



# A WORLD OF TALENT

BUILDING AN IMMIGRATION SYSTEM  
THAT WORKS FOR SMALL BUSINESSES

Published: February 2020

 @fsb\_policy

[fsb.org.uk](https://fsb.org.uk)

**fsb**<sup>8</sup>  
Experts in Business

# ACKNOWLEDGEMENTS

---

This report was authored by Emelia Quist, Senior Employment and Pensions Policy Advisor.

Special thanks to FSB's policy, public affairs and media teams, in particular: Eva Judge, Andy Poole, Deputy Head of Policy, Matt Dickinson, Senior Communications Advisor, Filippo Pollara, Public Affairs Advisor. Also colleagues in the devolved nations: Neil Hutcheson, Policy Advisor (Northern Ireland), Llyr ap Gareth, Senior Policy Advisor (Wales) and Barry McCulloch, Senior Policy Advisor (Scotland).

The research was carried out by Verve – the market research agency responsible for administering the survey. The report was designed by Cactus Design Limited – a small business based in Wales. This project would not have been possible without all the FSB members who participated in this research, generously taking the time out of running their small businesses.

Finally, for their expert opinion and support with this research, we thank Emilie Hayes at the Canadian Federation of Independent Business.



**38%** of small employers have **faced difficulties recruiting the right staff** over the past year

**26%** of small employers have at least **one member of staff from the EU\***

\*(excl. ROI)



**Skill levels of EU workers** small businesses with EU staff mainly **employ**

**41%** **low-skilled**

**59%** **medium and high-skilled**



**41%** of small professional, scientific and technical firms say **engaging with self-employed EU contractors** is important

**80%** of small employers **hire medium-skilled staff** into roles paying less than **£30,000** a year

**58%** into roles paying less than **£25,000** a year



**49%** of small firms would **not recruit staff** using a **one year temporary visa**



**48%** of small businesses **cannot pay current immigration fees**

\*(FSB Trade research survey 2019)

# CONTENTS

---

Foreword . . . . .	5
Executive summary. . . . .	6
Key findings . . . . .	8
Recommendations . . . . .	10
Small business use of non-UK labour . . . . .	14
The UK’s skills challenge and immigration. . . . .	18
Medium and high-skilled workers . . . . .	20
Tier 2 salary threshold. . . . .	26
Impact on small businesses with skilled staff . . . . .	29
International comparators and a new UK points-based system . . . . .	32
Small business use of non-UK low-skilled labour . . . . .	42
Immigration in Wales, Scotland and Northern Ireland . . . . .	48
Sponsorship system and costs . . . . .	52
Self-employment . . . . .	58
Methodology . . . . .	61

# FOREWORD

---

As the UK departs the European Union, small businesses are as important as they have ever been in powering the UK's economy.

One of the most consistent messages we hear from small businesses is their struggle to recruit, at all skill levels. Consequently, they are afflicted by skills shortages which stunt their productivity, at real cost to both themselves and the whole UK economy. That is why it is so important that while we invest in lifelong learning (something that cannot be achieved overnight), we ensure small businesses can still access talent from across the world.

The vast majority of small businesses have had no experience of using the immigration system. Small businesses will adapt, but they need time and support to adjust to a new way of accessing global talent. We welcome the vision of a single, streamlined points-based immigration system, but this must be accompanied by a significant reduction in the overall costs for small firms; if this doesn't occur – small businesses will simply be priced out of recruiting talented staff. The Migration Advisory Committee's salary threshold recommendation of £25,600 is a step in the right direction, but more needs to be done if we are to deliver on the Government's levelling up ambitions and design a points-based system that ensures no sector or region is left behind. Additional points could be awarded for sectors with skills shortages.

Challenges can be overcome and small businesses are willing and ready to play their part, but they need time to adjust. The skills story of the next decade will be one of hard worked for evolution rather than an overnight revolution. Significant Government funding will be needed if the UK's skill system is to develop sufficiently for the UK to be a global competitive force in the era of the Fourth Industrial Revolution. However, this will take time and small businesses must not face a sharp decline in the availability of international workers at the end of the transition period. This is why in addition to the changes to Tier 2 (General) and the Global Talent visa we must also see the introduction of a temporary unsponsored route that allows workers at all skills levels to come to the UK for a period of two years to work before leaving the UK. The route should also allow for in-country switching.

We must also not forget about the self-employed. The self-employed – now one in seven of the workforce – provide dynamism and flexibility to the UK labour market. The talents and entrepreneurial ability of migrant self-employed contractors and entrepreneurs should not be left out of the conversation on immigration. Applying a points-based system to the Global Talent visa, if designed correctly, could do much to ensure the UK is wide open to talented international freelancers. In addition, a well-designed Innovator visa which includes the right checks and balances will ensure the UK can attract the best entrepreneurs who want to start and grow their businesses in the UK.

This is the dawn of a new era; small businesses are key to the UK's future economic success and prosperity. To achieve this aim we need sensible, collaborative policy making, realistic time frames, cost reductions, and less bureaucracy, in an immigration system built on a pro-small business approach.



**Neil Sharpley**  
Home Office and Ministry of Justice Chair

# EXECUTIVE SUMMARY

---

Implementing a fair and flexible immigration system is vital for many of the UK's 5.8 million small businesses. Many small firms rely on talent from outside the UK to plug current skills gaps, grow their businesses and contribute to the wider economy. The challenge now for Government is to build an employer-responsive immigration system before December 2020. The only clear path to achieving this is if the Government chooses to work with the UK business community. In partnership, we can deliver a fair and flexible immigration system that will meet the future needs of all small businesses in the UK.

This report is based on quantitative and qualitative data collated from FSB members. It is structured into eight chapters: small business use of non-UK labour; skills challenges and immigration policy; including skill levels and salary levels; the impact of the Government's skill and salary level policy on small firms; international comparisons and a new PBS to support small businesses; the temporary route and low-skilled migration; immigration in Wales, Scotland, and Northern Ireland; the sponsorship system and costs; and immigration policies for the self-employed.

## **Small business use of non UK labour**

FSB research found that 26 per cent of small business employers employ European Economic Area (EEA) workers excluding those from the Republic of Ireland (RoI). There are marked regional variations in the employment of EEA workers across the UK, with businesses in London (53%), Scotland (40%) and the South East (31%) employing high numbers of EEA workers.

## **Medium and high-skilled occupations**

FSB's evidence shows 46 per cent of small businesses employ at least one high-skilled British worker, in contrast to 55 per cent of small businesses with EEA staff that employ at least one high-skilled worker. Small firms want access to the best talent and they also want to invest in their workforce, however, it is clear that there has been a decline in workplace training over the last few decades.

## **Salary thresholds and a points-based system**

FSB has consulted with other small business organisations in Australia, Austria and Canada to understand how PBS systems in these jurisdictions impact small firms. FSB research shows that 58 per cent of small businesses that employ medium-skilled staff would be unable to employ talented workers from overseas based on a minimum salary threshold of £25,600. Despite the MAC's recommendation of a salary threshold of £25,600, FSB is concerned that such a salary threshold may exclude a significant proportion of small businesses.

While the Government's commitment to reducing the general salary threshold to £25,600 is a step forward, FSB is concerned that this threshold may still exclude a significant proportion of small businesses. Government should ensure that the minimum salary threshold is set at the right level to enable small businesses to access the talented workers they need whilst ensuring downward pressure is not placed on wages.

### **Temporary route**

FSB's research shows that half of small businesses that employ low-skilled workers and 57 per cent of small businesses that employ skilled workers (RQF3 and above) would not recruit workers using the temporary route in its current design. Small firms urge Government to introduce a temporary unsponsored route that allows migrants at all skills levels to come to the UK for a period of two years, not one year. This allows small businesses to adjust to changes within the labour market, provides workers with stability, gives employers confidence that staff have sufficient time to make valuable contributions to the business and gives the Home Office sufficient time to build a robust immigration system that will fully support small businesses. In addition, a temporary visa should allow for in-country switching to Tier 2 where an applicant meets the eligibility requirements. Government should also realise the unique nature of the social care sector and create a special visa route for social care workers, ending the categorisation of social care workers as low-skilled and thus valuing their unique role within society.

### **Immigration in Wales, Scotland and Northern Ireland**

The experience of small businesses varies across regions and nations. This section of the report highlights the unique differences in Wales, Scotland and Northern Ireland.

### **Sponsorship system and costs**

Immigration fees are currently very high and thus exclude many small businesses from hiring staff from outside of the EU. FSB evidence shows that nearly half (48%) of small businesses cannot meet the current Tier 2 visa costs for a small business (1-50 employees), which we currently estimate at £3,101. It is essential that these costs are reduced and that carefully regulated umbrella sponsorship bodies are set up, over time, to support small businesses to manage their immigration duties. Change is a common theme within this report and small businesses are ready to embrace it with the support of Government and a newly structured MAC.

### **Self-employment**

The Global Talent Visa route and the temporary route must be designed in such a way that enables small businesses to continue to access self-employed contractors, upon which many of them heavily depend. Our research shows that 30 per cent of small firms in the construction sector believe that engaging with self-employed contractors is important to their business, this rises to 35 per cent for small businesses in the information and communications sector and 41 per cent for those in the professional and scientific sector. An urgent review of the Innovator visa route is also required to ensure the UK is welcoming a breadth of entrepreneurs.

# KEY FINDINGS

---

## **Small businesses and non-UK workers**

- 26 per cent of small business employers employ EEA workers (excluding RoI).
- 11 per cent employ non-EEA migrants.
- Of those small businesses that employ EEA workers (excluding RoI):
  - 41 per cent mainly employ their EEA workers at a low skill level
  - 30 per cent mainly employ their EEA workers at a medium skill level
  - 29 per cent mainly employ their EEA workers at a high skill level

## **Small business employers of skilled staff (RQF3 and above)**

- 59 per cent of small business employers have at least one medium-skilled worker.
- 65 per cent of small business employers which employ EEA staff (excluding RoI) have at least one medium-skilled worker.
- 58 per cent of small business employers which employ non-EEA staff have at least one medium-skilled worker.
- 46 per cent of small business employers have at least one high-skilled worker.
- 55 per cent of small business employers which employ EEA (excluding RoI) staff have at least one high-skilled worker.
- 57 per cent of small business employers which employ non-EEA staff have at least one high-skilled worker.

## **Tier 2 (General) salary thresholds**

- 80 per cent of small business employers pay their medium-skilled workers below £30,000.
- 58 per cent of small business employers pay their medium and high-skilled staff below £30,000.
- 58 per cent of small business employers pay their medium-skilled staff below £25,000.
- 39 per cent of small business employers pay their medium and high-skilled staff below £25,000.

## **Impact of a salary threshold and skill threshold (RQF3 and above) on small business employers**

- 17 per cent of small firms that employ skilled staff will replace EEA citizens with UK workers.
- 19 per cent state that they will continue to employ EEA citizens and thus engage with immigration rules and absorb any additional costs.
- 6 per cent of small businesses that employ staff that are above RQF3 will invest in machinery and/or information technology and/or automate processes that were previously completed by their workforce, if they struggle to recruit EEA workers post-Brexit.
- 9 per cent of small firms that employ staff above RQF3 say they will outsource work outside of the UK if they cannot recruit EU workers post-Brexit.



**Temporary route and low-skilled migration**

- 57 per cent of small business employers have at least one member of staff that is low-skilled.
- Half of small business employers that employ at least one low-skilled worker would not recruit overseas workers using the temporary route.
- 57 per cent of small business employers that employ at least one skilled worker (RQF3 and above) would not recruit overseas workers using the temporary route.
- Of those smaller businesses that believe they could use the temporary route:
  - 43 per cent say it would reduce their productivity
  - 28 per cent say it would impact on their ability to change/improve job design
  - Only 8 per cent say they would increase investment in machinery/information technology/AI to automate processes that were previously completed by their workforce

**Sponsorship costs for small businesses**

- 48 per cent of small businesses would not be able to pay the current overall small business sponsorship costs for a Tier 2 visa.
- 25 per cent of small businesses say they can only afford under £1,000 in sponsorship costs.

**Self-employment**

- 30 per cent of smaller businesses in the construction sector state that engaging with EEA self-employed contractors is important to their business.
- 35 per cent of smaller businesses in the information and communications sector state that engaging with EEA self-employed contractors is important to their business.
- 41 per cent of smaller businesses in the professional, scientific and technical sectors state that engaging with self-employed contractors is important to their business.

# RECOMMENDATIONS

---

The transition period is due to last until December 2020, while the UK and EU negotiate their future relationship, including in relation to trade and mobility of workers, which is essential for many small businesses. The Government has committed to introducing a new immigration PBS from January 2021. Small businesses are committed to training their staff and making best use of digital technologies to do so. However, they need sufficient time to be able to prepare to manage the additional cost and administrative burdens of a future immigration system. Government also needs time to adjust to dealing with the prospect of millions of small businesses requiring sponsor licences.

That is why FSB is setting out a series of proposals to be phased in over time to enable small businesses to best manage the most significant change in access to labour in decades.

## Salary threshold

**Consider lowering the proposed minimum general salary threshold of £30,000 for medium-skilled jobs and above.** A salary threshold as proposed by the MAC of £25,600 would represent an important step in the right direction. However, a reduction alone will not benefit small firms or the UK labour market. FSB research shows that over half (58%) of small businesses that employ medium-skilled staff (RQF3 and above) do not pay £25,000 or more. Small businesses are concerned that the rigid design of the Tier 2 system, even with a minimum salary threshold of £25,600 may impact the ability of small firms to hire international skilled workers.

## Tier 2 (General)

**FSB supports the Government's ambition to implement a points-based system. This would enable businesses to select the best talent and provide the Government with a framework to ensure the most talented are given the opportunity to live and work in the UK.** In addition to a job offer, the system should be designed in such a way that even if the minimum salary threshold of £25,600 is not met, points for age, work experience (in country and out of country) and qualifications could sufficiently compensate. Additional points could be awarded for sectors with skills shortages. Whilst FSB is supportive of a PBS, it is imperative that the administrative burden for implementing this system does not fall on the employer.

## New entrants

FSB supports the MAC's recommendation for a general new entrant salary threshold of £17,900 under Tier 2. The definition of a new entrant should be widened to include those who are working towards recognised professional qualifications and those who are moving directly into postdoctoral positions. The new entrant rate should apply for five years, an extension from the current three-year entitlement. The age eligibility for the new entrant should also be extended from 26 to 30.

## Temporary route

**Government should introduce a two year, cross sectoral, temporary route visa that is open to EEA workers, which allows for skilled in-country switching, if an individual meets the eligibility requirements of a Tier 2 or Tier 1 visa. This will ensure the retention of talent and support community integration.** The duration of this visa should be two years. Our evidence suggests that a 12 month visa would have a negative impact on productivity and workplace culture. Two years will be a sufficient period of time for small business employers to see the business benefits of employing someone and enable them to invest in on the job training. Making this route available to all sectors, with a cooling-off period of six months, will help small businesses to plug vital skills and labour gaps. In-country switching for skilled migrants to Tier 2, if the eligibility criteria are met, should be allowed to ensure the retention of talent.

## Sponsorship and costs

**It is essential that Government delivers on its vision of a streamlined sponsorship system with exemptions and mitigations to reduce the costs for small businesses.**

- Policymakers should be aware that 95 per cent of small firms have not engaged with the current Tier 2 system. Government should complete a full impact assessment of EEA migration under future immigration rules including the effect on small businesses, highlighting the key monetised costs and non-monetised costs.
- The next Spending Review should provide the Home Office with sufficient funds to run and effectively manage the UK's new immigration system. Our research suggests current visa fees price out small firms from employing non-UK skilled staff. The Government should exempt any business that employs fewer than 50 people from having to pay the Immigration Skills Charge.
- Small firms should not be denied access to skilled workers because of visa costs. If the Government is committed to ensuring small businesses can employ global talent, visa fees for small firms should not exceed £1,000 for small businesses.
- It is essential that a new employer sponsorship system is fully tested and is able to meet the needs of small firms before it goes live. This will enable small businesses to avoid expensive legal advice.
- We support the Government's aim of introducing a light-touch regime. Government should develop and carefully regulate umbrella organisations to act as sponsors for small businesses. An umbrella sponsorship system would support small firms in managing their compliance duties.
- Government must ensure effective support, both online and over the phone, is available for small businesses. FSB suggests assigning a specific agent to a file, as soon as an application is submitted. The business owner should be able to communicate directly and get status updates from the agent.
- The Government and the Office for National Statistics (ONS) should seek to link datasets across Government to allow a better understanding of the employment outcomes of migrants, for the purposes of research, whilst ensuring confidentiality.

## Remote visa

**Government should introduce a pilot visa for remote parts of the UK that caters for the specific needs of remote areas, as recommended by the MAC.** Remote areas of the UK, such as the Highlands are in urgent need of migrants, as these areas have low and often ageing populations. In addition, remote areas face more complex challenges in recruitment and retention of workers. Government may wish to look at the recent Rural and Northern Immigration Pilot in Canada, which focuses on community groups and employers, with the goal of helping migrants settle and thus increase retention in more rural areas.

## Special category for social care workers

The UK is currently facing a social care crisis which cannot be solved by changes in immigration policy; however, the implementation of well-designed immigration policies may alleviate the social care sector from further burdens. It is estimated that it will take 15 years for the UK to generate enough UK nationals to work within the social care industry. With a growing elderly population the UK cannot wait 15 years. FSB recommends the creation of a special category visa for social care workers. Applicants will need to show acceptable English language capabilities and educational qualifications at RQF2. This special category will recognise the unique role that social care workers play in our society. The social care sector should not be deemed as low-skilled; it is unique and the UK's future immigration system should recognise the vital and human importance of social care in the UK.

## **Tier 1 Global Talent**

This visa route should benefit the self-employed and enable self-employed individuals to support the growth of UK businesses and contribute to innovation in the UK. The MAC's January 2020 report recommends the Tier 1 Exceptional Talent should also take into account the potential of applicants, not only an applicant's established exceptional talent. FSB supports this view and we also recommend the Government considers talent beyond the areas of science and technology. FSB seeks to work with Government in expanding the range of areas in which a Tier 1 Global Talent visa may be awarded thus ensuring the UK is open to a range of talented individuals from across the world.

### **Innovator visa**

FSB wants to see this entrepreneurialism continue unabated; the Government should, therefore, commit to reviewing the Innovator visa within 18 months to ensure the eligibility rules are reasonable and protect the UK's borders.

### **Future trade agreements and associated agreements in relation to mobility**

In addition to the terms of our future FTAs, agreeing youth mobility schemes as part of our future relationship with the EEA and selected other countries will play an important role in the UK's future immigration system. Supporting these agreements, the Government should consider giving visitors from countries with whom the UK has agreed bilateral agreements the ability to switch from any temporary visa to a skilled visa, as indicated in the 2018 white paper on Immigration, and explore extending the upper age limit for eligibility for the youth mobility scheme from 30 to 35.

## **Migration Advisory Committee**

**Government should create an independent Migration Advisory Committee (MAC) which brings together MAC, businesses, trade unions, academics and economists.**

A new independent MAC could be modelled on the Low Pay Commission (LPC). This body should advise Government annually on UK migration. The group should also include representatives from Scotland, Wales and Northern Ireland. The criteria for selecting migrants should be adjusted and managed over time to ensure the criteria meets the needs of the UK's rapidly evolving labour market.

## **Levelling up for small firms across all regions and nations of the UK**

### **Supporting the development of skills**

Small businesses are found in every part of the UK from the most rural and remote areas to the largest cities and urban conurbations. Small firms are an integral part of the Government's plan to level up the UK. FSB evidence consistently shows that skills shortages are one of the top barriers preventing the growth of small businesses. Our latest Small Business Index (SBI) for Q4 2019 shows that more than a third of small businesses report that finding skilled staff was a barrier to expansion.

**The UK's 5.8 million small businesses are key to the future skills revolution. Small firms should be at the heart of the UK's future skills policy. To do this Government, both UK and devolved nations needs to ensure the following:**

- **Ring fence a significant proportion of the National Skills Fund to be spent on small businesses.** FSB has welcomed the announcement of the National Skills Fund to the value of £3 billion over the course of five years. Investing in on-the-job training and adult education is vital, especially given that an ageing society is one of the grand challenges of our time. The UK should be prioritising lifelong learning, particularly adult education which is dramatically low at the moment.
- Top up apprenticeship levy funding, so that smaller businesses can continue to deliver apprenticeships (England only).
- Ensure T Levels work for smaller businesses by directly funding employers to meet some of the costs attached to delivering industry placements.

### **Adoption of digital technologies**

**Expand the scope of what is covered under the definition of Research and Development (R&D) to allow more small businesses to benefit. More generally, whether through direct or indirect funding, achieve parity of esteem between new to market and new to firm innovation.**

FSB research shows that less than half of small businesses have adopted relatively basic digital technologies such as file transfer technology or cloud services over the last three years. Therefore, we need to see Government support new to firm innovation through widening the scope of existing interventions such as the R&D tax claims and boosting direct funding through grants schemes such as the Business Basics Fund.

**Ensure that by the end of 2021, no premise is experiencing download speeds below 10Mbps irrespective of whether they have engaged their rights under the Universal Service Obligation or not.** Our recent research has uncovered that 30 per cent of smaller businesses across the UK are in receipt of download speeds of under 10 Mbps. This must change, quickly, if smaller businesses are to increase their digitisation in the near term. This is as important as the commitment for all premises to have access to full fibre, or failing that Gigabit capable technology by 2025.

### **Labour market**

Extend the one-year Employer National Insurance Contributions holiday for smaller businesses employing service leavers to other labour market disadvantaged groups, such as former care leavers, someone with a disability, a mental health condition, ex-offenders, and the long term unemployed.

# SMALL BUSINESS USE OF NON-UK LABOUR

In December 2018, the Government published the Immigration White Paper (2018 white paper) which proposed that from 1 January 2021 everyone, including EEA citizens, (except British and Irish citizens) will be required to obtain immigration permission if they want to live, work and or study in the UK. The future immigration system will apply in the same way to all nationalities, except where there are objective grounds to differentiate, for example, if specific concessions are granted to certain nationalities as part of a trade agreement with a particular country or group of countries or on the basis of risk.

The 2018 white paper presents the biggest change in UK immigration policy this century. European Union (EU) freedom of movement rights give nationals from EEA countries and Switzerland the right to enter and reside in the UK subject to certain conditions and limitations. For the purposes of this report references to EEA workers or citizens should be taken to refer to citizens of EEA countries and Switzerland. Additionally, due to the Government’s commitment to maintain the Common Travel Area (CTA) analysis and recommendations in this report do not apply to citizens of the Republic of Ireland (RoI).<sup>1</sup>

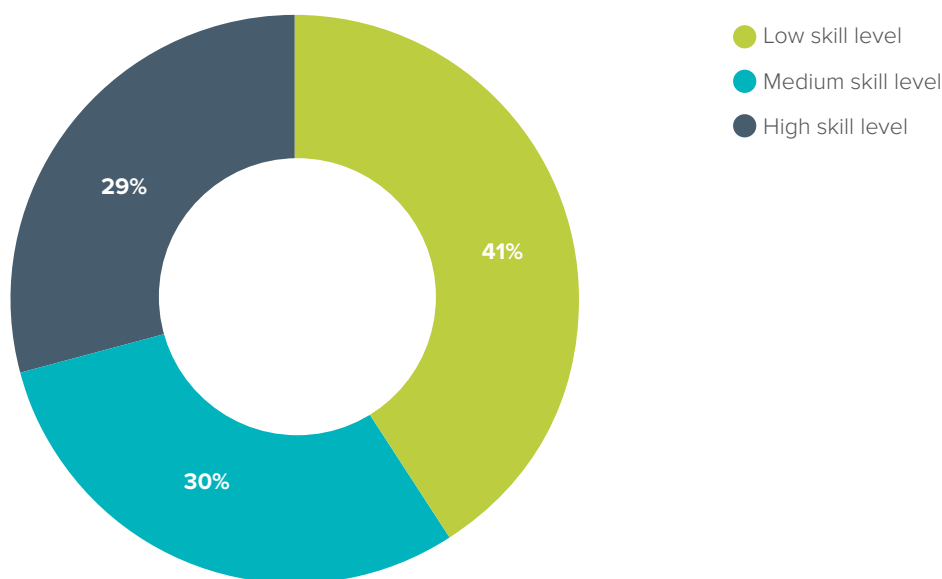
The number of EEA citizens working in the UK has generally increased over the last 20 years. The latest data from the ONS, published in November 2019, found that there were an estimated 2.24 million EU nationals working in the UK, 6,000 more than a year earlier. There were an estimated 1.35 million non-EU nationals working in the UK, 116,000 more than a year earlier – this was a record high.<sup>2</sup>

The recent increase in non-UK nationals is supported by FSB’s evidence. 26 per cent of small business employers employ EEA workers excluding those from RoI, an increase of five per cent since FSB’s, *A Skilful Exit* report in 2017, which included RoI citizens, and 11 per cent employ non-EEA migrants i.e. those from outside of the EU.

FSB’s evidence shows the percentage of small businesses employing the majority of their EEA workers at low, medium and high skill levels.

**Figure 1: Proportion of small business employers with EEA staff (excluding RoI), employing the majority of their EEA staff at low, medium and high skill levels**

**Source:** FSB Immigration Survey 2019

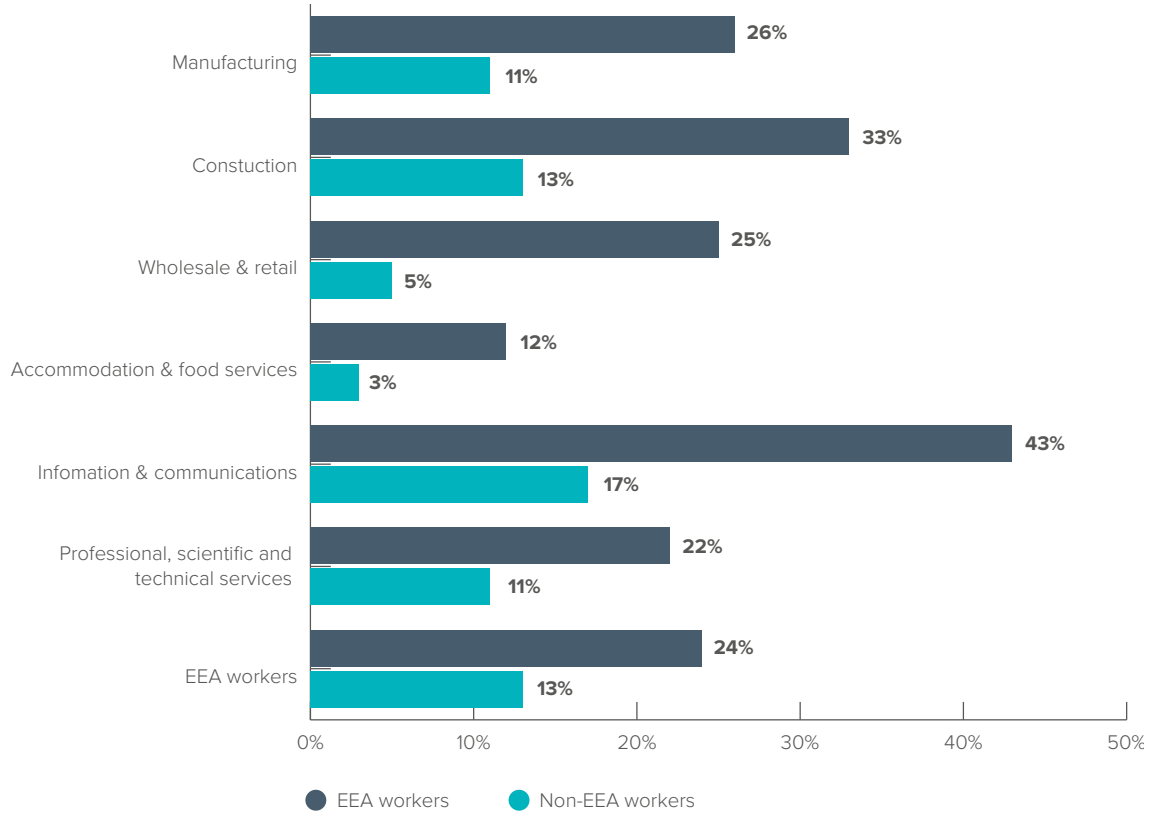


The accommodation and food services sector has the highest proportion of small businesses employing at least one EEA national (excluding the RoI), at (43%), followed by manufacturing (33%), construction (25%) and the professional and scientific sector (24%).

<sup>1</sup> GOV.UK, Countries in the EU and EEA, <https://www.gov.uk/eu-eea>

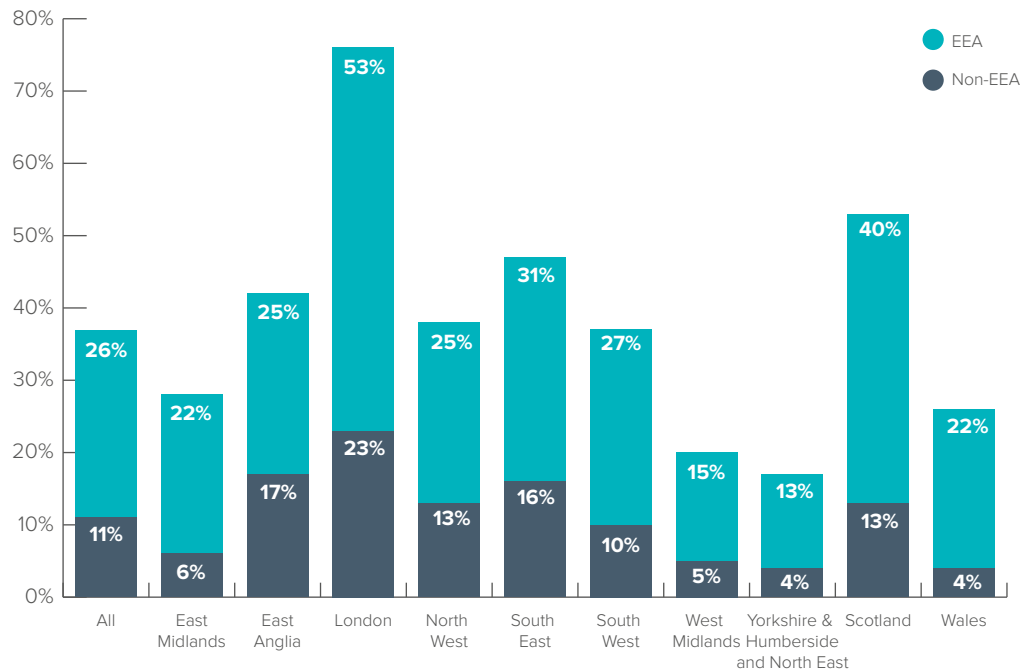
<sup>2</sup> ONS, UK and non-UK people in the labour market, November 2019, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/ukandnonukpeopleinthelabourmarket/november2019>.

**Figure 2:** Proportion of small employers that currently employ at least one EEA worker (excluding Rol) and at least one non-EEA worker - by sector  
**Source:** IFSB Immigration Survey 2019



There are marked regional variations in the employment of EEA workers across the UK, with businesses in London (53%), Scotland (40%) and the South East (31%) employing high numbers of EEA workers in the UK. Small businesses based in London (23%), East Anglia (17%) and the South East (16%) were the most likely to employ staff from outside of the EEA.

**Figure 3:** Proportion of small employers that currently employ at least one EEA worker and at least one non-EEA worker (excluding Rol) - by region  
**Source:** FSB Immigration Survey 2019



## Recruitment challenges

FSB's research found that over the last 12 months, 38 per cent of FSB small businesses have faced difficulties in recruiting people with the right skills, qualifications or experience. Recruitment challenges have been exacerbated in particular sectors. FSB's evidence shows that small firms that employ non-EEA workers (excluding RoI) are likely to have experienced recruitment challenges. 62 per cent of small businesses that employ EEA staff (excluding RoI) have faced difficulties in recruiting people with the right skills, qualifications or experience over the last 12 months.

**Figure 4: Proportion of small businesses that have faced difficulties in recruiting people with the right skills, qualifications or experience over the past 12 months**

**Source:** FSB Immigration Survey 2019

	Total
Yes	38%
No	42%
Don't know	1%
Not applicable	20%

Over half of businesses in the accommodation and food services sector (53%) and 46 per cent of businesses in the construction sector say they have experienced difficulties in recruiting in the last 12 months – well above the UK cross-sectoral average of 38 per cent.

Of those small businesses that have faced difficulties recruiting staff over the last 12 months, over a third, (35%) say it is difficult to find individuals with the right skills in the area where their business is located. For those small firms in Scotland this rises to 44 per cent.

Immigration affects the labour supply, as it increases the pool of workers in certain sectors of the economy. At the same time, immigration is likely to increase the demand for labour, as migrants increase consumer demand for certain goods and services. That is, immigration may increase competition for existing jobs in certain occupational sectors but it can also create new jobs.<sup>3</sup>

Of those small firms that employ at least one low-skilled worker, 48 per cent say they have found it difficult to recruit people with the right skills, qualifications or experience in the last 12 months. For those that say the majority of their EEA (excluding RoI) workforce are low-skilled this rises to 71 per cent.

45 per cent of small business employers that employ high-skilled staff have faced recruitment problems in the past 12 months this increases to 50 per cent for small business employers that employ medium-skilled staff. 64 per cent of small businesses that employ EEA workers (excluding the RoI), with the majority of these EEA staff being medium-skilled, have also recorded recruitment challenges. 46 per cent of small business employers with EEA staff, whose EEA staff are mainly high-skilled, have also reported recruitment challenges over a 12 month period.

35 per cent of small firms that have faced difficulties in recruiting people over the last 12 months say they have experienced these difficulties because the domestic labour market is limited as UK citizens are not willing to do the work in their particular sector. 50 per cent of businesses that employ EEA workers (excluding RoI) that have faced recruitment difficulties cite the sector of their business as a reason for the difficulty, highlighting the importance of EEA workers in certain sectors.

The sectoral impact of businesses facing difficulties in recruiting over the last 12 months has been most acute in the accommodation and food service activities sector, with 61 per cent of businesses stating the domestic labour market is limited because UK nationals are not willing to work in their sector. 54 per cent of businesses in manufacturing have also been impacted.

<sup>3</sup> The Migration Observatory, The Labour Market Effects of Immigration, December 2018, <https://migrationobservatory.ox.ac.uk/resources/briefings/the-labour-market-effects-of-immigration/>



## Recommendations

The UK is committed to negotiating free trade agreements (FTAs) with a wide range of countries as it operates an independent trade policy. Visa arrangements under FTAs can include full visa exemptions, temporary visa exemptions, visa exemptions for specific activities, or agreements regarding entry rights or visa-free travel. The World Trade Organisation General Agreement on Trade in Services (GATS) includes provisions known as 'Mode 4' which refers to the movement of people providing services across borders. This allows for intra company transfer (ICT) visas and also short-term business visits. It is the latter rather than the former which are in the most relevant to most small firms. However, small businesses need to see ambitious proposals agreed which go well beyond the basic Mode 4 provisions, to support the many smaller businesses discharging services through travelling in person to the EEA/EU. For instance, ambitious and wide-ranging provisions on the mutual recognition of professional qualifications will benefit many smaller service providers.

# THE UK'S SKILLS CHALLENGE AND IMMIGRATION

The UK's immigration system uses the RQF to determine applicants' skill level. There are nine levels within the RQF which are recognised in England, Wales and Northern Ireland. Scotland has 12 levels of qualification known as the Scottish Qualifications Framework (SCQF).

Following the recommendation of the MAC, the future skilled route will include workers with intermediate level skills, at RQF 3-5 level (A level or equivalent) as well as graduate and post-graduate (RQF6 and above).<sup>4</sup>

FSB welcomed the MAC's January 2020 recommendation to add jobs, such as carpenters and construction trades supervisors to RQF3.<sup>5</sup>

**Figure 5: Regulated Qualifications Framework (RQF) skill levels 1-6**

Source: GOV.UK What qualification levels mean

Level	Qualifications
Level 1 qualifications are:	<ul style="list-style-type: none"> <li>• first certificate</li> <li>• GCSE - grades 3, 2, 1 or grades D, E, F, G</li> <li>• level 1 award</li> <li>• level 1 certificate</li> <li>• level 1 diploma</li> <li>• level 1 ESOL</li> <li>• level 1 essential skills</li> <li>• level 1 functional skills</li> <li>• level 1 national vocational qualification (NVQ)</li> <li>• music grades 1, 2 and 3</li> </ul>
Level 2 qualifications are:	<ul style="list-style-type: none"> <li>• CSE - grade 1</li> <li>• GCSE - grades 9, 8, 7, 6, 5, 4 or grades A*, A, B, C</li> <li>• intermediate apprenticeship</li> <li>• level 2 award</li> <li>• level 2 certificate</li> <li>• level 2 diploma</li> <li>• level 2 ESOL</li> <li>• level 2 essential skills</li> <li>• level 2 functional skills</li> <li>• level 2 national certificate</li> <li>• level 2 national diploma</li> <li>• level 2 NVQ</li> <li>• music grades 4 and 5</li> <li>• O level - grade A, B or C</li> </ul>
Level 3 qualifications are:	<ul style="list-style-type: none"> <li>• A level</li> <li>• access to higher education diploma</li> <li>• advanced apprenticeship</li> <li>• applied general</li> <li>• AS level</li> <li>• international Baccalaureate diploma</li> <li>• level 3 award</li> <li>• level 3 certificate</li> <li>• level 3 diploma</li> <li>• level 3 ESOL</li> <li>• level 3 national certificate</li> <li>• level 3 national diploma</li> <li>• level 3 NVQ</li> <li>• music grades 6, 7 and 8</li> <li>• tech level</li> </ul>

<sup>4</sup> Immigration white paper, December 2018 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/766465/The-UKs-future-skills-based-immigration-system-print-ready.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766465/The-UKs-future-skills-based-immigration-system-print-ready.pdf)

<sup>5</sup> MAC, A points-Based System and Salary Thresholds for Immigration, January 2020, <https://www.gov.uk/government/publications/migration-advisory-committee-mac-report-points-based-system-and-salary-thresholds>

Level	Qualifications
Level 4 qualifications are:	<ul style="list-style-type: none"> <li>• certificate of higher education (CertHE)</li> <li>• higher apprenticeship</li> <li>• higher national certificate (HNC)</li> <li>• level 4 award</li> <li>• level 4 certificate</li> <li>• level 4 diploma</li> <li>• level 4 NVQ</li> </ul>
Level 5 qualifications are:	<ul style="list-style-type: none"> <li>• diploma of higher education (DipHE)</li> <li>• foundation degree</li> <li>• higher national diploma (HND)</li> <li>• level 5 award</li> <li>• level 5 certificate</li> <li>• level 5 diploma</li> <li>• level 5 NVQ</li> </ul>
Level 6 qualifications are:	<ul style="list-style-type: none"> <li>• degree apprenticeship</li> <li>• degree with honours - for example bachelor of the arts (BA) hon, bachelor of science (BSc) hon</li> <li>• graduate certificate</li> <li>• graduate diploma</li> <li>• level 6 award</li> <li>• level 6 certificate</li> <li>• level 6 diploma</li> <li>• level 6 NVQ</li> <li>• ordinary degree without honours</li> </ul>

### Skill levels of employees in small businesses

FSB used the RQF skill level framework to classify the skill levels of employees of small businesses across the UK. Small business owners with staff were asked to state whether they employed staff at any of the skill levels below. Small business owners were also asked to select the skill level that most accurately reflected the majority of their employees.

Survey participants were provided with a list of occupations for each skill level which are based on the RQF levels, which have been grouped together into a corresponding skill level: low; medium and high-skilled.

#### Figure 6: Low, medium and high-skilled occupations based on RQF levels

Source: FSBIImmigration survey 2019

Level	Description
Low	<b>These jobs require skills at GCSE level or below, as defined in the Government's 2018 white paper:</b> e.g. care workers, van, bus taxi and HGV drivers, bar staff, sales assistants & retail cashiers, secretarial and related occupations, book-keepers, payroll managers and wages clerks, carpenters and joiners, glaziers, window fabricators and fitters, cooks, construction and building trades supervisors, painters and decorators, childminders and related occupations, hairdressers, barbers & beauticians and shelf fillers.
Medium	<b>These jobs require skills at A-level/Apprenticeship level or equivalent, as defined in the Government's 2018 white paper:</b> e.g. farmers, hotel/restaurant managers, plumbers, retail managers, garage managers and proprietors, leisure and sports managers/fitness instructors, hairdressing and beauty salon managers and proprietors, shopkeepers, graphic designers, office managers, business sales executives, estate agents, recruitment consultants, residential care managers, translators, marketing executives.
High	<b>These jobs require skills at degree level or above, as defined in the Government's 2018 white paper:</b> e.g. chief executives, engineering professionals, sales directors, HR managers, business analysts, IT consultants, healthcare professionals, solicitors, accountants, business advisers, architects, teachers, account managers, and musicians.

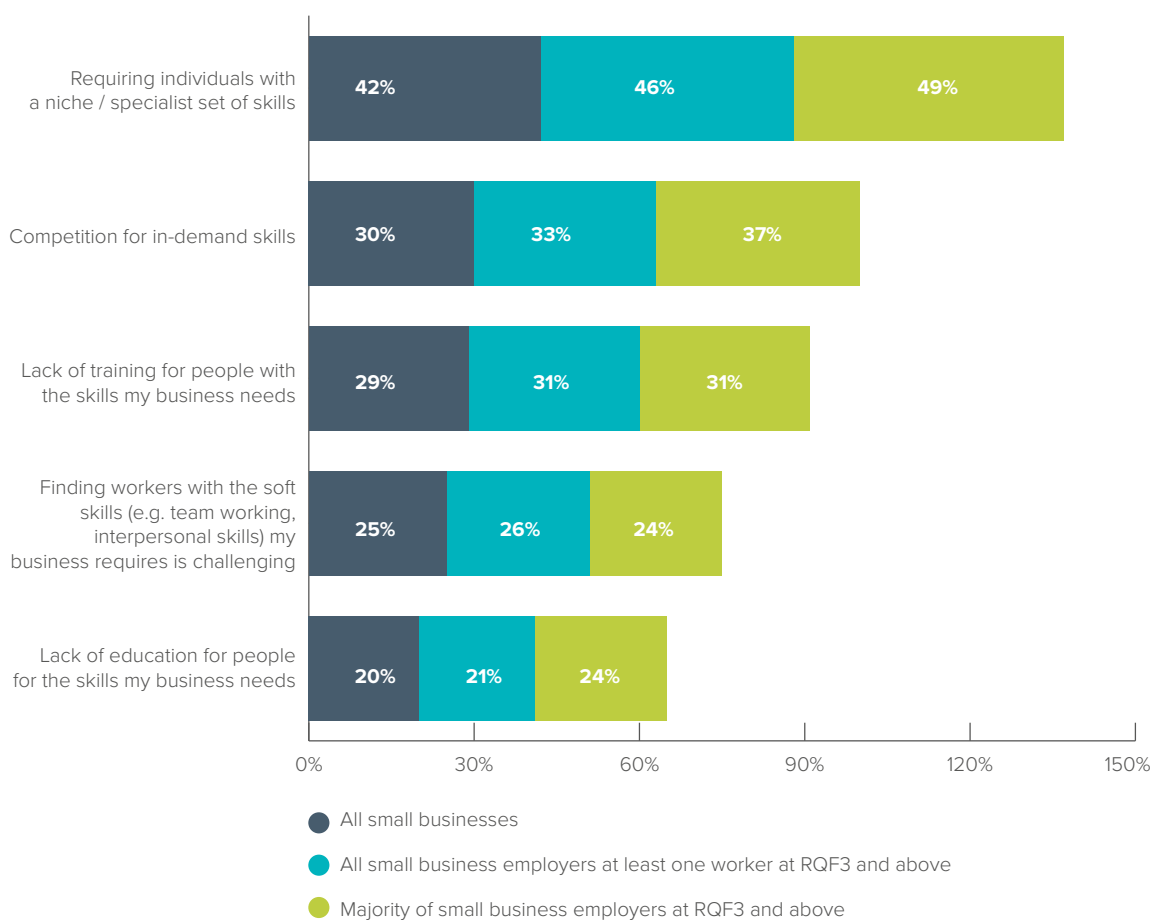
FSB research shows that of those businesses that have faced difficulties recruiting in the last 12 months, many have faced issues in regards to skills, with 46 per cent of all small business employers that employ at least one person at RQF3 and above requiring individuals with a niche/specialist set of skills.

*“It’s so difficult to look to the UK labour market to employ people. We don’t have sports undergraduate courses that specialise in gymnastics, we just have general sports qualifications and we need people with specialists’ skills.”*

FSB member, gymnastics business, London

**Figure 7: Reasons why small firms believe they have faced recruitment difficulties in the last 12 months**

Source: FSB Immigration Survey 2019



For a significant period of time UK small businesses have utilised non-UK skilled labour at a time when certain industries, sectors and occupations have found it difficult to cope with a skills system that is struggling to deliver what employers need.

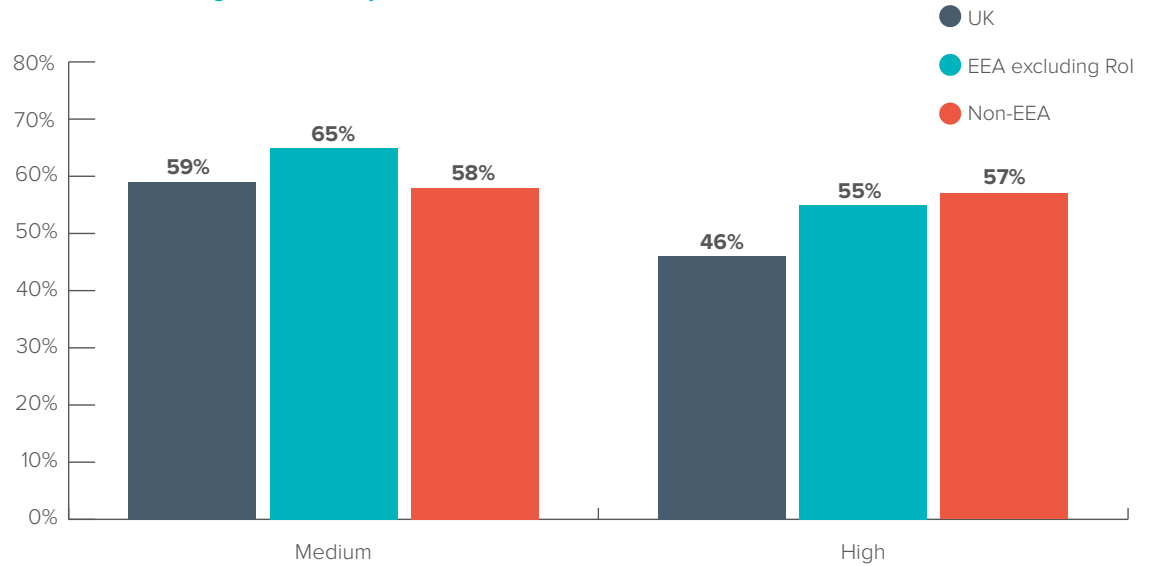
### Medium and high-skilled workers

The skills bundles of migrants are very similar to those of UK nationals, with a few exceptions at both the high skill and low skill end. However, the Organisation for Economic Co-operation and Development (OECD) estimates that the UK has a skills shortage in 21 out of 33 different types of subject knowledge. Knowledge areas refer to the body of information that makes adequate performance of the job possible (e.g. knowledge of plumbing for a plumber). The shortages in the UK are most prevalent in Science, Technology, Engineering and Mathematics (STEM) related subjects and in design; in these areas, the UK fares considerably worse than the OECD average.<sup>6</sup>

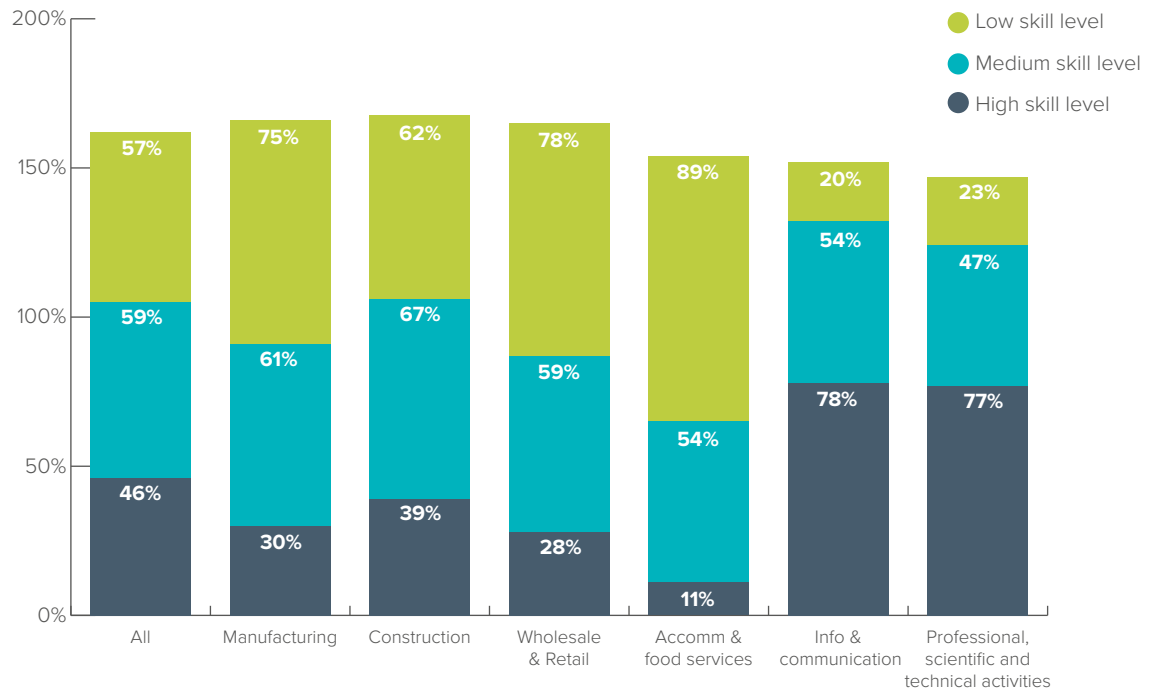
<sup>6</sup> UK Skills Mismatch in 2030, Industrial Strategy, October 2019. <https://industrialstrategycouncil.org/sites/default/files/UK%20Skills%20Mismatch%202030%20-%20Research%20Paper.pdf>

FSB’s evidence shows 46 per cent of small business employers employ at least one high-skilled worker. This figure rises to 55 per cent for those small businesses that employ at least one EEA worker.

**Figure 8:** Proportion of small business employers with at least one medium-skilled or high-skilled member of staff – by those employing at least one UK, EEA and non-EEA worker (respectively)  
**Source:** FSB Immigration Survey 2019



**Figure 9:** Proportion of small businesses that employ at least one low, medium and high-skilled worker - by sector  
**Source:** FSB Immigration Survey 2019



In terms of sector, there is a high proportion of small firms in information and communication (78%), professional, scientific and technical activities (77%) and manufacturing (61%) that employ at least one person that requires education to degree-level.

The UK population, while still growing, is ageing. Previous FSB research found that 78 per cent of small employers employ at least one person aged 50 and over. 30 per cent employ at least one person aged 65 and over.<sup>7</sup> The ONS estimates that ‘by 2050, it is projected that one in four people in the UK will be aged 65 years and over – an increase from approximately one in five in 2018’.<sup>8</sup> Those entering the labour market now can expect to work longer and may need to change careers more frequently. Economic security will not come from having a job for life but from having the ability to maintain and renew the right skills through lifelong learning.<sup>9</sup>

On this basis it is highly concerning that participation in training has remained flat due to low levels of both Government and employer investment in adult training. *The adult skills gap: is falling investment in UK adults stalling social mobility?* report by the Social Mobility Commission found that larger employers are more likely to invest in training than smaller employers (with fewer than 50 employees). In 2017, 31 per cent of people in organisations employing 500 or more employees received job related training compared to 22 per cent of those with fewer than 50 employees.<sup>10</sup>

This is consistent with FSB’s own data which shows that since the introduction of the National Living Wage (NLW) in 2016 the percentage of small business spending on training has declined. In 2019, 15 per cent of small businesses say they cut back on training expenditure in response to the 2018 NLW increase. This is a significant increase of 5 per cent from 2018 (10% in 2018) and 11 per cent since the introduction of the NLW in 2016 (4% in 2016).

Over the last 10 to 20 years there has been a lack of policy debate and investment in adult training and lifelong learning. There is strong evidence to suggest that investing in the skills of the workforce is one of the most significant factors in achieving strong, inclusive and sustainable growth, especially as the UK makes significant changes to its ability to access labour from overseas. The 2019 research report, *Learning At Life Transitions* by the Further Education Trust for Leadership, commissioned by the Workers’ Educational Association suggests that declining participation and persistent inequalities in lifelong learning limit individual opportunity, hamper social justice and limits economic growth.

The 2019 Conservative Party manifesto states that a ‘new £3 billion National Skills Fund, alongside other major investment in skills and training and our reforms to high-skilled immigration, will ensure that businesses can find and hire the workers they need. This fund will provide matching funding for individuals and SMEs for high-quality education and training. A proportion will be reserved for further strategic investment in skills, and we will consult widely on the overall design.’<sup>11</sup> Government should reverse the decade-long fall in real-terms investment in lifelong learning to drive economic growth, promote social justice and support inclusive communities.

*The Industrial Strategy Council: UK Skills Mismatch in 2030* report suggests that ‘the expansion in skills supply will be limited by levels of regional and job immobility, as the number of graduates has doubled since 2001, but the share of graduates who move between regions for work has fallen by 80 per cent’.<sup>12</sup> It could be argued that there is a relationship between the small proportion of graduates moving between regions and deep regional inequalities across the UK. *The State of the Nation* 2017 report found a stark postcode lottery where the opportunities and life chances of people from disadvantaged backgrounds are bound by where they live.

7 FSB, Small Business, Big Heart, February 2019 <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-small-business-big-heart.pdf?sfvrsn=0>.

8 ONS, Overview of the UK population: August 2019 , <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/august2019#the-uks-population-is-ageing>

9 Government Office for Science and Foresight, Future of Skills & Lifelong Learning, 2017 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/727776/Foresight-future-of-skills-lifelong-learning\\_V8.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727776/Foresight-future-of-skills-lifelong-learning_V8.pdf)

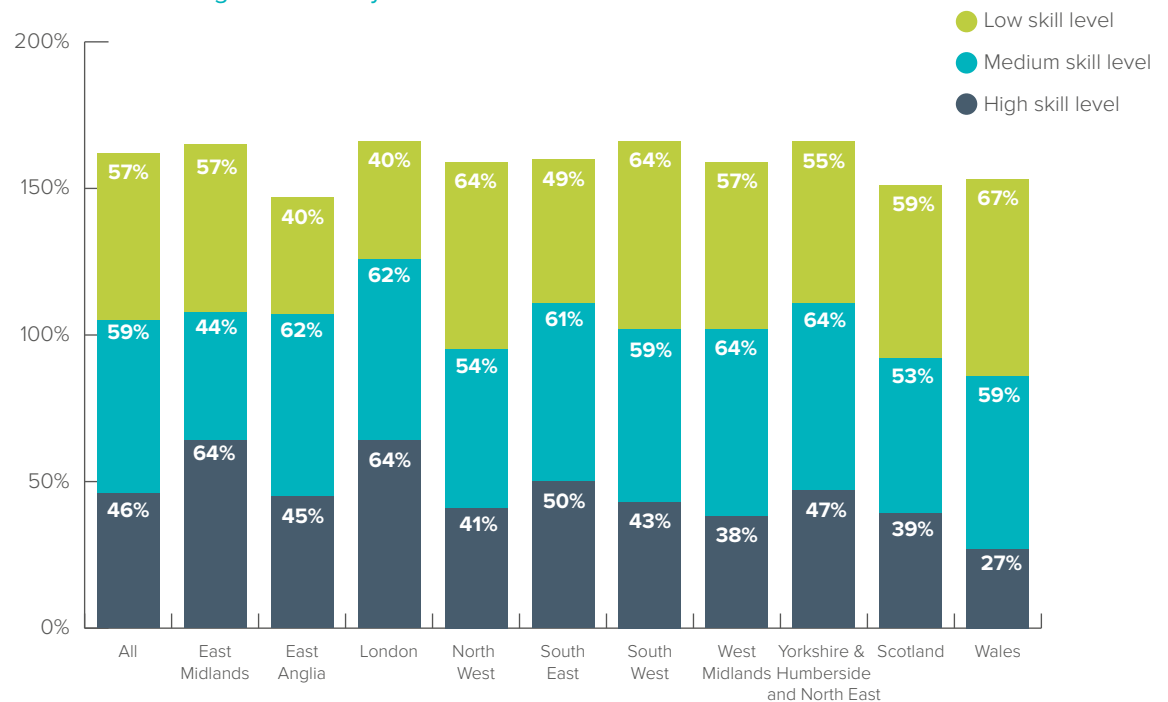
10 Social Mobility Commission, The adult skills gap: is falling investment in UK adults stalling social mobility? , January 2019, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/774085/Adult\\_skills\\_report\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774085/Adult_skills_report_2019.pdf)

11 Social Mobility Commission, The adult skills gap: is falling investment in UK adults stalling social mobility? January 2019 [https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c5dda924905da587992a064ba\\_Conservative%202019%20Manifesto.pdf](https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c5dda924905da587992a064ba_Conservative%202019%20Manifesto.pdf)

12 UK Skills Mismatch in 2030, Industrial Strategy, October 2019. <https://industrialstrategycouncil.org/sites/default/files/UK%20Skills%20Mismatch%202030%20-%20Research%20Paper.pdf>

**Figure 10: Proportion of small businesses that employ at least one low, medium and high-skilled worker - by region**

**Source: FSB Immigration Survey 2019**



FSB evidence reveals a growing gulf between London and the South East and other regions in terms of the employment of high-skilled workers in small firms. 64 per cent of small firms in London employ at least one person with a degree (high-skilled), as opposed to small firms in Wales (27%), West Midlands (38%), Scotland (39%), and the North West (41%). In all of these regions at least 57 per cent of small firms employ at least one person below RQF 3-5 level (A level or equivalent).

Migrants are currently defined as new entrants if they meet one of the following requirements:

- they are switching from a Tier 4 student visa to a Tier 2 (General) work visa;
- they are applying for a role where the employers used a university milkround to satisfy the Resident Labour Market Test;
- they are under the age of 26 on the date of their application.<sup>13</sup>

FSB supports the MAC’s new entrant recommendations to widen the definition of new entrant to include those who are working towards recognised professional qualifications.

*We believe this [MAC’s recommendation on the new entrant visa] would be highly welcomed by the catering and hospitality industry, as most businesses would prefer to employ younger sous chefs to train them to become head chefs for the future. The lower salary threshold would make it easier for smaller businesses to apply for staff.*

Small business owner, catering business, Portsmouth

It is important to recognise that there are a great many more challenges currently facing the skills system. Meeting these challenges is complex. Many of these challenges are innately place-based and ingrained, and cannot be addressed by one overarching policy solution.

<sup>13</sup> Ibid.

## Immigration Skills Charge

The Immigration Skills Charge (ISC) was introduced in 2017. It is a charge for each migrant worker (currently non-EEA) that a business employs and must be paid each time a Certificate of Sponsorship (CoS) is assigned to a migrant.

The ISC was introduced to help maintain the Department for Education's (DfE) existing skills budget and existing level of investment in skills in England. Its key focus is to address the skills gap in the workplace. Smaller businesses are required to pay £364 for any period of employment up to 12 months, followed by £182 for each subsequent six month period stated on a CoS. This is known as the 'small charge'.

The MAC is of the view that the ISC provides the required protection of the local labour force. However, little evidence has been presented as to whether the introduction of the ISC has incentivised UK businesses to employ local workers. It is our view that small firms shouldn't be charged because of skills gaps in the UK labour market. Moreover, the lack of knowledge as to where the funds from the ISC are being used is of real concern especially as the 2018 white paper proposed the ISC will remain in place post-Brexit, thus quadrupling the amount of money the DfE can raise via the ISC.

In January 2019, the then Minister of State for Skills and Apprenticeships, Anne Milton confirmed between 6 April 2017 and 21 March 2018, the Home Office collected £98.8 million in ISC income. The charge was paid on a total of 48,898 Certificates of Sponsorship.

FSB evidence shows that 42 per cent of small businesses say they have not been able to find the people with skills their business needs because they require people with a niche/specialist set of skills. 36 per cent say it is difficult to find individuals with the right skills in the area that their business is located. It is therefore questionable as to whether the skills charge is actually serving its purpose. It is our view the UK's skills challenges will persist without direct intervention and support from Government in regards to upskilling and lifelong learning.

The 2018 white paper proposed that the ISC will continue post-Brexit for EEA migrants and thus will apply to a greater number of applicants than it currently does. The white paper states the ISC will enable the Government to 'continue to take a long-term view of investment in developing the skills the UK needs and in addressing skills gaps in the workforce'.<sup>14</sup> However, it still remains unclear where ISC funds are spent. Arguably, if the ISC is currently able to raise under £100 million a year under the current Tier 2 (General) rules the funds will dramatically increase post-transition period when employers will be compelled to pay the ISC when employing EEA migrants.

Our research suggests current visa fees price out small firms from employing non-UK skilled staff. The Government should exempt any business that employs fewer than 50 people from having to pay the Immigration Skills Charge.

---

<sup>14</sup> Ibid.



## Recommendations

FSB supports the MAC's recommendation for a general new entrant salary threshold of £17,900 under Tier 2. The definition of a new entrant should be widened to include those who are working towards recognised professional qualifications and those who are moving directly into postdoctoral positions. The new entrant rate should apply for five years, an extension from the current three-year entitlement. The age eligibility for the new entrant should also be extended from 26 to 30.

The UK's 5.8 million small businesses are key to the future skills revolution. Small firms should be at the heart of the UK's future skills policy. To do this Government, both UK and devolved needs to ensure the following:

- Ring fence a significant proportion of the National Skills Fund to be spent on small businesses. FSB has welcomed the announcement of the National Skills Fund to the value of £3 billion over the course of five years. The UK's departure from the EU, along with the challenges and opportunities of the fourth industrial revolution, make it even more important to focus on adult learning if the Government wants to make a success of its levelling up agenda. Investing in on-the-job training and adult education is vital, especially given that an ageing society is one of the grand challenges of our time. The UK should be prioritising lifelong learning, particularly adult education which is dramatically low at the moment. The previous administration, developed a National Retraining Scheme, in conjunction with the CBI and TUC. Whilst it is too early to judge the impact of that scheme on the ground, FSB has been concerned that the central philosophy of the scheme – offering training opportunities to facilitate employees departure from their current (larger) employer, represents at best only an indirect and very difficult to quantify at that, benefit to smaller businesses. It's critical that the National Skills Funding for adult re-education is spent in a way that clearly benefits smaller business employers (in a quantifiable way) and is genuinely employer responsive. Any focus on adult retraining should also cover digital skills – both for small business entrepreneurs and their staff – to increase small business productivity and turnover.
- Top up apprenticeship levy funding, so that smaller businesses can continue to deliver apprenticeships (England only). 92 per cent of all apprenticeships offered by smaller businesses are held by 16-24 year olds.<sup>15</sup> It is widely acknowledged that the unspent apprenticeship levy funding, on which most small business employers of apprentices depend to meet the majority of their training and assessment costs is on the cusp of being exhausted. We need to see this rectified but without seeing a decrease in the pay bill threshold (currently set at £3 million) above which the levy needs to be paid. It is important that the Government sets out at the upcoming Budget and Spending Review how small business apprenticeships will be funded.
- Ensure T Levels work for smaller businesses by directly funding employers to meet some of the costs attached to delivering industry placements. Three T Levels (digital production, design and development, design, surveying and planning and education) are due to go live in the academic year 2020-2021. All T Levels will include an industry placement of at least 315 hours. The pilot of £7 million made available to support employers (up to £750 per placement) with tangible costs attached to the provision of industry placements such as software licences or protective clothing, needs to be expanded into a fully-fledged fund attached for industry placements for all current and future T Levels. Funding is currently mediated through providers. There are important lessons to be learnt from the operation of the apprenticeship programme – given for example that FSB research shows that only 40 per cent of eligible smaller businesses have received the £1,000 incentive for hiring 16-18 year olds. A third (34%) say they are not even aware of the incentive. Any funding for T Levels mediated through providers needs to be handled with real care to ensure the funding reaches small business employers.

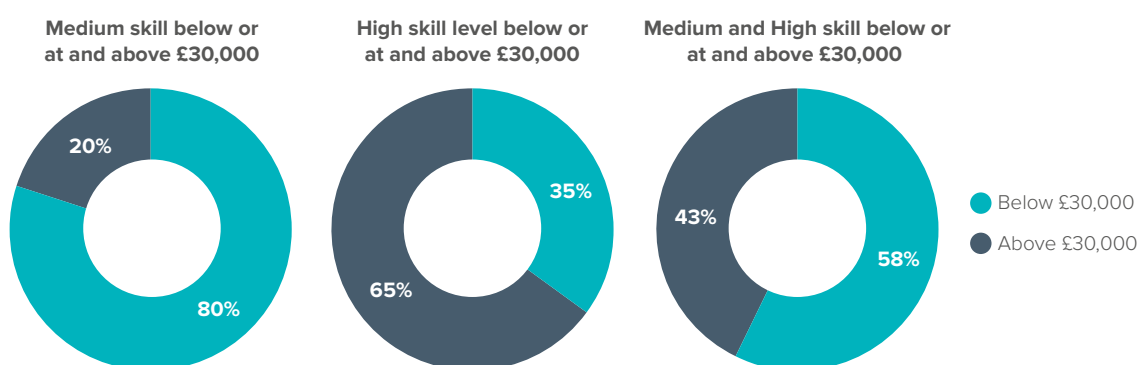
## Tier 2 salary threshold

In September 2018, the MAC advised that the Tier 2 (General) category minimum £30,000 salary threshold for medium-skilled roles should be retained. In January 2020, following the MAC’s Call for Evidence, the MAC recommended that the general salary threshold should be reduced by £4,400 to around £25,600. This is a positive step, however, a significant proportion of small firms will still be excluded from the eligibility requirements for a Tier 2 visa.

Figure 11 shows the percentage of small business employers that say they pay their average full-time equivalent (FTE) worker per annum below or at and above £30,000 for medium and high-skilled workers.

**Figure 11:** Proportion of small business employers that pay their FTE RQF3+ staff below £30,000 or at or above £30,000

Source: FSB Immigration Survey 2019



**Figure 12:** Proportion of small business employers that pay their FTE RQF3+ staff below £25,000 or at or above £25,000

Source: FSB Immigration Survey 2019

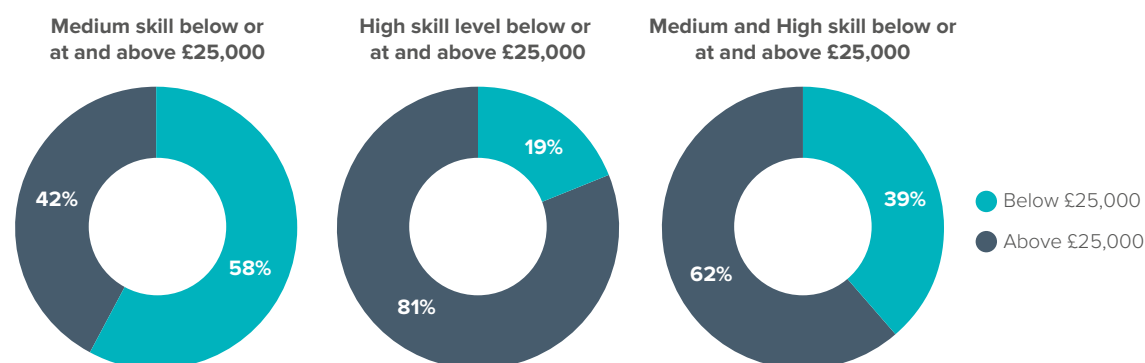


Figure 12 shows the percentage of small business employers that say they pay their average full-time equivalent (FTE) worker per annum below or at and above £25,000 per annum for medium and high-skilled workers.

FSB evidence shows a salary threshold of £30,000 would exclude 57.5 per cent of small business employers employing FTE RQF3 and above staff, as opposed to a salary threshold of £25,000 which would exclude 38.5 per cent of small businesses employing RQF3 and above staff. 33 per cent of those small business that employ a FTE skilled staff (RQF3+) below £25,000 per annum, employ an EEA citizen (excluding Rol).

*“Our technical medium skilled jobs pay around £25-26,000, so a salary threshold at £30,000 may cause problems.”*

FSB member, manufacturing business, Leicestershire

Certain industries may be more affected by a minimum salary threshold and those industries may be more important to certain regions. The 2018 white paper estimates that some high-skilled occupations may be affected by a salary threshold of £30,000, such as IT and telecommunications professionals and teaching and educational professionals, where a relatively large share of employees within the occupation currently earn below £30,000.<sup>16</sup> FSB evidence shows 29 per cent of small business employers in the information and communication sector and 33 per cent of small firms in the professional, scientific and technical activities sector pay their FTE medium and high-skilled staff below £30,000; this in comparison to 15 per cent and 17 per cent below £30,000 respectively.

*“£30,000 may be ok for bigger business or businesses in London, but it won’t help your tech start up in Manchester, they can’t afford that salary.”*

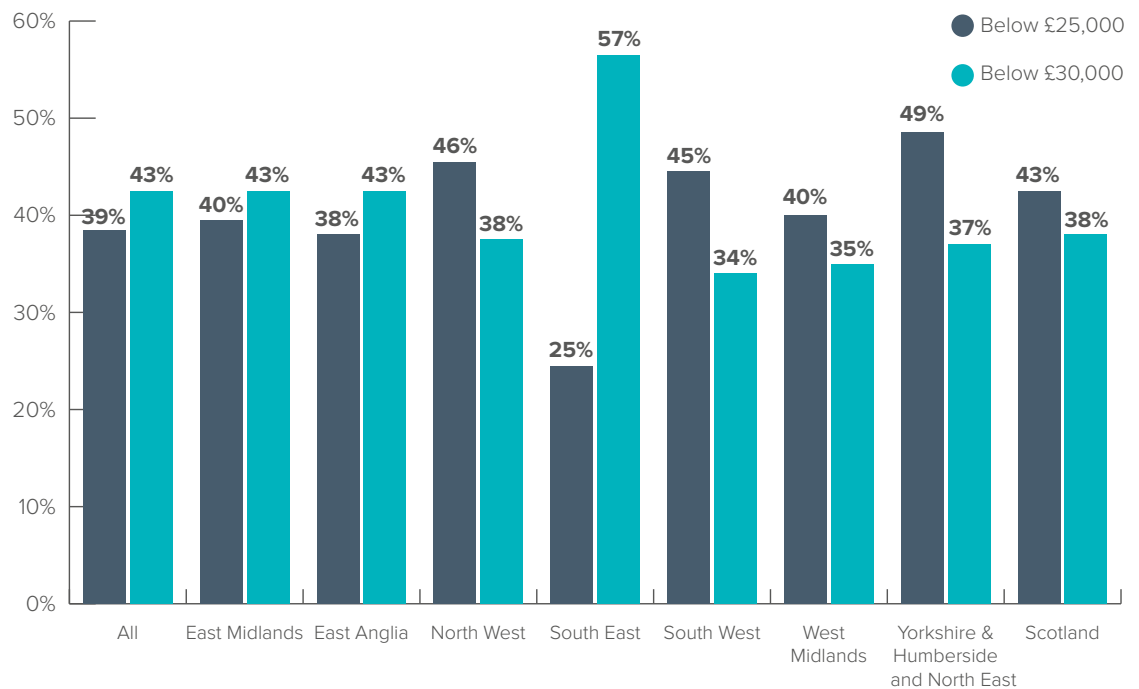
FSB member, IT recruitment business, Manchester

If small businesses are unable to meet the salary threshold and cannot source appropriate labour from within the UK, this could lead to bottlenecks constraining the growth of small firms, particularly as the UK continues to face skill shortages.

It is clear from Figures 11 and Figure 12 that a salary threshold of £25,600 would exclude fewer UK small business employers from the eligibility requirements of Tier 2 than a salary threshold of £30,000. However, when we look solely at medium-skilled staff, 58 per cent of small business employers employing FTE medium-skilled staff do not pay £25,000 and would therefore be unable to apply for a Tier 2 visa.

**Figure 13: Percentage of small business employers that pay their FTE medium and high-skilled staff below £25,000 and below £30,000 by – region**

**Source:** FSB Immigration Survey 2019

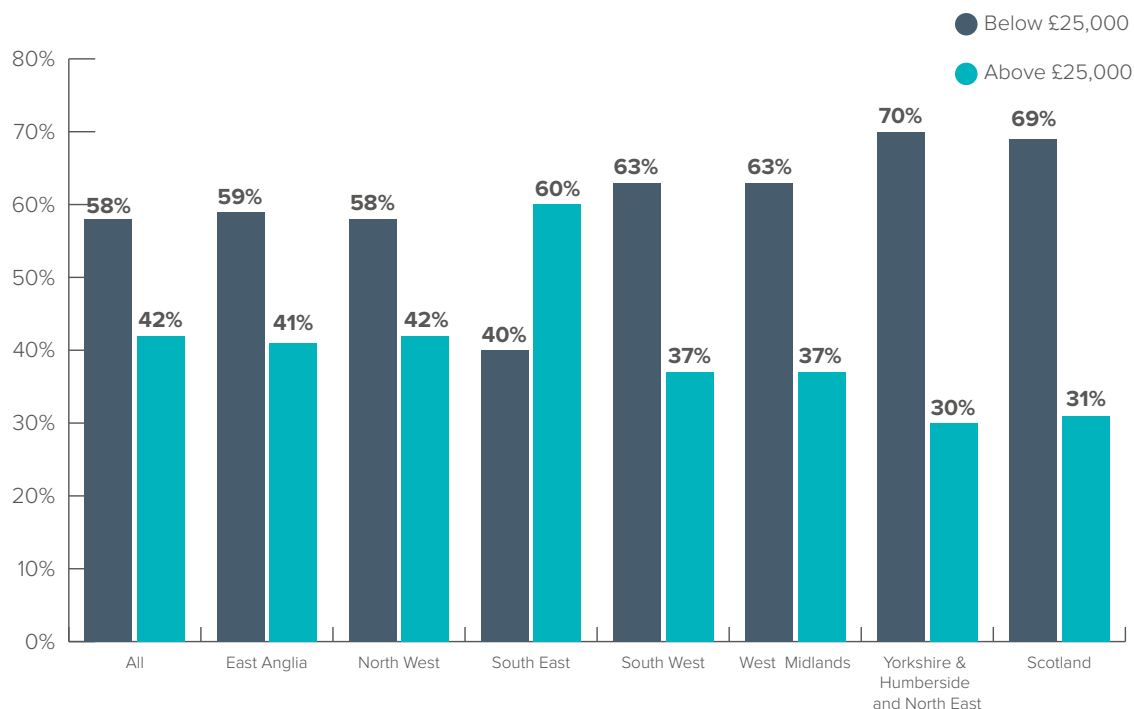


<sup>16</sup> Ibid.

Figure 14 highlights the regional variation of small business employers paying their FTE medium-skilled staff £25,000. A considerable number of small firms in Yorkshire and the Humberside and the North East (70%), in Scotland (69%), West Midlands and the South West (both 63%) would not be eligible for a Tier 2 visa with a salary threshold of £25,600. These businesses should not be excluded from hiring skilled workers from overseas. It is our view that flexibility within the Tier 2 system is required to ensure small businesses, especially those outside of London and the South East are able to access international talent.

**Figure 14: Percentage of small business employers that pay their FTE medium and high-skilled below £25,000 or above £25,000 by – region**

**Source: FSB Immigration Survey 2019**



FSB’s evidence shows that 81 per cent of small firms that currently pay their RQF3 and above staff below £30,000 are unlikely to consider increasing the average salary of their RQF3 and above jobs to or above £30,000. This starkly demonstrates the inability of small firms to raise wages to meet a general salary threshold.

Small businesses, especially micro businesses, find it difficult to compete with larger businesses when it comes to employee benefits. FSB research suggests that small businesses are successful at providing workers with a range of flexible working arrangements, with 69 per cent of small business employers offering all staff some form of flexible working, rising to 89 per cent offering it to at least some or all staff.<sup>17</sup>

Our evidence shows that 62 per cent of small business employers do not provide any non-wage benefits beyond the basic salaries of their staff. It is our view that if monetary non-wage benefits are included as part of a minimum salary threshold it may disincentivise small businesses.

## Recommendation

Government should consider lowering the proposed minimum general salary threshold of £30,000 for medium skilled jobs and above. A salary threshold as proposed by the MAC of £25,600 would represent an important step in the right direction. However, a reduction alone will not benefit small firms or the UK labour market. FSB research shows that over half (58%) of small businesses that employ medium skilled staff (RQF3 and above) do not pay £25,000 or more. Small businesses are concerned that the rigid design of the Tier 2 system, even with a minimum salary threshold of £25,600 may impact the ability of small firms to hire international skilled workers.

<sup>17</sup> FSB, Small Business, Big Heart February 2019 <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-small-business-big-heart.pdf?sfvrsn=0>.

# IMPACT ON SMALL BUSINESSES WITH SKILLED STAFF

## Impact on small businesses with skilled staff

The 2018 white paper estimates that the reduction in long-term EEA migrants could have a cumulative fiscal cost of between £2 billion and £4 billion over the first five years (2021-2025) of leaving the EU.<sup>18</sup>

**Figure 15:** Impact of skill level and salary thresholds on small business employers

Source: FSB Immigration Survey 2019

	Medium and High-skilled employers	Below RQ3+ £25K small business employers	Below RQF3+ £30K small business employers
Replace EU citizens with UK workers	17%	18%	16%
Continue to employ EU citizens and therefore engage with an immigration system of some sort, including absorbing any additional immigration costs	19%	14%	13%
Invest in training existing workforce to fill job vacancies	10%	6%	4%
Offer new employment and training opportunities (including apprenticeships) to UK citizens	15%	11%	9%
Increase wages or benefits to attract similar quality staff from the UK labour market	8%	3%	3%
Invest in machinery and/or Information Technology and/or to automate processes that were previously completed by your workforce	6%	6%	4%
Recruit harder to reach groups (or previously economically inactive groups) such as ex-offenders and service leavers	4%	1%	4%
Put more resources into in-work progression and career ladders for staff	5%	4%	2%
Outsource work outside the UK	9%	6%	12%
Hire freelance workers/self-employed contractors	15%	11%	14%
Close business/radically change business model	12%	14%	13%
Other, please specify	3%	4%	4%
Don't know / Not sure	6%	5%	8%
Nothing, there will be no impact on my business	33%	39%	37%

<sup>18</sup> Ibid.

Our survey finds that only 17 per cent of small firms that employ staff RQF3+ will replace EEA citizens with UK workers, with 19 per cent stating they will continue to employ EEA citizens and thus engage with immigration rules and absorb any additional costs.

This report has highlighted the skills challenges within the UK and the need for investment in adult training. Only 10 per cent of small firms that employ staff at RQF3 and above believe if they were to struggle to recruit EEA citizens post-Brexit they would invest in training their existing workforce. Only 4 per cent of those small business employers that employ staff at RQF3 and above, but pay below £30,000 say they will invest in training their existing workforce. This is in comparison to 6 per cent of small business employers that pay below £25,000. These businesses are particularly at risk of being unable to upskill their staff and improve workplace productivity.

## Apprenticeships

15 per cent of small firms that employ staff at RQF3 and above say they will offer new employment and training opportunities including apprenticeships to UK nationals, if they were to struggle to recruit EEA workers post-Brexit. However, there are a number of factors which may deter small firms from taking on apprentices. FSB's report on apprenticeships, *Fit for the Future: Making the apprenticeship system work for small businesses* found that since the apprenticeships reforms of 2017, 41 per cent of small businesses that employ apprentices report that their costs related to recruiting and training apprentices have increased. This increase can mainly be attributed to the newly introduced apprenticeship rules such as the explicit requirement for 20 per cent off-the-job training, co-investment and travel costs due to the lack of training provision as a result of the funding procurement changes across England. This is in addition to the costs associated with the other types of employment, namely apprentices' wages, management time, administrative costs including recruitment costs and equipment used by apprentices.<sup>19</sup>

*There is going to be a shortage of people working in construction after Brexit, and that's why most of us are choosing to take on more apprentices. For us, we are looking at growing home grown talent, rather than employing those from outside of the UK. We need to ensure apprenticeships courses and colleges are relevant and up-to-date, as the industry is constantly developing. In addition, as a small business there is a time and cost factor in taking on apprentices and young people."*

FSB member, construction business, London

## Automation

The complex nature of automation and the lack of availability of skills required to deal with it are also among the greatest perceived barriers to automation. While there has been some progress in improving digital skills, it remains a challenge for businesses, especially SMEs, to upskill themselves and their employees to utilise relatively basic technologies. It is therefore of little surprise that automation is perceived as difficult and potentially incompatible with current ways of working for many businesses.<sup>20</sup>

Unsurprisingly, our survey found only 6 per cent of small businesses that employ staff above RQF3 will invest in machinery and/or information technology and/or to automate processes that were previously completed by their workforce, if they struggle to recruit EEA workers post-Brexit.

*"We will increase the amount of AI we use. We are increasing our investment in AI and will be ready to implement AI in 3-6 months. It will allow us to grow our business in the way we want but not take on additional people. This will allow us to reduce working time, but not wages for our workforce. The introduction of AI will make the work we do more skilled."*

FSB member, transport business, Warwickshire

<sup>19</sup> FSB, *Fit for the Future: apprenticeship and small businesses*, <https://www.fsb.org.uk/resource-report/fit-for-the-future.html>

<sup>20</sup> BEIS Committee, *Automation and the future of work*, 23rd Report of Session 2017-19, September 2019 <https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1093/1093.pdf>

## Outsourcing outside the UK

On the assumption that they might struggle to recruit EU staff post-Brexit, 9 per cent of small firms that employ staff above RQF3 say they will outsource work outside of the UK, if they cannot recruit EU workers post-Brexit. This number rises to 12 per cent for those businesses that cannot meet a £30,000 salary threshold in comparison to 6 per cent for a salary threshold of £25,000. It is concerning that 19 per cent of small firms that employ EEA staff (excluding Rol), the majority of whom are high-skilled, say they that they will outsource.

It is likely that small firms in the information and communication sector may seek to outsource, with 21 per cent of small firms in this sector saying they will outsource if they were to struggle to recruit workers from the EEA post-Brexit.

*“Businesses may not train UK staff because it will take too long and they need trained staff now, so they may outsource to another country. There may be an increase in IT businesses outsourcing to countries like India, Ukraine and Russia. If a business can get someone that can already do the work and they are sitting behind a computer in the Ukraine who can get the job done working remotely they will choose that option.”*

FSB member, IT recruitment business, Manchester

## Close business or radically change business model

12 per cent of small firms that employ staff at RQF3 and above say they would close their business or radically change their business model, if they were to struggle to recruit EEA (excluding Rol) workers post-Brexit.

*“A year ago we set up a company in Malta. It’s easier because it’s all still in English, but it’s still within Europe and we could simply move the business if we had to. We are also looking at changing our focus with 70 per cent of our sales being in the UK and 30 per cent coming from outside of the UK. We are looking to shift that balance, so it’s more even, which will enable us to set up in different countries whether that’s in Europe or in the US. We would look to reduce our expansion in the UK simply because we can’t attract the right people to the UK.”*

FSB member, translation services business, Bristol

The 2018 white paper stated it is uncertain which particular occupations or sectors affected by proposals under the skilled worker route may be more or less likely to look to temporary workers as part of a mitigation strategy. FSB data shows that a significant number of small firms, 57 per cent of small firms that employ skilled workers (as defined in the Rules) would not recruit workers using the temporary route. Of those small businesses that employ staff above RQF3, 57 per cent say that use of the temporary route would be a disincentive to train staff. Many members expressed the duration of the temporary route, i.e. 12 months on and 12 months off as being highly problematic.

*“If we’re not able to transfer the temporary visa into a Tier 2 visa without that person having to leave the UK, the temporary route may be expedient, but we would want someone on a permanent basis. If there is no ability to switch we would be less inclined to employ a skilled worker on a temporary route visa.”*

FSB member, electronics and communications business, Southampton

Of those small businesses that employ at least one medium or high-skilled worker, 21 per cent would consider taking on a temporary 12 month EU worker. However, for those that would, 57 per cent say this arrangement would reduce their incentive to train staff.



# INTERNATIONAL COMPARATORS AND A NEW UK POINTS-BASED SYSTEM

In December 2019, the Government confirmed in the Queen’s Speech their intention to ‘deliver a new Australian-style points-based immigration system from 2021’.

The Queen’s speech published in December 2019 states:

*“A modern, fair, points-based immigration system will welcome skilled workers from across the world to contribute to the United Kingdom’s economy, communities and public services.”*

In January 2020, the MAC published *A Points-Based System and Salary Thresholds for Immigration*<sup>21</sup> in which they considered how a PBS could be used to admit skilled migrants with a job offer on entry, without a job offer on entry, and for settlement. The MAC recommended retaining the existing framework for Tier 2 (General).

In addition to Australia there are also a number of countries which have adopted aspects of PBS as part of their immigration systems, such as Austria and Canada. These PBS routes generally award points for a variety of characteristics, including, but not limited to, educational qualifications, language proficiency, work experience and willingness to work in areas or sectors with a shortage of workers.

The following provides an analysis of the points-based immigration systems in Austria, Australia and Canada, and FSB’s recommendations as to what lessons the UK can learn.

**Figure 16: Weighting of Points Tests by country as a Percentage (%) of the Minimum Pass Mark**

Source: MAC report: points-based system and salary thresholds

Country	Australia		Austria		Canada	
	% of Min. Pass Mark	% of Available Points <b>(Actual points)</b>	% of Min. Pass Mark	% of Available Points	% of Min. Pass Mark	% of Available Points <b>(Actual points)</b>
Age	46	23 <b>(30)</b>	29	20 <b>(20)</b>	18	12 <b>(12)</b>
Language proficiency	31	15 <b>(20)</b>	14	10 <b>(10)</b>	42	28 <b>(28)</b>
Job Offer	-	-	-	-	15	10 <b>(10)</b>
<b>Work experience</b>						
Work experience – In country	31	15 <b>(20)</b>	29	20 <b>(20)</b>	23	15 <b>(15)</b>
Work experience – Overseas	23	12 <b>(15)</b>				
<b>Education/qualifications</b>						
In-country	46	23 <b>(30)</b>	71	50 <b>(50)</b>	45	30 <b>(30)</b>
Overseas	31	15 <b>(20)</b>	57	40 <b>(40)</b>	37	25 <b>(25)</b>
Additional points	31	23 <b>(30)</b>	-	-	15	10 <b>(10)</b>
<b>Minimum Pass mark / Available points</b>	<b>65</b>	<b>130</b>	<b>70</b>	<b>100</b>	<b>67</b>	<b>100</b>

Australia: Skilled Independent, Austria: Very Highly Qualified Worker, Canada: Federal Skilled Worker. Australia and Austria do not give points to candidates for an offer of employment. In Austria, an offer of employment is a requirement. In Australia the PBS does not require an offer of employment. Additional points denotes: Australia – additional language qualification, skilled partner points, Canada – partner language test scores, Canadian relatives, and arranged employment. See MAC January 2020 report.

21 MAC, *A Points-Based System and Salary Thresholds for Immigration*, January 2020 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/860669/PBS\\_and\\_Salary\\_Thresholds\\_Report\\_MAC.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/860669/PBS_and_Salary_Thresholds_Report_MAC.pdf)



## Australia

The Australian immigration system is highly regulated with over 90 visa classes each with a different purpose. The PBS only applies to certain visa under the General Skilled and Business Migration Programs. It does not apply to the Employer Sponsored Programs. Various skilled occupation lists apply to temporary and permanent skilled Programs.

### Figure 17: Skilled migration programs in Australia

Source: Australian Government: Department for Home Affairs – Immigration and citizenship

Skilled Migration program	Qualifications
General Skilled Migration (Points Test applies)	<ul style="list-style-type: none"> <li>• Subject to prescriptive occupation lists</li> <li>• Minimum 'competent' English</li> <li>• Optional State/Territory nomination for additional points</li> <li>• Age limit of 45</li> </ul>
Distinguished Talent (no Points Test)	<ul style="list-style-type: none"> <li>• Nomination by Australian organisation or Australian with national reputation in field</li> <li>• Must have outstanding international record of exceptional and outstanding achievement in a profession, sport, the arts, academia or research</li> <li>• Age limit of 55 (limited exceptions)</li> </ul>
Employer Sponsored Migration (no Points Test)	<ul style="list-style-type: none"> <li>• Sponsored by employer for permanent position</li> <li>• Subject to prescriptive occupation lists</li> <li>• Minimum 'competent' English</li> <li>• Age limit of 45 (limited exceptions)</li> <li>• Separate pathway for employers located in regional Australia</li> </ul>
Business Migration (Points test applies to some streams)	<ul style="list-style-type: none"> <li>• certificate of higher education (CertHE)</li> <li>• higher apprenticeship</li> <li>• higher national certificate (HNC)</li> <li>• level 4 award</li> <li>• level 4 certificate</li> <li>• level 4 diploma</li> <li>• level 4 NVQ</li> </ul>
Business Migration (Points test applies to some streams)	<ul style="list-style-type: none"> <li>• Mandatory and State/Territory nomination</li> <li>• Points test applies to 'Innovation' and 'Investor' streams only</li> <li>• Age limit of 55 (limited exceptions)</li> </ul>

## Austria

Third country nationals who are not EEA citizens or Swiss nationals are required to have a residence permit to work in Austria, if they wish to stay longer than six months. Applicants can apply for a Red-White-Red Card (RWR). This is an employer sponsored route for workers. It is subject to a points test, and has separate tests for highly skilled migrants and those employed in occupations in shortage.<sup>22</sup>

The applicant must provide proof of completed training in a shortage occupation. They must have received a binding job offer in Austria and the prospective employer is willing to remunerate the applicant with the minimum. The applicant gains a minimum of 55 points according to the following list of criteria:<sup>23</sup>

**Figure 18: Austria skilled workers in shortage occupations**

**Source:** Austrian Government Migration

Eligibility criteria for skilled workers	Points
<b>Qualification</b>	<b>Maximum allowable points: 30</b>
Completed vocational education/training in the shortage occupation	20
General eligibility for university admission	25
Completion of a programme of studies with a minimum duration of three years at an institution of tertiary education	30
<b>Work experience matching one's qualification</b>	<b>Maximum allowable points: 20</b>
Work experience (per year)	2
Work experience in Austria (per year)	4
<b>German language skills</b>	<b>Maximum allowable points: 15</b>
Elementary use of the German language on a basic level (A1 level)	5
German language skills for the intensified elementary use of the language (A2 level)	10
German language skills for the independent use of the language (B1 level)	15
<b>English language skills</b>	<b>Maximum allowable points: 10</b>
English language skills for the intensified elementary use of the language (A2 level)	5
English language skills for the independent use of the language (B1 level)	10
<b>Age</b>	<b>Maximum allowable points: 15</b>
Up to 30 years of age	15
Up to 40 years of age	10
<b>Sum total of maximum allowable points:</b>	<b>90</b>
<b>Required minimum:</b>	<b>55</b>

As the MAC identifies Austria has no regional settlement policy. However, the SME chapter of the Austrian Federal Economic Chamber (WKO), suggests that regional aspects must be taken into account when determining a shortage of professions.

**Canada** The management of immigration in Canada is shared between provinces, territories and the federal government. Austria, Skilled workers in shortage occupations <https://www.migration.gv.at/en/types-of-immigration/permanent-immigration/skilled-workers-in-shortage-occupations/>

Government. The Canadian system is built on partnership between local and regional actors.

**Figure 19: Canadian business visas**

**Source:** Government of Canada: Canada's immigration system

<b>Canada runs several economic immigration programs:</b>	
<b>Express Entry</b>	The first step for most economic immigrants is to submit a profile under Express Entry. In the profile, the person receives ranking points-based on their language ability, education, skills and experience. Every two weeks, the candidates with the most points are invited to apply for permanent residence.
<b>Provincial Nominee Program</b>	Provinces (except Quebec) nominate the immigrants they would like, based on criteria they set that address their own needs.
<b>Quebec-Selected Skilled Workers</b>	The Province of Quebec selects its own skilled workers.
<b>Start-up Visa Program</b>	Entrepreneurs with business ideas and the support of Canadian investors can become permanent residents and launch their business here.
<b>Caregiver Program</b>	Individuals who have gained experience working in Canada providing in-home care to children, or people with high medical needs, can apply for permanent residence.

In addition to the opportunities to apply for permanent residence, there are also avenues to migrate to Canada on a temporary basis as a tourist, worker, or student.

Individuals can migrate to Canada as temporary workers via a range of work permit programs. These include:

**Figure 20: Canadian business visas**

**Source:** Government of Canada: Canada's immigration system

<b>Temporary Foreign Worker Program</b>	Employers who haven't been able to find Canadians or Canadian permanent residents for the jobs they have available can get permission to hire workers from other countries for nearly any type of job.
<b>International Mobility Program</b>	Some people can be hired by employers without needing permission due to the benefits they will bring to Canada. This includes researchers, certain business people and professionals, workers with specialized knowledge being transferred by their employer to Canada, and others.
<b>International Experience Canada</b>	Young people from countries that Canada has agreements with can apply to come to Canada for a working holiday, an internship, or an experience as a young professional.

Immigration in Australia at all skill levels is largely employer driven, which allows employers to recruit according to their needs. The Treasury Department for Home Affairs in Australia suggests that the employer sponsorship program has helped boost the labour market outcomes of recent migrant cohorts. However, over 50 per cent of migrants arrived in Australia independently without a job offer. It is our view that an employer led scheme, i.e. the prospective migrant holding a job offer is important, but it should operate alongside a PBS. In addition, a separate visa route which does not require a job offer should be available for skilled migrants. This will enable small businesses, especially those that rely on skilled freelancers to attract talent and recruit internationally.

*“I largely engage freelancers, they gain an income from a number of other businesses, so a Tier 2 visa wouldn’t work. I need a range of disciplines, but I don’t have enough work for them all at the same time, so an employer sponsored route wouldn’t work for my business.”*

FSB member, environmental business, London

## Regional visas

Designated Area Migration Agreements (DAMAs) allow regional or low population areas in Australia to sponsor skilled overseas workers for positions they are unable to fill with local workers. Employers experiencing skills and labour shortages can apply for endorsement to enter into a DAMA labour agreement. This enables them to sponsor skilled and semi-skilled overseas workers with more flexible requirements, such as reductions in normal minimum salary requirements, if employers can demonstrate that the salary is in line with local market rates, than are available via the standard skilled visa programs.

Outside the capital cities, migrants contributed to 26 per cent of the population growth in regional Australia. This policy is designed to address skill shortages in regional Australia and has helped attract skilled migrants to areas where they are needed, retaining skilled migrants, just like retaining skilled Australian-born residents in regional and remote locations remains a challenge. Many migrants move to larger cities once their visa requirements for permanent residency are met.<sup>24</sup>

The MAC highlighted in its report that ‘unlike Australia and Canada, New Zealand has no specific regional visa route for migrants. However, those entering through New Zealand’s Skilled Migrant Category visa with an offer of employment can earn 30 extra points if that offer is outside the Auckland region, obtaining 80 points on this aspect of the test alone. In 2016/17, 53 per cent of applicants claimed bonus points for holding a job offer outside the region of Auckland’.<sup>25</sup>

In 2019, the Canadian Government announced the introduction of the Rural and Northern Immigration Pilot. The pilot is a community-driven creating a path to permanent residence for skilled foreign workers who want to work and live in rural communities.<sup>26</sup>

## The impact of the Canadian immigration scheme on small businesses

The Canadian Federation of Independent Business (CFIB) is Canada’s largest association of small and medium-sized businesses with 110,000 members across every industry and region.<sup>27</sup>

Like small businesses in the UK, small businesses in Canada also rely on foreign labour across a number of sectors and skill levels. CFIB has conducted research into the impact of Canadian immigration policies on small firms, which the UK Government and key stakeholders may find useful, as the UK Government’s considers implementing an Australian style PBS similar to that of Canada and Austria.

As in the UK, most small business owners in Canada do not have a human resources department; therefore, they are responsible themselves for posting job ads, going through applications, and contacting potential candidates. Small businesses also often have tighter profit margins than larger firms, so it is often more difficult for them to compete for the same pool of qualified workers.

CFIB’s recent report, *Workers without borders: Addressing SME labour shortages through immigration* found that many small businesses are overwhelmed by the complexities and red tape involved in

<sup>24</sup> Ibid.

<sup>25</sup> Ministry of Business, Innovation & Employment New Zealand, Migration Trends 2016/17 <https://www.mbie.govt.nz/assets/Uploads/c22ab0c547/migration-trends-2016-17.pdf>

<sup>26</sup> Government of Canada, Rural and Northern Immigration Pilot: about the pilot <https://www.canada.ca/en/immigration-refugees-citizenship/services/immigrate-canada/rural-northern-immigration-pilot.html>

<sup>27</sup> Canadian Federation of Independent Business, About us, <https://www.cfib-fcei.ca/en/about-us>

using the immigration system to hire workers. In addition, when the Canadian Government selects immigrants to welcome to Canada, their skills may not always be meeting the real needs of Canada's small business owners.<sup>28</sup>

FSB is concerned that the Government's decision to focus its immigration policy solely on highly skilled migrants could have negative impact on small businesses. Arguably, this is the experience of small businesses in Canada.

CFIB found there is a serious mismatch between the skill levels of skilled workers who are in Canada as permanent residents and the skills that small business owners need the most. Whereas almost half of small business owners (46%) are looking for workers with skill Level B (college diploma or apprenticeship), workers within this skill level only make up 17 per cent of permanent residents. Similarly, 31 per cent of small employers are looking for workers with skill level C, but these only make up 2 per cent of permanent resident. Instead, the majority of permanent residents (59%) are highly-skilled workers with skill Level A (university degree).

Many small business owners in Canada expressed frustration with the complexity, length of time to process applications, and the time it took to gain confirmation from the Government. Close to 60 per cent of business owners said that it was too complex or they had issues with the amount of paperwork involved in hiring a foreign worker. 54 per cent of business owners said that delays in processing applications or paperwork were a problem.

*"It was extremely frustrating as we have no HR department to monitor all the paperwork to ensure we are in compliance. [Government] employees have no idea how to help small businesses wade through the process. They expect us to know all the lingo and places to search online. We got raked over the coals because we didn't know all the ins and outs. This was through the Provincial Nominee program".*

Bakery, Manitoba

*"We are currently short 35 employees and are only receiving applications from foreign workers. Foreign workers have saved our business. We would like to hire more, however, the programs keep changing. We need a simple process to get the workers here and working. We currently have several with temporary permits who are struggling to stay and scared they will be sent home. They are amazing employees, community members and are valuable to our business. We are always stressed about losing them."*

Franchise restaurant, Nova Scotia

It is imperative that Government not only considers the impact of their future immigration policies on businesses, but also on prospective migrants. OECD countries increasingly compete to attract and retain talented workers. The most attractive OECD countries for highly qualified workers are Australia, Sweden, Switzerland, New Zealand and Canada, which offer favourable labour market conditions and an excellent skills environment for highly skilled workers in general. The most attractive OECD countries for entrepreneurs are Canada, New Zealand, Switzerland, Sweden and Norway. This also reflects relatively low minimum capital investments and job creation requirements in these countries.<sup>29</sup>

### What UK small businesses want?

Small business employers were asked to what extent they agree that a £30,000 minimum salary threshold should be lowered in light of the following factors:

- if the job is hard to fill from the UK labour market
- sector of their business
- the region of their business
- if the location of their business is remote

<sup>28</sup> CFIB, Workers without borders: Addressing SME labour shortages through immigration, <https://www.cfib-fcei.ca/en/media/workers-without-borders-small-businesses-need-better-access-immigration-system-help-address>

<sup>29</sup> Ibid.

## Sector

58 per cent of small business employers say the salary threshold of £30,000 should be reduced because of the job is hard to fill from the UK labour market.

*“I understand the Government wants to have some controls (immigration) in place, but I think they need to look beyond that and focus on what the country needs in terms of skills shortages”.*

FSB member, recruitment business, Bolton

60 per cent of small business employers say the salary threshold of £30,000 should be reduced because of the sector of the business. 72 per cent of small business employers in the accommodation and food service activities sector say the salary threshold should be reduced because of their sector.

**Figure 21:** 25th Percentile annual full-time earnings by Region/DA and Index, RQF3+ occupations  
**Source:** MAC report: points-based system and salary thresholds

Region/DA	25th Percentile earnings (£)	UK (£25,600=1)	Below RQF3+ £30K small business employers
<b>United Kingdom (exc. London)</b>	<b>£24,800</b>	<b>0.97</b>	<b>16%</b>
<b>United Kingdom (inc. London)</b>	<b>£25,600</b>	<b>1.00</b>	<b>13%</b>
North East	£23,000	0.90	4%
North West	£23,900	0.93	9%
Yorkshire & The Humber	£24,000	0.94	3%
East Midlands	£24,100	0.94	4%
West Midlands	£24,900	0.97	4%
East	£25,900	1.01	2%
London	£31,800	1.24	12%
South East	£26,800	1.04	14%
South West	£24,200	0.94	13%
<b>Wales</b>	<b>£23,500</b>	<b>0.92</b>	<b>4%</b>
<b>Scotland</b>	<b>£25,500</b>	<b>1.00</b>	<b>8%</b>
<b>Northern Ireland</b>	<b>£23,400</b>	<b>0.92</b>	<b>37%</b>

## Region

One of the defining features of the Government is its ambition to rebalance economic growth across the UK. FSB's, *Sharing Prosperity* report explored the differences between those businesses in more deprived areas of the UK (using the Index of Multiple Deprivation) who may feel left behind, compared to other areas of the country. The report refers to these areas as 'Less Favoured Areas' (LFAs). The purpose of this research is to shine a light on small businesses in LFAs to inform the design of UK Shared Prosperity Fund (UKSPF).<sup>30</sup>

Our research shows that smaller businesses in LFAs have no lack of business ambition and personal ambition to thrive and grow. Indeed, they stand out relative to other areas for wanting to make a meaningful contribution to their wider community. However, they often have a different structure and greater likelihood of occurrence in particular sectors that tend to face more challenges.<sup>31</sup>

Previous FSB research highlights the role of small firms in communities. Small business community engagement is extensive across Great Britain, with 80 per cent of FSB members stating they have volunteered and/or contributed to a local community organisation or charitable cause in the last three years. Consequently, it is our concern that the implementation of a blanket non-flexible salary threshold across the country may also result in the decline of small business social responsibility. Our research demonstrates that smaller businesses are uniquely placed to identify, support, develop and lead place-based solutions because they are embedded in their communities,<sup>32</sup> and so the imposition of the Government's post-Brexit immigration policies is likely to cause major unintended consequences that may harm other major policies.

## Remote areas

54 per cent of all small business employers say the salary threshold of £30,000 should be lowered because the location of their business is remote. The following nations and regions all identified remoteness as a factor in lowering the minimum salary threshold: Scotland (64%), Wales (61%) and the South West (59%). Interestingly, 63 per cent of small business employers with businesses in accommodation say the salary threshold should be lowered because their business location is remote.

*"The £30,000 figure is huge. The average wage in Anglesey is £21,000. We wouldn't be able to pay a salary threshold of £30,000."*

FSB member, animation business, Wales

The UK Government should consider the consequences of the implementation of regional migration programs in the UK. Although 60 per cent of FSB members say the minimum salary threshold should be reduced because the location of their business is remote, it is vital that investment is made in these areas to ensure migrants remain in the area for sustained periods.

The MAC report published in January 2020 stated 'there should be a separate pilot visa for "remote" areas of the UK, part of which could be lower salary thresholds for migrants into those areas.' FSB supports this recommendation, as it could benefit small firms in Northern Ireland, parts of Scotland, Wales and England. The UK Government may wish to look at the recent Rural and Northern Immigration Pilot in Canada, which focuses on community groups and employers, with the goal of helping migrants settle and thus increase retention in more rural areas. We agree with the MAC that factors which cause people to leave remote areas need to be addressed. FSB has long highlighted issues which hamper growth in the UK's rural areas, most recently in our recent report, *Lost Connection: How poor connectivity hinders small firms*.<sup>33</sup>

*"Our business is based in the Highlands, the nearest town is 45 minute drive and the nearest city is Inverness which is two hours away. There isn't much of a local population, and those that do live here largely include retirees. In addition, we have extremely poor broadband. We have to recruit all of our team from elsewhere."*

FSB member, hotel owner, Scottish Highlands

30 FSB, *Sharing Prosperity*, November 2018 <https://www.fsb.org.uk/resources-page/sharing-prosperity---the-future-of-business-support-pdf.html>

31 Ibid.

32 FSB, *Small Business, Big Heart* February 2019 <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-small-business-big-heart.pdf?sfvrsn=0>.

33 FSB, *Lost Connection: How poor connectivity hinders small firms*, October 2019 <https://www.fsb.org.uk/resource-report/lost-connection-how-poor-broadband-and-mobile-connectivity-hinders-small-firms.html>

In addition, to addressing the infrastructure needs of our rural communities, Government may also wish to consider community integration. Canada runs a Rural and Northern Immigration Pilot, which is community-driven rather than employer-driven to try to encourage greater retention of economic migrants in smaller communities. Local community groups work with local employers to hire migrants to meet their employment needs and offer community support to help settle and integrate newcomers.

*“There isn’t a large pool of highly skilled designers which is readily accessible. If an immigration scheme recognised the difficulties in terms of recruitment that the location of our business presents, this would be a positive.”*

FSB member, animation business, Wales

## PBS characteristics

A PBS could be used alongside a minimum salary threshold and may enable employers to recruit non-UK labour where they may not meet the salary threshold, but are able to obtain the necessary points from other factors, such as education or work experience. The applicant, therefore, would not be required to meet all the criteria, thus allowing for flexibility.

Small business employers were asked how important the following criteria are when hiring an employee. They were asked to rank each criterion, with one being the most important and five being the least. The criteria included:

1. Proficiency in English language
2. Overseas employment in a skilled occupation in the past 10 years
3. UK employment in a skilled occupation in the past 10 years
4. Age
5. Educational qualifications
6. Prefer not to say

The current Tier 2 visa includes English language as part of the criteria. FSB members highlighted the importance of English language proficiency both in the survey and during interviews. 57 per cent ranked English language proficiency as more important than any other criteria. It is our view that English language proficiency should be an essential requirement for a Tier 2 visa.

*“As we generally need people with English mother tongue the employment of EEA citizens would depend on their level of English. If we have to sponsor visa applications, it would be more likely that we would recruit from the RoI, USA, NZ or Australia.”*

FSB member, communications agency, Bedford

Work experience is likely to be predictive of future work prospects. However, we agree with the MAC that there may be difficulty in verifying overseas work experience. 5 per cent of FSB members ranked work experience gained in the UK as more important than anything else.

8 per cent of small business employers said educational qualifications were more important than anything else. Australia, Canada and New Zealand all require candidates to undergo a ‘skills assessment’ as part of the immigration process to ensure that qualifications and skills on paper truly reflect the desired level of skills. In contrast, within the current UK system, verifying the skills of migrants is effectively out-sourced to employers on the principle that they would not offer a job to those deemed not competent to perform that role.<sup>34</sup> Previously, the UK Border Agency had a system to assess the equivalency of international qualifications with additional points awarded for professional or vocational qualifications which were recognised by the UK National Recognition Information Centre.<sup>35</sup>

<sup>34</sup> Ibid. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/860669/PBS\\_and\\_Salary\\_Thresholds\\_Report\\_MAC.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/860669/PBS_and_Salary_Thresholds_Report_MAC.pdf)  
<sup>35</sup> Ibid.



Small business owners typically find the current qualifications landscape confusing – an issue that is further compounded by the more often than not lack of an HR function or expertise to provide guidance. Arguably, the end of Freedom of Movement will mean many small businesses will have to increase their understanding of educational qualifications in light of the RQF framework, especially those small businesses that employ staff at the medium (60%) and high (46%) skilled levels.

Government should work with employer groups, professional associations and educational institutions to improve the assessment of migrant credentials, so that employers better understand the skills a new migrant may have, and new migrants can better communicate their qualifications to employers.

Effective support for small firms could be delivered by way of online and over the phone assistance. FSB suggests assigning a specific agent to a file, as soon as an application is submitted. The business owner should be able to communicate directly and get status updates from the agent.

Age was ranked the least important by FSB members in terms of importance when hiring an employee, ranked first by less than 1 per cent. Previous FSB research showed that 58 per cent of small businesses employed at least one young person aged 16–24, and that 78 per cent of small businesses employed at least one person over 50.<sup>36</sup>

## Recommendations

The transition period is due to last until December 2020, while the UK and EU negotiate their future relationship, including in relation to trade and mobility of workers, which is essential for many small businesses. The Government has committed to introducing a new immigration PBS from January 2021. Smaller businesses are committed to training their staff and making best use of digital technologies to do so. However, they need sufficient time to be able to prepare to manage the additional cost and administrative burdens of a future immigration system. Government also needs time to adjust to dealing with the prospect of millions of small businesses requiring sponsor licences. That is why FSB is setting out a series of proposals to be phased in over time to enable small businesses to best manage the most significant change in access to labour in decades.

FSB supports the Government's ambition to implement a points-based system. This would enable businesses to select the best talent and provide the Government with a framework to ensure the most talented are given the opportunity to live and work in the UK. In addition to a job offer, the system should be designed in such a way that even if the minimum salary threshold of £25,600 is not met, points for age, work experience (in country and out of country) and qualifications could sufficiently compensate. Additional points could be awarded for sectors with skills shortages. Whilst FSB is supportive of a PBS, it is imperative that the administrative burden for implementing this system does not fall on the employer.

Government should introduce a pilot a visa for remote parts of the UK through a visa that caters for the specific needs of remote areas, as recommended by the MAC. Remote areas of the UK, such as the Highlands are in urgent need of migrants, as these areas have low and often ageing populations. In addition, remote areas face more complex challenges in recruitment and retention of workers. Government may wish to look at the recent Rural and Northern Immigration Pilot in Canada, which focuses on community groups and employers, with the goal of helping migrants settle and thus increase retention in more rural areas.

---

<sup>36</sup> Ibid.

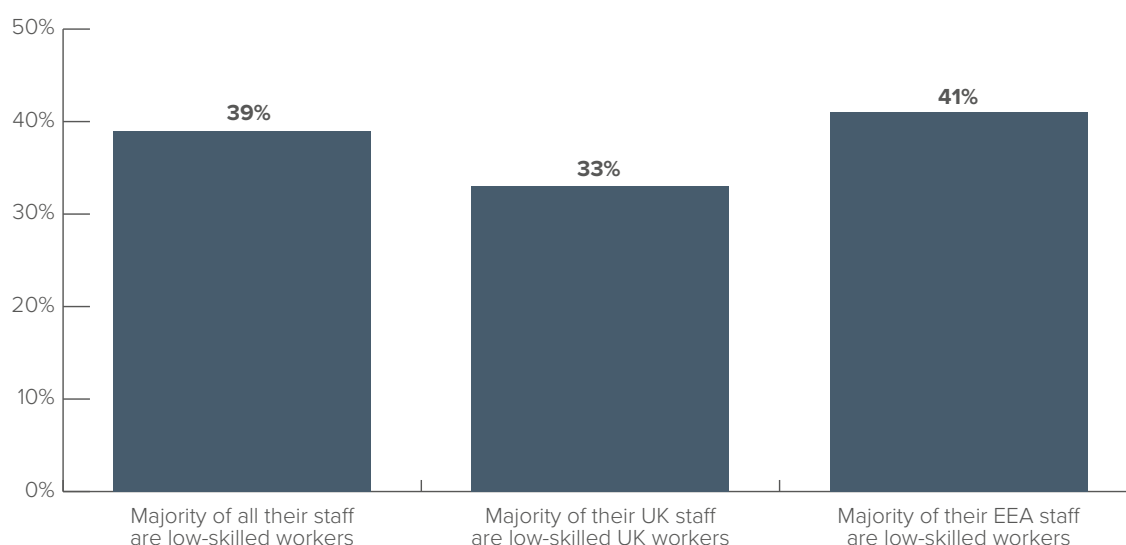
# SMALL BUSINESS USE OF NON-UK LOW-SKILLED LABOUR

FSB's research found that 39 per cent of all small business employers say the majority of their staff are low-skilled. 33 per cent of all small business employers state that the majority of their UK staff are low-skilled and this rises to 41 per cent for those who say the majority of their EU staff are low-skilled.

It is essential that future policies which seek to control access to low-skilled non-UK labour meet the concerns of small businesses, and do not seek to cease access swiftly and without foresight.

**Figure 22: Proportion of small business employers of low-skilled staff**

Source: FSB Immigration survey 2019



One of the most significant proposals in the 2018 white paper is the plan to introduce a temporary route. The 2018 white paper states:

*'The route will be tightly defined – allowing workers to come for a maximum of twelve months, to be followed by a cooling off period of a further twelve months to prevent long-term working – and it will not entitle anyone to access public funds or rights to extend a stay, switch to other routes, bring dependants or lead to permanent settlement. This reflects the typical requirements of these individuals – those coming for shorter periods do not generally require such entitlements'...*

Employers will be responsible for checking that prospective employees have the right to work in the UK.<sup>37</sup>

*"One year would make us think twice about employing someone from overseas. The fact that we will know up front that they can only stay for 12 months would be a deterrent in their application."*

FSB member, entertainment experience business, Glasgow

<sup>37</sup> Ibid.

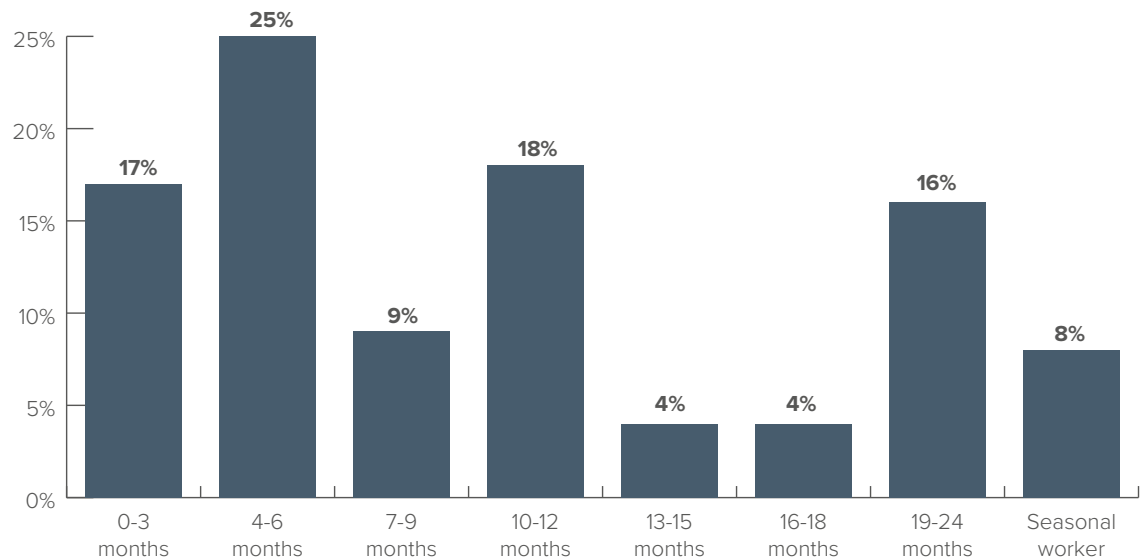
At present the Youth Mobility Scheme allows 18–30 year olds from Australia, Canada, Hong Kong, Japan, Monaco, New Zealand, South Korea and Taiwan to come to the UK to work at any skill level for a period of up to two years without the need to be sponsored by an employer. The Government has indicated that the scheme will be expanded to include EEA citizens within the same age range and operate alongside the temporary route.

### Seasonal work

The temporary route will introduce for the first time, albeit for a limited period of time, an immigration category which will allow people of all skills levels to work in the UK on a short term basis. There are some situations where a skilled individual will only be required in the UK for a short period, for example, in order to fulfil a temporary contract. Of those small businesses that employ EU staff and who employ at least one short term worker, the average length that a short term worker stays in a small businesses is 4-6 months.

**Figure 23: Percentage of small businesses that employ EEA short term workers for different periods of time**

Source: FSB Immigration survey 2019



*“My EU seasonal workers like to be able to return each season, and probably won’t come in the first place if they can only stay one season and then be forced to remain away for a season, before returning.”*

FSB member, hotel owner, Cornwall

Half of small business employers that employ at least one low-skilled worker would not recruit workers using the temporary route. This figure rises to 51 per cent of those businesses that employ the majority of their low-skilled workers from the EEA (excluding RoI).

*“I would have to consider closing my business if the 12 month temporary route came into force, as it would be an enormous task if someone came in and they had to leave after 12 months.”*

FSB member, cleaning business, Scotland

The current design of the temporary route as a transitional arrangement is likely to be extremely problematic for small businesses and the economy due to the 12 month duration period. FSB is concerned that the proposal for applicants to be granted entry for a maximum of 12 months, after which, they will be subject to a 12 month ‘cooling off’ period during which they will not be permitted to re-apply to enter the UK, is ill designed.

In addition, the further restriction to limit the temporary route to certain sectors without the undertaking of research and analysis on the extent to which UK businesses rely on low-skilled labour and which sectors currently experience labour shortages could be problematic and lead to unforeseen circumstances if implemented in haste.

*“It takes 6 months for someone to become productive so it would not be worth employing anyone under this procedure.”*

FSB member, IT business, Kent & Medway

61 per cent of small firms in the accommodation and food services sector that employ at least one low-skilled worker say they would recruit workers using the temporary route whilst 39 per cent would not use it.

*“The hospitality sector is often seen as a bridge between jobs or a job while studying. Very few people see it as a full time career. As a business we are trying to change this perception; we are a living wage employer, we provide training and offer career progression. We need to promote hospitality as a potential career, if we are able to pull UK nationals from other low-skilled sectors into hospitality and so reduce hospitality’s reliance on EU migrants.”*

FSB member, entertainment sector, Glasgow

## Investment in technology

24 per cent of small firms in the manufacturing sector that employ at least one low-skilled worker say they would recruit workers using the temporary route and 55 per cent would not use it.

Research from the Institute for Public Policy Research found that low-skilled workers dominated specific sectors in the UK – including retail, accommodation, food and administrative services where they are 29 percent less productive than the economy as a whole, and are also less productive than their equivalents in Western Europe.<sup>38</sup> The Government envisages that leaving the EU will provide the UK with an opportunity for UK businesses to innovate. However, 43 per cent of small businesses say it would reduce productivity, which may be linked to the 28 per cent of small firms that say the temporary route may impact their ability to change/improve job design. In addition, only 8 per cent of small businesses that believe the temporary route would be applicable to their business say they would increase investment in machinery/ information technology/ AI to automate processes that were previously completed by their workforce.

The figure increases to 12 per cent for businesses in manufacturing, with zero per cent of small firms in the accommodation and food services sector stating the temporary route will lead to an investment in machinery/IT/AI to automate processes that were previously completed by their workforce.

FSB’s report, *Spotlight on Innovation*, highlighted the need for smaller businesses to adapt to AI in the medium to longer term if they are to successfully compete – both domestically and internationally. Government should encourage firms to modernise and work with digital technologies and experiment with AI. Previously, the Government announced funding for a pilot in the North West to accelerate the development and diffusion of Industrial Digital Technologies through focused support to small and medium-sized enterprises in UK regions. Whilst this is clearly a step in the right direction for the manufacturing sector, there are other sectors that would also benefit from this focused approach.<sup>39</sup>

*The Industrial Strategy Council: UK Skills Mismatch in 2030* report suggested the spread of automation and AI could boost productivity in some sectors, but also displace some lower skilled jobs, while the demand for highly skilled labour will increase, as R&D and innovation become critical in a future tech-led economy.<sup>40</sup> In addition, the Government has committed to doubling the public R&D budget over the next five years, with the aim of spending 2.4 per cent of GDP on R&D by 2027.<sup>41</sup> However, there

38 IPPR, Boosting Britain’s low-wage sectors: A strategy for productivity, innovation and growth, <https://www.ippr.org/publications/boosting-britains-low-wage-sectors-a-strategy-for-productivity-innovation-and-growth>

39 FSB, Spotlight on Innovation: How Government can unlock small business productivity, July 2018 <https://www.fsb.org.uk/resources-page/innovation-report-final-pdf.html>

40 UK Skills Mismatch 20230, Industrial Strategy, October 2019 <https://industrialstrategy.org/sites/default/files/UK%20Skills%20Mismatch%202030%20-%20Research%20Paper.pdf>

41 BEIS, Levelling up research and innovation right across the United Kingdom speech by Chris Skidmore MP, January 2020 <https://www.gov.uk/government/speeches/levelling-up-research-and-innovation-right-across-the-united-kingdom>

is very little analysis from stakeholders as to how R&D and innovation will benefit sectors, such as accommodation and food services, where 89 per cent of small firms employ at least one person at a low skill level.

### Impact on the labour market

Although 48 per cent of small firms that may be impacted by the temporary route say it will increase their recruitment needs, it is our view that the decision to implement a temporary route, as proposed in 2018 white paper and outlined in the Queen's Speech is likely to cause unintended consequences in the labour market, economy and wider society 11 per cent of small businesses that employ at least one low-skilled worker saying they would close or radically change their business model, if they were to struggle to recruit EEA (excluding RoI) workers post-Brexit.

*If someone is coming in and making a valid contribution to the economy, as many of our people do who work temporarily and want to stay on - what an earth are we saying that after 12 months that they cannot stay, it seems completely ludicrous.*

FSB member, hotel owner, Scottish Highlands

Our data suggests if the temporary route were to be implemented as proposed in the 2018 white paper, it is likely to impact policies administered by the DfE, Department for Business, Energy and Industrial Strategy, Department for Work and Pensions and the Treasury. For example, in addition, the goal of improving *Good Work* is a key goal of Government, as underpinned by the Taylor Review, with our evidence showing that the temporary route will have a negative impact on workplace culture, and arguably will have an impact on job quality in small businesses across the UK.

FSB's report *Small Business, Big Heart* highlighted the extent to which small firms provide employment to a vast number of labour market disadvantaged groups, such as those with a disability and those with low levels of educational attainment.<sup>42</sup> There is a strong argument that the end of Freedom of Movement may lead to an increase in employment of labour market disadvantaged groups. FSB's evidence shows that only 6 per cent of all small firms that would choose to employ a worker on and 12 month temporary route visa would recruit someone from a labour market disadvantaged group, such as an ex-offender. 8 per cent of all small businesses in the accommodation and food service sector would recruit from a harder to reach group. The introduction of a one-year Employer National Insurance Contributions holiday for smaller businesses employing labour market disadvantaged groups would further incentivise small businesses to recruit harder to reach groups from the labour market.

### Youth mobility scheme

In December 2019, following the General Election, the Government stated in the Queen's Speech that the post-Brexit immigration system will allow for sector-specific workers to enter on schemes for low-skilled work, youth mobility or short-term visits. This route will provide no route to permanent settlement and will be revised on an ongoing basis based on expert advice from the MAC.<sup>43</sup> Arguably, adding a further sectoral restriction will have a significant impact on small businesses in their ability to access low-skilled migrants from the EU.

The 2018 white paper stated that 'in accordance with the MAC's advice, we (Government) do not intend to open sectoral labour schemes, except potentially for seasonal agricultural work'.<sup>44</sup> It is our view that sectoral labour schemes may create additional complexity in the system. Therefore, it is concerning that the Government seeks to introduce a sectoral aspect to the temporary route. The introduction of a sectoral temporary route does not reflect the nuances and differences in certain sectors and a future system should not be designed so sectors compete with each other, as doing so may lead to unwelcome imbalances in the economy.

<sup>42</sup> FSB, *Small Business, Big Heart*, February 2019 <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-small-business-big-heart.pdf?sfvrsn=0>

<sup>43</sup> Queen's Speech December 2019: background briefing notes, Prime Minister's Office, 10 Downing Street, December 2019 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/853886/Queen\\_s\\_Speech\\_December\\_2019\\_-\\_background\\_briefing\\_notes.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853886/Queen_s_Speech_December_2019_-_background_briefing_notes.pdf)

<sup>44</sup> Ibid.

## Social care

The UK's immigration system has long relied on the idea that higher salaries can be equated to higher skill levels, leading to an unfair system and a failure to recognise the importance of those in so-called 'lower skilled' roles. Demand is set to increase in social occupations, such as personal care aides, which are relatively immune to automation and will be driven by trends such as population ageing.<sup>45</sup>

The 2018 white paper states that nine lower skilled occupations are identified as potentially facing difficulties adjusting to policy changes, either due to potential problems attracting labour from other sources or in substituting capital for labour by automating. Carers are identified as providing a contribution to key public services, which are heavily reliant on long-term EEA migrant labour in recent years.<sup>46</sup>

*"It's (working in social care) a skilled job. The image of care as an industry is terrible. It should be a much more valued job than it is and better paid job. The things that my carers do on a day to day basis are phenomenal in supporting the people they are caring for."*

FSB member, homecare business, Devon

ONS data shows that there were 137,000 vacancies in the human health and social work activities sector (making it the largest sector for the sixth consecutive period); this accounted for 17.2 per cent of all vacancies in the UK, a rise of 6,000 compared to a year earlier.<sup>47</sup> According to Skills for Care, 88,000 EU nationals work in direct care roles.<sup>48</sup>

*"We are regularly turning people away because we don't have enough care givers."*

FSB member, homecare business, Devon

Social care workers and other roles below RQF3 provide high public value to society and the economy which do not necessarily pay high wages. In January 2020, the MAC stated in their report on salary thresholds that they remain concerned about the situation in social care. The eligibility requirements for Tier 2 visas exclude a significant amount of the social care workforce. In addition, the temporary route in its current design may reduce the recruitment of non-UK nationals into social care.

*"I manage a nursing home and continuity of employment is important. It (temporary route) would have an unsettling effect on both work force and client group."*

FSB member, nursing home, Dorset

*"It takes a good three months for someone to get into the swing of the work and then within six months they're competent. It's by that point we wish to do more training and career development, but I'm not going to invest in someone who is only going to be with me for 12 months. It's also detrimental to the client, we focus on continuity, so are clients will only see a small number of carers to create more valuable relationships; if we then have a situation where bonds are formed over a year and then all of sudden that ends that's detrimental to a client, as they have to build trust again making the client even more vulnerable."*

FSB member, homecare business, Devon

<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

<sup>47</sup> ONS, Vacancies and jobs in the UK: December 2019, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/december2019>  
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/december2019>

<sup>48</sup> Skills for Care, The state of the adult social care sector and workforce in England, September 2019 <https://www.skillsforcare.org.uk/adult-social-care-workforce-data/Workforce-intelligence/documents/State-of-the-adult-social-care-sector/State-of-Report-2019.pdf>

Without doubt, changes in immigration rules will not solve the issues within the social care sector, and so Government policy should not seek to impose further constraints on a sector struggling to survive. FSB members are adamant that roles such as social care workers are distinct from other occupations and therefore the immigration system should also recognise this distinction.

*“There is a very clear line in social care, we care for people when they are at the end of their lives or very sick. Yes, there are no academic qualifications, but you need to have the right psychometric soft skills to do the job; this isn’t the case in other sectors.”*

FSB member, homecare business, Oxfordshire

## Recommendations

### Temporary route

Government should introduce a two year, cross sectoral, temporary route visa that is open to EEA workers, which allows for skilled in-country switching, if an individual meets the eligibility requirements of a Tier 2 or Tier 1 visa. This will ensure the retention of talent and support community integration. The duration of this visa should be two years. Our evidence suggests that a 12 month visa would have a negative impact on productivity and workplace culture. Two years will be a sufficient period of time for small business employers to see the business benefits of employing someone and enable them to invest in on the job training. Making this route available to all sectors, with a cooling-off period of six months, will help small businesses to plug vital skills and labour gaps. In-country switching for skilled migrants to Tier 2, if the eligibility criteria are met, should be allowed to ensure the retention of talent.

### Youth mobility scheme

In addition, to the terms of our future FTAs, agreeing youth mobility schemes as part of our future relationship with the EEA and selected other countries will play an important role in the UK’s future immigration system. Supporting these agreements, the Government should consider giving visitors from countries with whom the UK has agreed bilateral agreements the ability to switch from any temporary visa to a skilled visa, as indicated in the 2018 white paper on Immigration, and explore extending the upper age limit for eligibility for the youth mobility scheme from 30 to 35.

### Social care

The UK is currently facing a social care crisis which cannot be solved by changes in immigration policy; however, the implementation of well-designed immigration policies may alleviate the social care sector from further burdens. It is estimated that it will take 15 years for the UK to generate enough UK nationals to work within the social care industry. With a growing elderly population the UK cannot wait 15 years. FSB recommends the creation of a special category visa for social care workers. Applicants will need to show acceptable English language capabilities and educational qualifications at RQF2. This special category will recognise the unique role that social care workers play in our society. The social care sector should not be deemed as low-skilled; it is unique and the UK’s future immigration system should recognise the vital importance of social care in the UK.

### Labour market

Extend the one-year Employer National Insurance Contributions holiday for smaller businesses employing service leavers to other labour market disadvantaged groups, such as former care leavers, someone with a disability, a mental health condition, ex-offenders, and the long term unemployed. UK unemployment is at record lows, but we are far from real full employment. The NI holiday would fulfil the Conservative Party manifesto promise to incentivise small businesses to recruit from groups that have found it difficult to get employment in the past.



# IMMIGRATION IN WALES, SCOTLAND AND NORTHERN IRELAND

## Wales

22 per cent of small business employers in Wales employ EEA workers excluding those from the RoI. The population of Wales is projected to decrease in the longer-term, with the working age population forecast to grow more slowly than in England. This would give rise to a specific risk to the future Welsh tax base and would also have broader implications for future Welsh relative economic performance and for Welsh society. We believe there is a case for the future migration system, particularly if points-based, to reward potential migrants who wish to move to Wales and other parts of the UK facing similar demographic challenges.<sup>49</sup>

Wales has a higher proportion of small businesses stating they employ at least one low-skilled worker (67%) in comparison to Scotland (59%) and England (56%). This is in stark contrast to small business employers in Wales that employ at least one high-skilled worker (27%) in comparison to Scotland (39%) and England (48%). The skill levels of small firms in Wales may be reflective of sectors in the Welsh economy.

The Welsh economy is currently dependent on sectors that employ larger numbers of EEA staff – for instance, in tourism and hospitality, agriculture and manufacturing. These are also areas of most recruitment difficulties, and so the impact is likely to impact Wales disproportionately. The Welsh Centre for Public Policy suggests intermediate level and lower level skills will be particularly impacted in Wales post Brexit<sup>50</sup> – and such migrants are likely to come underneath a salary threshold.

As noted above, a new points-based immigration system is likely to require that employers better understand the skills system. With skills being a devolved subject area, it is important that the Welsh Government places a priority on engagement with business, and ensures that the skills system is geared toward SME needs. Welsh Government should also be responsive to short to medium term pressures and proactively explore how skills policy can help mitigate this problem.

*“We are not only a start-up business, but we are quite rural business based in Wales, so we are not located near large cities where you do find a large pool of talent. We have to attract people in the local area, but we have to attract people from further afield to move to an area that they are unaware of.”*

FSB member, animation business, Wales

## Scotland

Small businesses comprise of 98 per cent of all businesses in Scotland and employ around one million people. Today 219,000 EU citizens live and work in Scotland<sup>51</sup> and many of them run small businesses (16,000) or work for small businesses.<sup>52</sup> Since the UK’s vote to leave the EU, the key Brexit issue facing small businesses across Scotland has centred on people.

*“There are just not enough local people to do the jobs. Scotland has had a long history of EU migrants coming to Scotland to work in sectors, such as the fish industry in the North East of Scotland.”*

FSB member, services sector, Aberdeen

49 Wales Centre for Public Policy, Migration in Wales, February 2019 [https://www.wcpp.org.uk/wp-content/uploads/2019/03/FINAL-WCPP-report\\_Immigration-in-Wales-post-Brexit.pdf](https://www.wcpp.org.uk/wp-content/uploads/2019/03/FINAL-WCPP-report_Immigration-in-Wales-post-Brexit.pdf)

50 Ibid.

51 Government of Scotland, Scotland’s population needs and migration policy: discussion paper, February 2018 <https://www.gov.scot/publications/scotlands-population-needs-migration-policy/>

52 Government of Scotland, Non UK Nationals, <https://www2.gov.scot/Topics/Statistics/Browse/Labour-Market/Publications-Topical/NonUKNatJD18>



As we approach the end of the transition period in December 2020, small firms have a critical interest in the development of a new UK immigration system. This is particularly acute in Scotland. In business terms, they are more reliant on EEA workers than their counterparts elsewhere in the UK. FSB research found that 40 per cent of small firms in Scotland employ EEA workers, compared to 26 per cent for UK employers. Indeed, Scotland is second only to London in terms of reliance on EEA workers.

In economic terms, Scotland is more dependent on sectors which employ larger numbers of EU staff – for instance, 45 per cent of smaller businesses in the tourism and hospitality sector have at least one EU worker.<sup>53</sup>

In geographic terms, Scotland is a country dominated by its remote and rural areas with 98 per cent of its landmass found in remoter parts.<sup>54</sup> Although only 17 per cent of the population live in rural Scotland, 78 per cent of private sector employment is provided by SMEs in these areas<sup>55</sup> – and these businesses can be heavily reliant upon mobile labour from the EU. Scotland also has a long history of struggling with a declining population is likely to return because the country is projected to be solely reliant on inward migration for future population growth. An independent expert group on migration and population, set up by the Scottish Government, predicts that reduced migration from the EU will lead to the working-age population reducing by up to 5 per cent.<sup>56</sup>

*“Due to our location (remote region of the Scottish Highlands) we are in a special demographic area, but no exaggeration that the lack of ability to recruit the right people has had a serious strategic threat to our business and other businesses in the area. The worst case scenario is that we simply cannot recruit the people we need and we have to either scale down or potentially close”.*

Implementing a fair, flexible and easy-to-use immigration system is vital for many of Scotland’s 350,140 small businesses. The challenge now for the UK Government is to build an employer-responsive immigration system in ten months’ time – a formidable task that can only be achieved by working in partnership with the small business community. FSB Scotland looks forward to supporting the UK Government in piloting a separate visa for remote parts of Scotland to help the country address its distinct economic, geographic and demographic challenges.

*“Our business is based in the Highlands, the nearest town is 45min drive and the nearest city is Inverness which is two hours away. There isn’t much of a local population [and] those that do live here largely include retirees. We have to recruit all of our team from elsewhere”.*

*“I appreciate for other parts in the UK this problem may not be as acute but around here it’s very different. I know if I packed up my bags and went to run a hospitality business down in Glasgow or Birmingham it would be far more straightforward because running a business in a remote area brings additional challenges especially in terms of recruitment”.*

FSB member, hotel owner, Scottish Highlands

<sup>53</sup> Ibid.

<sup>54</sup> Scottish Government, Rural Scotland: key facts 2018, <https://www.gov.scot/publications/rural-scotland-key-facts-2018/pages/2/>

<sup>55</sup> Scottish Government, Businesses in Scotland, <https://www2.gov.scot/Topics/Statistics/Browse/Business/Corporate>

<sup>56</sup> Scottish Government, UK immigration policy after leaving the EU: impacts on Scotland’s economy, population and society, <https://www.gov.scot/publications/uk-immigration-policy-leaving-eu-impacts-scotlands-economy-population-society/>

## Northern Ireland

Like other UK regions, Northern Ireland may be able to capitalise on opportunities after the transition period in a post-EU economy. However, the potential issues seen in other parts of the UK may be exacerbated in Northern Ireland due to factors such as its small business economy, a land border with an EU competitor, and the low availability of labour at present.

By way of context, Northern Ireland is a small business-focused region, where micro and small businesses form the bedrock of the economy:

- Northern Ireland has the highest concentration of SMEs of all the regions in the UK, with over 99.7 per cent of companies deemed SMEs with less than 150 large businesses in total.
- SMEs account for over 70 per cent of turnover in the private sector in Northern Ireland, where the UK average contribution of SMEs to private sector turnover is around 50 per cent.
- At 75 per cent, the proportion of people employed by SMEs is significantly more than for the UK as a whole, where small businesses employ about 60 per cent of the private sector workforce.
- FSB research shows that 95 per cent of small businesses in the UK have no experience of the current 'points-based' immigration system. However, in Northern Ireland over 98 per cent of businesses have not engaged in the Tier 2 visa system.<sup>57</sup>
- Northern Ireland's overall private sector median salary is around £24,000 to £25,000 per annum, which is on average around 20 per cent less than Northern Ireland Public Sector salaries – the highest differential in the UK.

*“Diversity in the workplace really helps us be more successful, so narrowing it down to just having access to local people wouldn't be good for us, as we are a creative company. The more diversity in thinking and experience of our workforce is really advantageous to us it would be a step backwards to be more insular in who we can recruit.”*

FSB member, software business, Belfast

The circumstances of Northern Ireland have been restated time after time during negotiations on the UK's exit from the EU. This position, underpinned by recent history and the Belfast Agreement,<sup>58</sup> is reflected in our workings of the final Withdrawal Agreement. Regardless of the UK–EU Future Relationship, Northern Ireland will continue its own relationship in a way that is markedly different from the rest of the UK.<sup>59</sup>

It is therefore feasible that within a new UK immigration system, Northern Ireland may require more tailored arrangements to ensure that businesses are able to maximise the potential of any such new opportunities. It is therefore welcome that the MAC acknowledges this point in its latest report:

*“The situation of Northern Ireland is unique as the only part of the UK with a land border with the EU and a labour market more distinct from the rest of the UK. Special consideration could be given to Northern Ireland especially if it comes to have a different relationship with the EU compared to the rest of the UK.”<sup>60</sup>*

While the RoI is a harmonious neighbour, in reality the two jurisdictions will continue to compete on a number of fronts, not least on workforce labour. In day to day life it is important to reiterate that crossing the border is a frictionless process. More than 7,000 workers move back and forth over the border from the south to work in Northern Ireland each day.

<sup>57</sup> Executive office of Northern Ireland, Call for Evidence Letter on the salary threshold and points based system, [https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/execoffice/hocs-letter-to-prof-alan-manning-nov-19\\_0.pdf](https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/execoffice/hocs-letter-to-prof-alan-manning-nov-19_0.pdf)

<sup>58</sup> The Belfast Agreement, <https://www.gov.uk/government/publications/the-belfast-agreement>

<sup>59</sup> Withdrawal Agreement, Protocol on Ireland/Northern Ireland [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/840230/Revised\\_Protocol\\_to\\_the\\_Withdrawal\\_Agreement.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840230/Revised_Protocol_to_the_Withdrawal_Agreement.pdf)

<sup>60</sup> Ibid.

*“We know some staff and possible applicants compare Dublin to Belfast and at the moment Dublin looks more attractive.”*

FSB member, software business, Belfast

In 2018, around 65 per cent of migrant workers in Northern Ireland were from EU26 countries (excluding RoI), while the UK average as a whole was 40 per cent. Around two thirds of these migrants work in the manufacturing, hotel and restaurant sectors. Since the UK referendum, the Northern Ireland migrant worker population has declined to below 40,000 from 56,000, while in the RoI the number of people in this category has increased from 201,000 to over 220,000 in this time.

Furthermore, in recent months Northern Ireland has hit a new record low unemployment rate of 2.3 per cent, against a 3.8 per cent UK average and by way of perspective, an EU average of 6.3 per cent. While also having the second lowest UK employment rate of 72.6 per cent, Northern Ireland has the highest economic inactivity rate of around 25.7 per cent inside a population of around 1.9 million and against a UK average of around 21 per cent. Overall these statistics indicate an economy somewhat starved with a low availability of labour.

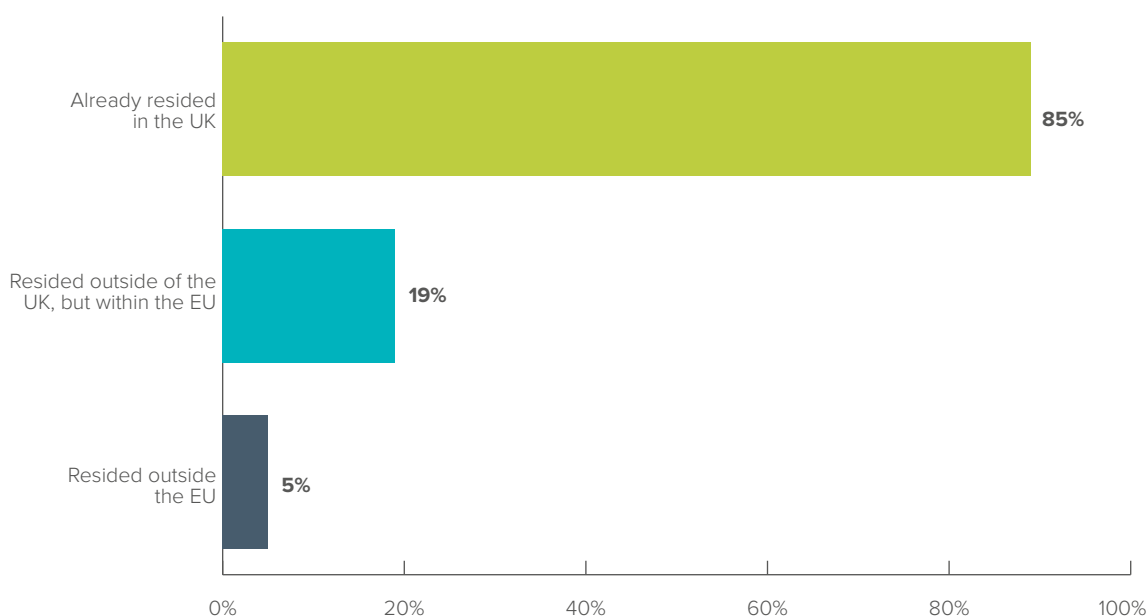
# SPONSORSHIP SYSTEM AND COSTS

## Recruitment practices of small firms

Government should understand the recruitment practises of small firms when designing a future immigration system. The 2018 white paper states that ‘UK employers will be able to be nimble when competing on the international stage for the very best global talent.’<sup>61</sup> Previous FSB research found that for those businesses that employ EEA citizens, 72 per cent recruited all their EU staff when they were already residing in the UK. The end of Freedom of Movement is likely to see this number (72%) reduce over time and thus many small firms will have to change their recruitment practices to promote vacancies to applicants based in and outside of the UK.

**Figure 24:** Location of EU citizens at the time of recruitment

**Source:** Access to labour and skills after Brexit survey 2016



Previous FSB research found a total of 85 per cent of small employers with EU workers recruited at least some of their EU staff from the UK market. A further breakdown of this data shows that employers reliant on mostly high-skilled employees are more likely to have recruited their EU workers from abroad, with 81 per cent declaring that some of their non-UK workers resided in the UK at the time of recruitment, compared to 88 per cent of businesses with mainly low-skilled workers.<sup>62</sup>

**Figure 25:** Proportion of small business employers using different recruitment methods

**Source:** Small Business, Big Heart survey 2018

Methods	Percentage
Via friends and family	43%
Online using jobsites / LinkedIn	33%
Recruitment agencies	22%
JobCentre Plus	13%
Welfare-to-work programme	2%
Other, please specify	14%

61 Ibid.

62 Ibid.

In 2018, FSB undertook research into the recruitment methods used by small businesses. Our research found that 43 per cent of small business employers recruited via friends and family, 33 per cent used online jobsites, such as LinkedIn to advertise vacancies and 22 per cent used recruitment agencies.<sup>63</sup> Any future immigration system must take into account the distinct recruitment practices of small firms.

The Government rightly acknowledges small businesses have very little knowledge and experience of the current Tier 2 system.<sup>64</sup> The 2018 white paper ambitiously stated that skilled migrant applications will be processed ‘within two to three weeks’. FSB seeks further clarity from Government as to how UK Visas and Immigration will be able to achieve this target.

*“We don’t have the administrative resources to push this through the hoops. That’s the real issue. If we were a bigger business, employing 30-40 staff, we would probably have the HR resources to have someone managing the compliance process, but we only employ 15 people, so it falls on my shoulders and it’s becomes another issue to manage.”*

FSB member, translation services business, Bristol

For a future system to work for small firms, it needs to be radically different from the current system. It is vital that Government understands the impact of regulatory changes on small firms, especially when devising a new immigration system which will create additional regulatory requirements for small firms. There is a concern that the new system will become even more complex to navigate and it will be difficult for small businesses to know which rules apply to them.

The 2018 white paper contains substantial changes and introduces a number of new categories to the current immigration system. A drastic and swift implementation in January 2021 poses an inherent risk to small businesses reliant on non-UK labour. It is likely that the system may experience defects and thus be plagued by delays – especially considering the Government’s decision to put a new system in place by January 2021 as opposed to being phased in over time as was proposed in the 2018 white paper.

*“We have a sponsor licence and handle all of the admin ourselves. We find the expense, timescale, bureaucracy and uncertainty involved in the process is a real pain.”*

FSB member, electronics and communications business, Southampton

The sponsor licence scheme is intrinsically administration heavy and consequently extremely problematic for small businesses. Our concern is that the system will not be able to cope when Tier 2 workers from all over the world, including EEA migrants, apply through one central system.

The existing sponsorship system requires all organisations seeking to employ persons from outside of the EEA to apply for and obtain a licence from the Home Office. At the time of writing, an individual sponsor licence costs a small business £536 and is valid for up to four years. Currently, every sponsor is given an allocation of sponsorship certificates.<sup>65</sup> It is estimated that there are very few small businesses that currently hold a sponsor licence.

*“We attempted to employ a Chinese national, but we couldn’t meet all of the visa requirements. It was too difficult, too expensive and too slow. We couldn’t get it to serve our purposes as a small business. Tier 2 visa structures don’t work for small businesses. We don’t have the resources to go through those kind of processes.”*

FSB member, translation services business, Bristol

<sup>63</sup> FSB, Small Business, Big Heart, February 2019 <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-small-business-big-heart.pdf?sfvrsn=0>

<sup>64</sup> Ibid.

<sup>65</sup> Ibid.

FSB's *Regulation Returned* report identified the pressures administrative duties and legal compliance requirements place upon small firms. It found that:

- small business owners and staff spend up to four times more of their time undertaking administration in order to comply with a range of legal obligations than they do on business development i.e. activities which sustain and grow the business.
- smaller businesses spend, typically, around 34 hours a month on compliance.
- the annual cost of administration is around £10,080 per business.
- the total cost of administrative activities to the UK's SME community is approximately £55 billion a year.<sup>66</sup>

*I've had a situation where it took five and a half months to get a candidate through the visa process. This is a long time for a small firm that wants to increase the workforce of their business.*

FSB member, IT recruitment business, Manchester

Despite the aspirations of previous governments, employers and applicants continue to find the UK Rules (the Rules) to be long, complex and difficult to use. As of 31 December 2018, the Rules totalled 1,133 pages in length. In January 2020, the Law Commission published a report on how the Immigration Rules could be made simpler and more accessible to the user. The report noted that immigration 'rules create a financial burden for businesses as they are forced to engage immigration lawyers to help them deal with Tier 2 recruitment'. The MAC commented that: 'stakeholders consistently inform us that the complicated Rules are a hindrance to their ability to recruit through the Tier 2 visa system. They find it confusing and overly complex and many do not understand the current system'.

The report states 'respondents suggested that simplification of the Rules could lead to cost savings for applicants. Moreover, respondents identified cost benefits to businesses in the UK, including employers in the event that the Rules are simplified. Respondents also identified a number of non-monetary benefits, including considerable benefits to the general wellbeing of affected groups and the satisfaction of the requirements of lawfulness'.<sup>67</sup>

*"We are looking for chefs from Thailand and UK immigration laws are too strict."*

FSB member, restaurant owner, North Wales

## **Umbrella sponsorship**

It is proposed that for small businesses that may only seek to sponsor individuals fairly infrequently an umbrella sponsorship scheme would manage visa applications on behalf of the employer.

In 2018, the Government stated they would 'review the existing sponsorship requirements to ensure that businesses are not being asked to provide information that is of little value in ensuring compliance'.<sup>68</sup>

*"Over the last year I've only recruited two people out of a workforce of 50."*

FSB member, manufacturing business, Leicestershire

The Government intends to implement a light-touch, risk-based approach. The intention is to use and share data currently held by Government bodies with the aim of reducing the administrative burden on employers. These proposals will require significant testing if they are to achieve the desired effect, as the white paper describes 'greater scope for retrospective checking of compliance, utilising digital information processed automatically – removing bureaucracy and speeding up the recruitment process'.

66 FSB, *Regulation Returned*, July 2017 <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-regulation-returned-report.pdf?sfvrsn=0>.

67 Law Commission, *Simplifying the Immigration Rules*, January 2020 <https://www.lawcom.gov.uk/project/simplifying-the-immigration-rules/>

68 *Ibid.*

*“A key issue would be the time it would take for them to come over, so the lead in time when I offer them the job to the time they start would need to be 4-6 weeks, but in a sponsorship environment this may take longer, so we would probably have to adjust our thinking in how we recruit. This may impact business confidence thinking about the projection of sales going forward, if we need add on 6 months’ time to get someone through the visa process.”*

FSB member, translation services business, Bristol

If new immigration rules are to be in force by January 2021, employers will need to make job offers to migrants at the latest by October 2020. Government has yet to inform businesses on any developments to the umbrella sponsorship and since it takes 2–3 months to obtain a sponsor licence, there is an urgent need to inform businesses of what their obligations are under a future sponsorship scheme.

*“In IT people can get jobs relatively easily. If Government were to implement so many barriers for IT applicants, it’s unlikely they will make additional effort to come to the UK when they can go somewhere else. The likeliness of them finding a position in my business gets smaller and smaller.”*

FSB member, software business, Belfast

## Visa Fees

After the implementation period ends, the vast majority of small businesses will need to obtain sponsor licences if they wish to recruit non-UK labour. The system is costly, with fees for obtaining a sponsor licence, a levy on sponsored workers, an immigration health surcharge and application fees for visas. It takes time to secure a visa and creates an administrative burden for an employer as they have to carry out a number of record and reporting duties.

*“The additional costs, plus the hassle and the admin meant we couldn’t go through the Tier 2 process – he was brilliant but it was too much to undertake.”*

FSB member, gymnastics business, London

Visa fees are an integral part of any immigration system. FSB’s data shows that only 5 per cent of small business employers have recruited workers via the Tier 2 (General) system. Therefore only a very small proportion of the small business community has experience of accommodating visa fees into their business costs.

Current UK visa arrangements which apply to non-EEA nationals are among the most expensive in the world for migrants and businesses. As of November 2019–January 2020, small businesses are likely to pay £3,101 for an application made outside of the UK for a three-year Tier 2 (General) visa fees, which includes:

- £199 CoS fee<sup>69</sup>
- £610 visa fee for 3 years<sup>70</sup>
- £1,200 NHS fee for 3 years<sup>71</sup>
- £1092 ISC for small company<sup>72</sup>

69 Home Office immigration and nationality fees: 29 March 2019, <https://www.gov.uk/government/publications/visa-regulations-revised-table/home-office-immigration-and-nationality-fees-29-march-2019>

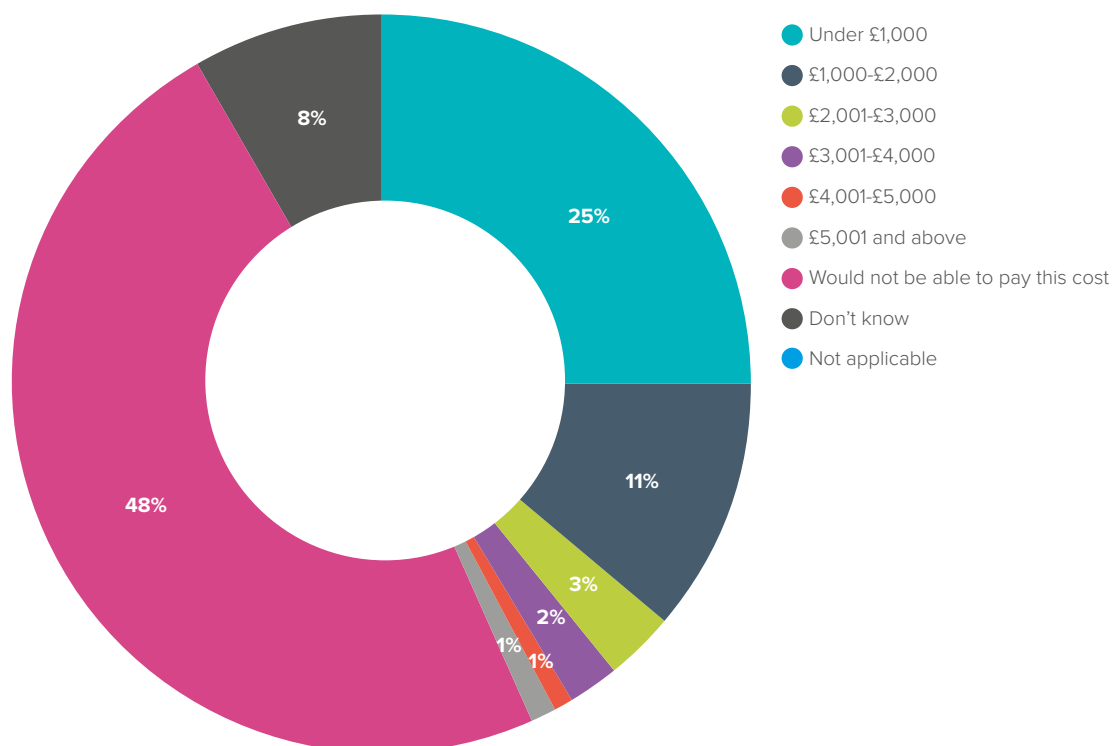
70 GOV.UK, General work visa (Tier 2), <https://www.gov.uk/tier-2-general>

71 GOV.UK, Pay for UK healthcare as part of your immigration application, <https://www.gov.uk/healthcare-immigration-application/how-much-pay>

72 GOV.UK, UK visa sponsorship for employers, <https://www.gov.uk/uk-visa-sponsorship-employers/immigration-skills-charge>

**Figure 26: Maximum cost that small firms will pay to recruit workers from overseas**

Source: FSB Immigration survey 2019



FSB evidence shows that just under half (48%) of small businesses will not be able to pay the current visa fee for the Tier 2 (General) visa.

*“It all depends on the cost, if they’re astronomical fees I won’t use the immigration system and that will be a big problem.”*

FSB member, manufacturing business, Leicestershire

The costs of obtaining a UK visa for work should be in line with our international comparators to ensure the UK remains an attractive place to work for migrants and does not place ridiculous monetary barriers on small business employers. Previous FSB research found that the UK small business community is collectively spending 15 per cent more on a swathe of taxes, levies and employment obligations compared to 2011, according to FSB’s Impact of Government Policy Index (IGPI).<sup>73</sup>

*“If there was a candidate in Britain and a candidate coming from outside of the UK which meant we would have to pay immigration costs I don’t think we would be able to pay the immigration costs. We are a micro business, we’re still growing and we need to keep costs as low as possible.”*

FSB member, animation business, Wales

FSB recommends that the total visa cost for small business employers should not amount to more than £1,000.

73 FSB, Impact of Government Policy Index, January 2019



## Recommendations

It is essential that Government delivers on its vision of a streamlined sponsorship system with exemptions and mitigations to reduce the costs on small businesses.

- Policymakers should be aware that 95 per cent of small firms have not engaged with the current Tier 2 system. Government should complete a full impact assessment of EEA migration under future immigration rules including the effect on small businesses, highlighting the key monetised costs and non-monetised costs.
- The next Spending Review should provide the Home Office with sufficient funds to run and effectively manage the UK's new immigration system. Our research suggests current visa fees price out small firms from employing non-UK skilled staff. The Government should exempt any business that employs fewer than 50 people from having to pay the Immigration Skills Charge.
- Small firms should not be denied access to skilled workers because of visa costs. If the Government is committed to ensuring small businesses can employ global talent, visa fees for small firms should not exceed £1,000 for small businesses.
- It is essential that a new employer sponsorship system is fully tested and is able to meet the needs of small firms before it goes live. This will enable small businesses to avoid expensive legal advice.
- We support the Government's aim of introducing a light-touch regime. Government should develop and carefully regulate umbrella organisations to act as sponsors for small businesses. An umbrella sponsorship system would support small firms in managing their compliance duties.
- Government must ensure effective support, both online and over the phone, is available for small businesses. FSB suggests assigning a specific agent to a file, as soon as an application is submitted. The business owner should be able to communicate directly and get status updates from the agent.
- The Government and the ONS should seek to link datasets across Government to allow a better understanding of the employment outcomes of migrants, for the purposes of research, whilst ensuring confidentiality.

Government should create an independent MAC which brings together MAC, businesses, trade unions and academics and economists. A new independent MAC could be modelled on the LPC. This body should advise Government annually on UK migration. The group should also include representatives from Scotland, Wales and Northern Ireland. The criteria for selecting migrants should be adjusted and managed over time to ensure the criteria meets the needs of the UK's rapidly evolving labour market. In its new role, the MAC can advise using evidence to inform Government of changes in the selection procedure. Regular review of the interaction between the RQF and SOC frameworks will also be undertaken by the MAC. International comparisons in terms of immigration will be increasingly important, as the UK's global relationship in accessing labour fundamentally changes. As the MAC notes, Canada, Australia and New Zealand all run large scale cohort studies on migrants, and it is our view the UK should do the same. Government should work with employer groups, professional associations, public organisations and educational institutions to improve the assessment of migrant credentials.

# SELF-EMPLOYMENT

---

The UK is attractive to migrant entrepreneurs and investors because of its proximity to European markets and to other key business and trading centres, language, time zone, ease of set up, business opportunities and support and supply of skills. Other factors include good schools, culture and lifestyle, the people, diversity, the arts, rule of law and, perhaps surprisingly, the weather.<sup>74</sup>

FSB has long documented the importance of self-employment to the UK economy. For the purposes of this report we categorise self-employment in two ways:

- those that seek to set up their own business and may seek to employ or engage individuals
- individuals who wish to engage with businesses and thus work for numerous businesses

The 2018 white paper estimates around 15 per cent of EEA and 16 per cent of non-EEA resident populations in employment are self-employed, although this may overestimate the proportion of more recent non-EEA migrants who are self-employed.<sup>75</sup>

Skilled professionals who are technically self-employed, but effectively filling a position with a UK-based business (for example, barristers) will continue to be able to be sponsored under the new route for skilled and highly skilled workers. EEA self-employed workers or freelancers may be able to come to the UK through the new skilled worker route, under temporary work routes, or as service suppliers through GATT Mode 4 arrangements.<sup>76</sup>

## Entrepreneurs

### Innovator visa

Self-employment, start-ups and small firms drive growth and keep markets competitive. Predicted to overtake the public sector as a source of jobs, the self-employed have for too long not been considered in policy decisions and face a disadvantage compared to employees on a range of crucial issues. The publication of the 2018 white paper highlights the lack of policy focus on the self-employed. FSB is concerned that there will be a significant drop in successful EU national entrepreneurs coming to the UK to start businesses.

The Innovator visa was launched in March 2019 to ‘enhance the UK’s offer to overseas entrepreneurial talent’ and replaced the Tier 1 (Entrepreneur) category. The inception of the Innovator route is an attempt to follow some of the guidance of the MAC’s review of the Tier 1 (Entrepreneur) category.<sup>77</sup> However, in November 2019 it was reported that only 14 innovator visas had been granted.

While a valuable route for attracting entrepreneurial talent and high net worth individuals to the UK, there is a case for lowering the bar, to allow entrepreneurs with promise without access to the high level of funding required, particularly when their businesses do not need such investment.

*“I moved to the UK in 2002 and I struggled to find a job - I was told that I was overqualified as I had two master’s degrees. Today I run my own business in the Financial Services sector, I am an employer who creates jobs, I volunteer my time and I support local communities. By placing significant restrictions on entrepreneurs from overseas, the Government will dry out a stream of talented and hardworking people who bring their knowledge, skills, experience and creativity into the country. They set up new unique businesses, employ local people and add so much value to the UK’s economy.”*

FSB member, financial services business, London

---

74 NIESR, Is our immigration policy attracting the ‘brightest and best’ entrepreneurs to the UK?, July 2013 <https://www.niesr.ac.uk/blog/our-immigration-policy-attracting-%E2%80%98brightest-and-best%E2%80%99-entrepreneurs-uk>

75 Ibid.

76 Ibid.

77 MAC review: Tier 1 Entrepreneur and Graduate Entrepreneur routes, October 2015 <https://www.gov.uk/government/publications/migration-advisory-committee-mac-review-tier-1-entrepreneur-and-graduate-entrepreneur-routes>

## Self-employed contractors and freelancers

The white paper does not reflect the current structure of the UK labour market. The British labour market is flexible, allowing individuals to work nimbly in roles for numerous businesses during periods which suit them. During our qualitative research many FSB members raised how they work on a freelance basis and others raised their dependency on freelancer contractors. FSB is concerned that the current proposals from Government do not reflect the needs of all of the UK labour market.

*“The temporary route is going to put a huge number of applicants off, if it’s much easier for Europeans to go to Spain or Italy, we are going to be losing a lot of skills.”*

FSB member, gymnastics business, London

Self-employed contractors are a vital part of the UK’s flexible labour market. FSB evidence shows that 24 per cent of those that engage with self-employed contractors and freelancers from the EU say it is important to their business.

*“The freelance part is absolutely crucial for my business - the system has to be designed to ensure we maintain the flexibility within our labour market.”*

FSB member, gymnastics business, London

Labour Force Survey data from 2018 recorded that 48.6 per cent of non-UK born workers in construction were self-employed, compared with 39 per cent of the UK born population. FSB research found that 30 per cent of small businesses in the construction sector say engaging with self-employed contractors/freelancers is important to their business.

35 per cent of businesses in the information and communication sectors and 41 per cent of businesses in the professional, scientific and technical activities sectors say that engaging with self-employed contractors is important for their business. As industry, business and Government are fully aware, the UK actively needs to develop researchers and innovators. A recent report from the National Grid found that hundreds of thousands of people are needed in the energy sector if the UK is to cut emissions to net zero by 2050.<sup>78</sup> This point is best illustrated by an FSB member from London:

*“Half of the freelancers I use are from outside of the UK. Freelancers cover technical and professional work, they know how to model energy use in a building under various scenarios.”*

FSB member, environmental business, London

If the UK wants to attract the best and brightest it needs to ensure correct and effective mechanisms are in place. It is likely that the temporary route may be used by self-employed contractors from the EU who wish to work in the UK post-Brexit. However, it is our view that the temporary route in its current design is inadequate to meet the needs of self-employed contractors.

*“If they (freelancers) can only be here for a year, that won’t work. I would want them to be here for longer. It may work for people coming here to pick strawberries, but it wouldn’t work for me. It wouldn’t work highly skilled people.”*

FSB member, environmental business, London

The MAC’s 2020 report recommended modifying the Tier 1 (Exceptional Talent) visa. It is our view that a modified Tier 1 (Exceptional Talent) visa that does not require a job offer may benefit the self-employed freelancers. We agree with the MAC’s recommendations that the route should operate on an expression of interest basis creating a pool of migrants interested in coming to the UK.<sup>79</sup> However, we suggest the Government considers talent beyond the areas of science and technology; many individuals have skills and experience outside of science and technology.

<sup>78</sup> National Grid, Building the Net Zero Energy Workforce, January 2020 <https://www.nationalgrid.com/document/126256/download>

<sup>79</sup> Ibid.

## Recommendations

From 20 February 2020 onwards a new visa category of 'Global Talent' will be introduced to replace the Tier 1 Exceptional Talent route. This visa category is intended for 'talented and promising individuals in the fields of science, engineering, medicine, humanities, digital technology and arts and culture ... wishing to work in the UK'. As with the existing Exceptional Talent visa, individuals will need to secure endorsement from one of a list of 'Designated Competent Bodies', which has now been expanded to include UK Research & Innovation. This visa route should benefit the self-employed and enable self-employed individuals to support the growth of UK businesses and contribute to innovation in the UK. The MAC's January 2020 report recommends the Tier 1 Exceptional Talent should also take into account the potential of applicants, not only an applicant's established exceptional talent. FSB supports this view and we also recommend the Government considers talent beyond the areas of science and technology. FSB seeks to work with Government in expanding the range of areas in which a Tier 1 Global Talent visa may be awarded thus ensuring the UK is open to a range of talented individuals from across the world.

The Innovator visa was introduced on 1 April 2019, however, since its introduction, only 14 Innovator visas have been granted.<sup>80</sup> An applicant may only be successful if their idea is 'innovative' and therefore endorsing bodies are focused on digital technology industries, and while the technology sector is important, these strict requirements may be excluding other successful entrepreneurs. Many of the UK's most successful businesses began as micro businesses started by entrepreneurial migrants. FSB wants to see this entrepreneurialism continue unabated; the Government should, therefore, commit to reviewing the Innovator visa within 18 months to ensure the eligibility rules are reasonable and protect the UK's borders.

---

80 GOV.UK, Managed migration datasets, November 2019 <https://www.gov.uk/government/statistical-data-sets/managed-migration-datasets>

# METHODOLOGY

---

This report is based on FSB members' experiences and views on their business's labour and skills needs, as well as their business's use of cross-border travel with the EU. FSB undertook a mixed method approach for the research consisting of a quantitative online survey and a number of UK wide semi-structured interviews. The survey was nationwide in its reach and members were invited to participate in the survey via email and social media channels. The survey was administered by the research agency Verve and was in the field from 3 October – 16 October 2019. The survey questionnaire was completed by a total of 1,083 small businesses. The semi-structured interviews were primarily conducted over the phone and included members from every devolved nation and purposefully drew from a variety of regions and sectors. These interviews were used to construct the detailed case studies that are included throughout the report. In a couple of cases, the in-depth interviews allowed for detailed accounts that address multiple sections of the report. These case studies were specifically selected for the breadth of coverage. The survey 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.







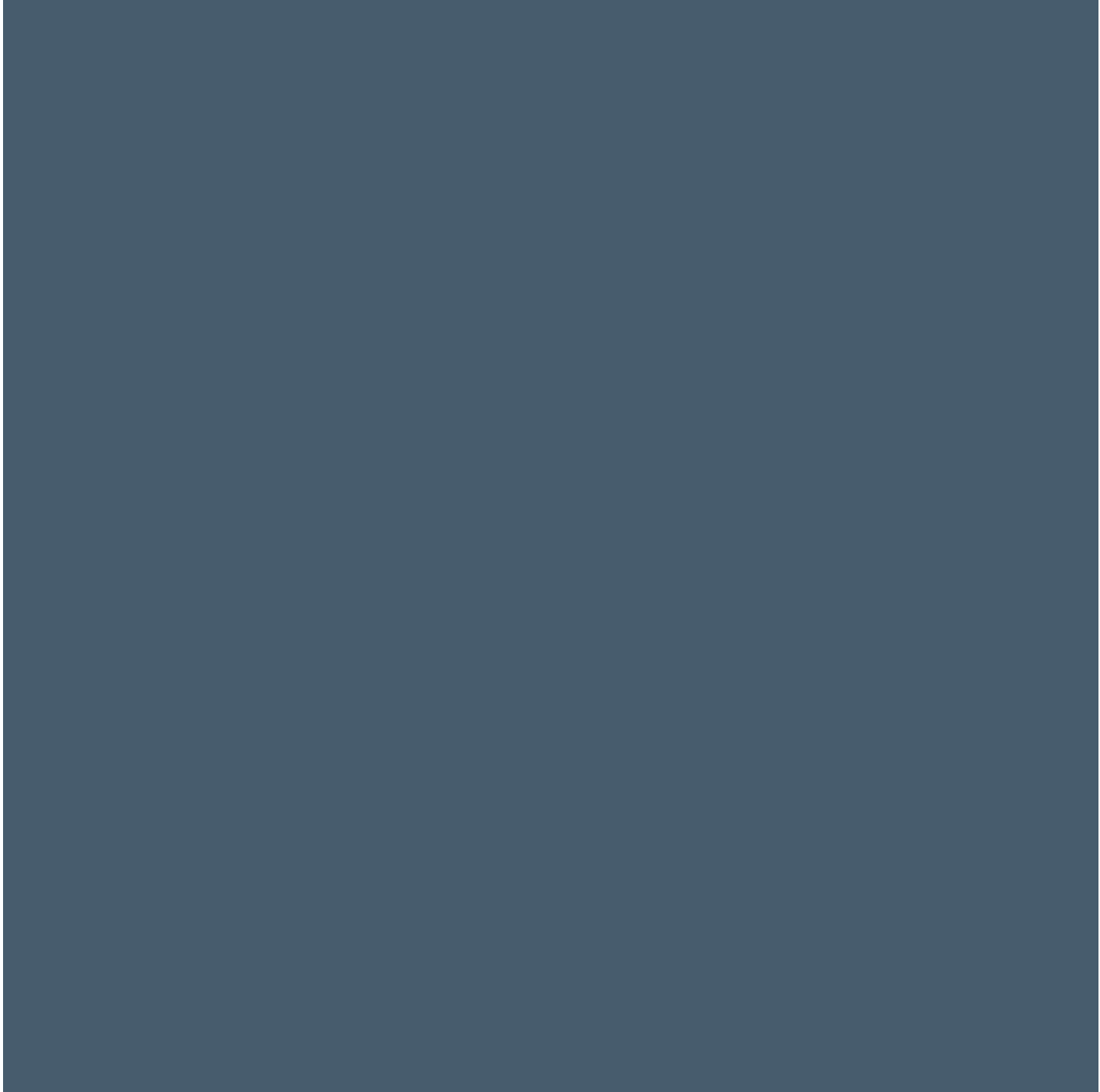












© Federation of Small Businesses

[fsb.org.uk](http://fsb.org.uk)

 [federationofsmallbusinesses](https://www.facebook.com/federationofsmallbusinesses)

 [@fsb\\_policy](https://twitter.com/fsb_policy)

 [@fsb\\_uk](https://www.instagram.com/fsb_uk)

If you require this document in an alternative format please email:  
[accessability@fsb.org.uk](mailto:accessability@fsb.org.uk)

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of FSB. While every effort has been made to ensure the accuracy of the facts and data contained in this publication, no responsibility can be accepted by FSB for errors or omissions or their consequences. Articles that appear in the report are written in general terms only. They are not intended to be a comprehensive statement of the issues raised and should not be relied upon for any specific purposes. Readers should seek appropriate professional advice regarding the application to their specific circumstances of the issues raised in any article.

This report can be downloaded from FSB website at [www.fsb.org.uk](http://www.fsb.org.uk)