



The
manufacturers'
organisation

MAKING MIGRATION WORK FOR MANUFACTURERS

ACCESSING SKILLS IN A POST-BREXIT WORLD







FOREWORD

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With historic decisions for the future of the UK to be made later this year and next, this report sets out a blueprint for the government to re-focus its Brexit plans as it enters into some of the most complex negotiations of our recent history. Now is the time for the voice of manufacturing to be heard, for the importance of our sector to be heeded, and for skills that our sector needs to be safeguarded.

The UK's EU referendum, now a year old, marked a watershed in our modern history and heralded the start of a period of uncertainty for people and businesses. This uncertainty has been allowed to drag on for too long, and manufacturers are seeing increasing anxiety among their workforces, unsure of the UK's future outside the EU. The UK government must now rethink its Brexit strategy, putting access to the single market and a form of customs union at its centre. Given the wasted year which has now passed since the referendum took place, government must act quickly and decisively, and spell out how it intends to safeguard the rights of residence, work and family life both of all EU citizens in the UK and of UK nationals in the EU. The period of limbo must be brought to an end.

Manufacturers need to know as quickly as possible what the future will hold for them. They want to see a smooth exit from the EU, with a focus on trade and close cooperation between the UK and EU, and a suitable transitional period before any changes take effect. Questions on trade barriers, the future access to skills and the movement of people are currently clouded in doubt. While there are clear intentions from both the EU and the UK to reach a balanced settlement for people and business, nothing can be taken for granted, and people and businesses need time to plan for the future. So, alongside clarity on the position of UK and EU nationals, we need to know, within the same period, what the future arrangements will be for new arrivals in the UK post-March 2019.

With the UK labour market at near full employment, if manufacturers are to continue to grow, invest, export and innovate, they will continue to need the ability to recruit new EU workers at all skill levels well beyond 2019. This report sets out how a future managed migration system can work for manufacturers.

EXECUTIVE SUMMARY

An EEF report published immediately after the referendum, entitled ‘What Next for Britain and the EU?’¹, set out our initial priorities for the sector following the referendum result. Among these principles was the need to address the yawning UK skills gap, with our call on government to maintain the current UK skills base and develop a new immigration policy enabling manufacturers to access much-needed skills. One year on from the referendum result, this report provides a new, detailed look at how the government should take forward this principle.

Our report is based on a survey of 243 manufacturing employers, regional focus groups and one-to-one discussions with manufacturers. It finds that more than three-quarters of manufacturers recruit EU nationals. On average, EU nationals make up 11% of the total manufacturing workforce. They fill a wide variety of job roles but are typically recruited as plant and machine operatives and in skilled trades and associate professional (e.g. engineering) positions. Manufacturers rely on the EU to fill low, mid and highly skilled roles.

For some, recruiting EU nationals is an organic process, with employers simply recruiting the best candidate for that particular job and not deliberately seeking overseas talent. Their ability to do so has been a result of the flexibility provided by the principle of the free movement of people, which has been a great success story and a major economic building block of the European Union. Employers have become familiar with the ability to recruit EU nationals and to source workers from a wider talent pool. This is in stark contrast to the complexities and costs that employers face when attempting to recruit highly skilled labour from outside of Europe.

However, there are many reasons why manufacturers recruit EU nationals. At the top of that list, cited by some 64% of employers, is an insufficient number of UK nationals applying for jobs within the industry. They just aren’t receiving enough job applications from the domestic workforce. During focus groups we heard from manufacturers who have received no UK applicants at all for particular roles. It’s not just

a quantity issue either. Many manufacturers say the skills needed can’t be found within the UK labour market. It should come as no surprise, then, that EEF research continues to highlight the challenges of recruiting the right people with the right skills in the UK.

It is for this reason that more than two-thirds of manufacturers are currently recruiting engineering apprentices. A similar number are recruiting engineering graduates as well as continuing to invest in their existing employees. They are also thinking long term – engaging with schools and colleges to promote careers in manufacturing, although this is never an easy task. These actions offer no quick fixes, however, and therefore retaining immediate and flexible access to global talent is imperative.

Our report asks the questions, has the EU referendum result made the skills challenge more difficult for manufacturers? Have we seen an exodus of EU nationals from the UK, and have job applications from EU nationals for UK jobs fallen off a cliff? The answer is no, not currently, but there are signs that applications from EU job seekers are falling away. This is concerning, as we are asking these questions at a time when the UK’s future deal with the EU remains employers’ great unknown, and the UK has not yet left the EU.

With a lack of clarity around what will happen when the UK eventually leaves the EU, manufacturers are taking steps now to mitigate the inevitable impact of Brexit, which may hamper their ability to recruit

¹EEF (2016), What Next for Britain and the EU?

the right people in the right numbers. Some are increasing investment in training new and existing recruits; others are increasing pay and offering additional financial support. But the majority are weighing up their options and scenario planning. A common thread in our discussion with manufacturers is the need and desire to increase investment in automation and new digital technologies and to mitigate reliance on people with lower skill levels. All the signals are that migration of significant numbers of people at lower skill levels will cause greater challenges.

Driving these considerations is the uncertainty of knowing what restrictions manufacturers will face in order to access and recruit new EU workers after the UK leaves the EU, with particular concerns that government may introduce new costs and administrative barriers for businesses. In our survey,

we posed scenarios based on length of stay as well as applying minimum salary and skill level thresholds to gain a greater understanding of the potential impact post-Brexit options may have.

The results are of concern. Applying the same, or similar, model as that which governs non-EU nationals will make it significantly harder for manufacturers to access the skills they need. Given that the proportion of hard-to-fill vacancies in our sector now is 35%, this can only worsen if we see post-Brexit restrictions to migration similar to those that currently apply to non-EU workers.

As such, we have made recommendations as to how a post-Brexit migration system should operate, introducing a new way of recruiting EU nationals and an easier, more flexible, less costly way of recruiting non-EU nationals.

THE SKILLS CHALLENGE

What skills challenges do manufacturers face now and in the future?

72% of manufacturers are concerned about finding the skills their business needs.²

35% of vacancies in manufacturing are considered hard to fill.³

265,000 new entrants are required each year between now and 2024, of which 186,000 will be in key engineering roles.⁴

Sourcing the right people with the right skills remains a significant challenge for manufacturers. As we set out in our 2016 report – ‘An Up-skill Battle’ – access to skills is fundamental if manufacturers are to fulfil their future growth ambitions. However, almost three-quarters of companies (72%) were concerned about finding the skills their business needs. Where manufacturers have recruited engineering professionals, they have faced problems in doing so, with 73% saying they found it difficult to fill these positions.⁵

Manufacturers are growing increasingly concerned at not just the quality of people coming into the industry but also the quantity. More than a third (35%) of all vacancies in manufacturing are considered hard to fill – a figure that has not improved in recent years. The number of roles being hard to fill owing to skills shortages is particularly acute in manufacturing and has again remained static.⁶

There is increasing demand for higher-level skills, with previous EEF research finding trends towards

increasing requirements for leadership and management and people management skills. These are sitting alongside demand for technical, design and production-related skills, as well as for IT, digital and software skills. As manufacturing moves forward and adopts new technologies and processes required for the fourth industrial revolution, there will be a shift towards people in higher-level roles requiring more of these as well as new, specialist skills.

How will this demand be met?

Manufacturers have led the way in increasing the pipeline of talent into the manufacturing industry. More than two-thirds of companies currently offer apprenticeships and two-thirds have recently recruited an engineering graduate. Such investment does not offer immediate payback. The average length of an engineering apprenticeship is four years, and this is the same for engineering degrees. It then takes time for new recruits to become experienced members of the manufacturing workforce.

Moreover, the reliance on this younger cohort is unlikely to meet demand, as

projections suggest that the number of young people entering the UK labour market in future is set to fall. Despite manufacturers’ best efforts – such as 78,480 manufacturing and engineering apprenticeship starts in 2015/16 – the challenge will be completions, which in previous years have lagged behind starts.⁷ Similarly, in 2016 there were 170,315 engineering degree applications but only 30,775 acceptances. Even then, manufacturers can’t always recruit graduates with STEM (science, technology, engineering and maths) disciplines, as they are in demand across various sectors of the economy.

Industry must then make better use of the existing stock of skills available to them. This can, and will, be achieved through investment in the existing workforce, up-skilling and re-skilling employees, and holding on to older workers with specialist skills.

But it also means that we must retain immediate access to a global talent pool. The next chapter of our report looks into the role that EU nationals in particular play in meeting the manufacturing skills challenge.

²EEF (2016), An Up-skill Battle.

³UKCES (2015), Employer Skills Survey.

⁴UKCES and Warwick University (2016), Evidence Report 2016 via Engineering UK Annual State of Engineering Report.

⁵EEF (2016), An Up-skill Battle.

⁶UKCES (2015), Employer Skills Survey.

⁷The Data Service, Apprenticeship starts and completions by sector subject area: <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships>

THE IMPORTANT ROLE EU NATIONALS PLAY IN MEETING THE SKILLS CHALLENGE

EU nationals in the manufacturing workforce

More than three-quarters (76 %) of manufacturers currently have at least one EU national working in their business. EU nationals make up, on average, 11 % of the manufacturing workforce.

As outlined in the previous chapter, securing a skilled and productive workforce has long been a key priority for manufacturers across the country. Manufacturers recruit from within the UK whenever possible, but European markets further afield are key to providing the skills they need. As a result, more than three-quarters (76 %) of manufacturers have at least one EU national working in their business, and less than a quarter (24 %) say they have no EU nationals in their workforce.

Looking across manufacturing, the average manufacturing workforce is composed of:



87% UK nationals
11% EU (exc UK) nationals
2% non-EU nationals

Source: EEF (2017) Your Workforce & Brexit

The company size difference

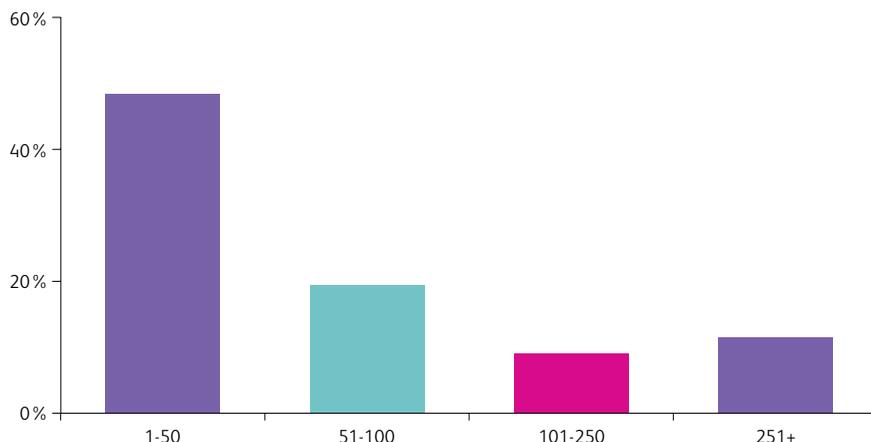
Mid-sized and larger firms are more likely to have a strong presence of EU nationals within their business than smaller companies.

Our survey found that just under half of all manufacturers (48 %) with fewer

than 50 employees employ no EU nationals, and a third (32 %) say that EU nationals make up 1–10 % of their workforce. That said, because of their small numbers, 5 % of small businesses (1–50 employees) say that between 50 % and 100 % of their workforce are EU nationals.

Chart 1: Small firms are more likely to say they have no EU nationals in their workforce

% companies saying they have no EU nationals in their business by company size



Source: EEF (2017) Your Workforce & Brexit

In comparison, only 12% of larger companies (with more than 250 employees) have no EU nationals within their business. Almost four in ten (39%) of larger firms say that between 1% and 10% of their workforce is composed of EU nationals, and 27% say that between 11% and 25% of their workforce is made up of EU nationals.

The sector split

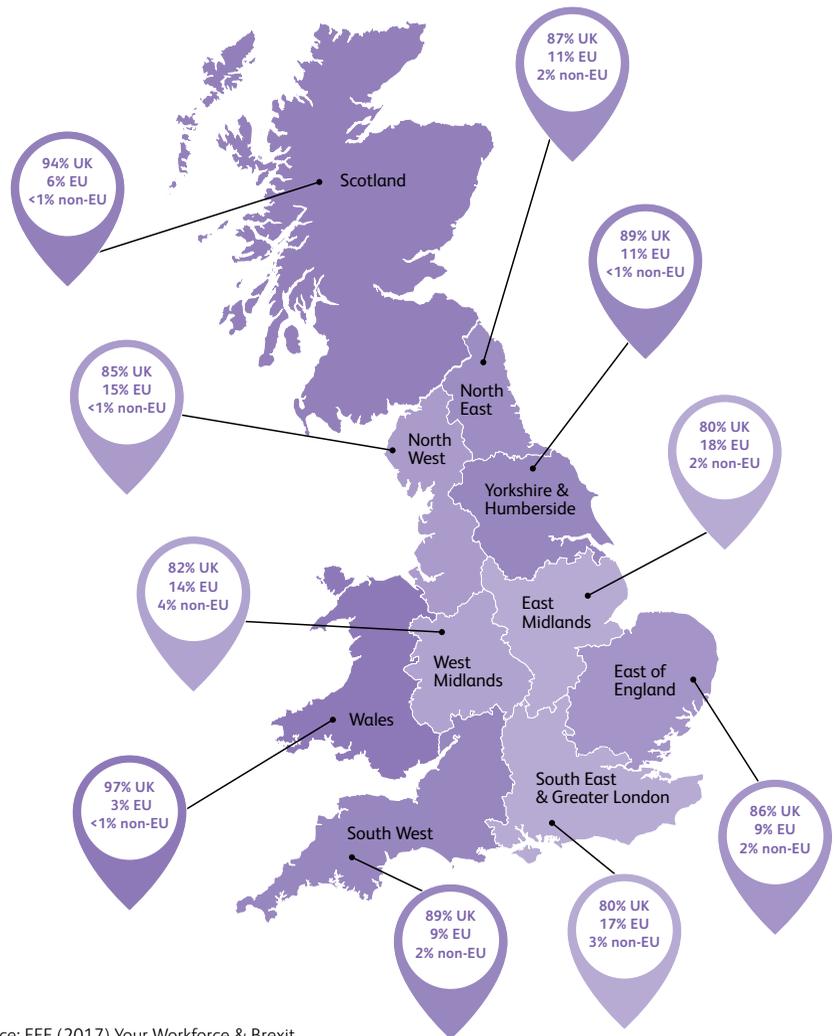
There are also noticeable differences between sectors in manufacturing. On average, EU nationals make up 14% of the workforce in the metals and metal products sector and 11% of the vehicles and transport sector. This falls to just 8% for mechanical equipment. Some of this can be attributed to the job roles that EU nationals fill within these companies. We explore this later in the report.

The sector split: EU nationals make up a higher % of the workforce in certain sectors

-  **14% EU nationals**
Metals and metal products
-  **11% EU nationals**
Vehicles and transport
-  **10% EU nationals**
Rubber & plastics and chemicals
-  **10% EU nationals**
Electronics and electrical equipment
-  **8% EU nationals**
Mechanical equipment

Source: EEF (2017) Your Workforce & Brexit

Average manufacturing workforce:



Source: EEF (2017) Your Workforce & Brexit

The geographical variation

Overall, a quarter of manufacturers (24%) do not have any EU nationals working within their business. However, there is a noticeable geographical split. Wales, Scotland and the North East region are most likely to say they have no EU nationals working in their companies (40%, 34% and 33% respectively).

Manufacturers based in the East Midlands, South East and Greater

London are more likely to report a higher percentage of EU nationals working in their business than in other regions. This is no coincidence given that these areas also have significantly higher numbers of EU and non-EU nationals already living in these regions.

There is also regional variation when it comes to volumes of EU nationals working within businesses. As expected, EU nationals are in higher

volumes in companies in the South East and Greater London: one in five manufacturers say that between 25% and 100% of their workforce consists of EU nationals, and almost a quarter (24%) of manufacturers in the South East and Greater London say that between 25% and 100% of their workforces are EU nationals. This compares to the North West region where one in five manufacturers (21%) say they have no EU nationals and half said between just 1% and 10%.

During our focus groups, manufacturers who have a higher than average percentage of EU nationals in their business tended to say that there is a high density of EU nationals living in the areas.

The job roles that EU nationals fill

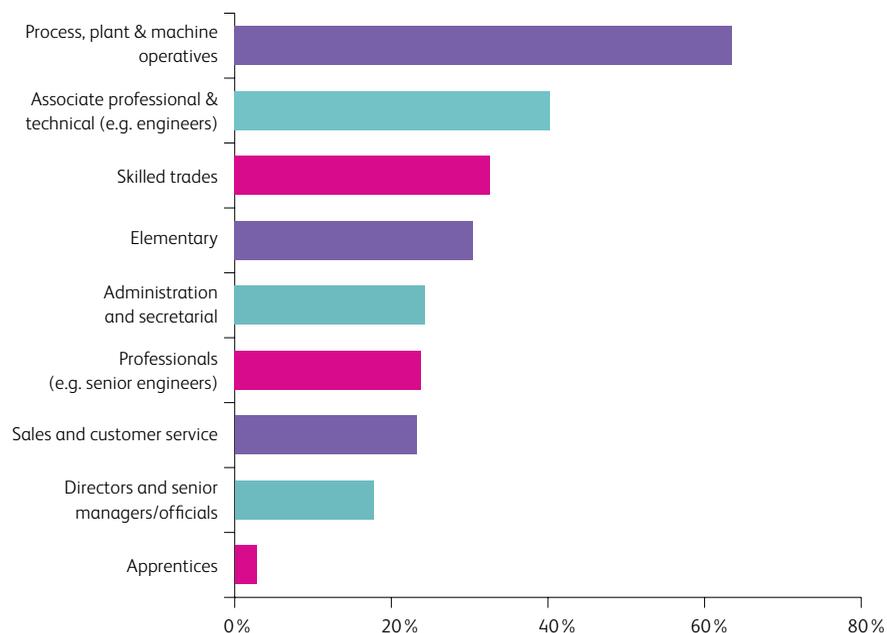
Our survey found that EU nationals work across manufacturing businesses, from elementary roles to director-level jobs. Manufacturers are most likely to cite process, plant and machine operatives (64%), associate professional and technical (e.g. engineering) (40%) and skilled trades (33%) as occupations that EU nationals fill.

Similarly, manufacturers are likely to cite these roles as those where the greatest number of EU nationals are employed in their companies. In this instance, half (48%) say that the greatest number of EU nationals are employed in process, plant and machine operative roles, 19% said the greatest numbers are in skilled trades, and 18% say the greatest numbers are in associate professional and technical roles.

These could be broadly categorised as low, mid and highly skilled roles.

Chart 2: EU nationals fill job roles across manufacturing

% of companies citing job roles EU nationals fill in their company



Source: EEF (2017) Your Workforce & Brexit

Manufacturers reporting where the greatest number of EU nationals are employed within their company



48% said process, plant and machine operatives



19% said skilled trades



18% associate professional and technical roles

This is important when considering post-Brexit migration options, with much of the government’s rhetoric around migration being focused on the highest-skilled and the best and brightest. Manufacturers, however, rely on EU nationals across all skill levels.

The reasons manufacturers recruit EU nationals

- **64%** of manufacturers recruit EU nationals because of an insufficient number of UK candidates applying for jobs.
- **33%** say that the skills required for the job are not available from UK nationals.
- **26%** recruit EU nationals because they have a stronger work ethic.

There are many reasons why manufacturers recruit EU nationals, but for the most part it is because of an insufficient number of UK applicants applying for jobs (see Chart 3).

An insufficient number of UK candidates applying for jobs

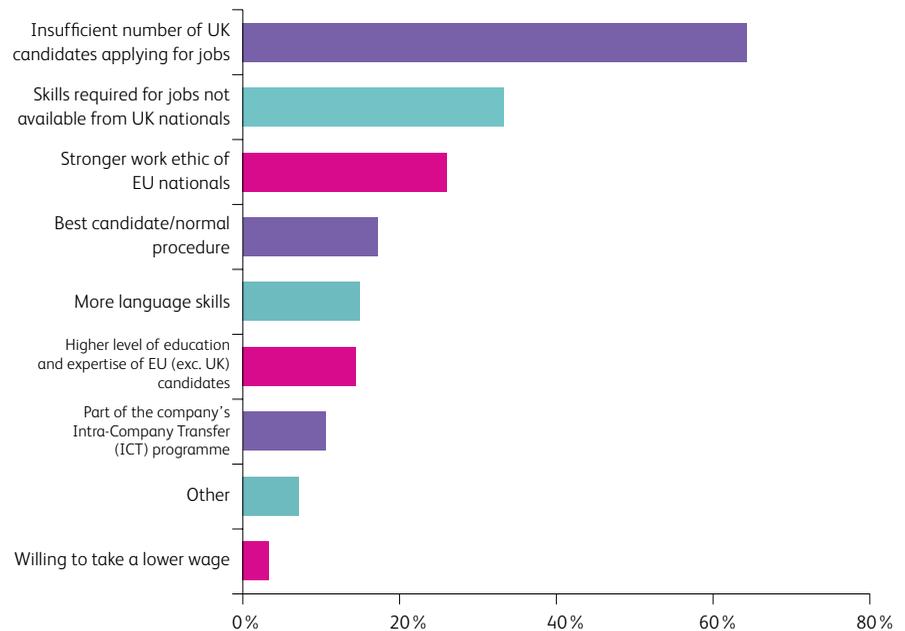
Almost two-thirds (64%) of manufacturers cite an insufficient number of UK applicants applying for roles as the reason they recruit EU nationals. This is most pronounced when employers are recruiting for low to mid-skilled roles – elementary, skilled trades and process, plant and machine operatives. In discussions with manufacturers, some told us that the lack of UK applicants reflects the local demographics: employment levels are very high, which leaves the pool of economically active candidates for these roles very small. This is especially the case in London and the South East.

The lack of interest in jobs in manufacturing was the most prominent discussion in focus groups. Manufacturers spoke about the long-standing challenge of drawing more young people into manufacturing and engineering and attempting to overcome the often negative image of the industry. This then led to discussions concerning the need to radically overhaul careers provision in schools and to ensure that educators have a good understanding of local labour market opportunities.

Another common theme from our discussions with manufacturers was the lack of UK candidates willing to take temporary positions. Many manufacturers rely on temporary workers to fill skills needs and job roles immediately. However, many

Chart 3: Insufficient number of UK candidates applying for manufacturing jobs is the top reason employers recruit EU nationals

% of companies citing reasons why they recruit EU nationals

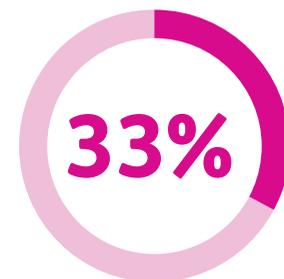


Source: EEF (2017) Your Workforce & Brexit

employers said that the pool of temporary workers tends to be EU nationals. In many cases, employers recruit temporary-to-permanent posts, so in the longer term, many of these workers secure permanent employment. This then has a knock-on effect on the proportion of EU nationals working in their company.

Skills required for the job not available among UK nationals

Not only is the quantity of applicants manufacturers receive a concern, but also the quality of them. Some 33% of manufacturers said they recruit EU nationals because the skills required to carry out the jobs are not available among UK nationals.



of manufacturers recruit EU nationals because the skills are not available among UK nationals

It is unsurprising, then, that our survey shows that manufacturers are more likely to cite a lack of skills among UK nationals when recruiting EU nationals in more highly skilled roles. This is the case for 61 % of employers recruiting EU nationals for professional roles (e.g. senior engineers) and 47 % recruiting EU nationals as directors and senior managers.

Previous EEF research has shown that the main driver behind manufacturers' recruitment difficulties is a lack of technical skills among applicants. This was a common theme in discussions with manufacturers on this topic and in wider discussions around access to skills. A combination of not enough young people studying STEM (science, technology, engineering and maths) subjects, a lack of attention to the importance of industry experience and training, and educational institutions not delivering the provision employers need have all contributed to this.

Even finding the basic skills among UK candidates can be difficult, with manufacturers continuing to raise concerns about the lack of basic English and maths among candidates. In 2016, only 59 % of pupils aged 16 in state-funded schools left with five or more GCSEs including English and maths grade C or above. Such attainment is a requirement for the majority of entry-level jobs in manufacturing as well as an apprenticeship or training.

Moreover, the UK also continues to fare poorly in comparison to our European counterparts in reading, writing and maths: the 2015 PISA results show that the UK lags significantly behind both France and Germany in English and maths. Some

employers told us that EU nationals applying for UK jobs are often more proficient in these subjects.

It is clear from our in-depth discussions with manufacturers that putting the right domestic policy framework in place is as important as securing a migration system that meets the needs of business.

EU nationals having a stronger work ethic

Opinion on EU nationals having a stronger work ethic was more evenly spread across all job roles, but slightly more pronounced for those recruiting elementary, plant and machine operatives and for skilled trades.

We spoke at length with manufacturers around this topic, and what became apparent was that the work ethic was better defined as EU workers being 'more ambitious'. Many employers we spoke to said EU nationals have more ambition to progress and climb the ranks within the company. They are more likely to ask for or agree to training and to want to move up within job grades more quickly. Alongside this theory, many manufacturers commented that EU nationals often hold a qualification at a level higher than required by the job they are applying for. As such, when employers recruit these EU nationals, they soon find them moving into more senior positions, often more quickly than their UK national counterparts.

Some manufacturers also told us that EU workers display a stronger work ethic and are often prepared to carry out manual tasks to a higher standard. Nearly all those we spoke to said EU nationals display a proficiency and an appetite to do the job well, and are



of pupils aged 16 leave education with five or more GCSEs including English and maths at grade C or above

proactive and committed to adding value to the business.

It is not, then, just a lack of technical skills that needs to be addressed in the domestic policy, but also soft/employability skills. While not an exhaustive list, in manufacturing and engineering this would include communication and interpersonal skills, problem-solving skills, team-working skills and the ability to adapt to new ways of working. This again is a domestic issue that needs to be addressed if the manufacturing industry is to secure a pipeline of talent for the future.

The need for global mobility and access to new markets

Manufacturers see great value in recruiting EU nationals to access and service new markets as well as to bring in skills from their European sites to the UK. One in ten manufacturers recruit EU nationals as part of an intra-company transfer programme to enable this knowledge and skills transfer. This can be for a short period – for example, for the introduction of a new piece of equipment that originated outside of the UK and with which EU workers are familiar – or to work on a longer-term project, which might last a few years.

Likewise, many manufacturers we spoke to directly said they value the foreign language skills of EU workers. This was cited by 15% of respondents to our survey who say they recruit EU nationals for this purpose. In

discussions, members stated that EU nationals with foreign language skills often both open the doors to do business in European markets and keep the relationship going. Employers expressed concerns about the lack of foreign languages held by UK nationals.

Finally, many manufacturers we spoke to are foreign owned, often with headquarters within Europe and multiple sites across Europe and beyond. They tend to have intra-company transfer programmes in place and schemes that post workers both to and from the UK. These companies expressed concerns about limiting access to EU nationals and that sites and plants in the UK may move elsewhere if there were significant restrictions to EU labour.

Recommendation: International employers need mobile employees who can move around their business; UK sites must continue to have the access to EU workers as part of intra-company transfer programmes as they currently do.

Recommendation: Manufacturers need to be able to install and service products throughout the EU and, therefore, the government must retain businesses' ability to post workers freely to and from other member states on a temporary basis.



of manufacturers recruit EU nationals because of their foreign language skills

HAS THE REFERENDUM MADE THE PROBLEM WORSE?

Fact or fiction? What impact has the EU referendum had on manufacturers' ability to attract and retain EU nationals?

An EEF survey conducted soon after the EU referendum revealed manufacturers' immediate concerns following the referendum result. Just a quarter (26%) of firms expected to face difficulties in attracting EU workers to the workforce, and almost one in three (28%) expected a loss of skilled EU workers from within their business.⁸

So has the EU referendum created the above-mentioned challenges? Have we seen an exodus of EU nationals from the UK and a drop-off in applications?

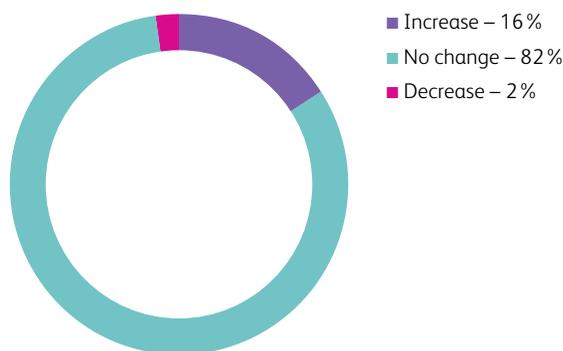
The answer is currently no. But this may change. Eight in ten (82%) of manufacturers have seen no change in the number of EU nationals leaving their business, and just 16% say they have seen an increase in the number of EU nationals leaving.

Just a quarter (26%) of manufacturers have seen a decrease in job applications from EU nationals. Almost three-quarters (72%) have seen no change. Some companies that reported a decrease in job applications from EU nationals have in some

instances seen significant reductions. One company explained that job applications had tailed off to such an extent that they opened a plant in Slovakia, where they knew there would be sufficient supply to fill vacancies.

In discussions, members stated that it has not been the referendum result alone that has had an impact, but also changes to the exchange rate. In some instances it is now more beneficial for EU nationals to return home as wages in the UK are no longer as attractive. Similarly, some manufacturers

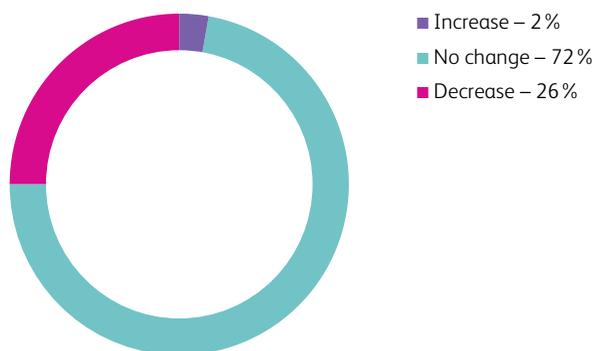
Chart 4: % of manufacturers citing whether they have seen a change in the number of EU nationals leaving the company since the EU referendum



Source: EEF (2017) Your Workforce & Brexit

⁸EEF (2016), Post-referendum/Outlook Survey.

Chart 5: % of manufacturers citing whether they have seen a change in the number of job applications from EU nationals since the referendum



Source: EEF (2017) Your Workforce & Brexit

highlighted that the growth of other European economies is drawing EU nationals back to them.

While manufacturing employers have sought to support and reassure their EU employees since the EU referendum, the number of requests for financial support for residency applications from EU nationals to their employers has seen just a slight increase. This may edge up as employers and employees have a clearer understanding of the Brexit deal.

During our focus groups there were mixed views about supporting EU nationals to apply for indefinite leave to remain. One company told us that they have circa 70 EU nationals, many of whom are concerned about their status to remain in the UK. Some have

already begun to request support so the company is currently looking at whether they should, and financially could, support all requests. In contrast, some employers told us that the uncertainty about future migration rules means it is too early to commit to offering this sort of support as employers cannot be sure which EU nationals will need it.

It is worth highlighting again that the changes that have been seen up until now are without any knowledge or clarity of what lies ahead as the Brexit negotiations start. There is a large pool of EU nationals working in the UK, each with different circumstances. There is no clear answer for employers, and more importantly for their employees, as to what their status will be when the UK does withdraw from the EU.

If employers and their EU employees had had a clearer understanding as to the future plan, then it is likely that we would have seen more action before now.

Recommendation: As a priority, the government should clarify the reciprocal rights of EU nationals in the UK and UK nationals in other EU member states.

Recommendation: Within the same period, government should map out a new model for migration, for the point when the UK leaves the EU, which includes a phased implementation over a sustained period.

Action stations? What actions have manufacturers taken to mitigate these impacts?

Where we did see action from manufacturers was in the immediate aftermath of the referendum. Our survey conducted soon after the referendum revealed concerns about managing employee communication around the impact of the EU referendum on the company and about the potential deterioration of relations among employees.⁹ As a result, many manufacturers took immediate steps to communicate with their EU employees to assure them that they were valued in the company and that their jobs were currently safe. This has been a hard task given the silence from government on any guarantees for EU nationals already in the UK.

Companies spoke at length about the immediate communications they sent to their workforces following the EU referendum result. They have, to the best of their ability, reassured EU employees that their jobs are secure. However, an area of concern raised in our discussions with manufacturers was around the spouses and dependents of their employees and their future status. This will be as important to the employees as their own status, and will be a deciding factor in the future as to whether these employees stay in the UK.

In terms of mitigating the impacts of EU nationals leaving the UK and the drop in applications,

manufacturers are for the most part weighing up their options with the majority saying they haven't taken any action but are considering their options. Only a handful have taken no action and not considering taking action (See Chart 6).¹⁰

Training to retain and training for the future

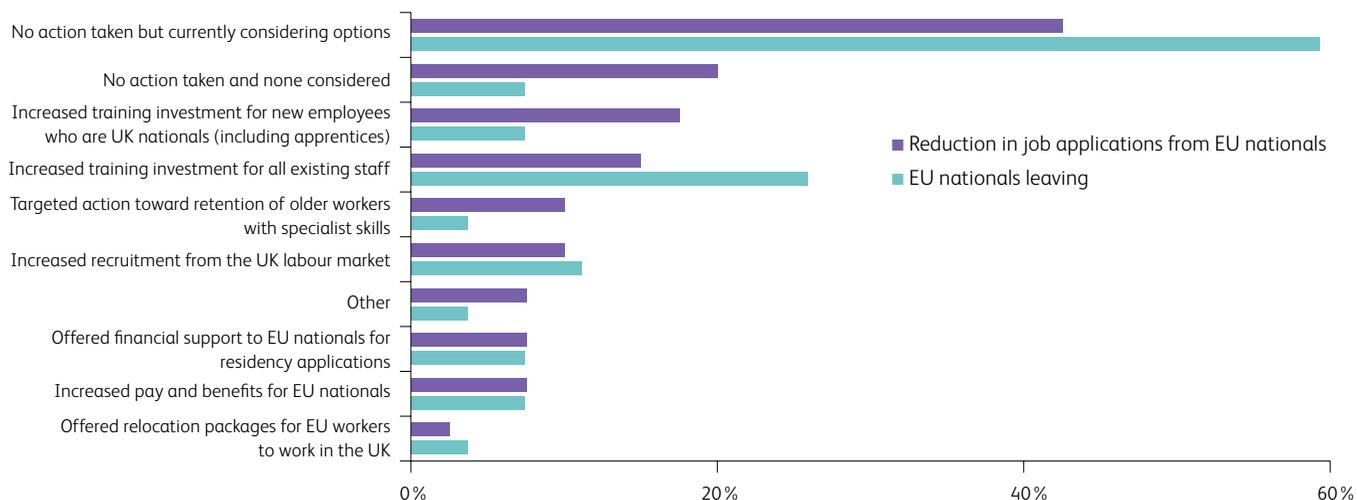
Some manufacturers are ahead of the game, and have a strong focus on training. More than a quarter (26%) of firms have increased training investment for all existing staff in a bid to mitigate the effects of EU nationals leaving since the referendum. There has also been a targeted effort

⁹EEF (2016), Post-referendum/Outlook Survey.

¹⁰Note that the sample sizes for the actions taken by companies to mitigate the impact of EU nationals leaving for the fall in applications were 37 and 56 respondents respectively.

Chart 6: Action manufacturers have taken, or are considering taking, to mitigate changes since the EU referendum

% of manufacturers citing action to mitigate reduction in job applications from EU nationals and EU nationals leaving



Source: EEF (2017) Your Workforce & Brexit

to specifically attract and train the domestic labour market, with one in ten (11%) of manufacturers increasing recruitment from the UK labour market and 7% increasing training investment for new employees who are UK nationals (including apprentices).

This focus on UK nationals is even stronger when looking into the measures companies are taking to mitigate the fall in applications from EU nationals. For example, 18% of companies are increasing training investment for new employees from the UK labour market. If there is a chance that manufacturers will not be able to source labour from Europe, they will need to drive up and improve their recruitment practices in the UK labour market.

Manufacturers commitment to invest in training for new and existing employees is not new. Various EEF

Manufacturers are committed to training



79% of manufacturers were committed to recruiting engineering apprentices in 2016



45% were committed to recruiting apprentices in other parts of the business



46% of manufacturers say they will increase their intake of engineering apprentices as a result of the new Apprenticeship Levy



35% say they will recruit apprentices in other areas



47% plan to up-skill and re-skill their existing workforce through apprenticeships



66% plan to recruit an engineering graduate in the next three years



Two thirds of manufacturers plan to increase training budgets in the next three years

research has shown strong intentions and delivery of training, whether through apprenticeships, graduate programmes or increasing training budgets.

Retaining older workers

We have seen an increasing shift towards retaining older workers with specialist skills. This is unsurprising given that two-fifths of manufacturers say more than 40% of their workforce is aged 50 or over.¹¹ Indeed, one of the main benefits manufacturers cite from the abolition of the default retirement age has been the ability to retain older workers with niche skills.¹² This message comes across in this debate again, with 10% of manufacturers taking targeted action towards the

retention of older workers to offset the reduction in applications from EU nationals. To be effective, however, the right domestic policies need to be put in place – primarily to retain flexible working arrangements that are mutually beneficial to employer and employee but also to ensure that workplaces are suitable for an ageing workforce and not adapted to only meet the needs of younger workers.

Financial support for EU nationals

Employers are taking limited action to retain staff through remuneration, with just 7% saying they have increased pay and benefits for their workers, including EU nationals. One example cited during our discussions with members was an increase to the shift premium for

operative roles which on the whole are currently undertaken by EU nationals, owing to a lack of interest among UK applicants.

Similarly, just 7% of employers are offering financial support to EU nationals for residency applications, with take-up from their EU employees lower again, and 4% are offering relocation packages for EU workers to work in the UK (for job applications or loss of workers). Again, we may see movement on this as we edge closer to a confirmed Brexit deal. Many manufacturers we spoke to said this was something they were considering offering their staff but had not yet made a decision.

The waiting game: what are manufacturers waiting for and why?

Employers remain in a state of flux. Without a clear understanding of the deal that the UK will strike with the EU, it is difficult to determine what actions a business will need to take. Indeed, 45% of manufacturers are waiting to see the terms of the deal before they review and change their business strategy in preparation for the UK's exit from the EU.¹³ Within their business strategy, they will undoubtedly include people and training strategies.

Weighing up investment options

It is also clear that manufacturers are weighing up their longer-term options. Without insight into what a post-Brexit migration system may look like, many

firms are still considering whether long-term investments – for example, investments in automation and digital technologies – should be made now in anticipation of a potential reduction in access to the wider labour market, or whether they should be held off until employers have clarity as to what the system will look like.

For some companies we spoke to, Brexit has already spurred on investment abroad. Some companies have set up operations offshore in Europe, while others are considering moving some of their production out of the UK too. Other companies, especially those that have relied on workers to undertake lower-skilled roles, are accelerating plans to

invest in automation and new digital technologies, with the unknown outcome of Brexit a key driver of such decisions.

While such investment may reduce the need for low-skilled labour, automation, robots and new technologies are only effective and reliable when they are serviced and maintained by the right people. Therefore, difficulties owing to applicants lacking technical skills will remain, if not, worsen, without significant domestic action. These policies must go hand in hand with policies that will see the adoption of a post-Brexit migration system.

¹¹EEF (2016), An Up-skill Battle.

¹²EEF (2016), An Up-skill Battle.

¹³EEF (2017) Referendum/Brexit Survey

WILL BREXIT MAKE THE PROBLEM WORSE?

Post-Brexit migration: options for change

Predicting the impact of Brexit on the manufacturing workforce is difficult without an understanding of the parameters within which UK employers will be able to recruit and retain EU workers. The UK must reposition its strategy for the UK outside of the EU, and ensure that unimpeded access to the single market, a form of customs union and a suitable transitional period are at the heart of a new approach. It needs to secure wide and reciprocal access to the EU labour pool given the impact that an end to free movement will have on EU workers entering the UK.

We tested some scenarios with manufacturers to determine how

certain restrictions would impact their willingness and ability to recruit EU workers.

Applying a price tag: minimum salary requirements

Pay has been a key criteria for non-EU migration. There is a plethora of pay thresholds that employers currently have to meet to recruit non-EU migrants, in addition to criteria around the skill level of the job on offer. Even job roles that are seen as in shortage and therefore on the shortage occupation list (meaning employers don't have to undertake a resident labour market test) need to meet the salary thresholds.

Up until autumn 2016, the minimum salary threshold for non-EU migrants coming to the UK with a skilled job offer was £20,800. This increased to £25,000 in autumn 2016 and again to £30,000 in April this year. Applying the same or similar threshold to EU nationals would impact on manufacturers' ability to recruit the EU workers they need. The extent of this impact would, however, depend on the type of job being undertaken.

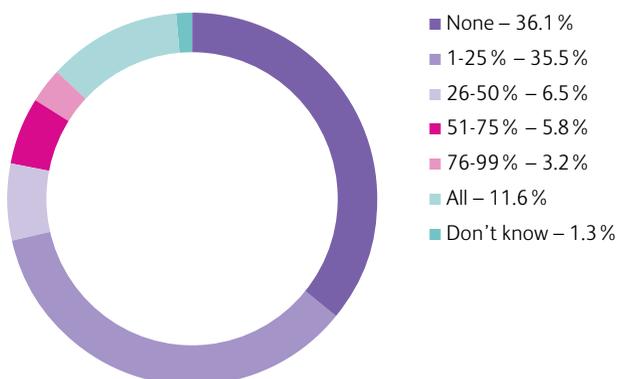
Manufacturers would feel the effects of a £30,000 minimum salary threshold

More than a third (36%) of manufacturers say none of their EU workers earns more than £30,000. If we refer back to the main three job roles that EU nationals fill – process, plant and machine operatives – these lower-skilled jobs attract a lower wage. Even some skilled trades may not see pay at this rate across all regions and sectors of manufacturing. It is not the case that EU nationals are receiving lower rates of pay; manufacturers pay EU nationals and UK nationals the same rate for the job. This message was articulated strongly in discussions with manufacturers.

A salary threshold of £30,000 would be more akin to higher-skilled roles such as associate professionals and professionals (engineers) – again job roles that EU nationals are likely to

Chart 7: Manufacturers would feel the effects of a minimum salary threshold

% of companies citing the proportion of their EU workforce paid more than £30,000



Source: EEF (2017) Your Workforce & Brexit

fill. Some 12% of manufacturers said all their EU nationals earn more than £30,000. This tends to be in certain sectors which are more likely to face acute skills shortages and larger companies that can afford a more attractive pay package.

It is clear, then, that applying the same thresholds as is currently the case for non-EU nationals would impact significantly on manufacturers' ability to fill crucial vacancies within their businesses. As such, a new post-Brexit migration system that enables employers to recruit EU nationals should not be salary-based.

Securing skills at all levels

Earlier in this report we highlighted the three main job types that EU nationals are most likely to fill: process, plant and machine operatives (low-skilled roles), skilled trades (mid-skilled roles) and associate professionals such as engineers (highly skilled roles). Almost half of manufacturers said that the greatest number of EU nationals working in their business were in the lower-skilled roles and around

half said the greatest number of EU nationals were working in mid and highly skilled roles. Immediately, then, we can see that applying a minimum skill level would restrict at least some of manufacturers' ability to fill roles across their business.

Applying an educational threshold of Level 6 (graduate level) would also rule out many skilled trades. Almost a third (32%) of manufacturers say that none of the EU nationals currently working in their workforce has a skill level qualification of Level 6 (graduate level) or above.

This would be of concern. A skill level of graduate level or above would make the challenges of filling skilled trades and operative roles more difficult than is currently the case. Moreover, manufacturers challenge the concept that only roles at graduate level and above should be deemed 'skilled'. Therefore, a post-Brexit migration system should take the approach that "skilled" jobs are at Level 3 and above and structure a system around this.

Varying the length of stay

The extent to which employers would recruit EU nationals if there were a limit on their length of stay within the UK differs dependent on the skill level of the person and of the job for which they were recruiting.

If manufacturers were looking to fill lower or mid-skilled roles, a quarter (26%) would continue to recruit EU nationals if their length of stay were limited to twelve months. This fell to 17% for job roles at Level 4 or Level 5 and 14% for job roles of Level 6 and above (see Table 1).

If, however, manufacturers could retain EU nationals for a period of three years, they would be more likely to recruit them, with 39% saying they would for roles at Level 3 or below, 34% at Levels 4 and 5 and 29% at Level 6 and above (see Table 2). A significant number said 'maybe' to all these scenarios. In discussions with manufacturers it was clear that it would very much depend on the job, the need to fill the job immediately and the candidate who was applying. They were

Table 1: Manufacturers would be more likely to recruit EU nationals in lower skilled roles if visas were limited to twelve months

Maximum of twelve months (%)	Yes	No	Maybe	Don't know
EU workers at Level 3 or below	26.4	39.3	25.9	8.4
EU workers at Level 4 or Level 5	17.1	42.1	30	10.8
EU workers at Level 6 and above	14.2	42.5	32.1	11.3

Source: EEF (2017), Your Workforce and Brexit Survey

Table 2: Manufacturers would recruit EU nationals in both higher level and lower level roles if visas were up to three years

Maximum of 3 years (%)	Yes	No	Maybe	Don't know
EU workers at Level 3 or below	38.7	19.6	33.6	8.1
EU workers at Level 4 or Level 5	33.8	18.8	37.6	9.8
EU workers at Level 6 and above	29.2	22.3	39.5	9

Source: EEF (2017), Your Workforce and Brexit

also concerned about their ability to fill roles domestically. This is unsurprising given that the main reasons that manufacturers recruit EU nationals (as we set out earlier in this report) are an insufficient number of UK applicants and a lack of skills within the UK labour market.

Skilled and professional roles

There are mixed findings on whether manufacturers would recruit EU nationals for skilled and professional roles if it were time limited.

On the one hand, our findings show that for some roles manufacturers might, or would not, recruit EU nationals because they see the recruitment of EU nationals as a long-term investment, as with all employees. This is particularly the case for those companies that have EU nationals working in director or senior manager roles. The cost of recruiting to such positions would be higher because of salaries and overall remuneration packages, therefore employers would want to ensure that these people could stay within their company for a significant period of time. Twelve months is not enough, and three years would be challenging for skilled job roles.

On the other hand, manufacturers would continue to recruit, or consider continuing to recruit, EU nationals when they were recruiting for associate professional and technical roles (e.g. engineers). This will be fuelled by the acute shortage of people with these skills. When skills are in such demand

and cannot be found within the UK labour market, employers will take whatever steps necessary to recruit skilled people. Skilled workers in manufacturing are in high demand. The proportion of hard-to-fill vacancies within the manufacturing industry owing to skills shortages remains high and has not fallen in recent years. Accessing skilled talent post-Brexit is crucial.

Recommendation: Manufacturers need access to appropriate workers, therefore, skilled European workers should be able to come to the UK to work for up to 5 years, followed by the ability to apply for permanent residency.

Elementary and lower-skilled roles

Where a shortened length of stay could possibly work in the future is within the lower-skilled roles. This is evident from the greater number of companies that said they would continue to recruit EU nationals with a twelve-month visa in process, plant and machine operative roles as well as elementary roles, and even more so if the length of stay were extended to three years. The concern, however, raised by manufacturers we spoke to was that this timeframe would not be sufficient to then fill these roles from the UK labour market or invest in automation and technologies that could potentially reduce reliance on these roles. Therefore, there would need to be a phased implementation to any changes around lower-skilled

migration, with an independent body leading on how this could work.

Recommendation: Industry should be able to continue to recruit low-skilled EU workers until the UK labour market is able to support businesses' demand for these workers. The Migration Advisory Committee (MAC) is best placed to determine where these shortages are, and when this transitional point has been reached.

Alternatives for the UK outside of the EU

While the UK voted to leave the EU, there remains a wide spectrum of models for life after Brexit. These range from a model which resembles that of the European Economic Area, to exiting the Union with no successor deal to membership. Within this, the UK needs to balance the need for trade with reflecting the vote to leave. Many areas of migration are unlikely to prove controversial – students and the highly skilled – and similarly there is wide consensus in the UK that a period of transition is needed for the UK to adjust to its new status. The UK is not leaving Europe, and needs to secure a lasting and stable basis for its future relationship with the EU. This must include broad and reciprocal access to the UK labour market for EU nationals, and a recognition that there needs to be a new, deep and enduring special relationship in the future with a Union which the UK still values and is prepared to support.

KEY RECOMMENDATIONS

Give businesses and their EU employees the early certainty they need:

1. As a priority, the government should clarify the reciprocal rights of EU nationals in the UK and UK nationals in other EU member states.
2. Within the same period, government should map out a new model for migration, for the point when the UK leaves the EU, which includes a phased implementation over a sustained period.

Ensure manufacturers have access to people and talent from within Europe

1. Industry should be able to continue to recruit low-skilled EU workers until the UK labour market is able to support businesses' demand for these workers. The Migration Advisory Committee (MAC) is best placed to determine where these shortages are, and when this transitional point has been reached.

2. Manufacturers need access to appropriate workers; therefore, skilled European workers should be able to come to the UK to work for up to five years, followed by the ability to apply for permanent residency.
3. International employers need mobile employees who can move around their business; UK sites must continue to have the access to EU workers as part of intra-company transfer programmes as they currently do.
4. European nationals coming to study in the UK should continue to be able to do so with the opportunity to seek employment in the UK upon completion of their studies within a reasonable time period.
5. Manufacturers need to be able to install and service products throughout the EU and, therefore, the government must retain businesses' ability to post workers freely to and from other member states on a temporary basis.

Reform the non-EU migration system to prioritise the skills needs of the economy

1. With skills shortages rife in sectors such as manufacturing and engineering, the points-based system should be more heavily weighted in favour of skills needs, and a highly skilled STEM visa should be introduced that enables STEM professionals to seek work in the UK without a job offer within a reasonable time frame.
2. Reduce the cost to business of recruiting from outside the EU by abolishing the immigration skills charge and reversing the recent decision to remove the short-term intra-company transfer route.
3. Our world-leading higher education institutions rely on non-EU nationals, especially in STEM disciplines. To ensure the UK is an attractive place to study, the government should reinstate the Tier 1 post-study work route to enable non-EU students to stay in the UK for two years after graduating to seek skilled employment.



EEF is dedicated to the future of manufacturing. Everything we do, from business support to championing manufacturing and engineering, is designed to help our industry thrive, innovate and compete locally and globally.

In an increasingly uncertain business environment, where the UK is now on a path to leave the European Union, we recognise that manufacturers face significant challenges and opportunities. We will work with you throughout this period of uncertainty to ensure that you are on top of any legislative changes and their implications for your business. Furthermore, as the collective voice of UK manufacturing, we will work tirelessly to ensure that our members' voices are heard during the forthcoming negotiations and will give unique insight into the way changing legislation will affect their business.

Our policy, employment law, health, safety and sustainability and productivity experts are on-hand to steer you through Brexit with rational, practical advice for your business.

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