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Making the immigration system work for London businesses

IMMIGRATION AND THE UK POLITICAL LANDSCAPE

Net migration is at its highest level in ten years. 641,000 people moved to the UK in 2014, raising net migration to 318,000.² This may explain the apparent increase in the number of people who see immigration as a key issue, with one poll indicating that 40% of the public believe that immigration has a negative impact on the British economy.³

Much UK political debate has focused on how to reduce 'non-EU' immigration, but this risks obscuring the benefits that UK businesses obtain from hiring workers from overseas and creating a public policy environment where it is increasingly difficult for them to do so.

As a European Union member, the UK is unable to restrict migrants entering the UK from member states as free movement of workers is an EU fundamental freedom. The UK Government can, however, control the numbers of individuals from outside the European Economic Area (EEA) who wish to visit or work in Britain through the Points Based Visa System (PBS).

Efforts to further restrict the number of non-EEA migrant workers entering the UK risks depriving London businesses of key specialist skills that are in short supply within the domestic and European labour market. **57% of London businesses looking to recruit struggled to do so in Q2 2015**, demonstrating difficulties experienced in hiring skilled workers.⁴

The Conservative Government elected on 7th May 2015 has stated that it will seek to further restrict non-EEA immigration.

After the first meeting of the new Immigration Taskforce, the Prime Minister announced the Government's intention to make it harder for firms to recruit from outside the EEA. The Immigration Bill outlined in the recent Queen's Speech proposes to limit the length of time professions can remain on the Shortage Occupation List (which allows businesses to recruit non-EEA workers in areas of short supply of domestic workers) and to launch a consultation on whether to impose a new visa levy on businesses recruiting workers from outside the EEA to pay for additional apprenticeships.

Migrant workers from outside the EEA make a positive financial contribution to the UK economy. Non-EEA migrants entering the UK between 2001 and 2011 made a net fiscal contribution of £5bn to UK public finances, contributing more in taxes than they have received in benefits.⁵ In comparison, the net fiscal contribution of the UK-born population was negative, costing the economy almost £61.7bn over the same period.

Political party positioning

The previous Conservative-Liberal Democrat UK Government had moved to curb immigration from outside the EEA by restricting visas issued through the Points Based Visa System (PBS). The Tier 1 (Post Study Work) visa, which allowed students from outside the EEA to work in the UK for two years after graduation, was closed in 2012 and an arbitrary annual limit of 20,700 Tier 2 (General) visas issued was introduced in 2011.

With the UK Independence Party (UKIP) gaining increasing public polling support at the turn of the year,¹ the Conservatives and Labour sought to set out plans to restrict immigration from outside the EU and deter migration from within the EU.

During the 2015 UK General Election campaign, the main political parties put forward policies to reduce the number of people coming to the UK. Among these UKIP advocated withdrawal from the EU and an Australian-style points based visa system to control how many people, and with which skills, the UK would permit to enter.

Manifestos had a focus on restricting EU migrants' access to benefit and to target non-EU migrants through tougher border controls, a clamp down on visa abuse and stronger requirements for English language skills.

The Conservatives reiterated their clear intention to reduce net migration "to the tens of thousands".

However, economic contribution arguments often fail to resonate with segments of the population that are nervous about the impact of overseas labour on jobs and their local communities.⁶ London businesses continue to need access to overseas talent to cope with domestic skills shortages. The approach from Government must seek to accommodate these two concerns.

This report therefore analyses the contributions that non-EEA workers have made to the London economy, the impact that restrictions non-EEA immigration have had on the capital's firms, and outlines ways to ensure that the visa system works for London business.

¹ BBC, Election 2015: Poll Tracker, at <http://www.bbc.co.uk/news/politics/poll-tracker>

² Office for National Statistics (2015): *Migration Statistics Quarterly Report*, May 2015

³ ComRes: ComRes/ITV News Poll: *Majority of Britons believe immigration has negative impact on NHS but half say it has no impact on them personally*, 26 February 2015

⁴ ComRes survey for LCCI of 510 London businesses, May 2015

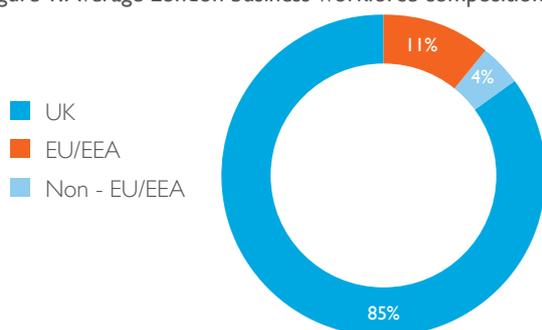
⁵ Dustmann, C. & Frattini, T. (2014): *The Fiscal Effects of Immigration to the UK*

⁶ British Future (2014): *How to talk about immigration*, p.12

SKILLS CONTRIBUTION OF NON-EU MIGRANTS

A relatively small proportion of London businesses employ non-UK workers. Based on our survey of London businesses,⁷ **33% of the capital's firms employ non-UK workers** (28% employ some amount of EU/EEA workers and 16% employ some amount of non-UK/EU/EEA workers). As Figure 1 shows, within the average London business the **workforce composition is 85% UK citizens, 11% EU/EEA citizens and 4% citizens from outside the UK/EU/EEA**. The findings demonstrate that the prevalence of migrant labour in London's workforce is not as high as many people would think and fears of migrants taking jobs away from British workers are unjustified.

Figure 1: Average London business workforce composition⁸



While migrant workers make up only a small proportion of businesses' overall workforce, their contribution to firms' growth and ability to compete globally is crucial. **According to our survey, the main reasons for employing workers from outside Europe are their work ethic (25%) and productivity (25%).** A short supply of UK workers with the required experience (21%) and foreign language skills (21%) were also cited as reasons to recruit non-EEA workers.

Non-EEA workers offer specialist skills that many technology and digital firms in particular require for new and innovative projects. Some reasons why firms in the information and communication sector employed non-EEA workers were for their innovative ideas and the short supply of UK applicants with the required skills or experience. Similarly, professional, scientific and technical firms valued non-EEA workers for their

innovative ideas and foreign language skills, while firms in the finance, insurance and business administration and support services sector indicated the quality of their qualifications and a short supply of UK applicants with required skills as important factors.

The Queen's Speech announced a consultation on funding apprenticeships for British and EU workers by imposing a new visa levy on businesses hiring workers from outside the EEA. However, such a levy will add to the financial burden – particularly for start-ups and SMEs that already face a disproportionately high financial cost to obtain a sponsorship licence – of hiring non-EEA workers, unfairly penalising those that depend on non-European workers to plug skills gap in the domestic and EU labour market.

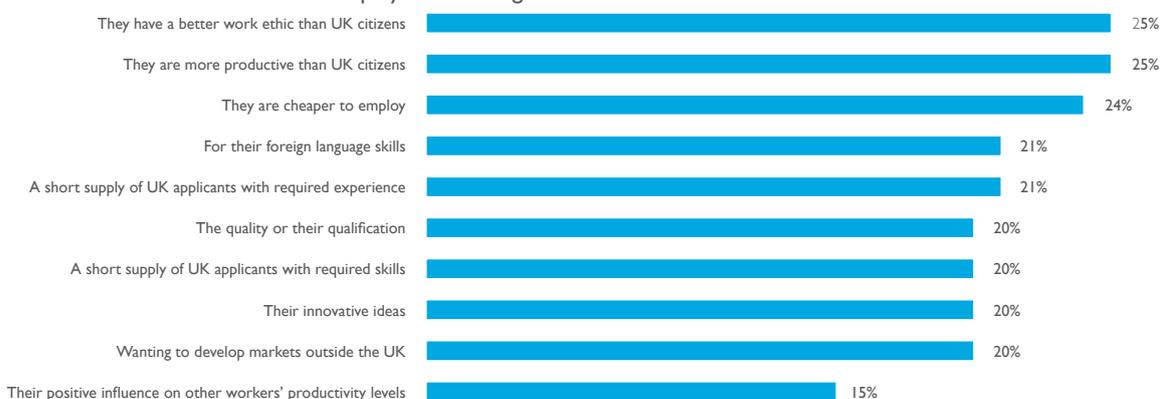
"Skills shortages have increased as an issue for firms as the economy has improved. This year, we have processed more visas and sponsor licences than the year before. The number of companies hiring apprentices has increased, but for the technology sector in particular, it will take years for these new learners to plug the skills gap".

Pat Saini, Head of Immigration, Penningtons Manches LLP

LCCI supports efforts to increase the number and quality of apprenticeships. However, domestic skills gaps will be not be rectified in the short-term. To support firms, particularly start-ups and SMEs to access the skills they need to grow and develop, the **Government must ensure that businesses can readily hire skilled migrants from outside the EEA and not penalise those that need to do so.**

Recommendation 1: The Government is right to seek to improve the volume and quality of UK apprenticeships but that is a longer-term task. London businesses must be able to access skilled migrants in the short term. The imposition of a visa levy on non-EEA workers would be an unhelpful way of addressing the skills shortage facing the UK.

Figure 2: Reasons London businesses employ non-EU migrant workers⁹



⁷ ComRes survey for LCCI of 503 London businesses, February 2015

⁸ Base: all London business leaders in Q1 2015 (n=503)

⁹ Base: all London business leaders who employ citizens from outside the UK/EU/EEA in Q1 2015 (n = 100). Not shown: 'None of the above'

REFORMING THE IMMIGRATION SYSTEM

The Government operates a Points Based System (PBS) to control the number of migrants entering the UK from outside the EEA. Tier 1 covers Entrepreneurs, Exceptional Talent and Investors, amongst others, and is little used.¹⁰ Tier 2 covers skilled workers (including Inter-Company transfers), Tier 3 (unskilled workers) never opened, international students enter the UK through Tier 4, and temporary workers enter through Tier 5. All individuals entering the UK under the PBS are counted towards the net migration target.

London businesses find it difficult to hire the skills they require from outside the EEA. The main barriers faced by London businesses when recruiting workers from outside the EEA are the length, the cost, and the complexity of the process.

Other than recruiting individuals with Indefinite Leave to Remain, (64%) or individuals on a family of a settled person visa (17%), London businesses most frequently use Tier 2 (General) and Tier 5 (Temporary Worker) visas. According to LCCI research, 20% of London businesses that recruited from outside the EU have recruited in this way.¹¹ The top barriers faced by firms hiring either Tier 2 or Tier 5 workers were uncertainty due to frequent changes to immigration law, the strict nature of the rules, the costs of compliance with immigration law, and the length of the application process. In order to ensure that the PBS works for business, the Home Office must simplify the Immigration Rules and guidance, introduce third party sponsorship to remove the burden placed on small and start-up businesses, and amend overly burdensome elements of the process such as the Resident Labour Market Test.

Simplify the Immigration Rules

The strict nature of the Immigration Rules can cause difficulties to London businesses recruiting workers from outside the EEA. This increases costs for businesses as they feel the need to seek legal advice – even to complete application forms – in order to ensure that they are fully compliant with the process.

Case study: Simplifying Home Office immigration guidance

Penningtons Manches LLP, a leading law firm, has found that since the introduction of stricter and more complex immigration rules, their clients have become more reliant on them to complete what were previously routine procedures: *“The Home Office website needs simplifying. Since the Home Office moved to gov.uk, businesses have found the new system challenging to navigate and are now having to engage help from external providers, such as lawyers, for tasks which had previously been managed in-house. Lawyers should be giving strategic and high-level support, adding value to their clients’ businesses with specialist expertise, not basic form-filling”*.

The strict and complex nature of Immigration Rules for work visas makes it difficult for London firms to hire skilled workers from outside the EEA. Earlier this year the Home Office streamlined the rules and guidance for visitor visas in the UK. There are now 4 types of visitor visa (previously there were 15) and most importantly, all 4 routes are now covered by thematic visitor Immigration Rules. The rules are more accessible and easy to understand and this should be a model for how the Home Office seeks to convey guidance for work visas to businesses in future.

There are 3 routes for work related visas: Tier 1 for exceptional talent (which has 4 sub-categories), Tier 2 for skilled workers

(which has 4 sub-categories) and Tier 5 for temporary workers (which has 5 sub-categories, not including the Youth Mobility Scheme). Businesses face a complex choice of 13 routes for recruiting staff. This is compounded by the Immigration Rules not being specifically tailored for work related visas. The Home Office should create one set of Immigration Rules specifically for work visas.

Recommendation 2: The Home Office should simplify the Immigration Rules for work visas, particularly online so London businesses can navigate the system. The recent changes to visitor visas serve as a model.

Introduce third party sponsorship

It is harder for SMEs and start-ups to recruit from outside the EEA than it is for larger employers. Large businesses are likely to have more experience with the process and have the resources to set aside the necessary dedicated staff time to oversee the process. Speed and costs are greater barriers for SMEs and start-ups. Businesses typically wait for up to 3-4 months to get their sponsor license. Start-ups need to recruit quickly for specific projects or positions; too often by the time they have secured a Certificate of Sponsorship (CoS) their candidate has been offered a job elsewhere. The process of obtaining a CoS can cost a small business just over £2,000 per employee.¹² Tailored assistance from the Home Office is not available unless a business is able to pay £8,000 for a license manager; effectively restricting access to support from precisely the types of businesses likely to need it most.

A system of third party sponsorship would allow sector specific organisations such as MedCity or Tech City in London to hold a CoS, which would enable them to sponsor non-EEA workers on behalf of small or start-up businesses, saving the latter from the administrative burden of applications.

Recommendation 3: The Government should look to approve and license credible third party sponsors. This could reduce costs and the administrative burden on small businesses – particularly in specific emerging sectors.

Amend the Resident Labour Market Test

Immigration rules too often create needless hurdles for employers. One mistake from an organisation looking to sponsor a non-EEA national can set back the recruitment process for months.

The Resident Labour Market Test, for example, requires employers to advertise jobs for 28 days in the UK and they can only recruit from abroad if no suitable UK applicant applies.

“Last year we advertised a post and the only suitable candidate was from outside the EEA. But as the post was not advertised in Europe from the outset as required through the Resident Labour Market Test, we had to re-advertise the post and within that six week period, the non-EEA applicant accepted a role elsewhere. It took six months to fill the post, which was a big setback”.

Steven Hale, Managing Director, Crofton Design (medium-sized engineering firm)

¹⁰ Last year, only 9,005 migrants entered the UK on a Tier 1 visa. Home Office: Immigration Statistics January to March 2015

¹¹ LCCI-ComRes survey of 503 London business decision makers, January-February 2015. 30 respondents employed a worker on a Tier 2 or Tier 5 visa

¹² According to a large law firm specialising in immigration matters, costs for a small business applying for Tier 2 visa sponsorship include a £536 licence for four years, up to £199 for the Certificate of Sponsorship, £564 for a visa per person including dependents, plus £1,000 for the Immigration Health Surcharge paid up front and covering five years, also applicable to dependents. For more information, please visit <https://www.gov.uk/uk-visa-sponsorship-employers/apply-for-your-licence>.

The Resident Labour Market Test should be made more flexible to reflect business needs. Any position paying less than £71,000 per annum must be advertised through JobCentre Plus. Given that any Tier 2 applicant must be paid £20,800 per annum, recruiting through JobCentre Plus means that businesses waste time with CVs that are highly unlikely to be from the applicants with the skills they are seeking.

Recommendation 4: The Resident Labour Market Test should become more flexible. Businesses should not have to use JobCentre Plus for advertising vacancies if it is not relevant to do so, provided the advertisement runs for 28 days in two relevant publications.

Addressing the cap

The Government restricted businesses' access to skilled workers by introducing caps to some elements of Tier 1, 2 and 5 visas. The annual arbitrary cap of 20,700 Tier 2 (General) visas threatens to become a brake on the economic recovery. In June 2015 the cap for Tier 2 (General) visas was reached for the first time.¹³ If numbers of applications exceed the cap, then positions offering lower salaries (such as nurses) will not score enough points to be allocated a CoS, further exacerbating skills shortages affecting the public and private sectors. The NHS is especially dependent on non-European health professionals, with spending cuts and tougher immigration rules resulting in a nursing shortage of 24,000 staff this year.¹⁴

The Migration Advisory Committee (MAC) advises the Government on migration issues and, at the Government's request, reviews occupations listed on the Shortage Occupation List to determine the case for new inclusions or removals. The MAC partially reviewed Shortage Occupation Lists for the UK and for Scotland in February 2015. To address differing skills requirements across regions in the UK, **the Government should ask the MAC to conduct a review of the Shortage Occupation List, introducing regional variations of the List.**

Recommendation 5: The Government should task the Migration Advisory Committee to review the Shortage Occupation List and consider introducing regional variations where there are pronounced shortages of specific skills.

International students

Attempts to limit net migration are having a detrimental impact on the UK's higher education and business sectors. While included within the current net migration figures, international students are characteristically different to migrants. International students contribute more than £7bn to the UK economy each year¹⁵; those in London universities alone contribute as much as £2.3bn¹⁶. Members of the public value the contribution international students make to the UK and do not believe that their numbers should be included within the net migration target.¹⁷ **The Government should remove international students from the net migration calculation.**

The closure of the Tier 1 Post Study Work (PSW) visa in 2012 has also been damaging. Previously, it allowed international

students to remain in the UK for two years after completing their studies, whereas now they can only remain for four months. The closure of PSW, the inclusion of international students within the net migration target, and more recent measures, such as biometric visas and police registration for certain students send a clear signal that international students are not welcome in the UK.

As a result, universities have struggled to maintain numbers of international students, damaging the sector's competitiveness. This has led to a reduction in applications from some countries: there was an 11% decrease in the number of Indian students coming to study in the UK between 2012-13 and 2013-14,¹⁸ making the higher education sector increasingly dependent on fewer overseas markets.

Case study: Impact on London University

A Student Visa Compliance Manager at Middlesex University noted that increased restrictions have damaged the UK's reputation and attractiveness for international students:

"We used to have an intake of around 4,000 students on average, prior to the introduction of Tier 4. Now we expect an average intake of around 2,500 students. Much of the reduction is attributable to the closure of the post study work [visa] and a noticeable decline in the number of Indian students. Many international students would come to the UK to earn a UK degree and then gain two years' worth of work experience, potentially finding sponsorship with an employer in the long term, and even if they didn't, they would return home with that invaluable UK work experience. This opportunity was something much of the aspiring classes in India grew up expecting; the closure of the post-study work visa has shattered the expectations of an entire generation."

The closure of the Tier 1 PSW is damaging London's businesses in general. There has been an 88% drop between the numbers of students remaining in the UK to work before and after the closure of Tier 1 PSW.¹⁹ At the same time, 57% of London businesses looking to hire in Q2 2015 struggled to do so.²⁰ By turning away a ready supply of talented graduates, the Government is making it more difficult for businesses to source the skills that they require.

The Government should therefore look to restore a PSW route for students from outside the EEA. Restoration of a one year PSW visa for international students would correct misconceptions about the UK not welcoming international students, and provide a boost to London's businesses.

Recommendation 6: The Government should remove international students from the net migration calculation and restore a one year post-study work route for non-EEA students after graduation.

¹³ BBC News: *Skilled workers immigration cap hit*, 11 June 2015

¹⁴ Financial Times: *UK falls short of 24,000 nurses due to cuts and immigration rules*, 7 June 2015

¹⁵ Universities UK (2014): *International Students in Higher Education: The UK and its competition*, p.1

¹⁶ London First and PwC (2015): *London Calling: International students' contribution to Britain's economic growth*, p.5

¹⁷ 59% of the public say the government should not reduce international student numbers. British Future and Universities UK (2014): *International students and the UK immigration debate*.

¹⁸ HESA (2015); Table 9 - Top non-EU countries of domicile

¹⁹ In 2012 34,895 Tier 1 PSW visas were issued. In 2013 the number of students remaining in the UK to work on a Tier 2 (General) visa was 4,175. All-Party Parliamentary Group on Migration (2015): *UK post study work opportunities for international students*, p.29

²⁰ ComRes survey for LCCI of 510 London businesses, May 2015

SUMMARY



"London's businesses need access to a skilled workforce in order to thrive and prosper. However, skills shortages are increasingly felt across the business environment. Our latest polling found **57% of London businesses looking to recruit in Q2 2015 struggling to do so**. Prolonged skills shortages may impact on London's ability to compete globally.

Following the UK General Election, in order to meet its declared net migration target the Government intends to introduce further restrictions on the ability of UK businesses to employ workers from outside the European Economic Area (EEA). Yet, London firms will testify that recruiting workers from outside the EEA enables them to access specialist skills that all too often are lacking in the domestic labour market.

With a sizeable number of the British public regarding immigration as a key issue, the Government's current approach towards non-EEA immigration risks over-magnifying public concerns, increasing costs for businesses and clouding the benefits to our national economy.

Notably, the oft-quoted aim to reduce net migration "to the tens of thousands" could give an impression to overseas workers and students that the UK is not welcoming to them – deterring precisely the talent that London businesses need. One would hope that political factors do not lead to the UK Government pursuing counterproductive immigration policies."

Based on a survey and in-depth interviews of London business leaders, this report from London Chamber of Commerce and Industry (LCCI) looks at the issue of immigration and offers suggestions on how the visa system may be shaped to maximise the contribution of non-EEA workers to the London economy".

LCCI asks the Government to consider the following recommendations:

RECOMMENDATIONS:

1. The Government is right to seek to improve the volume and quality of UK apprenticeships but that is a longer-term task. London businesses must be able to access skilled migrants in the short term. The imposition of a visa levy on non-EEA workers would be an unhelpful way of addressing the skills shortage facing the UK.
2. The Home Office should simplify the Immigration Rules for work visas, particularly online so London businesses can navigate the system. The recent changes to visitor visas serve as a model.
3. The Government should look to approve and license credible third party sponsors. This could reduce costs and the administrative burden on small businesses – particularly in specific emerging sectors.
4. The Resident Labour Market Test should become more flexible. Businesses should not have to use JobCentre Plus for advertising vacancies if it is not relevant to do so, provided the advertisement runs for 28 days in two relevant publications.
5. The Government should task the Migration Advisory Committee to review the Shortage Occupation List and consider introducing regional variations where there are pronounced shortages of specific skills.
6. The Government should remove international students from the net migration calculation and restore a one year post-study work route for non-EEA students after graduation.

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