

A SKILFULL EXIT: WHAT SMALL FIRMS WANT FROM BREXIT SCOTTISH SUMMARY

April 2017

Overview

One of the biggest changes facing small businesses is the UK leaving the European Union. The end of free movement to the UK from EU countries and the introduction of new forms of immigration arrangements for EU citizens seeking to work in the UK (and vice versa) are perhaps the most acute challenges facing Scottish small business owners.

In this report, the Federation of Small Businesses (FSB) summarises how small businesses in Scotland would be affected by, and respond to, restrictions to the free movement of people as a result of Brexit. We also examine how changes to current immigration policy would impact business owners' ability to lend their skills to projects or complete business trips in the EU.¹ This report should be read in conjunction with the comprehensive UK report.²

FSB research shows that small businesses benefit significantly from the contribution of EU workers to the UK labour force, especially in Scotland. A quarter of Scottish small firms employ non-UK EU citizens with the majority recruiting these employees from Scottish and UK labour markets. Typically, small employers rely on EU workers in mid-skilled roles such as office managers, construction workers and hairdressers, though access to lower and higher skilled staff remains important too. Overall, EU workers play an important role in plugging skills gaps and as employees in labour-intensive sectors.

The ability to hire people with the right skills – irrespective of their nationality – and to do business in the rest of the UK and in the EU is fundamental to small firms' survival and growth in Scotland. A sudden restriction on their ability to access EU workers following the UK's departure from the EU would have far-reaching implications for the economy and a significant impact on smaller employers.

This is why FSB is arguing unequivocally for: the right to remain for EU citizens already working in Scotland and the rest of the UK; a transition period during which existing immigration arrangements continue following our departure from the EU until a new system is in place; and the implementation of a new immigration policy that is easy to comply with for employers and responsive to the needs of the Scottish economy. Throughout this process, it is essential that the UK Government works in partnership with the Scottish Government.

In the medium to long term, and in the event of a hard Brexit, the Scottish Government will have to ensure that the domestic labour market supplies employers with access to productive and skilled staff across all sectors of the economy – all of which may require a fundamental shakeup of the education and training system.

¹ For the purposes of this report, EU workers or entrepreneurs do not include those from the UK. In addition, for the purposes of this report students are not in scope.

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

Key Findings

Small businesses and EU workers

- One in four Scottish employers (26 per cent) have at least one employee from an EU country, with the majority recruiting EU workers already residing in the UK. This is five per cent higher than the equivalent figure for UK employers (21 per cent).
- 41 per cent of employers based in the Highlands have EU staff in their workforce, while the figure climbs to 45 per cent for tourism and leisure firms.
- Suitability for the job (62 per cent) is the key driver for recruiting EU citizens.
- 48 per cent of small businesses with EU workers employ people mainly in mid-skilled roles (carers, construction workers or mechanics) which require specialist or technical skills and training.
- EU workers are also utilised for lower skilled occupations (31 per cent) like waiters, farm workers and security guards and higher skilled roles (21 per cent) such as graphic designers, accountants and engineers.
- Nearly one third (29 per cent) of UK businesses reliant on mainly low-skilled workers would be unable to meet their labour needs without their EU workers, while 'finding individuals with the right skills' is a struggle for one in five (23 per cent) small firms who employ EU citizens with highly-qualified and skilled employees.

Brexit and the labour and skills concerns of small businesses

- Two in three Scottish businesses (67 per cent) are concerned about accessing people with the skills they need post-Brexit.
- 29 per cent of business owners are worried about satisfying their demand for labour.
- 42 per cent of Scottish business owners are concerned about growing their business following Brexit.

Impact on Scottish employers if EU citizens were to leave or become more difficult to recruit

- 59 per cent of employers would recruit UK citizens with the same skills.
- 44 per cent would continue to recruit EU workers and accept any additional costs.
- A higher proportion of employers in Scotland would reduce their operations compared to the UK average (37 per cent and 12 per cent respectively).
- Similarly, more Scottish employers would close their business if there were additional barriers to recruiting EU citizens compared to the UK average (19 per cent and eight per cent respectively).
- 27 per cent would sponsor non-UK non-EU citizens to work in their business.



Experts in Business

- 16 per cent would invest in training the existing workforce to fill skills gaps and seven per cent would increase wages/benefits to attract similar quality domestic staff from a smaller labour market.
- Fewer Scottish employers would consider moving their business abroad compared to the UK-wide average (12 per cent and 32 per cent respectively)

The role of UK small employers in the new immigration system

- 28 per cent of small businesses are worried about being expected to enforce new immigration rules in a post-Brexit environment – a total that rises to 56 per cent for those currently employing EU citizens.
- Excluding those that do not know (34 per cent), the average UK employer with EU staff would be willing to pay around £250 extra to recruit each EU worker.
- Excluding respondents that do not know, a majority of employers with non-UK workers said that they require a transition period after the UK has left the EU, with an average transition period of about 3.25 years.

RIGHT TO REMAIN

At present, EU citizens may exercise their right to enter the UK to search for or take up work. It is estimated that there are around 3 million EU citizens living in the UK, of which about 2.15 million are in work.³ In Scotland, there are 181,000 EU citizens living in the country, of which 63 per cent (114,247) are in employment.⁴ Of these, around a third are working in accommodation and food services, a fifth working as managers, directors and other professional occupations, and a third working in lower-skilled jobs.⁵

FSB research has found that one in four small employers in Scotland have at least one employee from an EU country, which is five per cent higher than levels for the UK as a whole (21 per cent). The majority of employers, both within and out with Scotland, recruit their EU staff when they were already resident in the UK.

The proportion of small employers with EU staff fluctuates considerably by geography: just under half of Highland employers have EU workers (41 per cent), while in the Aberdeen city region just under a third (28 per cent) have EU staff. There are also sectoral differences with small business employers operating in tourism and leisure more likely to have EU staff (45 per cent), but fewer retailers employing EU staff (21 per cent).

These employers need immediate certainty on the status of their workforce to plan for the future, and if necessary, mitigate the loss of EU talent. Until a new immigration system for EU citizens comes into effect, there will continue to be uncertainty for small businesses that have employed EU citizens since the EU referendum vote in June 2016 and the triggering of Article 50 in March 2017.

"Since the Brexit vote he [an employee] has moved back to Poland but [is] continuing to work for us. He had concerns about his future and he acted on them. He is very talented and can find work wherever he wants to – he was able to find work in Poland very easily, where the cost of living is lower, so we have quickly become uncompetitive for him."

Daniel Turner, Quirkos, Software, Edinburgh

There are particular issues for the four per cent of business owners from countries outside the UK who took part in this research. They have concerns not only about the direct impact Brexit will have on their business, but also on their own immigration status.

"I am an EU citizen myself, currently trying to get permanent residency. This is difficult for self-employed and company directors because of accounting practices. I am worried that after 20 years in this country and 16 years as a business owner I may lose my own right to be here."

FSB Member, Retail, Edinburgh

³ "[Labour Market Statistics](#)", ONS, February 2017.

⁴ "[The Impact of Migrants and Migration into Scotland](#)", Scottish Government, October 2016.

⁵ Ibid.

THE SKILLS CHALLENGE

For EU citizens the most common driver for migration to the UK is work.⁶ The Scottish economy has benefitted significantly from this movement of people – individuals from the EU are on average more educated, younger and more likely to be in work than those born in the UK⁷, with the highly-skilled in particular boosting productivity levels.⁸ The private sector is taking advantage of the influx of skilled labour at a time when certain industries, sectors and occupations are finding it hard to cope with a skills system that is struggling to deliver what employers need.

Scotland faces a number of challenges that the skills of non-UK workers help to alleviate, including a shortage of technical skills. Skills shortages affect a number of sectors but are especially pronounced in ICT and digital technologies, with one study forecasting 11,000 job opportunities per year in this sector alone.⁹ Access to EU workers also helps employers who frequently cite access to skilled staff as a consistent barrier to growth¹⁰ and face challenges in accessing staff with basic skills, such as a positive attitude to work and communication skills.¹¹

There are many more challenges currently facing the skills system including the difficulties in meeting the needs of a constantly changing labour market, the increasing importance of digital skills, the increasing pace of change and disruption in the economy,¹² and the emphasis placed on apprenticeships at the expense of other work-based, functional training.¹³ Without access to talent from the EU, these issues will become more challenging to overcome and, as a result, Scottish employers will experience greater difficulties in accessing the skills they need to grow their business.

Alasdair Hughson, Keltic Seafare, Dingwall

Keltic Seafare is a live shellfish supplier to top restaurants across the UK and Europe. At present, one in four employees are non-UK EU citizens.

"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."

RECRUITMENT OF EU CITIZENS BY SMALL BUSINESSES

According to FSB research, 48 per cent of Scottish small businesses with EU workers employ people mainly in mid-skilled roles, which require specialist or technical skills and training – roles such as care/construction workers, mechanics and hairdressers. EU workers are also employed in lower skilled occupations (31 per cent) like waiters, farm workers and

⁶ Metcalf, D., "[Work immigration and the labour market: Incorporating the role of the Migration Advisory Committee](#)", David Metcalf, London School of Economics and Political Science (LSE), June 2016.

⁷ Ibid.

⁸ Ibid.

⁹ "[Skills Investment Plan for Scotland's ICT & Digital Technologies sector](#)", Skills Development Scotland, Scotland IS and Scottish Government, March 2014.

¹⁰ "[Scotland Q4 2016 – Small Business Index](#)", FSB, January 2017.

¹¹ Unpublished FSB research, June 2015. Sample size = 299

¹² "[Equipping Scotland for the Future: Key Challenges for the Scottish Skills System](#)", IPPR, January 2017.

¹³ "[Scottish Government Response to the UK Apprenticeship Levy](#)", FSB, August 2016.

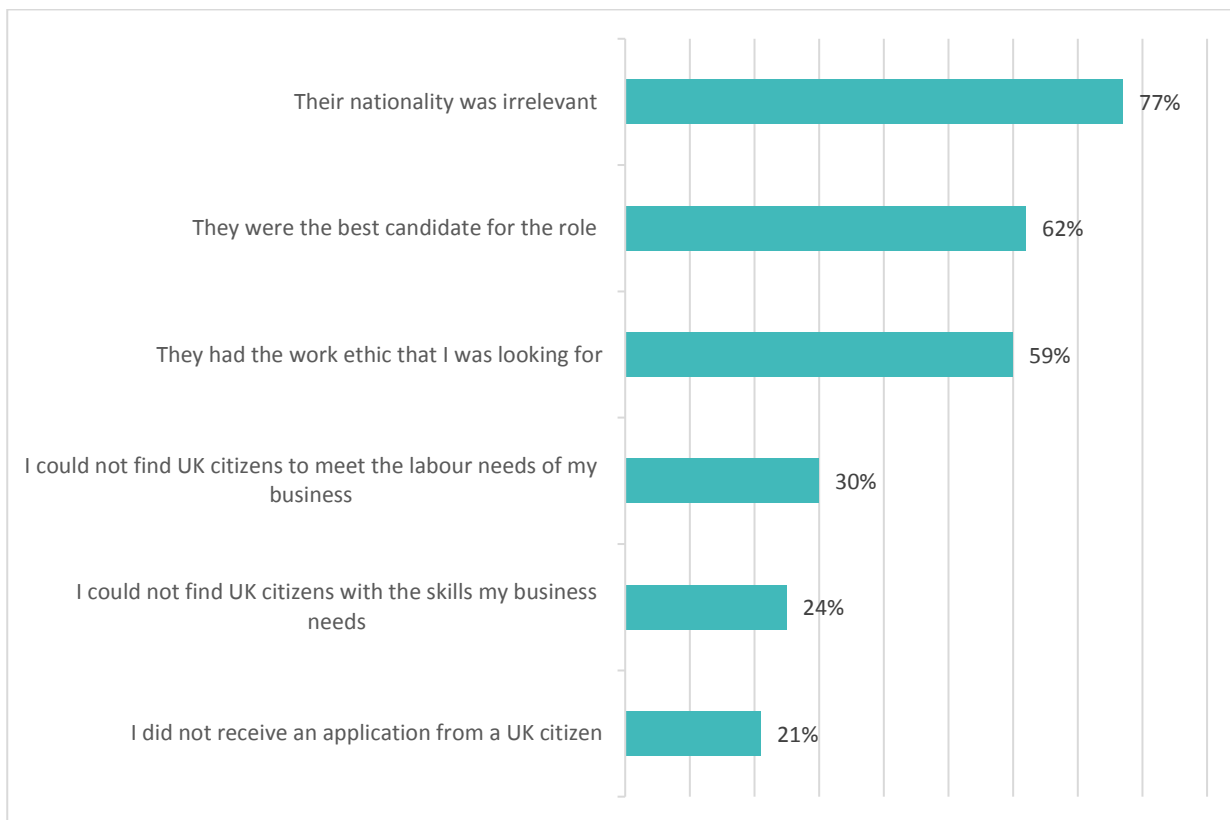
security guards and in higher skilled roles (21 per cent) such as graphic designers, accountants and engineers. Unsurprisingly, how employers utilise EU staff varies by sector. For example, tourism and leisure businesses, like hotels and restaurants, are far more likely to employ lower skilled occupations (61 per cent).

The overwhelming majority of small employers recruited some of their EU staff when they were already living in the UK (89 per cent) and because of their suitability for the job (62 per cent). Their nationality was irrelevant (cited by 77 per cent). For these business owners, their EU employees represent a sound investment in securing the talent and skills their business requires.

Exploring further why Scottish businesses employed EU citizens reveals a variety of reasons which range from: a better work ethic (59 per cent); difficulties in finding UK citizens with the skills their business needs (24 per cent); and a lack of interest from UK citizens (21 per cent).

Figure One: Reasons for employing EU citizens

Source: FSB Scotland Brexit Skills Survey



Daniel Turner, Quirkos, Software, Edinburgh

Quirkos has been providing software for market researchers and for other qualitative analysis for over two years. Daniel has two employees from the EU, one full-time and one part-time.

"Our sales manager, a German, has been living in the UK since she was 12 years old and I employed our Polish software developer because she is one of the few people who knows how to use the programming language. To find a software developer with the right skills I had to search the internet – there were only 4 people and my Polish employee was already living in Scotland. There is a huge shortage of experienced software development skills in the UK... It weighs heavily on my mind that the best future junior software developer we could get would probably be an EU national.*

"My biggest concern is being able to get the right skill sets that will allow us to grow the business. It's a shame as we wanted to increase our presence in the EU and translate our software to attract customers in French and German.

"I would be willing to pay since we are working in such a niche labour market; whatever needs to be paid to get the right candidate. Restrictions on access to EU market would be extremely detrimental to us."

*Since the interview took place, Daniel's Polish employee has left the UK and moved back to Poland. Quirkos have hired a new software developer from Estonia.

SMALL BUSINESSES USE OF NON-UK LABOUR

The Scottish labour market is performing and employment reached an all-time high between October and December 2016. According to the Scottish Government, Scotland has the second highest employment rate out of the four UK nations.¹⁴ Unemployment is also moving in the right direction following the biggest annual decrease since 1998 and the lowest level of youth unemployment (8.5 per cent) since 2001.

At the point of leaving the EU, the UK has an opportunity to develop a new approach to immigration, which could help tackle the variations in employment, unemployment and inactivity rates across Scottish local labour markets.¹⁵ It could also lead to productivity gains if a tightening of the labour supply encourages additional investment in the workforce – albeit this may lead to an increase in unemployment if firms shift their means of production towards automation.

Unfortunately, early signs from employers suggest that Brexit will not encourage large-scale investment in their workforce.¹⁶ The CIPD Labour Market Outlook shows that only 10 per cent of employers would respond to Brexit-induced contractions in the labour market by increasing the training provided to the labour market. This matches FSB research which highlights that fewer than one in five (16%) smaller employers would invest in training their existing workforce to fill skills gaps if it becomes more difficult to recruit EU citizens.

In addition, it is likely that a reduction in the labour supply will exacerbate pre-Brexit concerns about accessing skilled staff and generate higher levels of unfilled vacancies –

¹⁴ "[Labour Market update: March 2017](#)", SPICe, March 2017.

¹⁵ "[Sustainable Employment in Scotland Inquiry](#)", FSB, December 2016.

¹⁶ "[Labour Market Outlook](#)", CIPD.

thus hitting employers' productivity and profitability levels. Unsurprisingly, more than half of employers who employ EU citizens (57 per cent) are concerned about meeting their labour needs post-Brexit. However, it is important to note that the average small business is unconcerned about meeting their labour needs post-Brexit.¹⁷

Steve Warren, Warren Construction Ltd, Montrose

Steve Warren Construction Ltd has been doing renovations and maintenance projects for almost 30 years. Steve currently employs six permanent staff, 50% of whom are Polish.

"Two of my Polish employees have been on my books for more than 10 years now and I have hired many more over the last 15 years, as well as New Zealanders, Japanese and Scottish workers too. I first hired a Polish employee around 12 years ago. My Polish employees are skilled builders. I need them as I only build one off architectural specials and unusual jobs... I might have to take on some local workers to do, say, the joinery work and if I get good ones that's fine but the only really good Scottish joiners are running their own business. They wouldn't want to work for me even, even though I pay well because they will still make better money running their own businesses.

"I often see in the newspapers about how bad it is that companies are taking on European workers and paying them a pittance, but this is nothing like that. My workers are paid very well and are very skilled, educated and very reliable. It doesn't bother me where they come from in the world but I need really skilled people to do what we do. I think we need migrants, EU and non-EU. We have an ageing population, masses of work to do and not enough people to do it. I don't want anything to change."

PRESSURES ON SMALL BUSINESS LABOUR COSTS

Very few small businesses plan to respond to a restriction in their ability to hire EU workers with an increase in their wages or benefits. In fact, FSB research finds that only seven per cent of small businesses with non-UK workers would do so. To understand this response, it is necessary to understand the impact UK Government policies have had on increasing the costs of labour for smaller businesses. To take just one example, in 18 months the National Minimum Wage/National Living Wage increased by 12 per cent, with employers expecting to face 7.5 per cent increases per annum if the UK Government's target of 60 per cent of median earnings is to be met by 2020.

Overall, the average small employer will face an additional £2,600 in labour costs in 2017/18¹⁸ as a result of UK Government policies – against a backdrop of the Scottish economy growing by around 0.7% per annum¹⁹ and low business confidence.²⁰ Understandably, this policy environment makes it very difficult for small businesses to consider further wage increases in response to potential labour restrictions from exiting the EU.

¹⁷ 71 per cent of FSB members reported that they were not concerned about meeting their labour needs in a post-Brexit environment.

¹⁸ "FSB Budget Submission 2017", FSB, January 2017.

¹⁹ "Economic Commentary – Vol 41, No 1", Fraser of Allander Institute, March 2017.

²⁰ "Scotland Q1 2017", FSB, April 2017.

A TRANSITION PERIOD FOR HIRING EU CITIZENS

To better understand the needs of small businesses, employers with EU citizens were asked how long the transition period should be after the UK has left the EU, in which they could still easily recruit from the EU. About 36 per cent of UK employers say they require no transition period. Excluding respondents who are unsure, a majority of employers say they would benefit from a transition period ranging from less than a year to more than 5 years. Overall, the average transition period preferred by small employers was about 3.25 years following the UK's exit from the EU.

THE IMPACT OF RESTRICTIONS ON FREE MOVEMENT ON SMALL FIRMS

At this stage little is known about the short, medium and long-term impact Brexit will have on small businesses. However, there are clear concerns about the impact of restricting free movement across a range of business-related areas. Perhaps unsurprisingly, those that currently employ EU workers consistently demonstrate greater levels of concern than businesses with only UK staff.

FSB research finds that small employers in Scotland would consider a diverse set of strategies to continue meeting their labour and skills needs following Brexit:

- 59 per cent of business owners would recruit UK citizens with the same skills.
- 44 per cent would continue to employ EU workers and accept any additional cost.
- 26 per cent of firms would consider sponsoring non-EU citizens to meet their skills and labour needs.
- 16 per cent would invest in training their existing workforce to fill skills gaps.
- 11 per cent would consider offering new employment and training opportunities to UK workers.

In addition, a core group of businesses with EU workers would consider making significant changes to the way the business functions if there were more barriers to recruiting these workers. Notably, 37 per cent of businesses would reduce their operations, 19 per cent would close the business and 12 per cent would consider moving operations abroad.

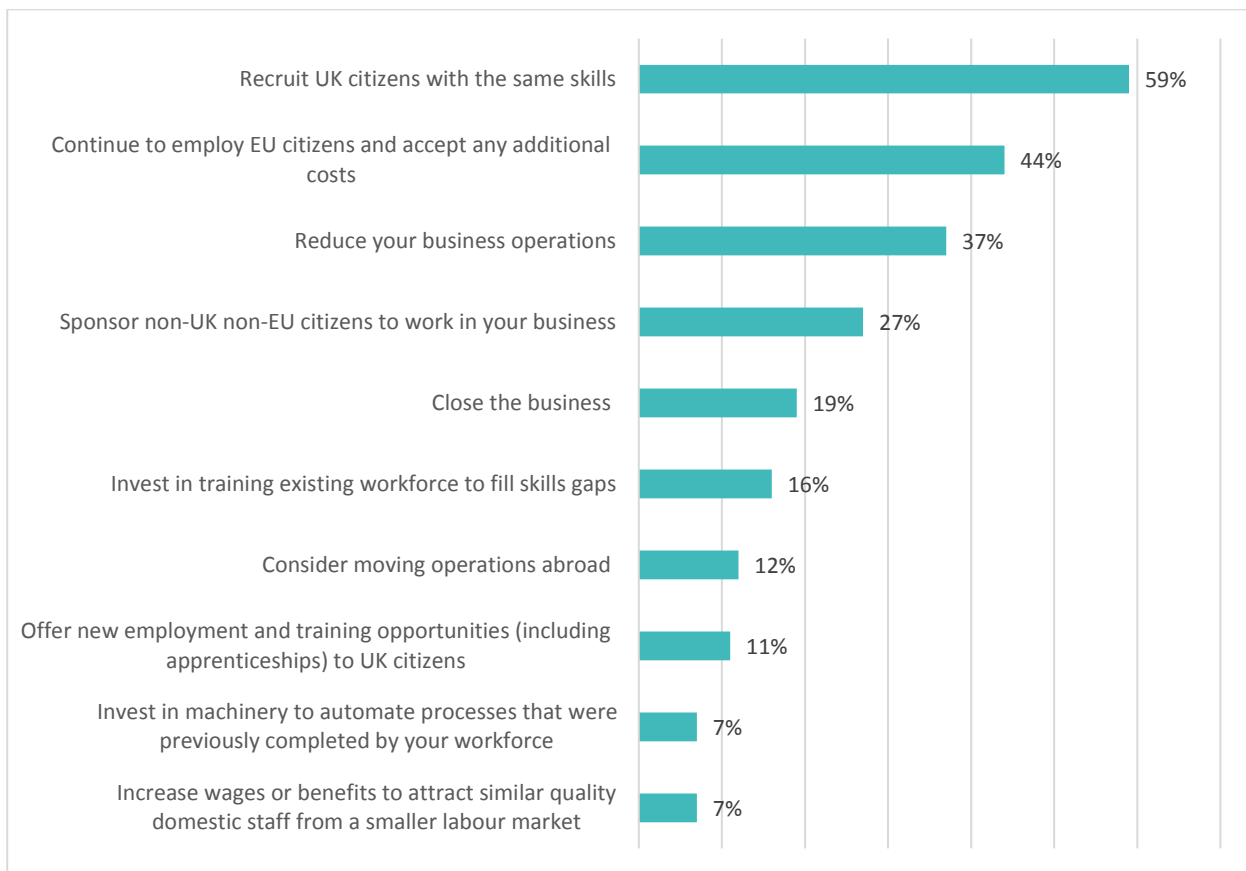
Although there are many similarities in how Scottish employers and those elsewhere in the UK would react to a restriction on EU labour, there are some differences. For instance, a higher proportion of Scottish employers would reduce their operations compared to the UK average (25 per cent gap). Similarly, more Scottish employers would close their business compared to the UK average (seven per cent gap). That said, fewer Scottish employers are contemplating moving their operations abroad (20 per cent gap).

With the business community weighing up their options, the impact on the economy could be significant and potentially damaging.

“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, Scotland

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

Source: FSB Scotland Brexit Skills Survey



THE ROLE OF BUSINESS IN THE POST-BREXIT IMMIGRATION SYSTEM

As stated earlier, 26 per cent of Scottish employers have at least one employee from a country in the EU other than the UK, with the majority recruiting EU workers from the Scottish and UK labour market. Therefore, the future treatment of EU citizens in the UK is an important issue for many employers.

This report finds that 28 per cent of UK small businesses are worried about being expected to enforce new immigration rules in a post-Brexit environment – a figure that rises to 56 per cent for current UK employers of EU citizens. These concerns are in part due to the

existing duties placed on employers by the UK Government's Immigration Act (2016)²¹ and the potential challenges employers may face in distinguishing between newly arrived EU citizens after Brexit and EU citizens that have been granted the right to remain in the UK.

For employers with EU staff, the concern about post-Brexit arrangements could lead to slower levels of business growth (40 per cent) and business closures (11 per cent) if their EU workforce was required to leave Scotland. For the wider small business community, the business impact is notable: 18 per cent would find it more difficult to grow their business and seven per cent would be less profitable. Nonetheless, the majority of Scottish business owners (57 per cent) expect to see no change to their business if all current EU citizens were to leave.

On average, small employers with non-UK employees say they would be willing to pay about £250 per EU employee (including those stating that they would be willing to pay nothing). This average hides a wide distribution of preferences by small employers. As expected, predominately high and medium skilled businesses are willing to pay relatively more per EU employee (£420 and £250 respectively) than predominately lower skilled business (£150).

TRAVELLING AND DOING BUSINESS WITH, AND WITHIN, THE EU

The UK Government has committed to leaving the Single Market.²² This decision will end the four freedoms of the Single Market – free movement of goods; freedom of movement for workers; right of establishment and freedom to provide services; and free movement of capital – and will have significant implications for the business community. Scottish businesses which operate across EU-UK borders will be especially hard hit.

FSB research finds that 23 per cent of Scottish businesses have carried out cross-border business with the EU. Of these, one in five (18 per cent) have completed projects or business trips in continental Europe and in Ireland. It also finds that one in ten (9 per cent) have had EU colleagues visit the UK for business trips. Understandably, the prospect of applying for visas for short-term projects and business trips is a major concern for businesses who rely on open borders. Three in four (69 per cent) UK businesses are concerned about the time required to apply for visas and 67 per cent are worried about the loss of flexibility to enter and exit the EU for work.

BREXIT AND BUSINESS OWNERS FROM OUTSIDE THE UK

Non-UK business owners are an important feature of the UK economy. According to the Centre for Entrepreneurs (CFE) there are almost half a million²³ people from 155 countries who have come to the UK to start a business.²⁴ Of the three million active UK-registered companies in the UK²⁵, those founded or co-founded by migrant entrepreneurs total one in seven of all UK companies.²⁶ These business owners make a considerable contribution to

²¹ "[Immigration Act 2016](#)", UK Government, December 2016.

²² "[The United Kingdom's exit from and new Partnership with the European Union](#)", UK Government, February 2017.

²³ "[Migrant Entrepreneurs: Building our Businesses, Creating our Jobs](#)", Centre for Entrepreneurs and DueDil, March 2014.

²⁴ Ibid.

²⁵ This analysis does not include sole traders.

²⁶ "Migrant Entrepreneurs", Centre for Entrepreneurs and DueDil, March 2014.

job creation. CFE estimate that SMEs founded by non-UK citizens²⁷ employ approximately 1.16 million people, representing 14% of all employment in this segment of the economy.²⁸ Evidence also suggests that migrant entrepreneurs are more likely to create high growth companies.²⁹

People from countries outside the UK are also more likely to be involved in entrepreneurial activity than individuals from the UK. The 2015 Global Entrepreneurship Monitor (GEM) survey finds the percentage of immigrants³⁰ involved in starting a business (15 per cent) to be around three times that of life-long UK residents (five per cent).³¹ Scottish Government data also suggests that people born in European Economic Area (EEA) countries and non-EEA countries are more likely to start a business in Scotland.³²

Thomas Machnik, Justom Ltd, Inverness

Justom Ltd has been providing professional cleaning and maintenance for commercial properties. Like other firms in the sector, Thomas has a number of employees from the EU – 35 at peak times.

"I've been running a successful, family-run business in Inverness for a number of years. The business has been growing because we hire great people to provide a very high-quality service. More often than not, our staff are from countries such as Poland and Latvia. What will happen when we leave the EU?"

"I moved to Scotland from Poland to work in hotels and then saw the opportunity to start Justom. That was only possible because the UK was a member of the EU and I worry that Brexit will mean fewer EU citizens coming to Scotland to start a business."

²⁷ Defined as companies with £1m-£200m turnover in order to avoid potential distorting effects of quoted company employee numbers (many of whom work overseas) and micro-businesses that are not required to file jobs data.

²⁸ Ibid.

²⁹ Ibid.

³⁰ This includes both EU and non-EU immigrants.

³¹ "[Global Entrepreneurship Monitor, United Kingdom 2015 Monitoring Report](#)", Mark Hart, Karen Bonner and Jonathan Levie, May 2015.

³² "[Characteristics of Migrants in Scotland: Analysis of the 2011 Census](#)", Scottish Government, October 2016.

RECOMMENDATIONS

Immediate to short term:

a) Guarantee the right to remain for EU citizens in the Scottish workforce, including those that arrive during EU exit negotiations

This research clearly highlights the precarious situation small firms face should their EU employees be forced to leave the UK. Settling this issue is of great importance to Scottish business owners, but it is essential for those individuals who face an uncertain future in the UK.

- FSB has called for a blanket right to remain for all EU citizens who already reside in the UK, and who will reside in the UK during EU exit negotiations, until the UK has exited the EU. The status of these individuals should be clarified as soon as possible and they should be granted the right to remain and work within the UK after Brexit. This includes confirmation of the rights of self-employed EU citizens.
- To minimise uncertainty for business owners, FSB asks the UK Government to ensure that no new restrictions be placed on EU migration until a new system is in place and that they work in partnership with the Scottish Government during the development phase.

b) Review the collection and recording of migration data so that it underpins effective policymaking

Due to the weaknesses in the UK's migration data, there is a clear need for a thorough review of the way it is collected and recorded. An alternative to the International Passenger Survey (IPS) should be sought to obtain net migration statistics which reflect and measure the wide range of aspects of migration. Policymakers should also explore ways to overcome barriers to linking-up data already held within Government by the DWP, the Home Office and HMRC.

c) Ensure that small businesses do not face additional administrative burdens or costs

Small businesses employ talent from the EU for their suitability, skills and attitude. They should not be penalised for finding a way to legitimately meet their labour and skills needs – nor should they be forced to disclose how many foreign workers they employ. In addition, Home Office policies such as the Immigration Acts of 2014 and 2016 and right to work checks have made it difficult for some small businesses – many of whom do not have a dedicated HR function – to meet their regulatory requirements.

- Any new system of documenting EU citizens cannot place additional burdens or costs on small employers, nor should businesses be forced to disclose the number of non-UK workers they employ. Instead a simple form of evidence should be created that businesses can use to confirm that their EU workers have the right to work in the UK, and in the longer term the burden of confirming that EU employees have exited the UK must not be placed on small employers.

Medium to longer term:

d) Small businesses need an immigration system which gives them access to the best talent – without the red tape

When the UK leaves the EU, the immigration system must help small businesses access the labour and skills they need to thrive and grow, but it must also be flexible and simple. With Scottish employers facing the prospect of significant changes to the way they have previously sourced and employed EU workers, the UK Government should:

- Consider introducing a work permits-based immigration system, similar to the Swedish system, where non-EU citizens must have received an offer of employment to work in Sweden. This employer-driven arrangement would ensure that businesses can meet their rapidly-developing skills needs and allow employers to obtain permits for almost any occupation, irrespective of the nature of that occupation, skill level or salary attached to the vacancy.
- The new immigration system for EU citizens should enable easy transfers between employers once an EU worker is in the UK and be aware of the different regional and local labour markets that operate in Scotland. The design of the new system should be done in partnership with the Scottish Government.

e) Provide businesses with a transition period after the UK has left the EU

On average, small employers with non-UK workers said they need a transition period of more than three years after the UK exits the EU to be able to meet their labour and skills needs. Small businesses do not want to see any cliff edge changes in immigration policy, given it could take up to five years for the UK Government to negotiate a Comprehensive Free Trade Agreement with the EU.

- The UK Government should plan for an extended transition period to reduce short-term uncertainty, allowing businesses and the Scottish Government to prepare for a new policy environment.
- The Scottish Government needs to improve the speed with which strategy, policy and services can react to changes in economic circumstances. While the eventual form of Brexit is unknown, as part of its planning for managing Scotland's economic future post-Brexit, the Scottish Government should consider the implications of different scenarios upon current economic and labour market strategies. Planning now will make it easier to react more quickly as circumstances change.

f) Create a system that allows EU entrepreneurs into Scotland after Brexit

To ensure Scotland continues to attract entrepreneurial talent from the EU, the UK Government should consider providing self-employed EU citizens with a visa that would require minimum assets or support from angel investors, similar to the current Tier 1 Entrepreneurs visa, to act as a test of entrepreneurial propensity. This

is especially important for Scotland given its Total Early-Stage Entrepreneurial Activity (TEA) rate lags the UK rate by 3.1%.³³

g) Ensure that the Immigration Skills Charge is not extended to include EU workers

FSB was pleased to see that the new Immigration Skills Charge that applies to Tier 2 skilled visas (£1,000 from April 2017) has been set at a lower rate for small businesses of £364 per employee per year. However, small firms seek assurance that the Immigration Skills Charge will not be extended to include EU workers post-Brexit. Many businesses would be unable to cope with the significant additional costs imposed by the surcharge.

h) Prioritise visa-free travel between the EU and UK in negotiations. If this is not possible, develop a simple visa system for EU-UK travel and work towards a Comprehensive Free Trade Agreement that includes services and mobility rights

Similar to the American Electronic System for Travel Authorization (ESTA)³⁴ programme, the EU is planning to launch the European Travel Information and Authorisation System (ETIAS)³⁵ to facilitate easy travel of non-EU citizens into the EU. It will be important for the UK to influence the development of the ETIAS programme, and ideally, reach a special arrangement through a Comprehensive Free Trade Agreement between the UK and EU that would allow self-employed people and small businesses to continue to operate across borders.

i) Support and incentivise small businesses to invest in training employees

Encouraging businesses to invest in their workforce is a key policy aim of the Scottish Government. The prospect of a reduction in the availability of skilled workers from the EU could see around one in seven Scottish small businesses (16 per cent) increase training out of necessity. It is impossible to predict whether the overall level of training by employers will increase post-Brexit, but the key barriers to training for the very smallest businesses – limited training budgets and lack of in-house expertise – can be overcome by effective government intervention.

- The Scottish Government should investigate the possibility of offering expert HR advice to micro businesses who currently lack the capacity, confidence and skills to design and deliver training programmes – following the success of the SME Growth Programme.³⁶
- The £469m allocated to Scotland in Barnett consequentials from the Apprenticeship Levy (2018-2020) should be used to rapidly expand work-based learning. A necessary first step would be to fund a scaled-up Flexible Workforce Development Fund for the full duration of the UK levy.

³³ ["Global Entrepreneurship Monitor – Scotland 2014"](#), Jonathan Levie, University of Strathclyde, September 2015.

³⁴ ["Electronic System for Travel Authorization"](#), U.S. Customs and Border Protection.

³⁵ ["Security Union: Commission proposes a European Travel Information and Authorisation System"](#), European Commission, November 2016.

³⁶ ["Europe 2020: Scottish National Reform Programme 2016"](#), Scottish Government, March 2016.

j) Build a robust, responsive and holistic skills system fit for the post-Brexit future

The vote to leave the EU has emphasised the need to ensure that Scotland's skills strategies are future-proof. A number of measures are being delivered by the Scottish Government's youth employment strategy to ensure young people have access to high-quality technical and vocational pathways into employment and are guided by first-rate careers information, advice and guidance. Following Brexit, these initiatives have added importance.

- In conjunction with Skills Development Scotland, the Scottish Government should examine the skills gaps and shortages that will occur following Brexit. The significant work undertaken to produce Skills Investment Plans and Regional Skills Assessments may need to be refreshed.
- The current work on the learner journey by the Scottish Government's enterprise and skills review should ensure that schools and colleges are sufficiently preparing young people for the current and future needs of the labour market.

METHODOLOGY

This summary report focusses on Scottish FSB members' experiences and views on their business's labour and skills needs. It should be read in conjunction with the more in-depth UK report.³⁷

FSB undertook a mixed method approach for the research consisting of a quantitative online survey and a series of semi-structured interviews and focus groups. The survey was administered by research agency Verve between 17 and 29 November 2016 and was completed by 1,236 small businesses, of which 175 were from Scotland. The findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not add to 100 per cent.

An additional survey was conducted in Scotland between 31 March and 12 April and was completed by 577 small businesses. The majority of Scottish figures cited in this report are from this survey.

In January 2017, FSB visited a number of businesses in the Highlands and organised a focus group in Inverness which included seven business owners across a wide variety of sectors.³⁸

³⁷ "A Skilful Exit: What small firms want from Brexit", FSB, April 2017.

³⁸ See: <http://www.fsb.org.uk/standing-up-for-you/national-offices/scotland/news/2017/03/10/highland-firms-perspective-on-brexite>