

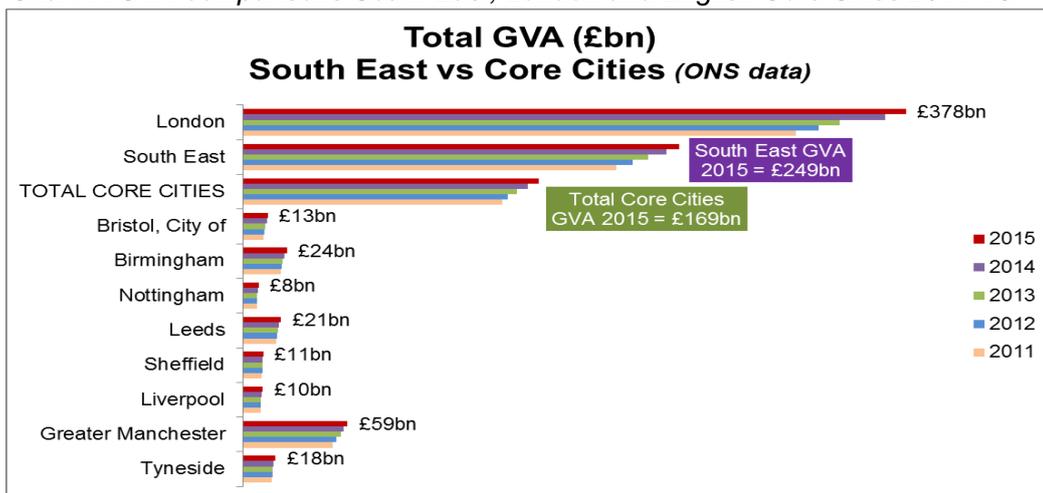
**South East England Councils and South East Strategic Partnership for Migration response to Migration Advisory Committee (MAC) call for evidence on economic and social impacts of the UK exit from the EU.**

**1. Introduction**

- 1.1 South East England Councils (SEEC) and South East Strategic Partnership for Migration (SESPM) regularly work together on issues that affect local authorities in the South East of England. Together we cover a large area of South East England, home to 74 local authorities, 9.1 million residents and one of the UK’s most profitable economies.
- 1.2 SEEC is a voluntary membership body bringing together cross-tier local authority leaders representing the wide-ranging interests of their residents and SESPM focuses on helping councils to manage migration. SEEC and SESPM cover district, county and unitary authorities in Kent, East Sussex, West Sussex, Surrey, Hampshire, Berkshire, Oxfordshire and Buckinghamshire.
- 1.3 In this response we build on our work across local authority boundaries to offer a strategic perspective on the South East economy, presenting a high level overview of impacts for the UK’s most profitable regional economy. This will supplement more local responses from specific economic areas within the South East.
- 1.4 Our response to this call for evidence is informed by recent councillor discussions on the economic impact of potential skills shortages following Brexit. This issue has a high profile in the South East as councils want to ensure there are measures in place to mitigate any potential damage to our economy. As the UK’s most profitable economy any decline in South East performance due to skills shortages would have negative implications nationally for the Treasury, as well as damaging prospects in local areas. The national significance of the South East economy is illustrated by the following:

- **From 2000-01 to 2015-16 the South East made the UK’s greatest net contribution to Treasury at £154 billion.** This means Treasury received a significant ‘profit’ to invest in public spending UK-wide, as the South East paid £154bn more in taxes than the area received in public spending. This compares to £126bn net contribution from London over the same period and £47bn from East of England. All other areas made losses for Treasury ranging from *minus* £62bn to *minus* £250bn over the same period. (Source Oxford economics for SEEC). Continued South East economic profitability is vital to support Government public spending across the country.
- **South East Gross Value Added (GVA) per head was £27,847** in 2015, second only to London where GVA per capita is £43,629. Total South East GVA in 2015 was £249bn, again second only to London where total GVA was £378bn.
- In 2015 **South East total GVA at £249bn was greater than the combined £169bn total GVA of all eight core English cities** as chart 1 below shows:

*Chart 1: GVA comparisons South East, London and English Core Cities 2011-15*



- 1.5 Given the national importance of the South East's GVA and tax contributions as set out above, it is vital that skills shortages in all sectors of the South East economy are minimised to avoid damage to UK plc. Together SEEC and SESPM recently organised a workshop on Brexit, migration and skills where delegates from across the South East considered data presented by the Oxford University Migration Observatory and highlighted the concerns set out below. We have selected and grouped together the most relevant questions from your call for evidence in our responses below.

## 2. EEA Migration Trends

*['Call for Evidence' questions shown in blue italics] Please provide evidence on the characteristics (e.g. types of jobs migrants perform; skill levels, etc) of EEA migrants in your particular sector/local area/region. How do these differ from UK workers? And from non-EEA workers?*

*What information do you have on their skill levels? To what extent do these differ from UK workers and non-EEA workers? To what extent are EEA migrants self-employed?*

*What impact would a reduction in EEA migration have on your sector/local area/region? Would the impacts be different if reductions in migration took place amongst non-EEA migrants?*

- 2.1 The responses in paragraphs 2.1-2.7 draw on data from quarter 3 of 2016 to quarter 1 of 2017 and provide the following picture of the 708,000 foreign born workers in the South East economy (source Oxford University Migration Observatory using Labour Force Survey).
- 2.2 **EU nationals:** The South East had 384,000 residents of working age who were EU nationals. Of these **316,000 were in employment**, an employment rate of 82%. This equates to 7% of the total South East workforce. 18% of EU workers were self employed.
- 2.3 The breakdown between 'old EU' and accession countries was 126,000 workers from the original EU member countries with average earnings of £34,000 pa and 182,000 workers from accession countries earning an average of £23,000 pa. The implication of the earnings data is that many accession country workers are employed in lower skilled occupations.
- 2.4 **Non-EU nationals:** For comparison, there were 541,000 foreign born South East residents of working age from non-EU countries – of these **392,000 were in employment**, an employment rate of 73%. This is 9% of the total South East workforce. 18% of non-EU nationals were self-employed. Across all non-EU workers, average earnings were £32,000 pa.
- 2.5 Breaking these down by industry shows the risk to key sectors if migrant skills are lost post Brexit. More detailed tables are included in Annex 1, broken down by EU (old and accession countries) and non-EU, but high level messages are set out below.
- 2.6 Evidence shows there is a need for migrant workers with both high level and lower level skills to fill roles in the South East economy. There is certainly scope to upskill indigenous UK workers to fill South East vacancies but achieving this will be a long term commitment. At least in the short term there will be a need for an expanded shortage occupations list to cover high and low skills and both EU and non-EU workers.

In the South East:

### **Public sector**

- 27.5% of foreign born workers (194,700) work in public admin, education & health. Of these 66,360 (34%) are EU workers. Any significant reduction in these workers – whether EU or non EU nationals – has potential to damage delivery of public services and health care across the South East.

### **Hospitality**

- 18% of foreign born workers (127,440) work in distribution, hotels & restaurants. Of these 72,680 (57%) are EU workers. Loss of these workers would have a major impact on the South East's successful tourism and service sector. With over half these workers coming from the EU, a reduced flow of migrant workers due to Brexit is a major concern.

### **Construction**

- 6% of foreign born workers (42,480) work in the construction sector. Of these 25,280 (60%) are EU workers. With significant pressure on local and central government to deliver new homes and infrastructure to support South East economic growth, loss of migrant workers in this sector will undermine delivery of essential projects. With 60% of these workers coming from the EU, a reduced flow of migrant workers due to Brexit is a major concern.

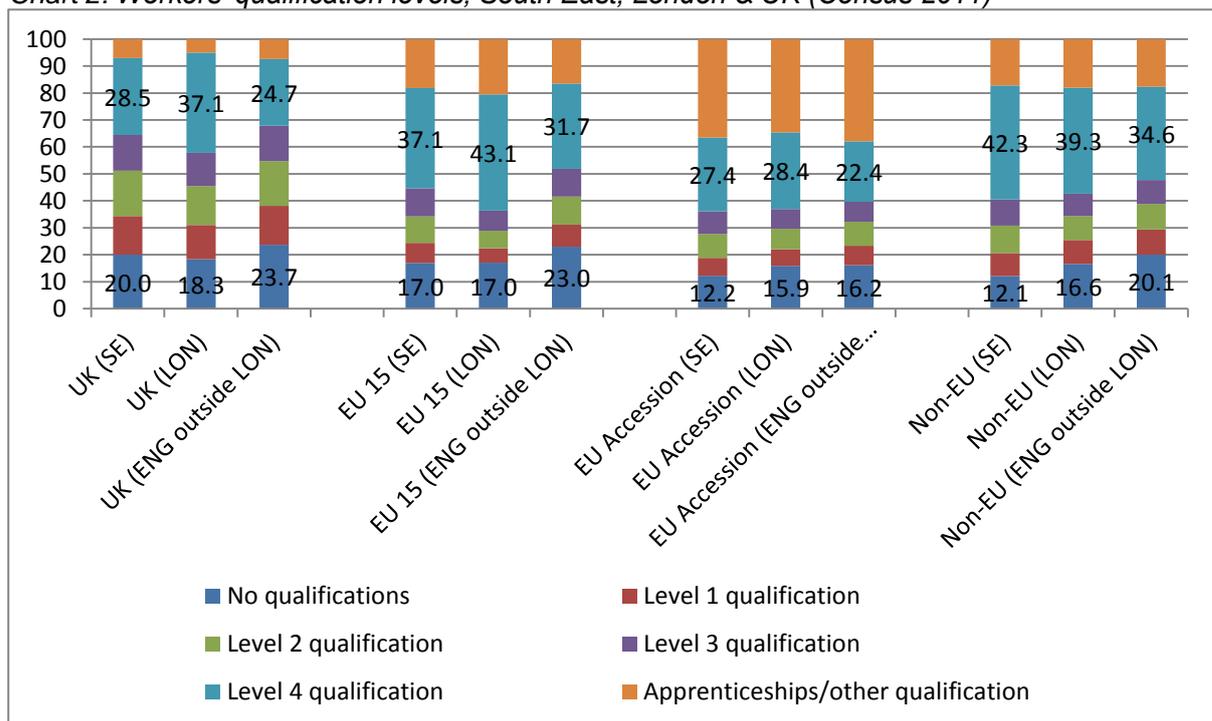
- 2.7 Breaking foreign born worker data down by occupation across the South East shows:
- 26.5% (187,620) hold professional jobs. Of these 63,200 (33.7%) are EU workers.
  - 12.5% (88,500) fill elementary occupations. Of these 50,560 (57%) are EU workers.
  - 12% (84,960) have associate professional and technical roles. Of these 34,760 (41%) are EU workers.
  - 9.5% (67,260) work in skilled trades. Of these 41,080 (61%) are EU workers.
  - 9% (63,720) work in caring, leisure and other services. Of these 28,440 (44.6%) are EU workers.

- 2.8 **With significant numbers of migrant workers holding elementary or caring occupations, SEEC and SESPM believe there is a very strong case for amending the UK's shortage occupation list to include lower skilled jobs as well as higher skilled roles.** Post-Brexit, the shortage occupation list should also be extended to cover EU nationals as well as non-EU. This will be essential to avoid skills gaps in lower paid but essential jobs, for example:
- Social care workers. The South East has a high and growing demand for social care. Our area has the UK's highest and fastest growing number of elderly residents, with the number aged 75+ expected to double to 1.5 million by 2039.
  - Hospitality sector workers. Tourism and service sectors form a significant part of the South East economy. To continue to succeed – and avoid business failures – the South East will need a regular supply of lower skilled workers to fill roles in these sectors.

### Skills comparisons

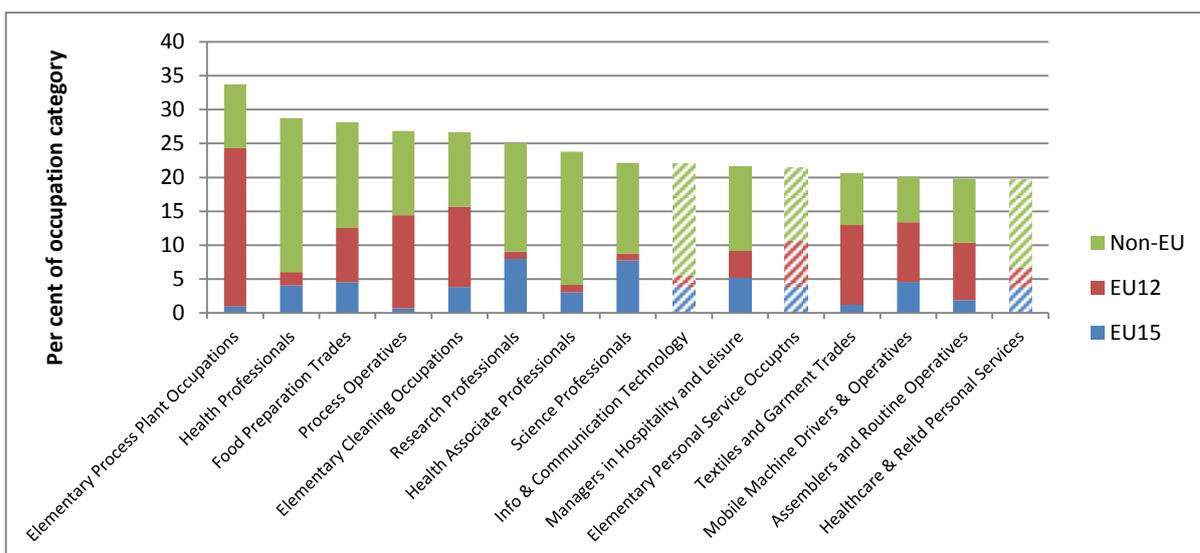
- 2.9 The information in this paragraph draws on research carried out for SESPM in 2014, based on Annual Population Survey and Census data. Chart 2 below, based on Census 2011 data, shows that compared to 28.5% of UK born workers in the South East, a greater proportion of both 'old' EU (37.1%) and non-EU (42.3%) workers held level 4 or higher qualifications. Some 27.4% of accession country EU workers in the South East had level 4 or higher.

Chart 2: Workers' qualification levels, South East, London & UK (Census 2011)



- 2.10 Similar findings are reflected in the more recent 2016-17 data which shows a significant proportion of professional jobs in the South East held by migrant workers (as set out in paragraph 2.6). Reductions in the numbers of migrant workers from either EU or non-EU would therefore leave significant gaps in the South East economy.
- 2.11 While the 2014 data in Chart 2 shows the proportion of lower skilled migrant workers in the South East to be smaller than the proportion of low-skill indigenous workers, data from the Annual Population Surveys 2008-13 in chart 3 below reinforces the more recent 2016-17 data, showing a significant number of migrant workers in elementary jobs. Chart 3 shows high concentrations of migrant workers in elementary process plant occupations and elementary personal service occupations and reinforces the case for expanding the shortage occupations list to include lower skilled workers.

Chart 3: EU and non-EU workers in the South East by occupation category (Annual Population Surveys 2008-13)



Are there any relevant sources of evidence, beyond the usual range of official statistics, that would allow the MAC to get a more detailed view of the current patterns of EEA migration, especially over the last year?

- 2.12 This SEEC and SESPM response builds on three key data sources:
- 2016-17 data for SEEC-SESPM workshop from Dr Carlos Vargas-Silva at the Migration Observatory, University of Oxford, which draws South East specific data from the Labour Force Survey. See Annex 1. We would also recommend that MAC contact the Observatory directly to consider their evidence base in greater detail than provided here.
  - 2014 – Reading University report for SESPM: Profile of Migrant Labour in the South East of England, which draws on Annual Population Survey data. The full report is attached as Annex 2 to this document.
  - 2012 – Worcester Research for SESPM: Migrant Labour in the Greater South East. A range of reports covering [South East-wide data](#) and by South East-based Local Enterprise Partnerships: [Coast to Capital](#), [Enterprise M3](#), [Essex, Kent & East Sussex](#), [Oxfordshire City Region](#), [Solent](#), [Thames Valley Bucks](#) and [Thames Valley Berkshire](#).

### 3. Recruitment Practices, Training & Skills

*How involved are universities and training providers in ensuring that the UK workforce has the skills needed to fill key roles/roles in high demand in your sector? Do you have plans to increase this involvement in the future?*

- 3.1 South East local authority leaders have concerns that the current skills funding system is not sufficiently flexible or targeted to ensure the supply of skilled workers that the South East economy needs to maintain its current levels of performance. Concerns particularly focus on vocational training, where the current system encourages courses tailored to student interests rather than the needs of local businesses.
- 3.2 SEEC members believe a more targeted approach should be adopted, creating a single funding pot for skills and employment investment. Local authorities should be given responsibility for allocating the new single pot funding to ensure training meets the needs of local employers, with a portion of funding specifically allocated to target known skills gaps. At present, when councils identify a mismatch between training being provided and the skills needed in the local economy, they have no ability to target funding to meet the demand.
- 3.3 Local authorities are well-placed to take the lead role in skills funding as they have a unique overview of their local economies, education sector and existing relationships with local partner organisations. By leveraging local knowledge and connections, councils could bring together industry, LEPS, schools, Further Education providers and technical institutes to create a more integrated skills system with strong links to local business. This would help train local people to fill skills gaps, ensure training meets business needs and create direct routes for students into employment.
- 3.4 In sectors with known skills shortages, councils are also keen to see a dialogue with industry bodies about how genuine career paths can be created. Examples include industries such as

social care and hospitality/ leisure where recognised career progression ladders would help encourage more entrants to these sectors and improve staff retention.

- 3.5 SEEC member authorities also believe local authority control would deliver a better and more responsive careers advice service. The current model does not work well in schools and does not cater well for adults. A dedicated, all-age, local-authority-commissioned service could respond better to the needs of local students and workers who will increasingly require career advice and re-training opportunities as the nature of work changes throughout their lifetimes. This approach would also enable local authorities to raise awareness of job opportunities in sectors with vacancies and link job-seekers to relevant training courses.
- 3.6 In a number of shortage sectors, employers could be encouraged to employ and train UK nationals in preference to seeking overseas workers. Clearly this is a long-term ambition but steps should be taken now to put the building blocks in place to deliver a better trained indigenous workforce. However, design of a new system to do this would need to avoid significantly increasing bureaucracy for businesses.

*If new immigration policies restrict the numbers of low-skilled migrants who can come to work in the UK, which forms of migration into low-skilled work should be prioritised? For example, the current shortage occupation list applies to high skilled occupations; do you think this should be expanded to cover lower skill levels?*

- 3.7 Brexit makes it essential to renew the systems for prioritising access to UK jobs for migrant workers who have required skills. A new system needs to be extended to reflect the ongoing need for EU workers as well as non-EU workers. South East local authorities need to be able to influence which skills are given precedence, recognising that skills gaps may vary from one local authority area to another.
- 3.8 Some Local Enterprise Partnerships (LEPs) are already making the case for workers with high level skills such as engineers. While these are clearly important, many businesses and public bodies in the South East depend on lower-skilled migrant workers in fields such as social care, agriculture and construction. Local authorities need to be able to influence policy to support public services and sustain local economic development by ensuring businesses have access to the skills they need. For example:
- **Social care and health sectors** already suffer from a shortage of workers. With South East residents aged 75+ set to double in the next 22 years, demand for care workers is expected to increase significantly. If overseas workers are unable to take up some of these jobs, it will place further pressure on the NHS and social care providers already struggling with shrinking margins. Without sufficient health and care staff local authorities will find it extremely challenging to ensure vulnerable residents receive the care they need.
  - **Construction skills** will also be a priority in the South East. Over 25,000 EU nationals are currently employed in this sector in the South East. With new homes and infrastructure vital for future economic growth, a shortage of construction workers would hold back our potential.
- 3.9 Lack of skills in sectors dependent on seasonal workers, such as tourism or agriculture, could also damage the South East economy so maintaining access to temporary workers from outside the UK will be important. This should be regulated by light touch licensing to minimise bureaucracy for businesses.

#### **4. Economic, Social and Fiscal Impacts**

*What are the economic, social and fiscal costs and benefits of EEA migration to the UK economy? What are the impacts of EEA migrants on the labour market, prices, public services, net fiscal impacts (e.g. taxes paid by migrants; benefits they receive), productivity, investment, innovation and general competitiveness of UK industry? Do these differ from the impact of non-EEA migrants?*

- 4.1 A review of research into the national economic cost/benefit of migrant workers was carried out in 2014 as part of a wider project for SESPM by the University of Reading (attached as Annex 2). It drew on a wide range of evidence, including Charts 4 and 5 below. Taking into account a range of views/perspectives, the independent report concluded:  
“Recent research shows that EEA migrants since 2001 have tended to make a net fiscal contribution – that is, migrants contribute more to public finances than they withdraw (benefits, tax credits, consumption of public services) or paid their way. This is also reflected in forecasts of the UK’s public sector debt where higher migration scenarios are associated with lower

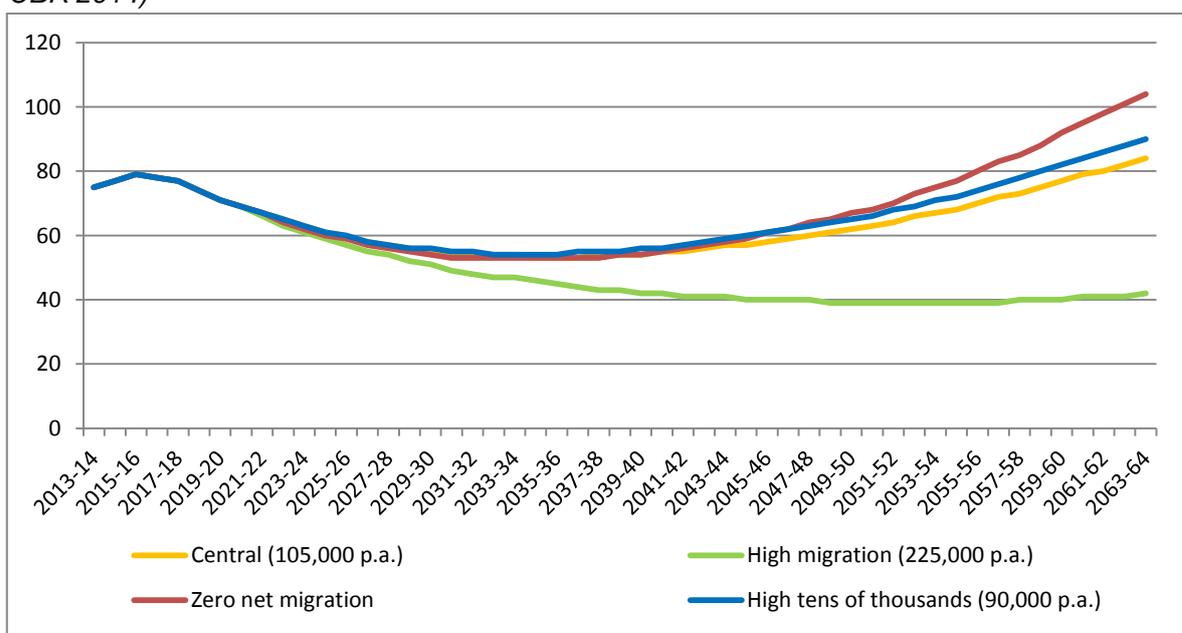
levels of public debt as the population ages. For non-EEA migrants the fiscal impact is lower and in some studies negative. Alternative studies also show the sensitivity of these findings to key assumptions. Overall, however, the fiscal impact of international migration is small relative to GDP.”

This conclusion was supported by the two charts below. It should be noted that whilst Chart 5 - from the OBR and included in the report above - indicates a range of possible (and significant) impacts of migration levels on public sector net debt over the long term, the conclusion of the independent report reflects a range of uncertainties that could impact on the actual results.

Chart 4: Net fiscal contribution of recent international migration (2001-2011), % of GDP (Source Rowthorn)

	Average cost basis		Marginal cost basis	
	EEA	Non EEA	EEA	Non EEA
<b>Dustmann &amp; Frattini</b>	0.20	0.03	0.32	0.26
<b>Migration Watch</b>	-0.16	-0.24	-0.22	-0.37
<b>Rowthorn</b>	-0.00	-0.27	0.09	-0.17

Chart 5: Public sector net debt projections (% of GDP) for different migration scenarios (Source OBR 2014)



**END**

*Note, Annex 1 and 2 are provided separately from this document.*