

Public sector IR35 reforms survey: projects crippled by contractor exodus



Government projects and public services are in dire straits following the [reforms to IR35 in the public sector](#). A survey of more than 1,500 contractors by ContractorCalculator shows that three quarters of public sector departments lost valuable contractors following the changes, leading to delays and cancellations of critical projects costing millions of pounds.

The survey revealed the following impacts:

- 76% of public sector departments lost highly skilled contractors
- 71% of projects were delayed or cancelled.
- 27% of public sector contractors left after the reforms went live
- 38% of contractors couldn't be replaced
- 24% of projects lost at least half of their contractor workforce

"Despite repeated warnings, HMRC completely underestimated the damage that the IR35 reforms would cause," comments ContractorCalculator CEO Dave Chaplin. "These findings should be a wakeup call to Government, prompting a repeal of the legislation. Instead a private sector rollout of the changes appears more likely, which will cause even more damage."

Public sector projects have suffered due to the reforms

Within four months of the changes, public sector projects suffered severe disruption because of contractor exodus.

- The sector lost 27% of its contractors after 6 April 2017
- 47% of projects lost at least a quarter of their contractors
- 61% of contractors who left cited a refusal to work under IR35 as the reason why

"Our evidence shows that diminished access to the flexible workforce has caused damage to multiple vital public services, including healthcare, police and public transport," says Chaplin. "Elsewhere, projects have been cancelled altogether, whilst others are running over budget by millions of pounds."

Projects delayed as clients fail to find new contractors

Replacing the highly-skilled knowledge workers is proving challenging. Reliance on expensive major consultancies to fill gaps has largely proven futile.

- 52% of contractors who have left the public sector are yet to be replaced
- Big consultancies have only managed to fill 15% of vacancies

The impact on productivity has been devastating:

- 37% of those who abandoned the public sector were IT contractors
- 79% of IT projects suffered delays as departments couldn't draft in replacements

Chaplin warns: "With Brexit and other challenges right around the corner, this was the worst possible time for HMRC to cripple the public sector's IT capability."

Use of blanket rules backfires causing contractors to vote with their feet

Many public-sector organisations have tried to avoid new tax obligations imposing rules attempting to force all their contractors to work via umbrella companies. As the statistics show, these efforts have often backfired:

- 19% of contractors who left did so after being told to use an umbrella company
- 9% of contractors who stayed worked through an umbrella, but on a higher rate

"Organisations are paying the price for not carrying out their due diligence by losing out on valuable expertise," says Chaplin. "Elsewhere, rate hikes are rendering the reforms a cash-neutral regime as the public sector effectively pays the extra tax back to itself. Nobody is winning here."

IR35 reforms intensify NHS skills shortages

The changes have intensified already acute skills shortages in the health sector, and survey respondents reported the catastrophic impact it is having.

Due to the pay caps in place in the NHS, many locum doctors and nurses can't charge increased rates to compensate for loss of earnings, and few NHS departments are willing to offer outside IR35 contracts. The effect on morale in this sector is evident.

- 25% of NHS departments lost at least half of their flexible workers
- 63% of contractors are considering changing career
- 40% say they may quit contracting altogether
- Only 22% of remaining contractors are able to work outside IR35

"Unless urgent action is taken, this looks as if an already acute problem of personnel shortage will just get worse," notes Chaplin. "Many contractors in the health sector are being paid too little and taxed too much."

Confusion over the new IR35 rules causes further chaos

It's not only the reforms themselves that have caused chaos in the public sector, but also their implementation. Qualitative data suggests that many public-sector organisations are still unsure about their compliance requirements, whilst others are neglecting their responsibilities.

Many contractors are placing the blame squarely at the feet of HMRC, citing a lack of communication and preparation on the taxman's part as the main reason behind the confusion.

The reforms have also restricted the mobility of flexible workers in the public sector. Difficulty accessing travel and subsistence tax relief means for many contractors travelling long distances to work is no longer financially viable. In turn, many projects have lost out on further valuable expertise.

How can the public sector now attract contracting talent?

Any suggestion that the reforms were a success or are going through a teething period carries little weight. When contractors were asked about their willingness to contract in the public sector in future, it was evident that the reforms are a huge deterrent.

- 52% say they will never work a contract in the public sector caught by IR35
- 46% would only work a contract caught by IR35 if their rate was increased
- 21% have ruled out working in the public sector altogether

"The public sector is at a massive disadvantage thanks to HMRC," highlights Chaplin.

"Public sector bodies now have two options to source the best talent. Either they conduct their due diligence, evaluate their contractors and award them outside IR35 status where it is due; or they source contractors via major consultancies, which often prove up to three times as expensive."

What does the future hold for IR35?

"HMRC has left itself between a rock and a hard place. The only logical option would be to repeal the reforms, but we know HMRC isn't in the habit of acknowledging its failures. The fear is that HMRC will choose to 'level the playing field' with a private sector rollout of the reforms," comments Chaplin.

"This would be incredibly damaging. As the evidence shows, the reforms are a massive deterrent from flexible working, and HMRC would be crazy to extend them into the private sector. But as the public-sector reforms themselves demonstrate, you can never underestimate how far removed from reality the taxman can be."

Full survey report: [IR35 Reforms in the Public Sector - How damaging were the reforms?](#)

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