

Business priorities for a new migration system

Policy briefing

Building a new migration system that balances economic need with the political agenda will be a significant challenge. But is it a challenge that businesses must have a say in - a system informed by business rather than imposed on business is essential to the future economic growth and prosperity of the UK.

Following the Referendum vote, a new approach to managed migration is required

In June 2016 the UK voted to leave the European Union and in October the Prime Minister announced she would trigger the process to do so, Article 50, by the end of March 2017. Between now and the date of the UK's exit there are important questions to answer about our future relations with EU countries and the rest of the world. As the source of prosperity, jobs and opportunity in our communities, business now has a vital role to play in maintaining stability, and helping the Government to plot the future path of the UK economy. Working together, we must identify opportunities outside of the EU while safeguarding the benefits of a close relationship with European partners, to build a prosperous UK economy that works for everyone.

Immigration was a defining issue in the EU referendum campaign. And while the vote to leave was a vote against the status quo, there remains debate about what alternative people voted in favour of. The Prime Minister has been clear that free movement as it currently operates will change as a result of leaving the EU. This has raised doubt about the status of EU nationals here now. Although it is estimated that the majority of EEA nationals currently in the UK are eligible for permanent residency or citizenship it is unclear that the current processes would be able to cope with the volume of applications.¹ To provide reassurance to those individuals and their employers, it should be an immediate priority for the government to secure a reciprocal agreement on the status of EU nationals in the UK. It is also critical that a simple system is put in place for people to claim residency where eligible and that a generous system is put in place for those who currently reside in the UK and contribute to our economy but do not meet the existing requirements. EU nationals currently in the UK must have the confidence they are welcome to remain in the UK and contribute to the economy.

It has also raised longer term questions about how to make sure UK companies are open to the world, can fill skills gaps and meet the labour requirements of a high-employment economy in a way that supports economic growth and prosperity. The CBI has been working closely with members since June to identify the business priorities for a new settlement on migration. Drawing on new data from the forthcoming CBI/Pertemps *Employment Trends Survey 2016*, businesses are clear that we need a system that supports firms' to access the people and skills needed to grow and build a society that is more prosperous for all.

In a globally connected economy, mobility really matters

The UK's reputation as an open, stable jurisdiction, financial and cultural hub and our advantages of time zone centrality and language are key factors in making the UK a great place to locate a business. This is reflected in the World Bank's Doing Business survey, which ranks the UK the seventh best place to do business.² A country's taxation framework, terms of international trade and body of employment law also guide firms' investment decisions, but increasingly, the ability to access the right people at the right time is the key factor. The value placed on such mobility – including the ability to relocate a firm's own employees – is critical to businesses' growth and the creation of prosperity here in the UK. Business concerns about our future migration system stem from the global nature of business and the economic need for mobility, as well as a need to address domestic skills and labour shortages.

Businesses today are operating in increasingly globally connected markets. As a result many jobs are now serving a global market. The ability to attract jobs to the UK when they could be based elsewhere delivers multiple benefits to UK workers. Some directly benefit from the jobs that are brought to the UK by the ability of companies to bring key individuals here. Others benefit from the additional demand created in the local economy by basing highly skilled, well paid, workers there. UK inward Foreign Direct Investment (FDI) was estimated to be over £1tr in 2014/15. In that period investment to the UK created almost 85,000 new jobs, boosting economic growth and improving living standards.³

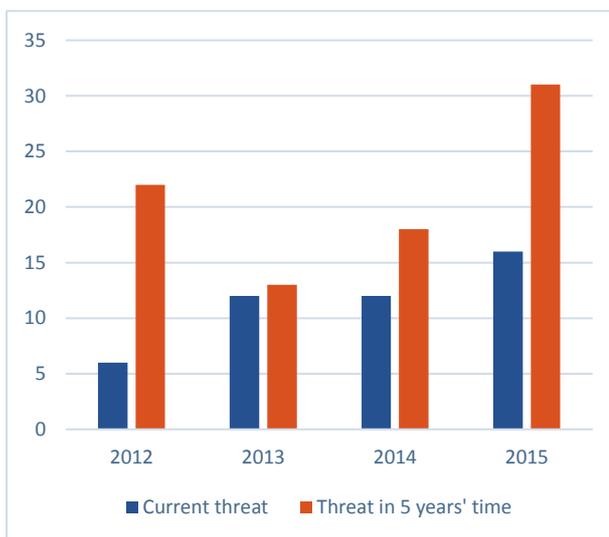
In this global environment, the UK needs a migration system that supports trade. First-time or new exporters often tell us they benefit from having foreign staff as they bring market awareness, cultural understanding and language skills which help to enable firms to expand more overseas and break into new markets. Although there were some successes over the last Parliament, the UK's overall performance on exports has disappointed since 2011.⁴ Improving the UK's export performance is a challenge that business has to lead. But CBI members are clear that government can play a critical role in supporting their international ambitions – getting the migration system right is one critical area.

The international exchange of knowledge and skills is also a critical part of many businesses' operations.

The ability to move employees across borders and develop the skills base of their workforce can drive productivity. Last year, government research highlighted knowledge exchange as one of the positive impacts of migration to business that led to "both improved productivity and company expansion."⁵ It has also been observed by leaders within the UK operations of foreign owned companies that being able to bring senior executives to the UK boosts future investment where these executives have a positive experience of the UK operation – a positive, short term experience has helped create a network of UK brand ambassadors around the world.

In recent years the level of business concern about access to workers from other countries has been steadily rising (**chart 1**). Between 2012 and 2015 the proportion of firms reporting access to overseas workers as a threat to the competitiveness of the UK labour market more than doubled, rising from 6% to 16%.⁶ The data from 2015, collected before the EU referendum was confirmed, suggests that businesses were not optimistic about the prospects for overseas workers improving – the proportion reporting it as a top future threat stood at 31%, up from 18% the year before.⁷

Chart 1: Growing business concern about access to overseas workers as a threat to competitiveness, 2012-2015



Following the vote to leave the EU and a renewed commitment to the net migration target by the new government, businesses concern about access to migrant workers – both highly skilled workers and

people to fill labour shortages – has reached a new high. New data from the forthcoming 2016 CBI/Per Temps Employment Trends Survey 2016 indicates nearly a third of firms (31%) are concerned about current access to highly skilled migrants.⁸ Firms anticipate access to skills and people will be a bigger threat over the next five years following the UK's exit from the EU. Nearly six in ten (58%) expect leaving the European Union will have a negative impact on their ability to access highly skilled migrants, while half of firms (50%) anticipate access to labour supply will be a top threat to competitiveness in the future.

Any new approach needs to restore public confidence

The net migration target, introduced in 2010, has driven a narrow debate on migration in the UK that is centred on a number which cannot reflect the nuances in the public's views on immigration and underpins rising concern. While measuring net migration is one way to gain an understanding of the levels of inflow and outflow from the UK, it does not reflect the economic impacts of migration effectively.

Much of the referendum campaign focused on the impact of immigration on wages and jobs. Empirically, there is little evidence to suggest that immigration for work has a significant impact on either. While a 2015 study indicated that there was a small negative impact on average wages in semi/unskilled occupations, the analysis concluded even a very substantial rise in migration would have a very limited impact, and one which other economic factors could mitigate.⁹ Research from the Centre for Economic Performance indicates that even in areas that experienced large increases in EU immigration did not suffer in terms of jobs and pay.¹⁰ And research from UCL indicates that between 2001 and 2011 European migrants contributed more in taxes than they received in benefits, while European migrants who arrived in the UK since 2000 have contributed more than £20bn to UK public finances.¹¹

Yet studies like these have had little impact on the debate to date and businesses must address public concerns more openly. If we dig deeper into reaction to migration a more nuanced picture emerges. Neither businesses nor the public consider migrants to the UK to be a homogenous group. So considering the net impact, as the government's target and so

much of our political debate does, fails to get to the root of people's concern. Highly skilled migrants and students regularly top the list of migrant groups that the public are least concerned by.¹² Polling conducted after the referendum indicates that when asked about highly skilled vs unskilled migration, the latter is less popular among the public, but when asked about specific occupations – many of which would not classify as highly skilled – rather than using the generic term 'unskilled' the public respond more positively. For example, when asked about care workers and construction workers 75% and 60% respectively responded that the numbers should remain the same or be increased.¹³ The political debate must recognise and reflect these nuances. We need to move away from a debate about a net migration target to one that has the confidence of the public because it ensures that those coming to the UK make a positive contribution to our economy and society.

Businesses are realistic about the need to strike a balance in our migration system and respond to public concern about the social impacts of immigration, in particular additional pressures on public services. The recently announced *Controlling migration fund* is a more effective way to respond to public concerns about the provision of public services in areas of population growth.¹⁴ The fund should however be expanded to include the revenue raised from the additional costs on visas such as the Immigration Health Charge and forthcoming skills charge.

Businesses recognise that different areas of the UK have been impacted in different ways by migration and that the vote to leave the EU prompted questions about how different regions are sharing in the UK's prosperity. Greater flexibility in public service funding is one part of the solution but if public services are to meet the wider pressures they face, such as an ageing population, there must be fundamental changes in how they are delivered. To achieve this government must develop and communicate a clear plan for reforming services. There is also work to be done to raise regional growth and ensure different regions reach their full potential for a more equal share in the UK's prosperity, for example through better skills provision, management practices, infrastructure and support for trade. But businesses are clear that reducing immigration is not the answer. In fact, there is evidence that demonstrates a

correlation between the proportion of foreign born nationals and the productivity of a region.¹⁵

Government should work with business on a system that responds to economic demand

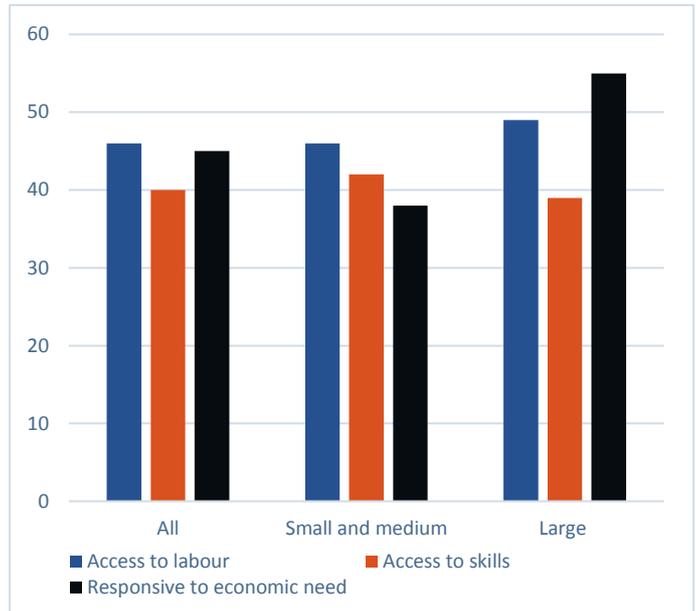
For business, immigration is the most critical people and skills issue to flow from the decision to leave the EU. Replacing free movement with a model that balances economic need with political priorities will be a significant challenge. But is it a challenge that businesses must have a say in – a system informed by business rather than imposed on business is essential to the future economic growth of the UK.

Clear priorities emerged when we asked businesses what they wanted to see from a future migration system. Access to labour to fill labour shortages, a system that is responsive to economic need and access to skilled workers topped the list¹⁶ (chart 2). These results re-emphasise the importance of a migration system that responds to business needs and that to do so, both labour and skills migration is required by business. It is widely recognised that there is a long-term agenda to address skills issues in the domestic labour market, but businesses need to invest in training and be able to recruit from overseas to be competitive now. Migration is not a substitute for training. And with the employment rate hitting record highs, it is unrealistic to suggest that work currently being done by migrants could be done by the domestic labour market.

The survey revealed broad consistency across sectors, regions and business size about these three priorities. Not unsurprisingly, there was some variance by sector in relation to the order the three priorities were ranked. For example access to labour was reported as a priority by 63% of the respondents from the retail and hospitality sector while skills was prioritised by 42%. In science, hi-tech and IT, skilled workers (45%) were prioritised above labour (32%). But all sectors agreed both were important. The food and drink sector gave equal weighting to both.

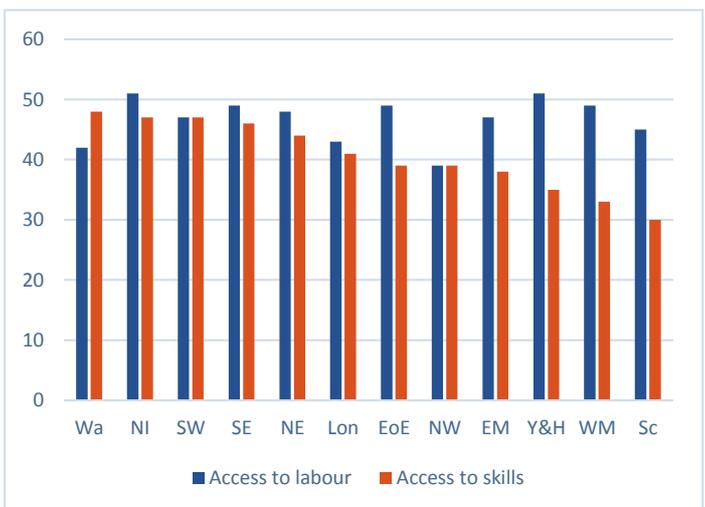
Similarly, when cut by region and by business size there were some differences in the ordering of the priorities but it is clear that across the piece, both access to labour and skills is important. Larger

Chart 2: Top 3 business priorities for the future migration system



businesses put a responsive system (55%) ahead of skills (49%) and labour (39%) while small and medium sized businesses reported access to labour as their top priority (46%), just above access to skills (42%), again illustrating the importance of both (chart 2). Yorkshire and the Humber, the East of England and East Midlands prioritised access to labour above skills while the South West and North West reported they were equal priorities (chart 3).

Chart 3: Key business priorities by region



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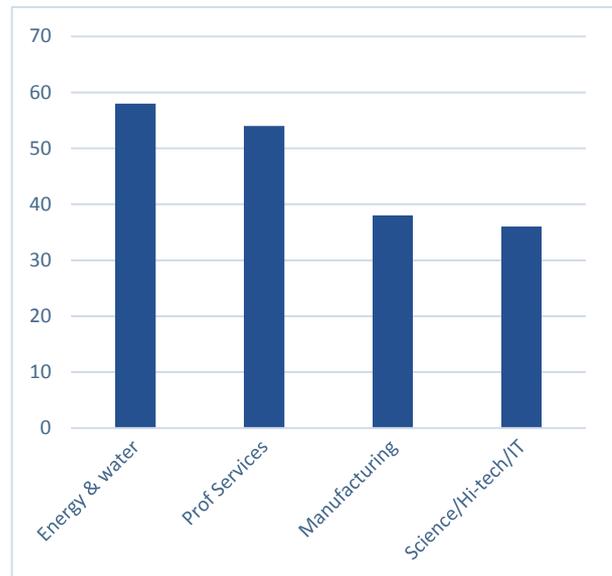
Using this data and conversation with businesses around the country the CBI has identified the business priorities for a future migration system that would support firms' access to the people and skills needed to grow and build a society that is more prosperous for all. Working together it is critical the system that is built is a long term and sustainable solution. Stability in the immigration rules is essential to business planning and resourcing. Stability of the system was reported by a quarter of businesses as a key priority for the migration system going forward, rising to 31% for smaller businesses.

1. Maintain ease of access to do business

As the government begins the task of negotiating a new relationship with the EU and considers alternatives to free movement, retaining ease of movement for trade and travel with our closest trading block is critical. The single market is the UK's largest trading partner with 45% of our exports destined for it and 53% of imports drawn from it.¹⁷ Continuing a tariff-free and barrier-free trading relationship with the EU is critical to UK businesses. Additional processing requirements or border checks are a particular concern for businesses operating in the transport and logistics sector as well as shipping. Requiring visas to travel to the UK – or ending the privileged entry routes UK citizens enjoy in the EU and vice versa – would be a significant non-tariff barrier to trade and must be avoided.

With the end of free movement as it currently operates a likely outcome of Brexit, businesses are clear that the flexibility to move employees around Europe and the wider world is vital. Three in ten businesses cited this as a priority for the future migration system, rising to four in ten (39%) for large businesses who may be more likely to have operations in multiple countries. The proportion of firms reporting this as a priority rose significantly in sectors that need to be able to move highly skilled workers on project based work such as energy sector and professional services (**chart 4**). Enabling easy intra-company mobility across Europe and beyond must be a critical part of the UK's future migration system.

Chart 4: Top 4 sectors reporting movement across borders as a priority



As already highlighted above, investment to the UK supports jobs, generates economic growth and helps to improve living standards. There is also a correlation between that trade and tourism in terms of FDI. If the UK welcomes more visitors, for business or leisure, there are more people who are likely to do business with the UK, as they will have witnessed what the UK has to offer first hand in terms of our transparent legal system and welcoming business environment. Retaining the current basis for entry to the UK for EU nationals, and for UK nationals in EU countries, is the first test of a post-Brexit migration system.

A hard border would also have significant impact on firms in Northern Ireland. While Great Britain does not have a land border with the EU, Northern Ireland does. Keeping barriers to people, goods, energy and services across the island of Ireland as low as possible is essential. At the last Census it was recorded that 14,800 people commuted regularly between Ireland and Northern Ireland. Many businesses located near the border employ a high percentage of Irish domiciled citizens who travel cross the border each day to work. Retaining easy cross border travel is economically essential.¹⁸

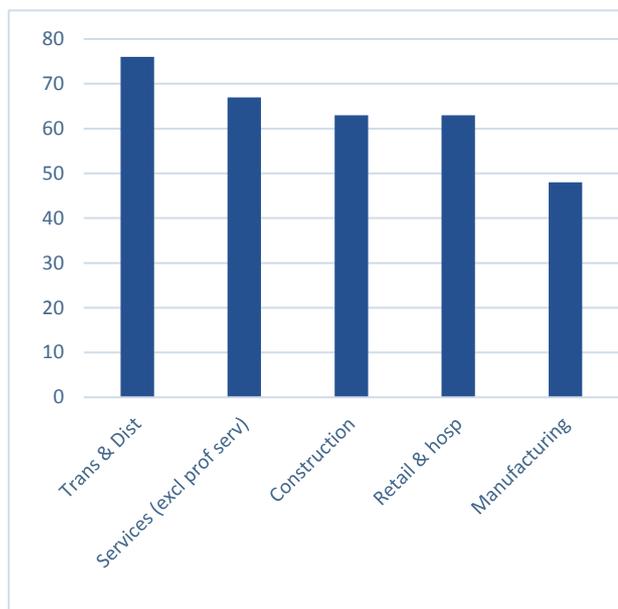
2. Accept the need for non-graduate migration

While our immigration system must support global skills mobility and meet key skills shortages, it is not just a skills issue. The political rhetoric about an alternative to free movement has so far focused on the need to facilitate the movement of highly-skilled people.¹⁹ The employment rate in the UK labour market has reached a record high at 74.5%, while the unemployment rate has hit an 11-year low at 4.9%.²⁰ As a result of these positive conditions, some areas of the labour market, such as the care sector, horticulture and construction are struggling to find and retain the volume of workers to fill current vacancies. The care sector is facing a shortfall of 200,000 workers by the end of this Parliament,²¹ while a survey conducted by the NFU indicated that employers in the horticulture sector were already facing a labour shortage that employers anticipate worsening by 2018.²²

EU nationals work in a wide range of industries and sectors, contributing to the economic success of businesses across the UK. The skill level required for many of these jobs is below degree level, meaning they do not meet the government's definition of highly-skilled, but they are not unskilled.²³ Further analysis indicates that 96% of EU workers currently working in the agriculture sector would fail to meet the test while 94% of EU workers in hotels and restaurants would not be eligible to come to the UK to work.²⁴ Likewise, many of the biggest immediate skills pressures in the UK are for technician roles in manufacturing that would not meet a graduate level skills test.²⁵

Access to a labour supply from our nearest neighbours is critical for businesses across the UK to meet demand in a world where the UK has record-setting employment rates. In response to our survey, 46% of respondents reported access to labour was their priority. In those sectors that are heavily reliant on EU workers, such as transport and distribution (76%), construction (63%), retail and hospitality (63%) the proportion reporting labour as their priority is significantly higher (**chart 5**). But this is not just a sector issue. Occupations such as cleaning, catering and process operatives are also heavily dependent on EU nationals.

Chart 5: Sectors that prioritised access to labour to fill shortages over access to skills



3. Make it easy for skilled people to come to the UK and contribute

In a globally connected economy, where more jobs can be situated in any country, the UK needs a competitive migration system to attract the investment and jobs that create prosperity. A critical element of this is the movement of highly skilled migrants across Europe. Until now, free movement has enabled businesses to fill key skills shortages and move employees across borders with ease. When the UK leaves the EU, ensuring this pool of talent remains accessible to UK business is critical. Where someone is coming to fill a higher skilled job with attendant benefits in skilled jobs and tax returns, we should have an open door – the system that is applied to the rest of the world is not appropriate for mobility of highly skilled workers from the EU.

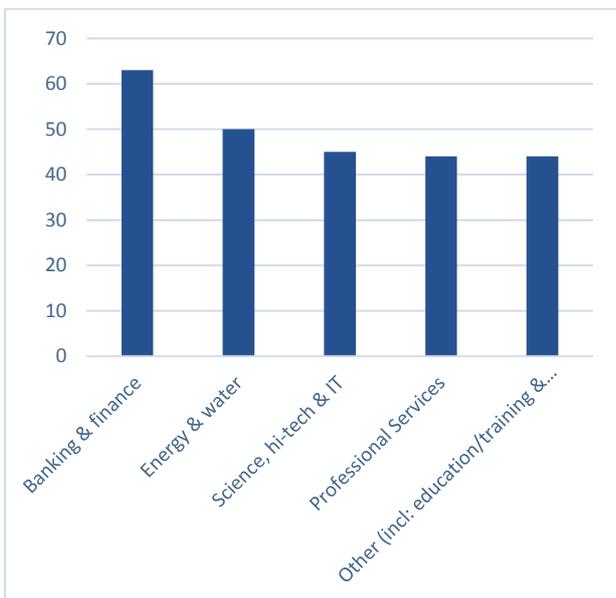
Businesses recognise there is more to do to upskill the domestic workforce and do not regard migration as a substitute. Firms do not choose either to invest in training or to recruit from overseas – they do both. In 2015, UK businesses invested over £45bn on training and skills²⁶ – more than the schools budget in England in the same year.²⁷ But we have shortages now. Delivering the skills that business need is a long term agenda, to compete and grow now, businesses must have access to overseas skills. A realignment of

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the domestic skills system, driven by business, may see the demand for overseas skills fall in the long term in some areas, but they are not mutually exclusive. A greater flow of workers in and out of the UK is to be expected in today's global economy and is desirable. Businesses need both in order to gain a competitive edge and ensure global jobs are based here – where a disproportionate number go to British workers – rather than elsewhere.

Access to skilled workers was reported as priority over labour for firms in the banking and insurance sector, energy & water and those in the science, hi-tech and IT sectors (**chart 6**). The Chancellor's recent comments about business access to high-skilled EU nationals are welcome, although this is concern about skilled workers goes far beyond the City.²⁸ It is also the key priority for small firms with almost half (49%) of firms employing fewer than 50 employees reporting it as the top priority in our survey. Skills needs across the UK also vary with more acute skills shortages in some regions. Firms operating in Wales, Northern Ireland and the South West reported a prioritised access to skills ahead of the other regions.

Chart 6: Sectors prioritising access to skills over labour



4. Secure the UK's global position as an attractive hub

Since the referendum the need for the UK to take advantage of markets in the rest of the world has been a critical element of post-Brexit plans. An effective migration system is key to this. Over the course of the last Parliament, the system for non-EEA skills has been cut repeatedly.²⁹ Yet the Tier 2 route facilitates the movement of highly skilled and economically valuable migrants to companies operating in the UK. Government should be championing this type of migration rather than trying to further restrict it.

The UK university sector is a critical sector for national prosperity. The value of international students to the UK is estimated to be £7bn, supporting over 130,000 jobs.³⁰ The government should work with universities and businesses to cement the UK's global position as a great place to do business and open to the brightest and best international talent to both study and work. The CBI, representing universities and businesses, is uniquely placed to work with the government to ensure that we remain an attractive destination.

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Footnotes

- 1 It has been estimated that if all those eligible applied it would be the equivalent of 140 years' worth of applications. The Migration Observatory, Oxford University, *Here today, Gone tomorrow? The status of EU citizens already living in the UK*, August 2016 <http://www.migrationobservatory.ox.ac.uk/resources/commentaries/today-gone-tomorrow-status-eu-citizens-already-living-uk/>
- 2 *Doing Business Survey 2016*, World Bank Group, October 2015
- 3 *Inward investment report 2014/15*, UKTI.
- 4 *Business priorities for growing UK exports*, CBI, 2015.
- 5 *The impacts of migrant workers on UK businesses*, BIS research paper 217, February 2015.
- 6 Employment trends surveys, CBI/Accenture, 2012-2015.
- 7 *The Right Path: CBI/Accenture, employment trends survey 2015*, December 2015.
- 8 The CBI/Pertemps Employment Trends Survey ran between 30 August and 30 September 2016. Full results of the survey will be published in December 2016.
- 9 *The impact of immigration on occupation wages: evidence from Britain*, Stephen Nickell & Jumana Saleheen, December 2015.
- 10 *Brexit and the impact of immigration on the UK*, Centre for Economic Performance, LSE, May 2016.
- 11 *The fiscal consequences of European immigration to the UK*, Professor Christian Dustmann and Dr Tommaso Frattini UCL, published by the Royal Economic Society in *The Economic Journal*, 5 November 2014.
- 12 *Perceptions and reality: public attitudes to immigration*, Ipsos MORI, 2014.
- 13 *What next after Brexit? Immigration and integration in post-referendum Britain*, British Future/ICM, 2016.
- 14 The controlling migration fund was announced by Amber Rudd on 4 October 2016: <http://press.conservatives.com/post/151334637685/rudd-speech-to-conservative-party-conference-2016>
- 15 *Unlocking regional growth: an evidence based approach to raising productivity across the UK's regions and nations*, CBI, December 2016.
- 16 Respondents were asked to identify 3 priorities from a choice of 12, including an option to state their own. Other responses included: a good service at a reasonable cost, ease of applying for a visa, simplicity of rules and stability of the system.
- 17 *Shaping our future: key business principles for the UK-EU negotiation*, CBI, July 2016.
- 18 *Census 2011 Ireland and Northern Ireland*, Central Statistics Office & NISRA, 2014.
- 19 Phillip Hammond, <http://www.telegraph.co.uk/news/2016/09/08/european-bankers-will-be-exempt-from-migration-curbs-after-brexit/>
- 20 *Labour Market Statistical Update*, ONS, October 2016
- 21 *Moved to care*, International longevity centre-UK, November 2015.
- 22 *End of season labour survey 2015*, National Farmers Union, 2016.
- 23 In the non-EEA system the skills threshold is NVQ level 6.
- 24 The Migration Observatory, Oxford University/FT, June 2016 accessed at: <https://www.ft.com/content/43645264-12a7-11e6-839f-2922947098f0>
- 25 *Working Futures, 2014-2024*, Evidence report 100, UKCES, 2016.
- 26 *UK employer skills survey*, UKCES, 2015.
- 27 *Schools spending*, Institute for Fiscal Studies, 2015
- 28 HC Treasury questions 24 October 2016, vol, 616, col 124.
- 29 The Tier 2 cap was hit for the first time in June 2015.
- 30 *International students in higher education: the UK and its competition*, Universities UK, 2014.

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