



Experts in Business

Immigration and Scotland Inquiry

A consultation response for the Scottish Affairs Committee by FSB Scotland

Federation of Small Businesses Scotland
November 2017

Overview

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the Committee's immigration inquiry.

FSB is Scotland's leading business organisation. As experts in business, we offer our members a wide range of vital business services including advice, financial expertise, support and a powerful voice in government. Our mission is to help smaller businesses achieve their ambitions. These micro and small businesses comprise the majority of all enterprises in Scotland (98%), employ around one million people and contribute £68bn to the economy.

Since the outcome of the referendum on the UK's membership of the European Union (EU), FSB has undertaken extensive engagement with our members across the UK to better understand the potential opportunities and risks of the UK leaving the EU. This work was summarised in four reports, published earlier this year:

1. Access to EU single market and non EU markets¹
2. Access to skills, labour and ease of 'doing business within the EU'²
3. EU funding and what happens next³
4. Regulatory framework following Brexit⁴

These reports were supplemented by additional analysis on the two key Brexit issues facing small firms in Scotland: international trade⁵ and access to skills and labour.⁶ It is outside the remit of this inquiry to summarise the main findings from each of these research programmes; nonetheless it is worth stating that, as a result of the current UK-EU 27 negotiations, easy access to the single market and the ability to hire EU workers are key concerns for smaller businesses in Scotland.

Indeed, their ability to hire people with the right skills and to do business in the EU is fundamental to small firms' survival and growth in Scotland. Accordingly, FSB has consistently called for:

- The right to remain for EU citizens who are working in Scotland and the rest of the UK, before the point at which we leave the EU.
- A transition period of at least three years – during which existing immigration and trade arrangements continue – following our departure from the EU and until a new immigration system starts to be phased in through an implementation period.

¹ "Keep Trade Easy: What Small Firms want from Brexit", FSB, March 2017.

² "A Skilful Exit: What Small Firms want from Brexit", FSB, April 2017.

³ "Reformed Business Funding: What Small Firms want from Brexit", FSB, May 2017.

⁴ "Regulation Returned: What Small Firms want from Brexit", FSB, July 2017.

⁵ "Keep Trade Easy: What Small Firms want from Brexit – Scottish Summary", FSB, March 2017.

⁶ "A Skilful Exit: What Small Firms want from Brexit", FSB, April 2017.

Summary

The UK's departure from the EU provides an opportunity to develop a new immigration system. In this response, FSB makes the following points:

1. Current UK immigration policies should better respond to Scotland's demographic, economic and skills needs. EU migration has helped reverse declining population levels and there is a real risk that Brexit will impact Scotland's ability to grow its population and its economy.⁷ Attracting working age migrants to Scotland is a pre-requisite for future economic prosperity.
2. Future decreases in immigration to Scotland, particularly from the EU, will create additional skills shortages and recruitment difficulties for the economy. This will be especially pronounced in key sectors like tourism, construction and healthcare that are reliant on EU workers.
3. Any new immigration system must consider and be responsive to the needs and capabilities of smaller businesses.
4. A new immigration system would benefit from being flexible enough to accommodate the significant variations in the migration and skills needs of particular nations and regions within the UK. Building in greater flexibility is important but it is equally important to ensure we simplify and reduce compliance costs for small employers and maintain the mobility of EEA/EU workers once in the UK.

Lastly, it is worth pointing out that FSB does not have expertise in the administration of the UK immigration system. Rather, our interest is in the outcomes of UK immigration policies and how they affect small employers following Brexit. We have therefore limited our response to these aspects of the Committee's inquiry.

Small businesses and EU workers

The Brexit research published by FSB on skills and labour provides useful context for the committee's deliberations. Broadly, it focused on two areas: first, how small businesses in Scotland would be affected by, and respond to, restrictions to the free movement of people; and second, the role of employers in a new immigration system.

The end of free movement to the UK from EU countries, and the introduction of new immigration arrangements for EU citizens seeking to work in the UK, are key challenges facing Scottish small business owners. Indeed, of the 181,000 EU citizens living in Scotland, 63% are in employment (114,247) and many work in small businesses.

According to FSB research, one in four small employers in Scotland (26%) have at least one employee from an EU country, which is five per cent higher than levels for the UK as a whole (21%). The reliance on EU workers also differs by geography and sector – just under half of employers in the Highlands have EU workers (41%) compared to 28% in the Aberdeen city region, while those operating in tourism and leisure are more likely to have EU staff (45%). The benefits smaller businesses have gained from having access to EU labour and skills cannot be overstated. As one FSB member put it:

⁷ ["Home Affairs Committee Inquiry into Immigration: Scottish Government written submission"](#), Scottish Government, January 2017.

“The talents of EU nationals have helped our business thrive over the past 25 years and we would be worried if we were to lose our current staff due to the EU referendum result. Looking to the future, firms like ours must be able to continue to source international talent and labour if that’s required.” **Alasdair Hughson, Keltic Seafare, Dingwall**

Allied to this there is the real possibility that efforts to grow the economy will be undermined by lower numbers of EU migrants settling in Scotland. This is especially problematic given the demographic challenges facing the country – the population aged 75 and over is projected to increase by 85% in around two decades – and the fact that “most of our population growth is supported by inward migration”.⁸ Indeed, since 2000, 50% of the increase in non-UK people living in Scotland has come from EU citizens. This is in stark contrast to the UK which is overall less reliant on inward migration for population growth.

Small businesses and free movement of people

At this stage little is known about the short, medium and long-term impact Brexit will have on small businesses. What we do know is that Scotland could face immediate skills and labour problems if, according to KPMG, 77,829 EU citizens act on their plans to leave the country.⁹ How employers react to a labour market where EU labour and skills are increasingly scarce is therefore an important consideration in the development of a new immigration system.

As illustrated in the graph below, FSB research found that small employers would consider a diverse set of strategies to continue meeting their labour and skills needs following Brexit and cope with an anticipated increase in competition for staff.

Roughly, it is possible to identify two groups. One group of employers would adapt their recruitment practices by hiring UK citizens with equivalent skill levels or continuing to employ EU citizens, despite additional costs. A second group of employers would consider making significant changes, such as reducing operations, closing their businesses or moving operations abroad. This was articulated by a business owner interviewed during the research who said that:

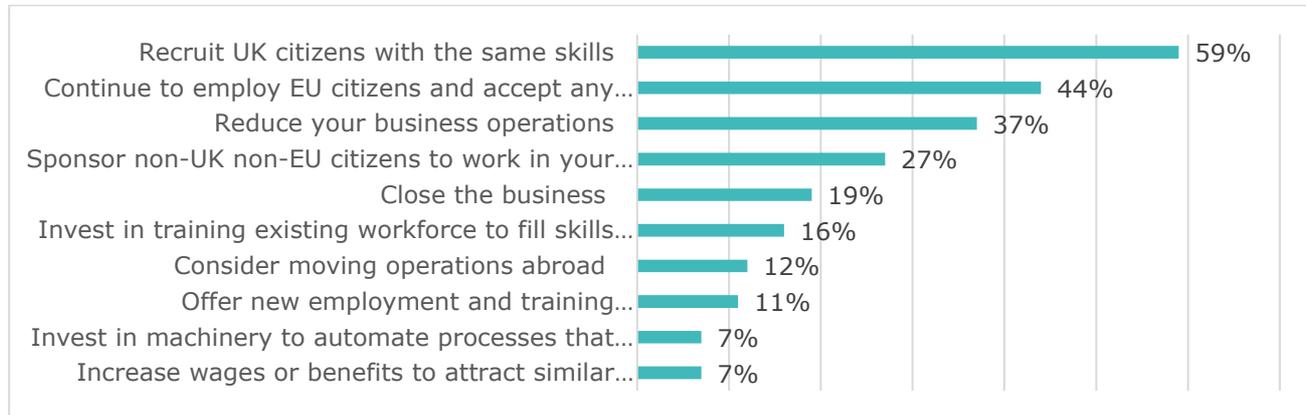
“If I didn’t have access to my non-UK workforce I would close down. I would not operate without my European staff. It wouldn’t be possible. I would have real reservations about my ability to get the skills I need from UK workers alone. Not just reservations – I know it wouldn’t happen. There are plenty of other businesses in my sector who wouldn’t do very well at all if all the European workers went home. They would probably collapse.” **FSB member, Construction**

⁸ *Ibid.*

⁹ “The Brexit Effect on EU Nationals”, KPMG, August 2017.

Figure One: Options business owners with EU employees would consider if there were more barriers to recruitment

Source: FSB Scotland Brexit Skills Survey



A post-Brexit immigration system

Given that 26% of Scottish employers have at least one employee from the EU and the majority recruit EU workers from Scottish and UK labour markets (85%), the future treatment of EU citizens is an important issue for the small business community. This point is worth expanding upon because 95% of small employers have never made use of the UK's points-based immigration system – mainly because their businesses' labour and skills needs were being met through UK and EU labour markets.¹⁰

"Sectors like mine would never have expanded in the last ten years without EU workers. They have been central to business growth." **FSB member, Aberdeen**

Needless to say, there will be challenges for smaller employers navigating a complex and largely unknown immigration system.

FSB research published earlier in the year found that 56% of UK employers of EU citizens were concerned about being expected to enforce new immigration rules in a post-Brexit environment. This is unsurprising given the UK Government, via the Immigration Acts of 2014 and 2016, has placed additional enforcement duties on employers to "reduce the demand for skilled migrant labour".¹¹ Further, the introduction of an Immigration Skills Charge has increased the cost of skilled workers from outside the European Economic Area to:

"... cut down on the number of businesses taking on migrant workers and incentivise training British staff to fill those jobs".¹²

¹⁰ "A Skilful Exit", FSB, April 2017.

¹¹ See: <https://www.gov.uk/government/publications/immigration-bill-2015-overarching-documents/immigration-bill-201516-overview-factsheet>

¹² See: <https://www.gov.uk/government/news/governments-new-immigration-skills-charge-to-incentivise-training-of-british-workers>

Unsurprisingly these policies have led many small businesses, which employ people for their suitability, skills and attitude, to feel penalised for hiring foreign workers to sustain and grow their businesses.¹³ The UK's departure from the EU, therefore, provides an opportunity to develop a new approach to immigration. The extent to which this system enables Scotland to better respond to the country's demographic and skills challenges is an important consideration.

Options for differentiating the UK immigration system

Recognising the varying demographic and employment challenges across the UK, FSB has highlighted the benefits of an immigration system which is able to adapt to the different needs of the UK's nations and regions. In Scotland, access to skilled staff and labour has been a consistent barrier to growth for small firms even with the larger pool of labour currently at their disposal.¹⁴

During our research with FSB members we were particularly struck by the recruitment challenges facing many smaller businesses, especially those in labour-intensive sectors operating in sparsely-populated rural areas. As outlined above, many businesses have adapted to this by recruiting migrant workers already in the local area. Taking these concerns into consideration, alongside Scotland's need to adapt to an ageing population, it is likely that future decreases in (controlled) immigration to Scotland would create additional skills shortages and recruitment difficulties in specific sectors.

As a result, we endorse many of the findings in Dr Eve Hepburn's paper for the Scottish Parliament's Culture, Tourism, Europe and External Relations Committee.¹⁵ Reflecting on the growing body of evidence that differential immigration systems can support multi-level states to better meet their labour and economic needs,¹⁶ FSB believes that exploratory discussions should take place between UK and Scottish Governments on the feasibility of devolving aspects of the immigration system. Such a discussion should be guided by two principles:

1. Ensuring Scotland is better able to contribute to UK decision-making on immigration – for example, by introducing Scottish Government representation on the Migrant Advisory Committee.
2. Ensuring that the introduction of a flexible immigration system meets the needs and capabilities of small businesses. These businesses comprise almost of all the firms in Scotland and overall have very limited knowledge and experience of using the UK's points-based immigration system.

¹³ "Keep Trade Easy", FSB, March 2017.

¹⁴ See: <http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-scotland-sbi-q2-2017.pdf?sfvrsn=0>

¹⁵ "Options for Differentiating the UK's Immigration System", Dr Eve Hepburn for the Culture, Tourism, Europe and External Affairs Committee, May 2017.

¹⁶ "Scottish and UK Immigration Policy After Brexit: Evaluating Options for a Differentiated Approach", Christina Boswell, Sarah Kyambi and Saskia Smellie, Scottish Centre on European Relations, June 2017.

Further information

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Experts in Business

The FSB is Scotland's largest direct-membership organisation. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure and dedicated Scottish staff to deal with Scottish institutions, media and politicians, the FSB makes its members' voices heard at the heart of the decision-making process. It is therefore recognised as one of Scotland's most influential business organisations. The FSB also provides a suite of services to help our members reduce the cost and risk of doing good business – from legal and tax protection to business banking.

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