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**Report to:** Employment and Skills Panel

**Date:** 29 November 2018

**Subject:** **Preparing for Brexit - Skills**

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## **1 Purpose of this report**

- 1.1 To provide an update on the latest economic and business intelligence for the Board and to consider the key messages from this as the UK prepares to leave the European Union.
- 1.2 To update the Employment and Skills Panel on ongoing work to prepare and support the city region's businesses and communities ahead of the UK's withdrawal from the EU.
- 1.3 To seek the Panel's comments on whether the preparations are sufficient and identify any potential gaps or requirements.

## **2 Information**

### **Main national and international headlines**

- 2.1 The main headlines are:
  - The International Monetary Fund (IMF) has recently revised down its forecasts for global growth to 3.7% for both this year and next – down 0.2% from its forecasts in April. Recently announced tariffs and trade measures are key reason for this downward revision, which keep growth projections in line with 2017.
  - The IMF forecast growth in the UK to slow from 1.7% in 2017 to 1.4% and 1.5% in 2018 and 2019 respectively. Poor weather in Quarter 1 (Q1) is a factor in this, though anticipated higher barriers to trade post-Brexit are also a factor in the medium term despite the IMF assuming that UK-EU trade remains tariff-free.
  - UK Gross Domestic Product increased by 0.7% in the three months to August. This is substantially higher than the 0.1% growth in March-May.

Warm weather was an important factor in this. The service sector expanded by 0.5%, though this was outpaced by growth of 0.7% in production and 2.9% in construction.

- UK productivity increased by 0.5% in Quarter 2 (Q2) 2018, following a Quarter on Quarter fall in Q1. Productivity growth remains below the pre-recession trend.
- Inflation fell to 2.4% in September, down from 2.7% in August whilst average earnings increased by 3.1% in the three months to August, the highest annual growth rate since 2008. Real pay has increased by 0.7% in the past three months, with wage growth outpacing inflation for five consecutive months.
- Total employment in the UK was largely unchanged in the three months to August, according to Office of National Statistics (ONS). The employment rate dipped to 75.5% from a record high of 75.7%.
- Unemployment also fell by 47,000 to 1.36 million, an unemployment rate of 4%.

### **Leeds City Region economic headlines**

2.2 For Leeds City Region, the key headlines include:

- The value of goods exports from Yorkshire and Humber increased at a faster rate than any other English region between Q1 2018 and Q2 2018. The region's goods exports increased by 3.4% in Q2, compared to a 2.2% fall nationally, according to HMRC data. The region has seen the joint fastest growth in goods export of any English region since the EU referendum in June 2016.
- New ONS analysis suggests Yorkshire and Humber exported services worth £7.78bn in 2016, an increase of 8.1% on 2015. This growth rate is third lowest among UK regions, and falls between North West (-0.9%) and North East (+14.3) at a northern level.
- Business activity continued to expand across Yorkshire and Humber through September according to the Natwest Regional PMI (Purchasing Managers Index), albeit at a reduced pace.
- Yorkshire businesses reported increased domestic and international demand in the PMI survey, and remain optimistic that output will continue to increase over the next year. As such, headcounts continue to expand.
- Total employment in Leeds City Region increased by 4,000 (0.3%) between Q1 and Q2 2018, taking the employment rate to a new record high of 73.7%. Employment increased faster than in the UK as a whole where it increased by 0.1%.
- Unemployment in the City Region fell by 3,100 (4.5%) in Q2 2018. There are now 65,200 people unemployed, the lowest level since 2005. The unemployment rate is 4.4%, also its lowest since 2005.

### **Brexit commentary and assessment**

2.3 There are signs that UK businesses are beginning to become increasingly alive to the uncertainty of Brexit negotiations and the perceived higher risk of a "no deal" outcome. A Confederation of British Industry (CBI) survey suggested

one in five businesses had already begun to implement contingency plans, with increasing numbers of companies planning to follow suit if no certainty emerges before the end of 2018. Similarly, the Chambers of Commerce have reported lower levels of investment in their national survey for Q3.

At City Region level, the labour market remains relatively strong with employment increasing and unemployment decreasing. However, it is notable that some of the sectors that have seen strong employment growth of late are among those with reliance on EU workers which may pose a challenge to these industries in future, most notably logistics and hospitality sectors.

The region's goods exporters continue to see the benefit of sterling's fall and have seen export activity expand strongly in the past two years. This may be a factor in the continuing levels of confidence among the region's businesses, who remain more optimistic than those in most other regions. The apparent fall in new business starts does however suggest a degree of hesitancy in some quarters.

That same hesitancy is evident in the housing market, where sales volumes point to a slowdown despite rising prices. Many households, like businesses, appear to be waiting for clarity and confidence in future arrangements before making significant investment decisions. This pattern may be more evident in the consumer sector as it enters the critical Christmas trading period.

### **Implications for employment and skills**

2.4 In September 2016, it was reported to the Panel that:

- There are approximately 68,000 EU migrant workers in the City Region, equating to around one in 20 of total workers in employment;
- The district with the strongest concentrations of NI registrations from EU migrants is Leeds, with 37 per cent of the City Region total. More than three-quarters of registrations are concentrated in four districts (Leeds, Bradford, Wakefield and Barnsley);
- The broad sectors with the greatest numbers of EU migrant workers are manufacturing, wholesale / retail and transport / storage. More than one quarter of all EU migrant workers are employed in manufacturing in the City Region;
- One in eight workers in manufacturing are estimated to be EU migrants. The detailed industries with the highest intensity of EU migrant employment include food manufacture and clothing manufacture. Among non-manufacturing sectors the highest intensities are in warehousing and accommodation. Anecdotal evidence suggests that some employers have developed their entire business model around the use of EU migrant labour;
- There is a particularly heavy reliance on EU migrant workers in semi-skilled occupations including elementary process plant operatives (18,000 workers which represents 45% of total employment).

2.5 There is already some evidence that the influx of EU migrants into the local labour market is reducing. According to figures from the Department for Work

and Pensions the number of EU nationals registering for a National Insurance number (NINo) within the City Region declined by 22 per cent between 2016/17 and 2017/18 (April to March for both periods). According to the Bank of England Agents' report (Q2 2018) a slowing in the inward flow of EU migrants for lower skilled and/or seasonal work is acting as a constraint in sectors such as agriculture and food, hospitality and warehousing.

### **Preparation for Brexit – skills services**

- 2.6 Since December 2016 the Combined Authority and Leeds City Region Enterprise Partnership (LEP) have continued to develop the products and services provided to business to help strengthen the support offer so that it remains relevant to the needs of businesses in the current climate. Work is also underway to maximise the drawdown of European Structural funds to help enhance the services provided in those areas that will provide most benefit to our businesses and our citizens, across the areas of Business Support, Inward Investment, Trade, and Employment and Skills.
- 2.7 Businesses with a high volume of EU migrant workers may respond to greater controls on movement of labour by recruiting greater numbers of local people in future. Alternatively, businesses may respond by automating routine processes and replacing high volumes of low skilled jobs with fewer higher skilled employees. In either of these scenarios, support is available for businesses and individuals with the Growth Service providing an initial point of entry to all business support services:
- Skills Service advisors can support businesses to develop a plan to upskill their existing staff to meet new requirements and to find appropriate training, with subsidies available, to support businesses to address skills shortages. Advisors will be briefed to discuss preparing for Brexit more proactively with the companies they are advising.
  - Extensive support is available through Jobcentre Plus to design a bespoke recruitment package to meet employer needs and find the best people to fill jobs. In the case of businesses losing large numbers of semi-skilled workers, this offer will be particularly relevant to mitigate the impact.
  - Where individuals want to re-train in order to access new employment opportunities, tailored support will be available through the [re]boot programme, launching in January 2019.
  - The Apprenticeship Grants for Employers programme (AGE) supports non-levy paying businesses to recruit apprentices for the first time, including to address skills shortages as a result of Brexit.
  - The European Structural and Investment Fund-(ESIF) funded Employment Hub (launching January 2019) will support 15-24 year olds to access support for training, employment (including apprenticeship) and self-employment. It will also engage businesses in offering apprenticeships and other employment opportunities and offer a job match service.
- 2.8 It will be important to work closely with firms in key sectors heavily reliant on European Economic Area (EEA) migrant workers to support their skills needs and to make sure they have access to a local workforce that meets their

labour needs. Briefings will be provided to colleges, universities and independent training providers, via the Leeds City Region Skills Network, about those areas of the economy that are most heavily reliant on EU migrant workers. It will be important that these providers respond to the needs of these sectors by ensuring that appropriate training provision is available.

### **3 Financial Implications**

- 3.1 All employment and skills services, including those listed above, are externally funded, time limited and constrained by the requirements of the funder/s.

### **4 Legal Implications**

- 4.1 There are no legal implications directly arising from this report.

### **5 Staffing Implications**

- 5.1 The majority of LEP/Combined Authority staff working on this agenda are funded through short-term external sources to deliver specific services. If additional services are required, funding would need to be identified and secured to deliver these services, including funding staffing requirements.

### **6 External Consultees**

- 6.1 No external consultations have been undertaken.

### **7 Recommendations**

- 7.1 It is recommended that the Panel notes the update and considers whether there are any gaps in the Employment and Skills services provided to Leeds City Region businesses and individuals by the LEP/Combined Authority and other organisations.

### **8 Background Documents**

None.

### **9 Appendices**

None.