

Response to Migration Advisory Committee call for evidence:

“The economic and social impact of the UK’s exit from the EU”

27th October 2017

London Chamber of Commerce and Industry (LCCI) is the largest capital-focused business advocacy organisation representing the interests of over 3,000 companies from small and medium-sized enterprises through to large, multi-national corporates. Our member companies operate within a wide range of sectors across all 33 London local authority areas – genuinely reflecting the broad spectrum of London business opinion.

As the voice of London business, we seek to promote and enhance the interests of the capital’s business community through representations to central government, the Mayor and London Assembly, Parliament and the media, as well as relevant international audiences. Through member surveys and commissioned research, LCCI seeks to inform and shape the debate on key business issues.

Recommendations from LCCI

Fuller detail within LCCI report: *‘Permits, Points and Visas: securing practical immigration for post-Brexit London’*:

- A single-issue **‘London Work Visa** granting ‘indefinite leave to remain’ would reassure current EU national employees and their London employers.
- The government should consider a **‘Targeted Migration Area’** designation for the London Region, within the UK Immigration system, to manage London’s unique skills and labour requirements.
- The MAC should maintain a separate **‘Shortage Occupation List’** (LSOL) for London (as Scotland has) to attract the skills and talent necessary to ensure the long-term sustainability of the capital’s economy.
- The LSOL could provide an evidence base to underpin a dedicated **‘Capital Work Permits System’** for future migrants overseen and administered by City Hall, on behalf of the Home Office.
- The Office of Mayor of London and the capital’s established business organisations could seek UKVI licensing as the **Work Permit Sponsorship Body** for the region.

Introduction

1. LCCI welcomes the opportunity to input into this call for evidence by the Migration Advisory Committee (MAC). However we must register disappointment that the tasking of the MAC by the Home Secretary with this brief was not undertaken at an earlier date.
2. This submission complements the roundtable discussion hosted by LCCI on 12th September 2017 between a MAC official and 20 London businesses.

3. London has a unique relationship with, and greater reliance upon, foreign workers than the rest of the UK. The capital is a hub for immigration, with EU workers making a vital contribution to the London and UK economies. After taking soundings of London business leaders, through roundtable discussions and polling, the issue of most concern to London's businesses following the EU Referendum has been workforce certainty; specifically access to non-UK migrant workers now and in the future.
4. To gauge the importance of non-UK migrant workers to the London economy, LCCI commissioned the Centre for Economics and Business Research (Cebr) in September 2016 to provide an economic analysis. The final report; *Working Capital – The role of migrant workers in driving London's economy*¹ is submitted alongside this paper which contains Cebr references as well as wider research and evidence gathered on behalf of LCCI members and London's wider business community.
5. Cebr's analysis found that non-UK migrants, including EU nationals, currently constitute 25% of the capital's workforce – making the capital three times more reliant on foreign workers than the rest of the UK. These workers make an estimated £44bn GVA contribution to the capital's economy, and pay an estimated £13bn in direct tax revenues². Moreover, they add to the city's cultural mix and diversity.
6. London businesses are enduring a chronic skills shortage, and are deeply concerned about the potential impact of policies that might impact upon the status of EU nationals within their workforce, or on their ability to recruit workers from overseas in future to fill employment gaps.
7. Recent polling for LCCI of London businesses showed that twice as many believe that London should prioritize economic growth – even if that means increasing EU immigration – than believe London should prioritize reducing EU immigration even if that means reducing economic growth (29%). In addition, half of London businesses (52%) believe a decrease in the level of immigration to London would have a negative impact on economic growth³.
8. LCCI's work in this area resulted in our development of recommendations for a post-Brexit migration system outlined in our November 2016 report *Permits, Points and Visas: Securing Practical Immigration for Post-Brexit London*⁴.
9. The report's proposals reflect the capital's unique reliance on workers from overseas and businesses' clear call for a new system that is flexible and based on need, rather than arbitrary caps on numbers. The *Permits, Points and Visas* proposals talk to a degree of flexibility in any new UK immigration system with elements of 'regionalisation' for the capital.
10. However the focus of the report was to, where possible, amend or enhance provisions of the existing UK migration system hence the call for a new, dedicated **Shortage Occupation List for London (LSoL)**, based on the model employed in Scotland.
11. LCCI envisage a role for the MAC in undertaking an annual skills survey in conjunction with London government and businesses to inform the content of a London SoL.
12. LCCI would urge the MAC to make substantive interim recommendations to government in advance of the final report due in September 2018 – when the bulk of the EU negotiations would have taken place. Failure to do this could result in final MAC recommendations having little impact on government thinking in late 2018.

¹ Cebr Working Capital – The role of migrant workers in driving London's economy November 2016

² Cebr Working Capital – The role of migrant workers in driving London's economy November 2016

³ ComRes survey for LCCI of 502 businesses, November 2016.

⁴ LCCI Permits, Points and Visas – Securing practical immigration for post-Brexit London

EEA Migration Trends

13. London is three times more reliant on foreign workers than the rest of the UK. The capital contains 11% of the nation's UK nationals, but 35% of the UK's EU nationals. Over **15% of London's workers are EU nationals** and over **9% are non-EU foreign nationals**⁵.
14. In Q1 2016 with 1.2m foreign nationals working in London (771,000 being EU nationals) that equated to **25% of the London workforce** being "foreign-born". The share of EU migrants in London is over twice as high as in any other part of the country⁶.
15. Within the capital, the workforce of the economically significant sectors of financial services and construction is made up of 24% and 36% of EU workers respectively⁷.
16. Figure 1 below, further highlights the capital's unique reliance on EU nationals across key sectors including; construction, distribution hotels and restaurants, transport and communication, banking and finance, public admin, education and health.

Fig. 1 Share of total employment by EU nationals in London, selected industries

	Construction	Distribution, hotels and restaurants	Transport and communication
London	30.2%	19.6%	14.3%
	Banking and finance	Public admin, education and health	
London	14.1%	10.8%	

17. Starkly, one can see that London is more than six times more reliant on EU nationals for construction than the rest of the UK.
18. In addition to London's reliance on EU nationals within key sectors – as highlighted above – Cebr's analysis shows how the the capital is also reliant on a wide variety of skilled labour across a number of occupation groups. See Fig. 2, below.

Fig. 2

	EU	non-EU	UK
Managers, Directors, Senior Officials	11.13%	8.37%	80.50%
Associate Professional & Technical	12.60%	6.99%	80.41%
Caring, Leisure & Other Service	15.05%	11.97%	72.97%
Process Plant Operatives	22.78%	11.11%	66.11%
Skilled Trades	25.92%	7.72%	66.35%
Elementary	31.00%	12.99%	56.02%

19. This year LCCI and London Councils commissioned ComRes to undertake a local business survey of Greater London - the **London Business 1000**⁸. The survey is based on responses from over 1,000 businesses and considered a range of topics that affect the capital's business community including recruitment, retention and migration.

⁵ Ibid

⁶ Cebr *Working Capital – The role of migrant workers in driving London's economy* November 2016

⁷ LCCI Permits, Points and Visas – Securing practical immigration for post-Brexit London

⁸ LCCI London Business 100 July 2017

20. The survey, published in July, found that two in five (40%) London businesses surveyed employ EU workers and a quarter (24%) employ workers from outside the EU. Employing non-UK workers is mainly done to access their skills, education or experience.
21. Nearly a quarter (23%) of London businesses said that more than **25% of their high skilled staff were non-UK EU nationals**, and 11% reported that was the case for more than half of their workforce. This reliance was much lower for non-EU staff: only 10% reported more than a quarter was from outside the EU, and just 3% reported more than half of their staff were non-EU nationals. Looking at specific industries, the accommodation, food and recreation sector stands out, with 26% of businesses reporting more than half of their high-skilled staff were foreign nationals.

Recruitment Practices, Training and Skills

22. There are a range of skills deficiencies across the London economy. A LCCI/KPMG study⁹ identified a 20% skills gap in the construction sector, while Cebr reported 21% of financial services sector vacancies remained unfilled in 2015¹⁰ as not enough skilled workers could be found amongst the domestic workforce. Non-UK migrant workers help to minimise the capital's skills gap.
23. In our London Business 1000 survey we asked business why they hired high skilled foreign nationals. The main reason given was the quality of their skills, experience or education (40%). Another 12% cited outstanding work ethic while 6% mentioned specific foreign language skills.
24. Quality of skills was particularly important for business leaders in the construction and professional/scientific sectors with 49% and 48% saying this was among their main reasons for hiring non-UK nationals.
25. When asked about semi or low-skilled staff (employees who are not in professional, managerial or technical roles) a similar pattern emerged, with four in ten (42%) businesses reporting they employ international staff, rising to 72% for larger businesses. Businesses in the accommodation, food and recreation industry again stood out, and to a lesser extent retail businesses: 44% and 40% respectively reported that at least a quarter of their semi or low-skilled staff were foreign nationals.
26. The main reasons reported by London businesses why they hired semi or low-skilled non-UK nationals were the same as for high skilled staff. Two fifths (39%) cited the quality of their skills, experience or education. Work ethic scored particularly high in the construction and property industry, being raised by a third (31%) of the respondents, compared to 22% or less in other sectors.
27. In our report from June this year¹¹, LCCI heard from several member organisations with their views on the role of EU nationals within their workforce. Responses included:

“EU nationals play a key role in the logistics sector, comprising 13% of truck drivers, 26% of warehouse workers and 9% of van drivers. These people are hugely important to our workforce but there are fears that some are already beginning to move back, due to uncertainty created by the Referendum result.”

Natalie Chapman, Head of Policy – London, Freight Transport Association

⁹ LCCI Skills to Build: Construction Skills index (London and the South East), November 2014

¹⁰ Cebr Working Capital: The role of migrant workers in driving London's economy, November 2016

¹¹ LCCI Moving towards Brexit – London business views one year on from the EU referendum, June 2017

“Traditionally we’ve been recruiting people who come from other EU states, to plug a skills gap here in London, and what we’ve seen since Brexit is a complete change in the geographic profile of the people we’re bringing in. A lot of people from Poland, the Baltic states have dropped out from our application base and they’re not being replaced.”

Colin Campbell-Dunlop, Business Development Manager, Project Recruit

28. The table below shows there are numerous reasons why businesses employ EU nationals (Note: figures below for UK business, not London only. Please see Fig. 3¹²)

Fig 3 Reasons for employing EU nationals

Reason	%
Difficulty in attracting UK-born applicants to fill un-skilled or semi-skilled jobs	19
Better work ethic / motivation	17
Better job-specific, practical or technical knowledge	14
Commitment to or fit with the organisations values/behaviours	11
Language skills	8
Better qualifications	8
Lower expectations about pay and employment conditions	7
Lower labour turnover	6
More work experience	6
IT skills	4
Basic skills (literacy and numeracy)	3
Better organic soft skills	1
Other	9
Not applicable – we do not consider nationality	45
Don’t know	3

Base: All employers of EU nationals in the UK (n=525)

Economic, Social and Fiscal Impact

29. The value of immigration to London’s economy is substantial. The gross value added by EU workers to the London economy is estimated to be £26bn.

30. Our 2016 research with Cebr highlighted that if current Tier 2 visa controls were extended to EU nationals, by 2020 London could lose 160,000 migrant workers, £7bn in economic output and £2bn in direct taxes¹³.

31. In addition, it has been estimated that London’s 100,000+ international students bring a benefit of £2.3bn per year to the economy, supporting almost 70,000 jobs¹⁴. 72% of London businesses polled by ComRes on behalf of LCCI said that international students have a positive impact on the London economy¹⁵.

Conclusion

¹² All-Party Parliamentary Group on Migration *Brexit: beyond the highly skilled – the needs of other economic stakeholders* September 2017

¹³ Ibid pp. 4

¹⁴ London First and PwC (2015) - London Calling: International students’ contributions to Britain’s economic growth accessed <http://londonfirst.co.uk/wp-content/uploads/2015/05/London-Calling-report.pdf> pp. 5

¹⁵ ComRes survey for LCCI of 504 businesses, February-March 2017

32. In recent years the government has made it increasingly difficult to hire workers from overseas and further restrictions are anticipated with the end of the free movement of people between the UK and EU post-Brexit. Although of course businesses have an important role to play in up skilling the domestic workforce, this will take time, not least in London which has a historic and unique reliance on workers from overseas and where there are already chronic skills shortages.
 33. It is clear that the departure of EU nationals in particular from the London workforce would be economically harmful, impacting upon various key industries, and putting pressure on public funds.
 34. Following the referendum, the Government stated that Britain should be open to the 'brightest and the best'. We welcome this, but is it important that we must ensure employers can continue to hire workers from the EU – not just 'the brightest and best' – but those required to plug the capital's ongoing skills gaps.
 35. Ultimately, LCCI believes that the evidence demonstrates the capital's unique reliance on EU nationals within its workforce, to say nothing of the broader cultural benefits that these individuals bring. The damage, consequently, to losing these individuals would be felt particularly in London, which remains the engine of the wider UK economy.
 36. Whilst it is anticipated that the MAC will publish a final report in 2018 following this call for evidence, LCCI is concerned this may be too late to shape or influence government thinking over EU migration policy as it relates to Brexit negotiations. Therefore, we would call on the MAC to publish an interim report.
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Further Information

LCCI would be happy to clarify or provide further comment on any matter raised within this response.

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