

Potential Impact of Brexit on Leeds City Region labour market

Summary

The issue of European Economic Area (EEA) migrant employment is an important one for the Combined Authority since many local businesses rely to a significant extent on this source of labour and skills. The Authority has therefore commissioned research (referred to below) to develop its understanding of the potential impact of Brexit on labour and skills supply and to inform practical actions that can be taken to support business to adapt to a changing environment.

There is a significant level of employment of EEA migrants in Leeds City Region, accounting for around one in 20 workers. However, concentrations of EEA migrant employment are much higher in particular parts of the economy, including the manufacturing sector and routine and lower-skilled occupations.

The impact of the EU referendum on EEA migrant employment in the City Region has so far been limited with no major labour supply issues for employers. However, the result of the referendum is a major source of concern for migrant workers themselves.

Around two-fifths of businesses who employ EEA migrants express concern about the implications of a potential reduction in the availability of these workers. For some businesses this could have a negative impact on productivity, profitability and growth prospects, particularly in the manufacturing and agriculture sectors.

In view of the uncertainty regarding future immigration policy, employers have generally adopted a “wait and see” position rather than taking practical actions, although some are considering changes to their HR and recruitment approach (including use of apprenticeships) whilst others are considering automation as an option (particularly in the manufacturing and agriculture sectors).

Sources of evidence

Our analysis is mainly based on two key evidence sources that are specific to the Leeds City Region and are intended to fill gaps in the published evidence base.

2017 Leeds City Region Business Survey

The 2017 Business Survey was conducted by BMG Research, on behalf of the Leeds City Region Enterprise Partnership in July and August 2017. In total, 2,368 telephone interviews were conducted with businesses from across Leeds City Region.

The purpose of the survey was to provide a snapshot view of business confidence, investment experiences and intentions; and to provide local agencies within the City Region with a significant level of detail about the issues currently affecting businesses in their local

areas. The survey specifically examined employment of EU migrants¹ by businesses in the City Region and also the extent of concerns relating to the prospect of reduced access to EU migrant workers in future.

Qualitative research study to understand migrant labour in Yorkshire and the Humber

Early this year the West Yorkshire Combined Authority commissioned research to help it to assess the current and emerging impact of Brexit on labour / skills supply. The study is a joint project with Humber LEP and York, North Yorks and East Riding LEP. Fieldwork was undertaken during the summer and the report has been finalised.

Some of the key questions addressed by the study include:

- Way in which EU migrants are recruited and utilised within business
- Whether businesses are already experiencing labour supply challenges and how this is expected to develop in the future
- Firms' emerging plans to address the challenge e.g through investment in capital equipment, upskilling etc
- Firms' support requirements from public agencies.

The research approach comprised 90 in-depth interviews with businesses / organisations across the three LEP areas who employ EU migrant workers; 19 interviews with local recruitment agencies; and 15 interviews with EU migrant workers.

EEA migration trends in the City Region

By way of context, evidence from the Annual Population Survey indicates that there are 68,000 workers in the City Region who are EU migrants, based on their country of birth. This equates to one in 20 workers employed in the City Region.

Our Business Survey indicates that one in eight (12 per cent) of establishments within Leeds City Region employs migrant workers from the EU, although the incidence is much higher for organisations employing 10-49 people at 27 per cent and for employers with 50+ staff at 43 per cent.

Manufacturing has the highest intensity of EU migrant employment as well as the highest absolute level, according to the Annual Population Survey. Almost one in eight workers in manufacturing are estimated to be EU migrants. There are also above-average proportions of EU migrants working in transport and storage, administration and support services and accommodation and food services.

Drilling down into specific activities for which data are available, the intensity of EU migrant employment is exceptionally high in the food manufacturing sector, at more than one third of total employment. This is particularly important since this sector is strongly represented in the City Region in employment terms. Other high-intensity manufacturing industries in

¹ To provide ease of understanding for respondents the questioning approach used in our primary research typically refers to EU migrants rather than EEA migrants.

the City Region include clothing (although the absolute level of EU employment is fairly small in this industry), non-metallic mineral products and furniture and textiles.

Among non-manufacturing sectors the highest intensities are in warehousing and accommodation. EU migrants account for approximately 20 per cent and 15 per cent respectively of total employment in these sectors.

Data from the Leeds City Region Business Survey indicate that businesses in the Hotels/Catering (22%), Public Services (20%) and Manufacturing (19%) sectors are most likely to employ any migrant workers.

In occupational terms, EU migrants are heavily (but not exclusively) concentrated in routine, semi-skilled occupations. More than a quarter of workers employed in elementary trades in the City Region are EU migrants whilst around a fifth of operatives fall into this category. This analysis confirms that even though EU migrant employment is relatively modest at an overall level, particular sectors and occupations in the City Region have a significant exposure. This means that some employers face potential disruption should access to migrant workers from EU sources be curtailed.

Taking the evidence on sector and occupation together, the conclusion is that the key areas where dependence on EU migrant employment is greatest are routine operative roles in manufacturing (with particular industries like food manufacture especially exposed) together with elementary manual roles in industries like warehousing.

Impact of the EU referendum

Our intelligence suggests that the outcome of the Brexit referendum has had little impact on labour supply so far.

Our qualitative research indicates that Brexit aside, labour and skills supply are already major concerns for employers. Many businesses, and particularly those in agriculture, manufacturing and social care are already struggling to recruit and retain staff, particularly in low-paid roles. So far though, the direct impact on business of the EU referendum in terms of labour supply has been limited. Most recruitment agencies say that they have not seen a notable impact in terms of a reduction in the number of applications they receive from EU nationals. No businesses in our qualitative sample have seen a significant loss of workers so far but some are concerned about the uncertain policy situation and a lack of clarity regarding the future intentions of their employees.

The results of our programme of in-depth interviews indicate that the outcome of the EU referendum has had a considerable impact on the attitudes and perceptions of EU migrant workers. There are examples of workers who have left the UK or have failed to return for seasonal work opportunities and many are actively considering their future in the UK. There is a feeling that prospective migrants from the EU have developed negative perceptions of the UK.

Advantages and disadvantages of employing EEA migrant workers

A majority of the businesses who were interviewed as part of our qualitative research indicated that labour / skills supply and recruitment difficulties were issues for them.

There is a general expectation that labour costs would increase if there was a need to switch to indigenous workers – arising from a need to make the vacancies attractive, training costs and potentially from increased staff turnover. From an inclusive growth perspective, the prospect of wages rising for indigenous workers is one of the potential benefits of Brexit, although without accompanying action by firms to boost their productivity, this also has the potential to undermine their competitiveness and more generally increase inflationary pressures.

Impact of a possible reduction in availability of EEA migrants

Our business survey and qualitative study both examined employers' perspectives on the potential impact of Brexit on labour and skills supply and whether changes in the level of access to EU migrant workers would affect business performance.

The Leeds City Region Business Survey 2017 indicates that 38 per cent of establishments that employ EU migrants consider it a big concern or something of a concern should the UK's departure from the EU affect their ability to recruit migrant workers from the EU; including 20 per cent that see it as a big concern.

Our qualitative study explored in more detail the implications of a reduced supply of EU migrants upon local businesses who employ EU migrant workers.

Agricultural and manufacturing businesses were most likely to say they would be affected if access to EU migrant workers was reduced with sectors employing lower proportions of EU migrants, such as education, digital and wholesale, much less likely to express concern. Many businesses said their productivity and profitability would be affected if access to EU migrants was significantly reduced. Some also expressed concerns about the impact on firms in their supply chain. Around a quarter of businesses felt their long-term growth might be impacted, with a small number foreseeing no option but closure if they could not maintain their EU workforce (although relocation was not being considered as an option by the vast majority of businesses at this point in time).

Businesses with the largest number or proportion of EU migrant employees are not surprisingly the most concerned about the labour supply implications of Brexit and these tend to fall within defined sectors. However, some businesses with relatively few migrant workers employ them in critical roles which are crucial to the operation of the business, suggesting that the exposure to Brexit is more widespread than might be expected.

EU migrants who have been in the country for a short time feel greater uncertainty about their future in the UK, largely because their prospects of achieving UK citizenship are less clear-cut. Businesses and sectors with a settled workforce of EU migrants are perhaps less likely

to be affected by Brexit and some employers in this category are confident about the future outlook.

What actions are being taken by business and what plans are they making for the future?

Due to the relative uncertainty around the outcome of Brexit negotiations, most businesses were adopting an iterative “wait and see” approach with very few having taken firm steps so far. There is a general recognition, however, that any plans will take time to take affect and may not be sufficient to address a labour supply shock.

Around a third of respondents had given some consideration to changing their recruitment / HR strategy in response to Brexit, although none had taken concrete steps to take this forward. The most commonly considered option is use of apprenticeships. A similar proportion felt they would look into automating aspects of work if necessary, with this being most common in manufacturing and agricultural sectors. The practical feasibility of implementation and cost are constraints for some businesses.

Very few businesses are considering more radical changes to their business model to take account of the labour /skills implications of Brexit. Among those that are considering restructuring their business this is not in the main a response to Brexit but was under consideration anyway.

What support does business need?

None of the businesses responding to the qualitative research had so far accessed business support in anticipation of specific labour supply issues arising out of Brexit.

Some businesses were open to support being provided via business support organisations, albeit more for skills/training (around half) than capital investment or automation (both around a quarter).

There is potential to support businesses through key issues, including provision of information on Brexit implications, advice/support on employee citizenship rights and continuing to represent the views of local businesses to relevant political bodies.

Business does not perceive that there is a pressing need for specific support beyond this due to the uncertain environment that currently prevails and the lack of clarity about the steps that need to be taken.

In general, employers are not providing proactive support to their employees who are EU migrants, although they are not averse to doing so. Migrant workers tend to rely on family, friends and migrant co-workers as sources of information and advice. There may be a role for businesses in providing a more proactive approach to employees, potentially involving signposting to relevant organisations and helping, if required, with citizenship requirements.