

How can the UK secure the post- Brexit workforce it needs?

With the general election having created more doubt than certainty over the nature and shape of Brexit, and the negotiations under way, considerable concern is being expressed in a number of quarters over the implications for the workforce in the UK and the country's ability to source the workers it needs in the future. These concerns relate not only to future immigration policy and legislation, but also the status of European Union (EU) workers who are already employed in the UK. Worries about the future are being given sharper focus by events already happening on the ground, with reports that the numbers of EU nationals coming to Britain to work has fallen dramatically in some sectors in the wake of the outcome of last year's referendum. Steve Vale, HR consultant, considers some of the recent reports and research, and looks in particular for any clear implications for the public sector and local government.

1. *FACING THE FUTURE: TACKLING POST-BREXIT LABOUR AND SKILLS SHORTAGES* – CIPD/ NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH REPORT

This report, published on June 2017, starts from the perspective that:

- An important factor in the UK economy's ability to grow and compete is its flexible labour market, which has played a key role in equipping employers with the skills and diverse workforce they need;
- A major part of this flexibility has been freedom of movement of people across the EU, which coupled with strong employment growth in the UK, has attracted a very large number of EU migrants to come and live and work in the UK in recent years;
- Following the recent General Election, despite the absence of a clear parliamentary majority for one party, both the Conservative and Labour parties are pledged to manage migration from the EU as part of the UK's exit.

The report notes that much of the debate about future restrictions on EU migrants has focused on the need to allow high-skilled workers to come to the UK, but comparatively little attention has been paid to the challenges facing employers in terms of entrenched labour shortages for low-skilled roles. The report therefore seeks to redress this imbalance by placing a particular emphasis on low-skilled sectors of the economy – such as social care, hospitality and food manufacturing – which employ relatively large numbers of EU migrants.

The report seeks to:

- explore in detail how and why employers recruit EU nationals;
- shed light on issues such as skills shortages and the availability of UK nationals;
- assess whether the referendum decision has had any impact to-date on employers in terms of the recruitment and retention of EU nationals; and
- explore solutions to the future challenges employers are facing on the ground in filling vacancies in order to make policy recommendations that work across all sectors.

The report draws on 26 in-depth interviews with employers from key sectors including social care, retail, healthcare, restaurants and manufacturing. In addition, the evidence included a survey of

1,060 employers and six focus groups that took place in London, Scotland, Manchester, the East Midlands and Wales.

The report notes that the risks face by UK employers are **quantitative**, with the UK seeing a major increase in labour immigration from the EU over the past 15 years, which many employers now see as being threatened by the Government's stated intention to end the free movement of labour. These quantitative risks are pronounced in the public sector, since around two-thirds (63%) of public sector organisations employ non-UK nationals from the EU, while almost half (48%) of establishments employ non-UK nationals from outside the EU. By comparison, the share of private sector organisations that employ non-UK nationals from outside the EU is relatively low (38%).

But they are also **qualitative**, given that much of the UK's strong labour market performance both pre- and post-Brexit has been driven by high employment rates among migrants, with strong correlations between the skills they offer and the genuine skills needs of employers. But it is important to note that these links apply not only in the case of high-skilled migrants, but also to lower skilled groups, who are nonetheless well matched to UK employer needs.

And the report contends that it is the latter groups who create the most pressing policy challenge for the UK. In this context, it needs to be borne in mind that:

- more than two-thirds (69%) of EU8 (Malta, Cyprus, Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Slovenia, Hungary) nationals and 61% of EU2 (Romania, Bulgaria) nationals were employed in low- or lower-middle-skilled jobs, compared with less than half of nationals from the UK, and those from outside the EU and EU14 (38%).
- According to the official labour market data, around a third (31%) of EU8 migrants and EU2 migrants are employed in elementary occupations such as cleaners, labourers or food preparation assistants.
- At least half of EU8 and EU2 workers (estimated 50% and 61%, respectively) worked more than 40 hours per week compared with around a third of UK nationals (estimated 32%).

The report notes that some employers commented on the work ethic amongst EU nationals, and, where they did so, it concerned diligence in very routine work, for example, processing vegetables, or in the use of personal, interaction skills, for example, in social care, where EU migrants had been found to be of higher quality. Some employers also commented negatively on the reliability of British workers in low-paid jobs, particularly in agriculture, sometimes citing the different frame of reference that EU nationals have.

The report implies that public sector employers in the UK may be amongst the worst placed organisations to mitigate these risks since:

- Their jobs are amongst the least susceptible to automation as a way of compensating for labour shortages;
- Their options to re-locate parts of their operations to countries where labour is in better supply are very much smaller than other types of organisation.

Finally, the report also points out that, as well as being workable for employers, any new policies also have to be workable for migrants themselves, or they will decide not to work in the UK.

2. WHAT DO EMPLOYERS WANT FROM NEW IMMIGRATION POLICIES?

The report highlights the two strongest needs to emerge from the research undertaken:

- the need for a safety net for recruiting unskilled or low-skilled workers from overseas to ease labour shortages; and
- an immigration system that works for them, in terms of being quick, fair, inexpensive, simple and unbureaucratic.

The report argues that, without these two provisions, some of Britain's key industries and services, including food and drink manufacturing, hospitality and social care, are likely to sustain considerable damage. Many managers of businesses and services fear that a new immigration system, by restricting the supply of EU workers, will have a negative impact on their operations. Employers in the public sector and those with substantial needs for low-skilled workers are especially concerned.

The report states that employers are dismissive of arguments that EU workers can be replaced with local, British workers, with:

- employers in sectors such as social care and hospitality highlighting their inability to raise pay and employment conditions to attract local applicants without passing costs on to customers and service users; and
- many low-skilled employers from sectors such as food manufacturing expressing some scepticism about their ability to attract applicants from the domestic workforce, even if they were to increase wage rates.

Employers are also concerned that new immigration policies will mean that they are responsible for checking workers' status and playing the role of policy enforcers. Many are fearful of complex policies which will lead to them making a mistake, and losing the right to hire non-UK nationals from overseas and suffering reputational damage. At the same time, they argue that complex rules and procedures will not deter employers from recruiting EU migrants, since they largely do so out of necessity rather than preference or choice. Difficult processes will simply add cost to businesses and services in continuing to follow their current approaches.

Some employers saw positive opportunities in the post-Brexit employment market, with employers recognising that migration restrictions could mean that employers have to target under-represented groups in the UK labour market such as older workers, women returners and ex-offenders to offset the prospect of labour or skills shortages. This view was evident in retail sector employers, among others. But many other employers of low-skilled labour remained doubtful of their ability to stimulate interest among applicants from the domestic workforce. Poor image of their sector, a lack of progression opportunities and record low levels of unemployment in areas such as the south-west of England and the East Midlands, alongside other supply constraints – such as the suitability of some applicants for roles in many regions of the UK – led them to believe that they would still need an additional labour shortage safety net.

(As an aside, the report points out that, because of its application-based recruitment procedures, the public sector may have less to fear from a system that requires EU nationals to have a job before they come and live in the UK. More than a quarter (27%) of private sector employers are more likely

to say that the job offer requirement would have a negative impact upon the operations of their organisation compared with under a fifth (19%) of public sector establishments.)

Many employers referred to the need to allay high levels of anxiety among the EU nationals that they currently employ in relation to their future employment status. Employers who report hiring fewer EU nationals since the UK's decision to leave the European Union point to the depreciation in sterling and the current uncertainty about the employment status of EU nationals as the most important factors behind this. Employers said that they would like to see a more positive narrative from government about the valuable contributions that EU nationals can and do make, to prevent further loss of valuable workers.

Employers said that they were dismayed that assurances had not been given to EU workers at an early stage following the Brexit vote, and their feelings have strengthened as time has gone on. A number of employers commented on the damage that could result from the loss of their EU workers, both in the short and longer term. In particular, employers in the social care sector remarked that there would be a direct and detrimental impact on the care of their service users.

3. THE WAY FORWARD – POLICY RECOMMENDATIONS

The CIPD/National Institute of Economic and Social Research report goes on to set out a number of policy recommendations which would address the views and concerns expressed by employers:

A. At the point where negotiations are completed, EU citizens already here, living and working in the UK, should be granted the permanent right to remain in the UK.

This would secure the rights of around 2 million workers. In addition, the government would need to make it easy for them by:

- Limiting documentary and employment history requirements;
- Avoiding requirements to hold comprehensive health insurance (and the other requirements around tax receipts), not least because those applicants who have not held a certificate during their stay can normally retrospectively apply for one from their government.

(At the time of writing, this issues has been made a priority for early resolution in the Brexit negotiations, but has not been resolved).

B. The new arrangements for immigration should be phased with a three-year transitional period once EU negotiations have been completed.

This will allow for robust systems to be trialled and would allow employers to carry out more rigorous testing of local, regional and national labour markets where they have not already done so. It will also help employers whose future resourcing approaches are dependent on the terms of the UK's exit from the EU.

C. New policies for EU migration should be dove-tailed with those of the current points-based system which applies to migration from outside the European Economic Area (EEA).

This would avoid employers needing to operate completely separate systems, although the report contends that it would still be advantageous to have a simpler system for workers

from the EEA, because of EU migrants' proximity and ability to meet shorter-term demands for labour. Plus, at the same time.....

D. The current system that applies to non-EEA migration should be reviewed, in particular to reduce its administrative and cost burden on employers.

Currently, employers are subjected to a wide range of costs that include a sponsorship licence, a health surcharge, a skills levy and a fee for every non-EEA national they employ. At the very least, the Government should consider halving the sponsorship licence fee for public sector employers.

E. The current shortage occupation list compiled by the Migration Advisory Committee (MAC) should be extended to include jobs at lower levels of skill and salary for EEA workers only.

The report argues that this would be a better solution to addressing key labour shortages in the economy than introducing an array of formal sector-based schemes, which would inhibit labour mobility and add complexity to the system.

F. For all lower-skilled roles, visas should be granted allowing for an initial stay of three years.

G. The Government should extend to EU nationals the existing Youth Mobility Scheme already in place for nationals of some non-EU countries.

This would effectively allow 18–30-year-old EU migrants to work in the UK for two years with no automatic right to remain in the UK. This could include measures to “nudge” such migrants towards areas of skill shortage, such as hospitality. It could also feature a post-study worker route which should also be set up to allow EU students with a bachelor's degree or above to remain in the UK without requiring a job offer for two years. This would protect the UK's status and reputation as a place to study and work, and offer employers another light-touch route for recruiting EU migrants in response to recruitment difficulties.

H. The Government's policy objective to bring migration down to the tens of thousands per year should be abandoned.

This is important to ensure that the immigration system is fair and meets the labour and skills' needs of UK employers, and is in recognition of net migration never having been as low as this target for 20 years, during which time the UK has prospered. There is clear evidence that some of the UK's key industries and services would suffer severe harm should the target be reached.

4. ADDRESSING THE UK'S WIDER LABOUR AND SKILLS SHORTAGES

Aside from the immediate issues of managing migrant labour post-Brexit, the report also argues that the prospect of migration restrictions should focus much needed attention on the Government's overall employment and skills policy. And as the CIPD has recently warned, the UK is currently sleepwalking into a low-value, low-skills economy, which is hindered by relatively low levels of employer investment, poor management skills and a relatively long tail of workers without basic

skills compared with the UK's OECD competitors. It notes the failure of skills and training policy by successive governments, characterised by constant changes in direction. The various initiatives, structures, institutions and incentives have either been of insufficient scale and authority to do much good, proved flawed or ineffectual in practice, or have fallen victim to the constant chopping and changing of policy. Bombarded with a confusing array of initiatives, many employers have failed to take sufficient action, particularly in the area of intermediate skills.

It argues that improvements will be best achieved by focusing on making significant progress in a limited number of areas, building on current approaches and recognising that meaningful change will be gradual and requires a stable wider climate.

To this end, the report calls for the Government to boost demand for skills by:

- ensuring industrial strategy has a stronger focus on boosting the quality of people management capability and identifying and matching skills across the economy, working in partnership with the UK Productivity Council, Investors in People, employers, professional bodies, unions and Growth Hubs and Local Enterprise Partnerships at a local and sector level;
- broadening the apprenticeship levy into a wider training levy to help boost and optimise employer investment in skills;
- improving the quality of business support, particularly HR support for SMEs delivered through Local Enterprise Partnerships and Business Growth Hubs to help them to build their people management and development capability;
- allocating 5% of the Government's £23 billion National Productivity Investment Fund towards supporting skills development and lifelong learning;
- asking the Office for National Statistics to conduct an urgent review of training and skills statistics, which should be updated annually.

It also calls on the Government to help boost the supply of skills to the UK labour market by:

- introducing active labour market policies that target disadvantaged groups to help increase the supply of domestic applicants to employers;
- asking the Migration Advisory Committee to produce a list of labour shortage occupations that includes a critical analysis of employer practice in relation to pay and employment conditions, recruitment and skills investment;
- revisiting the potential for personal learning accounts along the lines of the Individual Learning Accounts to address the decline in adult skills funding, provision and take-up;
- raising the quality of careers advice and guidance provided in schools by ensuring that schools that are judged by OFSTED to provide inadequate careers advice to pupils cannot be judged to be outstanding.

But the report concludes that, whilst a number of these changes are well overdue and have the potential to make industries and services more effective and productive, they are unlikely to mean that Britain needs fewer migrants. Some of the sectors the report focuses on are not only highly dependent on migrants now, but have been for many decades. It is highly unlikely that employers in

sectors such as social care, agriculture and hospitality will be able to meet their needs from the unemployed and economically inactive.

In summary, the report highlights the CIPD's view that retaining access to EU migrant labour is fundamental not just to organisational success but to the survival of many businesses and services. This makes it imperative that any new immigration system is fit for purpose, for both employers and for EU migrants themselves. It also highlights the significance of the interdependence of the immigration and skills systems, which, if tackled together, could make a significant and positive contribution to the Government's principal objective of building a strong, fairer, global Britain.

5. MULTI-NATIONAL CORPORATIONS SHARE THE CIPD'S CONCERNS

An article in the 2017 RES Annual Report discussed the impact of Brexit and outlined the findings of a survey in which twenty six multinational corporations contributed their ideas (The RES Forum is an independent, international community of senior in-house international Human Resources professionals with members in over 40 countries.) This survey covers organisations who, by their very nature, will face the labour market impacts of Brexit from day one.

It showed that:

- More than 50% of the corporations expect compliance issues (work permits, social security work etc) to become more complex and onerous;
- 77% felt that it will become more difficult for foreign students and self-initiated expatriates to stay in the UK, so that fewer will be available for companies to hire them;
- Only around one quarter of the organisations felt that they were reasonably well prepared for dealing with the implications of Brexit and had sufficient understanding of how it was likely to affect them;
- Less than one third thought that their company was prepared to successfully respond to a shortage of skilled labour;
- Half of the companies surveyed feel a high degree of insecurity in relation to Brexit implications and 40% believe that Brexit will be costly.

Many of the organisations surveyed commented that there are a range of 'known unknowns', including issues such as further countries leaving the EU or the impact of Brexit on financial markets, as well as the precise nature of the Brexit "deal". Many companies said that they have set up working groups, but are essentially monitoring the developments and are waiting for more precise information.

6. ARE BREXIT-DRIVEN LABOUR SHORTAGES ALREADY HAPPENING?

Whilst the CIPD/National Institute of Economic and Social Research report looks at future changes in government policy which may be needed to avoid Brexit damaging the UK's labour supply and economic prosperity once we leave the EU, there are some worrying signs that the damage may be already occurring.

Figures released back in January showing that the number of nurses from the EU registering to work in the UK since the Brexit referendum had fallen by 90% made headlines, and more recent research

from the Resolution Foundation indicates that similar reductions in the numbers of EU nationals wishing to work in the UK may be happening more widely. These numbers were confirmed in more recent data released by charity The Health Foundation, which revealed there had been a 96% drop in nurses from the EU registering to practice in UK, with 1,304 applications received in July 2016 compared with just 46 in April 2017.

This research notes that, looking at the migration story of the *recent past*, in the year to December 2016 net migration was down by 84,000 to 248,000 compared to 2015. This is the lowest level it has been since March 2014, and a significant fall from the high of 335,000 just before the referendum. This, along with more timely data on national insurance registrations for foreign nationals, shows that a significant shift in the supply of migrant labour may be underway.

The fall in net migration is being fuelled by an increase in EU nationals leaving the UK as well as a drop – although less dramatic – in immigration from those countries. Within this the biggest shift has occurred for EU8 migrants and net migration is now almost zero for this group, down from 50,000 a year ago.

As well as any subliminal message conveyed by the referendum result and its interpretation in the context of immigration, the drop in the value of the pound is likely to be part of the story. There is also a significant divergence between the sharp fall among EU8 migrants, and the lack of change in migration from Bulgaria and Romania. This could be explained by the fact that the referendum created uncertainty about the position, and more importantly future rights, of foreign nationals in the UK. Given that a higher proportion of Bulgarian and Romanian workers immigrate to the UK for temporary or seasonal work, such uncertainty may be having less of an impact on them.

The Resolution Foundation comments that, irrespective of any wider pros and cons of migration, the pace of the recent reduction is set to have an undeniable impact on the UK labour market and on many of UK organisations, noting that those in the care sector are among those likely to see a noticeable impact at this stage.

It points out a danger, following the election result, that until they know more about the shape of the UK's future migration system, organisations will put off hard, but necessary, decisions around investment and staffing, which could have a serious impact on the UK economy. As a result, if recent migration trends continue, organisations could be overtaken by events before they are able to plan how to deal with the changed labour market.

The Foundation highlights that, against this backdrop, many organisations appeared underprepared for a likely post-Brexit drop in migration (a similar finding to that in the RES report referred to above) and had expectations which were at odds with likely changes in immigration. In a survey of more than 500 employers who have EU or EEA nationals on their books, it discovered a worrying gap between the type of immigration system businesses are expecting once the UK leaves the EU and what the government has proposed so far. For almost half (47%) of those surveyed, this gap in expectation was so wide the Resolution Foundation warned they had made “totally unrealistic” assumptions. Meanwhile, a similar proportion (46%) said they do not expect to see any change in

the number of EU nationals in their workforce over the next year and roughly a quarter (24%) thought they might increase the number of migrant workers they employ.

The Foundation points out that there are more realistic (and less optimistic) ways of looking to the future, and that HR professionals in particular should be preparing for the introduction of new migration controls by reviewing the makeup of their organisation's workforce, what it is doing in terms of its workforce development strategy, and where it may be exposed by a sudden fall in interest from EU nationals.

7. CONCLUSIONS

- Brexit will have a strong impact on the public sector, especially on labour supply in the health and care sectors, and with knock-on effects across other sectors. The public sector generally is a larger employer of EU nationals than many other sectors, making it more vulnerable to the impacts of change.
- The biggest impact of the ending of freedom of movement for EU nationals will be on lower-skilled roles in the UK, in terms of both numbers and quality of potential employees.
- The public sector is less well placed than many other sectors to mitigate this impact through automation or moving functions elsewhere.
- But its recruitment mechanisms (which would be seen as rigid and bureaucratic by the private sector) may be an advantage in sourcing employees in an era when compliance becomes more of an issue.
- The public sector also needs to build on its experiences in recruiting from disadvantaged groups in the domestic labour force (e.g. older workers and women returners) to compensate for the reduction in EU workers.
- Local authorities need to ensure that they gain maximum advantage from their roles in local enterprise partnerships to ensure that local skills strategies are attuned to post-Brexit needs.
- HR professionals should be preparing for the introduction of new migration controls by looking at the makeup of their organisation's workforce and at areas where it may be particularly exposed by a sudden fall in interest from EU nationals.

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