final response rate of 4% in both phases (completed interviews as a proportion of all valid sample). Overall, 7% of cases in each phase were considered resolved – meaning they had confirmed whether or not they had engaged PSC contractors in the April 2019 to March 2020 financial year.

Table 2-6 Breakdown of call outcomes and response rate for Phase 1 (HMRC sample)

	<b>All sample</b>	<b>%</b>	<b>Valid sample</b>	<b>%</b>
<b>Call outcomes</b>	<i>n</i>	%	<i>n</i>	%
<b>Resolved</b>	214	4	214	7
<i>of which: Off-payroll</i>	109	2	109	4
<i>of which: No off-payroll</i>	105	2	105	3
<b>Refusals (including abandoned interviews)</b>	376	7	376	13
<b>Screened out (Private sector / rules don't apply)</b>	1,605	32	-	-
<b>Unresolved</b>	2,283	45	2,283	76
<i>of which: Central body</i>	259	5	259	9
<i>of which: referrals to centralised HR</i>	41	1	41	1
<b>Nobody at site to answer questions</b>	54	1	54	2
<b>Not available in fieldwork period</b>	78	2	78	3
<b>Bad numbers/ unobtainable</b>	467	9	-	-

<sup>3</sup> Valid sample records do not include sites which were private sector organisations or those that had unusable/unobtainable phone numbers.

<b>Total sample</b>	<b>5,077</b>	<b>100</b>	<b>3,005</b>	<b>100</b>
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Table 2-7 Breakdown of call outcomes and response rate for Phase 2 (Market Location sample)

-	All sample	%	Valid sample	%
Call outcomes	<i>n</i>	%	<i>n</i>	%
<b>Resolved</b>	152	6	152	7
<i>of which: Off-payroll</i>	84	3	84	4
<i>of which: Off-payroll (but screened out due to quotas)</i>	16	1	16	1
<i>of which: No off-payroll</i>	52	2	52	2
<b>Refusals (including abandoned interviews)</b>	136	5	136	6
<b>Screened out (Private sector / rules don't apply)</b>	91	4	-	-
<b>Unresolved</b>	1,759	71	1,758	78
<i>of which: Central body</i>	227	9	227	10
<i>of which: referrals to centralised HR</i>	156	6	156	7
<b>Nobody at site to answer questions</b>	136	5	136	6
<b>Not available in fieldwork period</b>	69	3	69	3
<b>Bad numbers/ unobtainable</b>	145	6	-	-
<b>Total sample</b>	<b>2,488</b>	<b>100</b>	<b>2,251</b>	<b>100</b>

## Analysis and weighting

2.24 As explained in the introduction to this report, central bodies and individual sites are mutually exclusive groups. The site data and central body data were analysed separately, given that they are different sampling units (this was also the approach taken in the 2017 research).

2.25 The site data was weighted to the total population according to the latest available data from the IDBR from March 2021, as shown in Table 2-8. Due to the low sample size achieved among Health and Social Work sites, it was not possible to undertake robust analyses and therefore their data was excluded for reporting purposes, as per the 2017 research. The weighting therefore corrected the profile of Public Administration and Defence and Education sites. Due to a lack of available population data for central bodies, their data was not weighted.

Table 2-8 Weighting profile for site survey

Industry	Completes	%	IDBR population	%
-	<i>n</i>	%	<i>n</i>	%
Public Administration & Defence	50	49.50%	17,395	37.84%
Education	51	50.50%	28,575	62.16%

<b>Total</b>	101	100%	45,970	100.00%
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2.26 Phase 1 and Phase 2 data were combined and analysed together where possible. However, in some cases, where substantial changes had been made to the Phase 2 questionnaire, (particularly to the 2021 reforms questions), combining the data was not appropriate. For example, awareness of the 2021 reforms was higher in Phase 2 than in Phase 1; this was largely influenced by the fieldwork dates, given that Phase 2 fieldwork was undertaken after the reforms had been introduced.

2.27 Analysing Phase 1 and Phase 2 results separately was also not always possible because a) sample sizes were not always sufficient enough for robust analysis and b) the differing profiles of Phase 1 and Phase 2 (Table 2-1 and

2.28 Table 2-2) meant that results were not representative when considered alone.

## 3 Qualitative stage

### Questionnaire Development

- 3.1 The research also included a separate strand of qualitative follow-up interviews. The purpose of the interviews was to explore interesting cases from the quantitative survey in further depth, which, for the purposes of this research, were those public authorities that had been most impacted by certain aspects of the reforms.
- 3.2 In total 30 interviews were conducted by telephone over the 2 phases, with 8 interviews undertaken in Phase 1 between October and November 2020, and the remaining 22 interviews undertaken between July and September 2021.
- 3.3 Each public authority that agreed to take part in a qualitative follow-up interview nominate a charity out of 5 (British Heart Foundation; MacMillan Cancer Support; Shelter; Great Ormond Street and Celia Hammond Animal Trust) for IFF to make a £40 payment to as a thank you for their time. Each interview lasted between 45 and 60 minutes.
- 3.4 The topic guide was developed by IFF Research in collaboration in HMRC. The structure was as follows:
  - **Background of organisation:** a short warm-up section to find out more about the public authority and the respondent's role within it.
  - **Background of engagement with PSCs:** a short section exploring the importance of off-payroll contractors to public authorities and how they are used (for example what roles they take up and how often they are engaged).
  - **Status determinations and sources of advice:** in-depth exploration of how off-payroll working status determinations are made, who was involved, and the sources of advice and guidance used.
  - **Impacts of off-payroll reforms on workforce structures:** this section focused on specific cases where workforce structures were reported to have changed between March 2017 and March 2020 in the quantitative survey, to assess the extent that this was due to the 2017 reforms.
  - **Contractor rates;** in depth-exploration of how the reforms had affected the rates paid to contractors and to what extent this was driven by demands by public authorities compared to off-payroll contractors. This section also asked respondents whether they were aware of any schemes or structures that circumvented the off-payroll working rules.

- **Administration costs:** this section explored whether the 2017 reforms had affected the total operating costs for the administration of off-payroll contractors and which type of costs were incurred. It also followed up with those who had found the 2017 reforms burdensome or difficult to comply with to explore why this was the case.
- **2021 reforms:** this standalone section explored how prepared public authorities were for the reforms and what support they might need to comply. The section was heavily adapted for Phase 2, by which time the reforms were introduced, to explore any immediate impacts of the reforms such as disputes and changes to workforce structures.

### Approach to sampling

- 3.5 At the end of the quantitative survey, sites and central bodies were asked whether they would be willing to take part in follow-up interviews to explore the impacts of off-payroll reform in more detail.
- 3.6 Overall, 84 sites and 56 central bodies were willing to participate in qualitative follow-up interviews. This sample was then filtered on responses from the quantitative survey so that only public authorities that had reported specific experiences were invited to participate.
- 3.7 Decisions on what would constitute an interesting case were decided collaboratively between IFF Research and HMRC and quotas were set to ensure a suitable number of respondents with these specific experiences were interviewed. The quotas are shown in Table 3-2.

### Achieved qualitative follow-up interviews

- 3.8 The final breakdown of the 30 follow-up interviews is shown in Table 3-1. Interviews lasted an hour on average. An equal number of interviews were achieved with site and central bodies. As discussed earlier, the Phase 1 survey sample was dominated by Education sites, which led to this also being true for Phase 1 qualitative follow-up interviews (6 out of the 8 interviews were conducted with Education sites). Overall a broad spread of sector interviews were achieved after the 2 phases of fieldwork.
- 3.9 Table 3-2 shows the interviews achieved by quotas set based on experiences reported in the survey. Public authorities could fall into more than one of these quotas.

**Table 3-1 Number of follow-up interviews achieved, by sector**

Sites	Phase 1	Phase 2	Total
Public Administration & Defence	1	7	8
Education	6	0	6
Health & Social work	1	0	1
<b>Central bodies</b>			
Public Administration & Defence	0	7	7
Education	0	2	2
Health & Social Work	0	6	6
<b>Total</b>	<b>8</b>	<b>22</b>	<b>30</b>

**Table 3-2 Follow-up interviews achieved, by experiences reported in the survey**

Quota, based on experiences captured in survey	Target no. of interviews	Achieved
Change in number of off-payroll contractors working through PSCs	15	14
Gross hourly rates changed	6-10	14
More difficult to fill contract vacancies	6	10
Difficult to comply with the legislation	10	16
Disagree that the level of administrative burden reasonable	10	12
Had disputes with contractors over IR35 assessments	6	17
Off-payroll reforms led to increase in use of umbrella companies	3	2
Change in number of employees	10	20
Change in the number of off-payroll contractors that are directly engaged	10	13
Change in the number of off-payroll contractors that are engaged via agencies	6	8
Used CEST	10	28
Any change to workforce structures since January 2021 due to the 2021 reforms	Monitoring	1
2017 reforms influenced change in dispute levels	3	4
2021 reforms influenced change in dispute levels	3	2