THE ADECCO GROUP

The facts about Brexit

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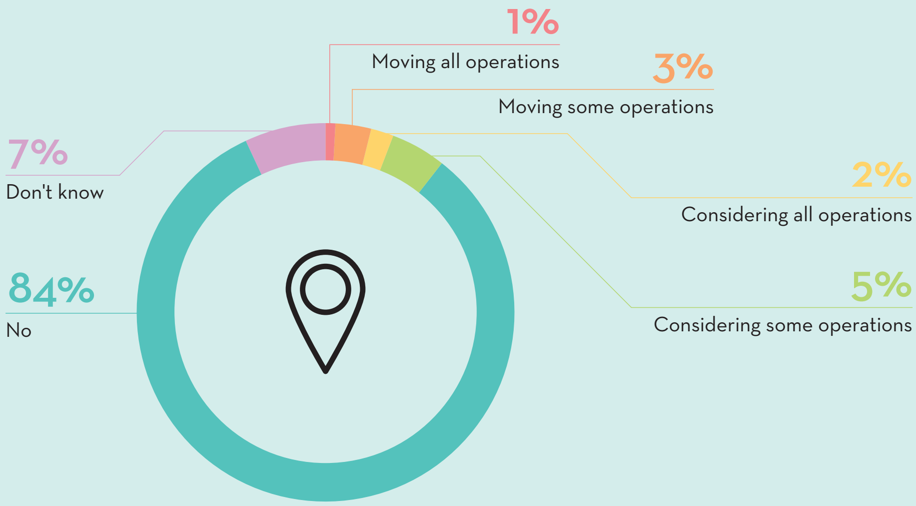
Banking confirms movements

Is/has your organisation considered relocating some or all of its current operations outside of the UK as a result of the UK's decision to leave the European Union?
(Source: Labour Market Outlook 2017, Spring edition, CIPD & ADG UK&I)



Having written in last month's update that the UK's financial services sector has given up on passporting, the proof of that can definitely be seen this month as even more start to confirm the movement of operations onto the continent.

According to EY more than a quarter of the largest firms in the City have either a review or concrete plans, up 18% over the last four months. So far Investment Banks are the most active with 45% (21 out of 47) actively moving towards a decision currently.

In the last month JP Morgan, Standard Chartered, AIG and Liberty Specialty have made announcements of their exact intentions.

Standard Chartered is in discussion with German regulator BaFin about setting up a subsidiary in Frankfurt. Liberty Specialty has followed Hiscox (another member of the Lloyd's of London family), as well as AIG to Luxembourg. This is despite the Lloyd's corporation choosing Brussels, narrowly, over the Grand Duchy. JP Morgan will spread the roles both Frankfurt and Luxembourg alongside Dublin.

Research from Reuters has suggested the it is both Frankfurt and Dublin are likely to the locations that gain the highest proportion of the jobs moved out of London. That said there is still much debate over what the final volume of these jobs will be – Reuters suggested at least 9,000 while Catherine McGuinness chairman of the City of London's policy and resources committee believes it will only be in the 'low thousands'. Goldman Sachs Chief Executive Lloyd Blankfein has also said he thinks Brexit will only 'stall' the city not 'totally reverse' it.

Ultimately legislative changes may be a heavy driver over what roles leave the UK and when, this month there were discussions over whether London would lose its place as the main clearing hub for euro-denominated financial transactions. Bank of England governor Mark Carney recently said that the UK would work hard with Brussels to ensure 'an appropriate amount' continues in the City but there are reports that the European Commission is preparing to issue legislative proposals. Research from EY suggested that losing Euro clearing could cost London up to 83,000 roles.

Financial Services has always been one of the sectors that might be worst affected by Brexit but losing access to the single market for all services in the UK could cost £36 billion each year according to the Centre of Economic and Business Research (CEBR).

What this means

So far most of the commentary has surrounded the largest firms in the financial services sector and whether they will move and while it is true that a third of the companies that EY are tracking (75 out of 222) have yet to declare any intentions these companies are only talking about moving elements of their workforce. They are not moving their whole operation out of the UK.

According to the Labour Market Outlook (LMO) report produced by the CIPD in association with The Adecco Group UK&I less than 1% of UK organisations have already decided to relocate all of their operations outside of the UK whilst around 3% have decided to move some.

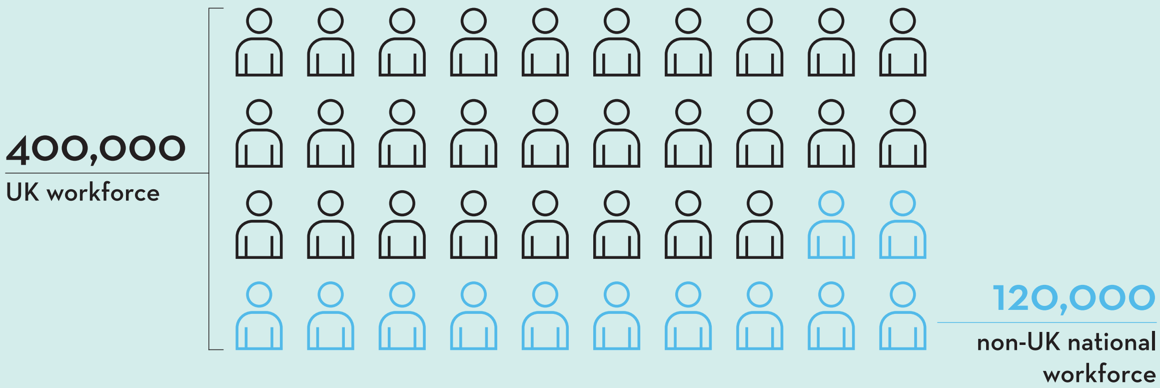
Overall only around one in ten companies in the have even considered moving any operations (many of these may never end up doing so) but in the financial services industry this is much higher (16% although the sample size is not large enough to make this estimate too reliable).

Omar Ali, UK financial services leader, EY, said: "The number of financial institutions who are publicly committing to concrete action in response to Brexit has increased, but it's still a minority and is driven by the tight timetable rather than politics.

"The more complex the organisation, the longer it is going to take to create workable contingency options, and so investment banks in particular are putting their plans on record."

Skills shortages

UK food manufacturing workforce: Total: 400,000, of which 120,000 are non-UK nationals
(Source: Environment, food and rural affairs committee, UK Parliament, feeding the nation: Labour constraints, May 2017)



The advent of a general election in the UK meant that immigration, and therefore skills gaps, were an important topic of conversation during May 2017 especially as the Conservatives again pledged to reduce immigration to the 'ten of thousands' instead of hundreds of thousands as it currently is.

Agriculture, food production and construction were all vocal on their need for migrant labour and the potential impact losing it might have on them.

Sectors in Danger

A report from the Environment, Food and Rural Affairs committee called Feeding the Nation: Labour Constraints suggested that unless urgent measures are taken to fill the gaps in the labour supply there could be a crisis in the food industry. This is based on the fact the around 30% of the workforce is not British.

Royal Agricultural University lecturer Phil Hudson warned the crisis could have very "real implications" for the way we eat.

"If freedom of movement finishes overnight a lot of these businesses would simply not be able to continue," he said.

The House of Lords EU Energy and Environment sub-committee also published a report in which it said that Britain's agriculture and food sectors will face 'severe difficulties' and face 'major disruption' without access to labour from the European Union. It also added that the shortfall could not be made up from local labour sources.

In addition, the Farmers' Union of Wales has said that failure to entirely replace the subsidies delivered under the EU's Common Agricultural Policy would wipe out Welsh farming, regardless of a lack of labour.

The British Property Federation (BPF) says cutting immigration would exacerbate both the skills shortage the construction sector faces and thereby the housing crisis.

BPF Chief Executive Melanie Leech said: "Talent is a critical issue to sort and, in our sector, it's construction skills.

"There are a huge number of workers coming from within and outside the EU currently and, if we're going to have a really ambitious house-building programme and we're going to build the business infrastructure we need for the 21st century, we have to make sure we can staff the construction industry."

The construction sector must recruit more than 400,000 workers a year if demand for new homes is to be met, according to consultancy firm Arcadis.

Migration Watch, a think tank, has suggested a 'brickie visa' which would allow EU workers into the UK to plug the skills gap. Unfortunately, they only suggest it would be valid for three-years after Brexit so the question would be whether it gives the sector enough time to train candidates. Both Gerwyn Davies, Senior Economist at the CIPD and Sarah McMonagle, Director of external affairs at the Federation of Master Builders both believe that three years is not.

This suggestion also completely skates over whether the UK labour market is even capable of providing these candidates in the first place.

The NHS could face both demand and supply issues with the Nuffield Trust suggesting that returning retirees would add to the workload whilst a shortfall of 70,000 paid carers would exist by 2025/26 alongside potentially losing the 22,000 EU nurses currently employed. In 2016 a third of newly registered nurses were from the EU.

The war for talent is already here

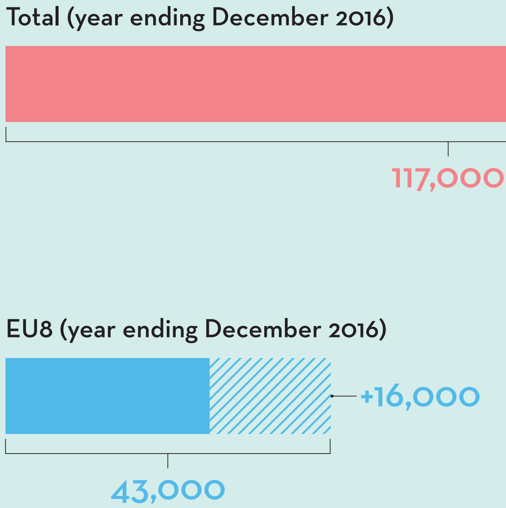
Despite all the worry about the post-Brexit employment market there are signs that employers are already starting to see the impact.

According to Report on Jobs produced by the Recruitment and Employment Confederation (REC) the UK has just recorded the sharpest drop in available candidates for more than a year. The survey flagged a shortage of suitable candidates in more than 60 different roles.

This is at the time when the Office for National Statistics (ONS) reported a fall in long-term migration to +248,000, down 84,000 on the year before.

Skills shortages (cont'd)

Emigration from the UK to EU countries
(Source: Migration statistics quarterly report: May 2017, Office for National Statistics)



*EU8 comprises Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary and Slovenia

What this means

Diane Golhooley, Global Head of the Human Resources and Pensions practice at law firm Eversheds Sutherland is right to say that employers are "waiting to see whether Brexit will usher in a new era of visa restrictions and stricter immigration controls and are mindful of the potential impact on global recruitment."

There are two elements to remember within this conversation however; the first is that the war for talent has been going on for some time, this is not a new phenomenon and, secondly, the tight timeframes mean that it is possible non-EU nationals will be still in and entering the country the day after Brexit.

According to a report from law firm Eversheds Sutherland two-thirds of HR leaders believe the war for talent is one of the most pressing issues for their workplace in the current future. The Institute for Government warns that creating a new immigration system by April 2019 is unfeasible whilst an array of business leaders (including Chief Executives of Sainsbury's and Wetherspoons) have said that it is highly unlikely that a trade deal will be completed in time.

Ultimately the UK is currently incapable of meeting its own long-term talent needs and should look at ways to move towards equilibrium. This is the same for both the country as a whole and for individual organisations.

As Gerwyn Davies, labour market adviser at the CIPD, said: "Overall the [most recent ONS] data points to the need for all employers to have a greater focus on widening recruitment channels and reviewing workforce development strategies to offset current and future labour and skills shortages, especially against the backdrop of a resilient demand for labour."