

# Brexit:



how talent supply & demand will shift  
in U.K. and EU labour markets.

# the final outcome of Brexit may be beyond your control.

As the drama over Brexit plays out, employers are understandably apprehensive about the impact the separation will have on the labour market for months, if not years. In the U.K., concerns about accessing and retaining EU talent are weighing heavily on companies' workforce strategies, especially for those who have traditionally relied on workers from the more recent members of the Union.

There is good reason for concern. Government data shows that shortly after the Brexit referendum, the number of EU nationals leaving the U.K. began to rise, with the trend accelerating as the deadline approached.

At the same time, as a number of businesses have begun relocating offices to continental Europe, demand for skilled labour may exacerbate an already scarce market in places such as Amsterdam and Frankfurt, leading to greater competition for workers. While no one knows for sure the impact Brexit will have on Europe's labour market, one thing is clear: the reverberations will be far-reaching and disruptive to employers for the foreseeable future.

Companies, especially in the U.K., shouldn't regard Brexit only as a disruptive event for their talent strategies. There are ways for employers to minimise the impact, and the U.K. government has taken steps to help European nationals living in Britain and Northern Ireland.

Many U.K. employers have initiated efforts to shore up their talent pipeline so that even after the Brexit deadline, they will have access to the people needed to support their business. Furthermore, a potential transition period will provide a buffer against severe economic consequences, providing employers and businesses time to adapt to the new U.K.-EU relationship.

Additionally, the proposed Irish Backstop provides open borders between the U.K. and Europe after Brexit to ensure an orderly transition during Brexit in the event future trade talks were to breakdown. As EU and British lawmakers continue to discuss terms of the Backstop, this may provide relief to business leaders on both sides should no deal be reached by the deadline.

The final outcome of Brexit may be beyond your control, but how you adjust to the changing market conditions is.



# concerns about talent.

For employers, Brexit represents a significant overhaul of the labour market. Even though the impact won't be immediate due to residency protection for the EU workers already in the U.K., the long-term implications are consequential. Many businesses fear that access to talent, especially blue-collar, hourly workers, will be significantly restricted once the separation has been completed in a few years.

The British market has for decades relied on Europe for a steady stream of talent to fill roles such as doctors, engineers, construction workers, hospitality specialists, housekeepers and others. In fact, the U.K. has one of the largest migrant populations in the world, with 13% of the total population (8.8 million) born elsewhere. Since the turn of the millennia, this population has increased 87%, according to government data.

Of the immigrant population, those from the EU account for 3.7 million people and are the largest bloc of non-natives. From 2000 to 2017, the number of EU immigrants nearly tripled (272%). Among those coming from the Union, the Polish population is by far the largest, estimated to be around 922,000, more than twice the number of Irish or Romanian natives at 390,000 for each group.

But the U.K. economy is not solely reliant on EU labour. In fact, Nearly three million Asia-born immigrants reside in the country, with those from Indian and Pakistan accounting for the largest portion at more than 1.4 million.

In recent years, African natives arrived in the U.K. at a much higher number, driven by inflows mostly from the continent's sub-Saharan region. According to [the BBC](#), in 2016 the majority of those granted British citizenship came from the sub-Saharan area and South Asia. Since 2000, immigrants born outside of the EU has risen 73%, according to the U.K. government.

While the number of total immigrant workers has steadily grown over the years, talent scarcity remains a growing concern. Government data shows that the number of job vacancies in the U.K. has risen 72% since 2011, with a huge increase (148%) reported for skilled roles.

The [2017 Employer Skills Survey](#) stated that 36% of construction vacancies were hard to fill because applicants lacked the relevant qualifications, experience or skills. The survey results indicate that nearly one in four (24%) vacancies in the business services sector were a "skills shortage vacancy" as were 18% of financial services vacancies and 29% in manufacturing firms.

When prompted to select what impact skill shortage vacancies had on their firms survey respondents said 27% of skill shortage vacancies had led to higher operating costs and 21% of the time skill shortages led to business or orders being lost to competitors. Over half of skill shortage vacancies resulted in increased workloads for current staff.

U.K. industries such as food manufacturing, domestic services and hotel and hospitality rely heavily on EU nationals to staff its workforce, whereas non-EU immigrants are more involved in roles supporting security-related activities, land transport and computer programming. Several other key differences are that non-European immigrants generally are more skilled than their EU counterparts, who tend to be younger. Their age may explain why EU nationals are less skilled.

# the skills in demand.

With the U.K. economy so dependent on immigrant workers, how Brexit will curtail access to talent is a looming question facing many companies. Government data shows there is already an impact ahead of the Brexit deadline as a notable drop-off in EU immigration is unfolding.

This is likely due to the perception that the U.K. will become more difficult for immigrants to find employment or feel welcomed in the future, despite the fact that no restrictions have yet gone into effect. Even after the deadline, provided a withdrawal agreement is ratified, a transition period will provide workers and employers time to prepare for immigration changes.

Nevertheless, the number of EU nationals working in the U.K. has begun to decline. As of September 2018, the total fell by 107,000, the largest drop since Q2 2010. Notably, the change was most significant among members of the EU-8 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia) with a decline of 12%. Those in the original union (EU-14) saw little change (-1%), whilst the number of workers from Bulgaria and Romania (EU-2) rose 36%.

Concerns about proposed restrictions on lower-wage workers and limited talent mobility are having a clear impact on EU workers' willingness to accept employment in the country. Furthermore, it has driven immigrants in some talent-scarce sectors to return to their home countries or elsewhere in the EU. Starting in Q4 of 2015, the number of EU nationals leaving the U.K. started to increase after a long period of stagnation. This trend accelerated in subsequent quarters, reaching a historic high in Q2 of 2018 to 145K,000.

The U.K.'s Food and Drink Federation, which represents manufacturers of food and non-alcoholic drinks, conducted a survey in 2017 that found 47% of employers were concerned that EU nationals may consider leaving the U.K. It also found a decline in seasonal job applications.

Another sector that may be significantly affected is financial services, which as of 2016 had 7.5% of its workforce staffed by EU nationals. It relies on immigrants to supplement the shortage of skilled native workers (cited by 84% of companies surveyed), acquire special expertise (76%) and for relocation reasons (64%).

The sector, according to the government's 2018 Employer Skills Survey, saw its skills gap rise from 3.7% in 2015 to 5.0% in 2017. Additionally, a number of banks have started to relocate offices and European headquarters to elsewhere in Europe.

One study showed that EU nationals leaving public sector jobs such as healthcare and universities rose 15% between 2016 and 2017. The NHS last year warned that at the end of the transition period in 2021, it will need 51,000 nursing staff to adequately provide care in the U.K.

Other critical skills will be in high demand by then as well. The government found that skilled engineers across many sectors – energy, aerospace, automotive, railway, construction, civil engineering and IT – are those in highest demand, followed by healthcare and IT. Among trade skills, roles such as pipe welders, licensed engineers and inspection technicians, line and cable specialists and chefs are all sought after by employers.

The loss of EU nationals in the U.K. labour market is also exacerbated by EU members seeking to bolster their own workforce. For instance, German employers are incentivising nurses currently in the U.K. to relocate to Germany. One report recently showed 1 in 3 nurses are considering leaving their jobs. A Randstad survey of more than 10,500 construction workers revealed nearly the same ratio of those who may return to their home countries.



# employers prepare for any outcome.

One of the challenges for employers trying to assess the impact of Brexit on their workforce and talent pipeline is the uncertainty of Brexit negotiations. Possible outcomes include a delay to the U.K.'s departure from the EU, a renegotiation of the current deal, a last minute ratification of the current withdrawal agreement or no agreement being reached.

Whatever the outcome, employers on both sides of the English Channel can prepare their talent strategy and minimise disruption in the immediate and long-term future. The key is to buffer existing EU nationals from personal and professional disruption while working in the United Kingdom.

Conversely, EU companies should consider how to attract talent returning to the continent and helping them to settle into a life back at home or in a new country. Lastly, U.K. employers should reassess their talent management and attraction strategies to ensure they are still competitive in a tightening labour market.

## start with 'settled' application.

For U.K. employers, the most important initial measure is to reassure existing EU workers that they are welcomed to continue working in the country. There may be widespread confusion about what will happen on Brexit's official start, but they should be made aware they can remain in the U.K. through [application for "Settled" or "Pre-settled" status](#).

Workers have until June 30, 2021 to seek one of the classifications (those who have maintained residency for five continuous years will receive "Settled" status while those with less time can receive "Pre-settled" approval). The government has removed application fees to encourage EU nationals and their family to seek permanent residency. Applicants who took part in the pilot scheme will receive refunds once the scheme is fully open.

Employers can help their EU workers apply through assistance programs or consultation. According to the Home Office, the application takes 30 minutes to complete, and applicants can do this through an Android app and will be notified of the government's decision by email. So far, all applications have been approved.

Once EU residents in the U.K. have received approval, they don't need to worry about legally working in the country, which presumably will remove any pressing need to leave. But even if EU nationals choose not to seek permanent residency, they can remain until June 30, 2021, which would provide adequate time for employers to seek a replacement or relocate the role to the EU. The most important consideration is that EU nationals should not be made to feel pressured to abandon their jobs.

Protecting existing workers is one critical step, but what about ensuring access to talent? Because the EU has been such a significant source of much needed workers, Brexit poses challenges to companies that will need a variety of skills sourced across the continent.

Under any kind of Brexit outcome, talent migration is likely to continue. Migration will not stop; rather, it will likely become more bureaucratic. Depending on the outcome of negotiations with the EU, the U.K. may be able to continue to easily access Europe's workforce.



Already, there are initiatives to open up migration for skilled workers. The government has proposed eliminating the cap on skilled workers migrating to the U.K., which previously limited the annual total to 20,700 from all countries.

The new proposal would allow employers to hire as many skilled individuals as they need, as long as the roles meet the wage threshold of £30,000 annually and are sponsored by an employer. The proposal is a recognition of the widening skills gap occurring in the U.K., and this proposal would apply equally to EU and non-EU nationals.

For businesses that have been constrained by the cap in the past, the change could actually improve their access to talent after Brexit. It would enable employers to source skills wherever they are available and create a deep and flexible pipeline for the future.

The larger question is how the U.K. will treat the movement of lower-skilled talent. Prime Minister Theresa May has advocated immigration based on skills, and post-Brexit recommendations made by the Migration Advisory Committee were recently backed by May and the Labour Party. This will likely be a sticking point with the EU, which opposes such an approach.

Some observers predict that immigration from other parts of the world may accelerate because the U.K. economy will still need lower-skilled labour in industries such as hospitality, domestic services, construction amongst others. This requirement will be difficult to fulfill using existing residents of the U.K. as the national unemployment rate is low, while the workforce participation rate is high when compared to other OECD nations.

Advocates of Brexit also cite the increased use of technology and automation as well as sourcing more U.K. nationals to fill many of these roles. The U.K. has a low robot-to-worker ratio, but this may change as the workforce ages and service robots become more capable and affordable. However it is yet to be seen if these remedies can adequately address the needs of employers in an economically feasible way remains to be seen.

In all likelihood, Brexit poses short-term challenges to employers in need of both lower and highly skilled workers. With adequate planning and consideration for embracing alternative types of work arrangements such as temp, freelance or statement of work (SOW), many organisations can effectively navigate this European sea change.

To learn more about the impact of Brexit on your talent strategy, [contact us](#).



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As an operating company of Randstad N.V. — the world's leading global provider of HR services — Randstad Sourceright continuously builds and evolves talent solutions through recruitment process outsourcing (RPO), managed services programs (MSP) and total talent strategies.

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